

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
Form N-CSR
July 05, 2005

Welcome, Shareholder:

In this report, you'll learn about how your investment in Morgan Stanley Insured Municipal Income Trust performed during the semiannual period. We will provide an overview of the market conditions, and discuss some of the factors that affected performance during the reporting period. In addition, this report includes the Trust's financial statements and a list of Trust investments.

Market forecasts provided in this report may not necessarily come to pass. There is no assurance that the Trust will achieve its investment objective. The Trust is subject to market risk, which is the possibility that market values of securities owned by the Trust will decline and, therefore, the value of the Trust's shares may be less than what you paid for them. Accordingly, you can lose money investing in this Trust.



Fund Report
For the six-month period ended April 30, 2005

Market Conditions

Consumer spending and business investment helped the U.S. economy expand at a solid pace. This, in turn, translated into generally higher interest rates during the six-month fiscal period ended April 30, 2005. The markets also continued to focus on global commodity supply pressures, specifically the rapid climb in oil prices and the large federal budget and trade deficits. However, employment growth remained uneven and bonds often rallied on weaker than anticipated monthly reports.

The Federal Open Market Committee (the "Fed") reaffirmed its pledge to raise the federal funds target rate at a "measured" pace and did so in its meetings throughout the period. The Fed's policy shift began in June 2004 with the first of seven consecutive 25-basis point rate hikes which took the federal funds target rate to 2.75 percent by the end of April 2005. These increases represented a reversal of the Fed's rate reductions between January 2001 and June

2003. At the end of the period, the forward yield curve reflected a widespread view that the Fed would continue its current pace of rate increases.

Against this setting, long-term municipal bond yields remained in a trading range which moved rates higher at the beginning of the period, lower through the winter and higher at the end of the first quarter. By the end of April, yields declined again and ended the fiscal period at or near their lows. In contrast, yields on shorter maturity bonds which were more directly impacted by the Fed's actions rose. As a result, the municipal yield curve continued to flatten and the yield spread (or differential between one-year rates and 30-year rates) narrowed.


In the first four months of 2005, total municipal underwriting volume increased by nine percent over the same period in 2004. Refunding issues accounted for the incremental growth. Bonds backed by insurance increased their market penetration from 50 to 60 percent over the same period. Issuers in California, Texas, New York, Florida and New Jersey accounted for 43 percent of the total municipal underwriting volume.

On the demand side, the municipal-to-Treasury yield ratio, which gauges relative performance between the two markets, remained attractive for tax-exempts. As a result, fixed income investors that normally focus on taxable sectors (such as insurance companies and hedge funds) supported municipals by "crossing over" to purchase bonds. However, retail investors continued to experience rate shock from the absolute level of rates and largely remained on the sidelines.

Performance Analysis

For the six-month period ended April 30, 2005, the net asset value (NAV) of the Morgan Stanley Insured Municipal Income Trust (IIM) increased from \$15.60 to \$15.82 per share. IIM declared tax-free dividends totaling \$0.405 per share. The Trust's total NAV return was 4.46 percent. IIM's value on the New York Stock Exchange (NYSE) moved from \$14.09 to \$13.81 per

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share during the same period. Based on this change plus reinvestment of tax-free dividends, IIM's total market return was 0.89 percent. On April 30, 2005, IIM's NYSE market price was at a 12.71 percent discount to its NAV. *Past performance is no guarantee of future results.*

Monthly dividends for the second quarter of 2005, declared in March, were unchanged at \$0.0675 per share. The dividend reflects the current level of the Trust's net investment income. IIM's level of undistributed net investment income was \$0.118 per share on April 30, 2005, versus \$0.108 per share six months earlier.⁽¹⁾

During the period, IIM maintained a conservative strategy in anticipation of continued Fed tightening and higher

interest rates. Adjusted for leverage, the Trust's duration* (a measure of interest rates sensitivity) was 9.6 years. This positioning helped performance early in the period when rates rose, but had the net effect of hampering total returns when rates declined later in the period. The Trust's net assets, including preferred shares, of \$512.2 million were diversified across 86 credits in 11 long-term sectors.

As discussed in previous reports, the total income available for distribution to holders of common shares includes incremental income provided by the Trust's outstanding Auction Rate Preferred Shares (ARPS). ARPS dividends reflect prevailing short-term interest rates on maturities ranging from one week to two years. Incremental income to holders of common shares depends on two factors: the amount of ARPS outstanding and the spread between the portfolio's cost yield and its ARPS auction rate and expenses. The greater the spread and the higher the amount of ARPS outstanding, the greater the amount of incremental income available for distribution to holders of common shares. The level of net investment income available for distribution to holders of common shares varies with the level of short-term interest rates. ARPS leverage also increases the price volatility of common shares and has the effect of extending portfolio duration.

During this six-month period, ARPS leverage contributed approximately \$0.09 per share to common share earnings. The Trust has five ARPS series totaling \$155 million, representing 30 percent of net assets, including preferred shares. Yields on series in two-year auction modes ranged from 1.20 to 2.24 percent. Weekly yields ranged from 1.36 to 2.82 percent.

The Trust's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Trust's shares. In addition, we would like to remind you that the Trustees have approved a procedure whereby the Trust may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase. The Trust may also utilize procedures to reduce or eliminate the amount of ARPS outstanding, including their purchase in the open market or in privately negotiated transactions. During the six-month period ended April 30, 2005, the Trust purchased and retired 664,405 shares of common shares at a weighted average market discount of 11.40 percent.

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Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Investment return, net asset value and common share market price will fluctuate and Trust shares, when sold, may be worth more or less than their original cost.

There is no guarantee that any sectors mentioned will continue to perform well or be held by the Trust in the future.

(1) Income earned by certain securities in the portfolio may be subject to the federal alternative tax (AMT).

* A measure of the sensitivity of a bond's price to changes in interest rates, expressed in years. Each year of duration represents an expected 1 percent change in the price of a bond for every 1 percent change in interest rates. The longer a bond's duration, the greater the effect of interest-rate movements on its price. Typically, trusts with shorter durations perform better in rising-interest-rate environments, while trusts with longer durations perform better when rates decline.

| LARGEST SECTORS | |
|------------------------|-------|
| Transportation | 31.8% |
| Water & Sewer | 25.7 |
| Electric | 20.1 |
| General Obligation | 14.6 |
| Refunded | 10.6 |

| CREDIT ENHANCEMENTS | |
|----------------------------|-------|
| MBIA | 30.0% |
| Ambac | 25.3 |
| FGIC | 24.9 |
| FSA | 19.0 |
| XLCA | 0.8 |

Data as of April 30, 2005. Subject to change daily. All percentages for largest sectors are as a percentage of net assets applicable to common shareholders. All percentages for credit enhancements are as a percentage of total long-term investments. These data are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities mentioned. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

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For More Information
About Portfolio Holdings

Each Morgan Stanley trust provides a complete schedule of portfolio holdings in its semiannual and annual reports within 60 days of the end of the trust's second and fourth fiscal quarters by filing the schedule electronically with the Securities and Exchange Commission (SEC). The semiannual reports are filed on Form N-CSRS and the annual reports are filed on Form N-CSR. Morgan Stanley also delivers the semiannual and

annual reports to trust shareholders and makes these reports available on its public Web site, www.morganstanley.com. Each Morgan Stanley trust also files a complete schedule of portfolio holdings with the SEC for the trust's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, nor are the reports posted to the Morgan Stanley public Web site. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's Web site, <http://www.sec.gov>. You may also review and copy them at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at (800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address (publicinfo@sec.gov) or by writing the Public Reference section of the SEC, Washington, DC 20549-0102.

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Distribution by Maturity
(% of Long-Term Portfolio) As of April 30, 2005

Weighted Average Maturity: 19 Years^(a)

(a) Where applicable maturities reflect mandatory tenders, puts and call dates.

Portfolio structure is subject to change.

Geographic Summary of Investments

Based on Market Value as a Percent of Total Investments

| | |
|----------------------|------|
| Arizona | 2.1% |
| California | 13.7 |
| Colorado | 1.5 |
| District of Columbia | 3.0 |
| Florida | 5.1 |
| Georgia | 2.5 |
| Hawaii | 1.1 |
| Illinois | 6.7 |
| Indiana | 3.5% |
| Kentucky | 0.9 |
| Louisiana | 0.9 |
| Massachusetts | 2.5 |
| Michigan | 2.9 |
| Minnesota | 1.3 |
| Missouri | 1.0 |
| Nebraska | 1.0 |

| | |
|-------------------|--------|
| Nevada | 4.6% |
| New Hampshire | 0.8 |
| New Jersey | 3.6 |
| New York | 8.8 |
| North Carolina | 1.9 |
| Ohio | 0.2 |
| Pennsylvania | 5.2 |
| Puerto Rico | 0.9 |
| Rhode Island | 2.2% |
| South Carolina | 2.4 |
| Texas | 13.6 |
| Utah | 1.1 |
| Virginia | 1.3 |
| Washington | 4.3 |
| West Virginia | 0.6 |
| Joint exemptions* | (1.2) |
| Total† | 100.0% |

* Joint exemptions have been included in each geographic location.

Does not include open short futures contracts with an underlying face value amount of \$81,785,160 with unrealized depreciation of \$313,787.

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Call and Cost (Book) Yield Structure
(Based on Long-Term Portfolio) As of April 30, 2005

Years Bonds Callable — Weighted Average Call Protection: 7 Years

Cost (Book) Yield^(b) — Weighted Average Book Yield: 5.1%

(a) May include issues initially callable in previous years.

(b) Cost or "book" yield is the annual income earned on a portfolio investment based on its original purchase price before the Trust's operating expenses. For example, the Trust is earning a book yield of 6.0% on 10% of the long-term portfolio that is callable in 2005.

Portfolio structure is subject to change.

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Investment Advisory Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser under the Advisory Agreement, including portfolio management, investment research and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Trust's Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the "Adviser" and the Advisory and Administration Agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and investment advisory services to the Trust. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Trust. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance Relative to Comparable Funds Managed by Other Advisers

The Board reviewed the Trust's performance for one-, three- and five-year periods ended November 30, 2004, as shown in reports provided by Lipper (the "Lipper Reports"), compared to the performance of comparable funds selected by Lipper (the "performance peer group"), and noted that the Trust's performance was lower than its performance peer group average for the one-year period, but better for the three- and five-year periods. The Board concluded that the Trust's performance was satisfactory.

Fees Relative to Other Funds Managed by the Adviser with Comparable Investment Strategies

The Board reviewed the advisory and administrative fees (together, the "management fee") paid by the Trust under the Management Agreement. The Board noted that the rate was comparable to the management fee rates charged by the Adviser to any other funds it manages with investment strategies comparable to those of the Trust.

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

The Board reviewed the management fee rate and total expense ratio of the Trust. The Board noted that: (i) the Trust's management fee rate was lower than the average management fee rate for funds, selected by Lipper (the "expense peer group"), managed by other advisers, with investment strategies comparable to those of the Trust, as shown in the Lipper Report for the Trust; and (ii) the Trust's total expense ratio was also lower than the average total expense ratio

of the funds included in the Trust's expense peer group. The Board concluded that the Trust's management fee and total expenses were competitive with those of the Trust's expense peer group.

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Breakpoints and Economies of Scale

The Board reviewed the structure of the Trust's management fee schedule under the Management Agreement and noted that it does not include any breakpoints. The Board considered that the Trust is closed-end and is not a growth fund and, therefore, that the Trust's assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for this Trust were not a factor that needed to be considered.

Profitability of Adviser and Affiliates

The Board considered and reviewed information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last two years from their relationship with the Trust and the Morgan Stanley Fund Complex and reviewed with the Controller of the Adviser the cost allocation methodology used to determine the Adviser's profitability. Based on their review of the information they received, the Board concluded that the profits earned by the Adviser and its affiliates were not excessive in light of the advisory, administrative and other services provided to the Trust.

Fall-Out Benefits

The Board considered so-called "fall-out benefits" derived by the Adviser and its affiliates from their relationship with the Trust and the Fund Complex, such as "float" benefits derived from handling of checks for purchases and sales of Trust shares through a broker-dealer affiliate of the Adviser. The Board considered the float benefits and concluded that they were relatively small.

Soft Dollar Benefits

The Board considered whether the Adviser realizes any benefits from commissions paid to brokers who execute securities transactions for the Trust ("soft dollars"). The Board noted that the Trust invests only in fixed income securities, which do not generate soft dollars.

Adviser Financially Sound and Financially Capable of Meeting the Trust's Needs

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its

obligations under the Management Agreement. The Board noted that the Adviser's operations remain profitable, although increased expenses in recent years have reduced the Adviser's profitability. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

Historical Relationship Between the Trust and the Adviser

The Board also reviewed and considered the historical relationship between the Trust and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Trust's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that it is beneficial for the Trust to continue its relationship with the Adviser.

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Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Trust's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Trust's business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded it would be in the best interest of the Trust and its shareholders to approve renewal of the Management Agreement for another year.

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited)

VALUE

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| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|--|--|----------------|------------------|--------------|
| | <i>Tax-Exempt Municipal Bonds (140.1%)</i> | | | |
| | <i>General Obligation (14.6%)</i> | | | |
| \$ 3,000 | Los Angeles, California, Ser 2004 A (MBIA) District of Columbia, | 5.00 % | 09/01/24 | \$ 3,201,570 |
| 5,000 | Refg Ser 1993 B (Ambac) | 5.50 | 06/01/09 | 5,457,550 |
| 6,000 | Refg Ser 1993 B (FSA) Aurora West School District 129, Illinois, | 5.50 | 06/01/10 | 6,610,860 |
| 1,000 | Ser 2002 A (FGIC) | 5.75 | 02/01/20 | 1,117,050 |
| 2,000 | Ser 2002 A (FGIC) | 5.75 | 02/01/21 | 2,234,100 |
| 15,000 | Chicago, Illinois, Neighborhoods Alive 21 Ser 2001 A (FGIC) | 5.50 | 01/01/36 | 16,249,500 |
| 3,000 | Massachusetts, Refg 2003 Ser D (Ambac) Pennsylvania, | 5.50 | 10/01/19 | 3,494,820 |
| 1,495 | First Ser 2003 RITES PA – 1112 A (MBIA) | 6.785‡ | 01/01/18 | 1,726,082 |
| 2,055 | First Ser 2003 RITES PA – 1112 B (MBIA) | 6.785‡ | 01/01/19 | 2,488,317 |
| 4,000 | Houston, Texas, Public Impr & Refg Ser 2001 B (FSA) | 5.50 | 03/01/17 | 4,409,880 |
| 3,000 | King County, Washington, Refg Ser B (MBIA) | 5.25 | 01/01/34 | 3,153,720 |
| 2,500 | Spokane School District #81, Washington, Ser 2005 (MBIA) (WI) | 0.00# | 12/01/23 | 2,167,900 |
| 48,050 | | | | 52,311,349 |
| | <i>Educational Facilities Revenue (6.4%)</i> | | | |
| 2,500 | University of Arizona COPs 2003 Ser B (Ambac) University of California, | 5.00 | 06/01/23 | 2,636,225 |
| 2,000 | Ser 2003 B (Ambac) | 5.00 | 05/15/22 | 2,148,200 |
| 2,000 | Multiple Purpose Ser Q (FSA) | 5.00 | 09/01/31 | 2,092,680 |
| 3,000 | District of Columbia, American Association for the Advancement of Science Ser 1997 (Ambac) | 5.125 | 01/01/27 | 3,128,730 |
| 4,000 | New Hampshire Health & Education Facilities Authority, University of New Hampshire Ser 2001 (Ambac) | 5.125 | 07/01/33 | 4,199,800 |
| 5,000 | New Jersey Educational Facilities Authority, Higher Education | | | |
| | Ser 2002 A (Ambac)†† | 5.25 | 09/01/21 | 5,436,900 |
| 3,000 | University of North Carolina at Wilmington, Student Housing | | | |
| | Ser 2005 COPs (FGIC) | 5.00 | 06/01/36 | 3,137,040 |
| 21,500 | | | | 22,779,575 |
| | <i>Electric Revenue (20.1%)</i> | | | |
| 10,000 | California Department of Water Resources, Power Supply Ser 2002 A (Ambac) | 5.375 | 05/01/18 | 11,112,500 |
| 4,000 | Lafayette, Louisiana, Utilities Ser 2004 (MBIA) | 5.25 | 11/01/25 | 4,348,280 |
| 5,000 | Nebraska Public Power District, 2003 Ser A (Ambac) | 5.00 | 01/01/35 | 5,233,450 |
| 3,000 | Long Island Power Authority, New York, Refg Ser 2003 C (FSA) | 5.00 | 09/01/28 | 3,155,340 |
| 6,000 | North Carolina Municipal Power Agency #1, Catawba Ser 2003 A (MBIA) | 5.25 | 01/01/19 | 6,540,600 |
| 10,000 | South Carolina Public Service Authority, Ser 2003 A (Ambac) | 5.00 | 01/01/27 | 10,488,000 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|--|----------------|------------------|---------------|
| \$ 10,000 | Lower Colorado River Authority, Texas, Refg Ser 1999 A (FSA) | 5.875% | 05/15/16 | \$ 11,074,900 |
| 5,000 | Refg Ser 2001 (FSA) | 5.00 | 05/15/26 | 5,164,850 |
| 8,800 | Refg Ser 2002 (MBIA) | 5.00 | 05/15/31 | 9,125,336 |
| 5,000 | Intermountain Power Agency, Utah, 2003 Ser A (FSA) | 5.00 | 07/01/21 | 5,381,450 |
| 66,800 | | | | 71,624,706 |
| | <i>Hospital Revenue (8.4%)</i> | | | |
| 5,000 | Mesa Industrial Development Authority, Arizona, Discovery Health Ser 1999 A (MBIA) | 5.875 | 01/01/16 | 5,567,150 |
| 2,000 | Illinois Finance Authority, Swedish American Hospital Ser 2004 (Ambac) | 5.00 | 11/15/31 | 2,083,160 |
| 2,000 | Indiana Health Facilities Financing Authority, Community Health Ser 2005 A (Ambac) (WI) | 5.00 | 05/01/35 | 2,073,320 |
| 5,500 | Massachusetts Health & Educational Facilities Authority, Lahey Clinic Medical Center Ser B (MBIA) | 5.625 | 07/01/15 | 5,600,925 |
| 1,000 | Minneapolis Health Care Systems, Minnesota, Fairview Health 2005 Ser D (Ambac) (WI) | 5.00 | 11/15/30 | 1,051,890 |
| 2,000 | Missouri Health & Educational Facilities Authority, SSM Health Care Ser 1998 A (MBIA) | 5.00 | 06/01/22 | 2,059,660 |
| 1,000 | University of Medicine and Dentistry, New Jersey, Ser 2004 COPs (MBIA) | 5.00 | 06/15/29 | 1,046,570 |
| 1,500 | Medical University Hospital Authority, South Carolina, FHA Insured Mtge Refg Ser 2004 A (MBIA) | 5.25 | 02/15/25 | 1,617,675 |
| 3,020 | Amarillo Health Facilities Corporation, Texas, Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 | 01/01/16 | 3,375,394 |
| 5,075 | Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 | 01/01/17 | 5,700,951 |
| 28,095 | | | | 30,176,695 |
| | <i>Industrial Development/Pollution Control Revenue (7.9%)</i> | | | |
| 7,500 | Adams County, Colorado, Public Service Co of Colorado Refg 1993 Ser A (MBIA) | 5.875 | 04/01/14 | 7,578,750 |
| 5,000 | | 6.20 | 11/01/29 | 5,589,000 |

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| | | | | |
|--------|--|--------|----------|------------|
| | Hawaii Department of Budget and Finance, Hawaiian Electric Co Ser 1999 C (AMT) (Ambac) | | | |
| 12,000 | Indiana Development Finance Authority, PSI Energy Inc Ser 1993 B (AMT) (MBIA) | 5.75 | 02/15/28 | 12,141,000 |
| 3,000 | New York State Energy Research & Development Authority, | | | |
| | Brooklyn Union Gas Co 1991 Ser D (AMT) (MBIA) | 8.775% | 07/08/26 | 3,017,370 |
| 27,500 | | | | 28,326,120 |
| | <i>Public Facilities Revenue (8.2%)</i> | | | |
| 1,000 | Phoenix Industrial Development Authority, Arizona, Capital Mall LLC Ser 2000 (Ambac) | 5.375 | 09/15/22 | 1,085,530 |
| 15,000 | Miami-Dade County School Board, Florida, 2003 Ser A (FGIC) | 5.00 | 08/01/29 | 15,674,550 |
| 3,000 | Orange County School Board, Florida, Ser 2001 A COPs (Ambac) | 5.25 | 08/01/14 | 3,330,900 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|--|----------------|------------------|--------------|
| \$ 4,200 | New York State Dormitory Authority, School Districts 2002 Ser E (MBIA) | 5.50% | 10/01/17 | \$ 4,714,122 |
| 4,000 | Puerto Rico Public Buildings Authority, Refg Ser J (Ambac) | | | |
| | (Mandatory Tender 07/01/12) | 5.00 | 07/01/36 | 4,408,120 |
| 27,200 | | | | 29,213,222 |
| | <i>Recreational Facilities Revenue (3.2%)</i> | | | |
| 3,000 | Metropolitan Pier & Exposition Authority, Illinois, McCormick Place Refg Ser 2002 B (MBIA) | 0.00## | 06/15/18 | 2,321,940 |
| 5,000 | McCormick Place Ser 2002 A (MBIA) | 5.25 | 06/15/42 | 5,370,550 |
| 2,400 | Marion County Convention & Recreational Facilities Authority, | | | |
| | Indiana, Refg Ser 2003 A (Ambac) | 5.00 | 06/01/19 | 2,548,368 |
| 1,000 | Casino Reinvestment Development Authority, New Jersey, | | | |
| | Ser 2004 (Ambac) | 5.25 | 01/01/22 | 1,104,090 |
| 11,400 | | | | 11,344,948 |

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Transportation Facilities Revenue (31.8%)

| | | | | |
|--------|--|-------|----------|------------|
| 1,000 | Phoenix Civic Improvement Corporation, Arizona, Sr Lien Airport Ser 2002 B (AMT) (FGIC) | 5.75 | 07/01/19 | 1,105,820 |
| 5,000 | California Infrastructure & Economic Development Bank, Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (FGIC) | 5.00 | 07/01/29 | 5,247,550 |
| 10,000 | Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (Ambac) | 5.00 | 07/01/33 | 10,474,000 |
| 9,000 | Long Beach, California, Harbor Refg Ser 1998 A (AMT) (FGIC) | 6.00 | 05/15/18 | 10,520,100 |
| 5,000 | Atlanta, Georgia, Airport Ser C 2004 (FSA) | 5.00 | 01/01/33 | 5,206,850 |
| 4,000 | Illinois Toll Highway Authority, Priority Refg 1998 Ser A (FSA) | 5.50 | 01/01/15 | 4,561,520 |
| 5,000 | Minneapolis-St Paul Metropolitan Airports Commission, Minnesota, Ser 2001 C (FGIC) | 5.25 | 01/01/32 | 5,310,200 |
| 3,000 | St Louis, Missouri, Lambert Int'l Airport Ser 2001 A (MBIA) | 5.00 | 07/01/20 | 3,140,760 |
| 9,000 | Nevada Department of Business & Industry, Las Vegas Monorail 1st Tier Ser 2000 (Ambac) | 5.375 | 01/01/40 | 9,541,800 |
| 2,000 | Delaware River Port Authority, Pennsylvania & New Jersey, Ser 1995 (FGIC) ** | 5.50 | 01/01/26 | 2,074,680 |
| 4,000 | New Jersey Transportation Trust Fund Authority 2005 Ser C (FGIC) | 5.25 | 06/15/20 | 4,411,080 |
| 3,000 | Metropolitan Transportation Authority, New York, Dedicated Tax Fund Ser 2002 A (FSA) | 5.25 | 11/15/24 | 3,272,670 |
| 10,000 | Transportation Refg Ser 2002 A (FGIC) | 5.00 | 11/15/25 | 10,554,900 |
| 4,000 | Port Authority of New York & New Jersey, Cons 135 Ser (MBIA) ** | 5.00 | 09/15/29 | 4,215,360 |
| 10,000 | Triborough Bridge & Tunnel Authority, New York, Refg 2002 E (MBIA) | 5.25 | 11/15/22 | 10,908,900 |
| 9,000 | Dallas-Fort Worth International Airport, Texas, Ser 2003 A (AMT) (FSA) | 5.375 | 11/01/22 | 9,651,960 |
| 4,000 | Texas Turnpike Authority, Central Texas First Tier Ser 2002 A (Ambac) | 5.50 | 08/15/39 | 4,405,320 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited) continued

VALUE

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| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|--|--|----------------|------------------|--------------|
| \$ 3,000 | Richmond Metropolitan Authority, Virginia, Refg Ser 2002 (FGIC) | 5.25% | 07/15/22 | \$ 3,428,790 |
| 5,000 | Port of Seattle, Washington, Ser 2001 B (AMT) (MBIA) | 5.625 | 02/01/24 | 5,387,500 |
| 105,000 | | | | 113,419,760 |
| | <i>Water & Sewer Revenue (25.7%)</i> | | | |
| 5,000 | Los Angeles Department of Water & Power, California, Water 2004 Ser C (MBIA) | 5.00 | 07/01/24 | 5,315,300 |
| 4,000 | Oxnard Financing Authority, California, Water Ser 2004 (XLCA) | 5.00 | 06/01/28 | 4,158,280 |
| | San Diego County Water Authority, California, Ser 2002 A COPs (MBIA) | 5.00 | 05/01/27 | 5,226,300 |
| 5,000 | Ser 2004 A COPs (FSA) | 5.00 | 05/01/29 | 5,280,100 |
| 1,500 | JEA, Florida, Water & Sewer Second Crossover Ser (MBIA) | 5.00 | 10/01/25 | 1,588,335 |
| 5,000 | Tampa Bay Water Authority, Florida, Ser 2001 A (FGIC) | 5.00 | 10/01/28 | 5,184,500 |
| 5,000 | Atlanta, Georgia, Water & Wastewater, Ser 2004 (FSA) | 5.00 | 11/01/23 | 5,326,150 |
| 2,000 | Augusta, Georgia, Water & Sewer, Ser 2004 A (FSA) | 5.25 | 10/01/39 | 2,145,060 |
| | Detroit, Michigan, Sewage Refg Ser 2003 A (FSA) | 5.00 | 07/01/26 | 3,142,200 |
| 3,000 | Sewage Refg Ser 2003 A (FSA) | 5.00 | 07/01/28 | 8,370,720 |
| 3,000 | Sewage Disposal Ser 2001 A (FGIC) | 5.125 | 07/01/31 | 3,138,360 |
| 5,080 | Las Vegas Water District, Nevada, Impr & Refg Ser 2003 A (FGIC) | 5.25 | 06/01/19 | 5,587,848 |
| 1,090 | Cleveland, Ohio, Waterworks Impr & Refg 1998 Ser I (FSA) | 5.00 | 01/01/23 | 1,142,385 |
| 5,000 | Philadelphia, Pennsylvania, Water & Wastewater Ser 1998 (Ambac) | 5.25 | 12/15/14 | 5,617,100 |
| 15,000 | Houston, Texas, Combined Utility Refg 2004 Ser A (FGIC) | 5.25 | 05/15/23 | 16,198,200 |
| 5,000 | King County, Washington, Sewer Refg 2001 (FGIC) | 5.00 | 01/01/31 | 5,161,300 |
| | Seattle, Washington, Water Refg 2003 (MBIA) | 5.00 | 09/01/20 | 3,108,542 |
| 2,890 | Water Refg 2003 (MBIA) | 5.00 | 09/01/23 | 3,063,065 |
| 2,900 | West Virginia Water Development Authority, Refg Ser B (Ambac) | 5.25 | 11/01/23 | 3,194,872 |
| 86,330 | | | | 91,948,617 |
| | <i>Other Revenue (3.2%)</i> | | | |
| 3,000 | California, Economic Recovery Ser 2004 A (MBIA) | 5.00 | 07/01/15 | 3,304,530 |
| | New York City Transitional Finance Authority, New York, 2000 Ser C (Ambac) | 5.25 | 08/01/21 | 2,173,020 |
| 2,000 | 2000 Ser C (Ambac) | 5.25 | 08/01/22 | 2,716,275 |
| 3,000 | Alexandria Industrial Development Authority, Virginia, Institute for Defense Analysis Ser 2000 A (Ambac) | 5.90 | 10/01/30 | 3,359,880 |
| 10,500 | | | | 11,553,705 |
| | <i>Refunded (10.6%)</i> | | | |

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| | | | | |
|-------|---|------|-----------|-----------|
| 4,000 | Kentucky Property & Buildings Commission, Project #79 (MBIA) | 5.00 | 10/01/13† | 4,435,840 |
| 3,275 | Massachusetts Municipal Wholesale Electric Company, 1993 Ser A (Ambac) (ETM) | 5.00 | 07/01/10 | 3,500,942 |
| 8,000 | Washoe County, Nevada, Reno – Sparks Convention Ltd Tax Ser 1993 A (FGIC) (ETM) | 5.75 | 07/01/22 | 8,039,440 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|-------------------------------|--|-------------|---------------|----------------|
| \$ 5,000 | Allegheny County Hospital Development Authority, Pennsylvania, Pittsburgh Mercy Health Ser 1996 (Ambac) (ETM) | 5.625% | 08/15/18 | \$ 5,236,000 |
| 5,000 | Allegheny County Sanitary Authority, Pennsylvania, Sewer Ser 2000 (MBIA) | 5.50 | 12/01/10† | 5,594,650 |
| 10,000 | Rhode Island Depositors Economic Protection Corporation, Refg 1992 Ser B (MBIA) (ETM) | 6.00 | 08/01/17 | 10,966,800 |
| 35,275 | | | | 37,773,672 |
| 467,650 | Total Tax-Exempt Municipal Bonds (Cost \$471,444,800) | | | 500,472,369 |
| | Short-Term Tax-Exempt Municipal Obligations (1.8%) | | | |
| 1,600 | Redding, California, Electric Ser 1993 A COPs (FGIC) | 8.306‡ | 06/30/05† | 1,607,840 |
| 1,100 | Indiana Health Facility Financing Authority, Clarian Health Ser 2000 B (Demand 05/02/05) | 3.00* | 03/01/30 | 1,100,000 |
| 3,700 | Philadelphia Hospitals & Higher Education Facilities Authority, Pennsylvania, Children's Hospital of Philadelphia Ser 2002 A (Demand 05/02/05) | 3.03* | 07/01/22 | 3,700,000 |
| 6,400 | Total Short-Term Tax-Exempt Municipal Obligations (Cost \$6,400,000) | | | 6,407,840 |
| \$474,050 | Total Investments (Cost \$477,844,800) (a) (b) | | 141.9 % | 506,880,209 |
| | Other Assets in Excess of Liabilities | | 1.5 | 5,484,174 |
| | Preferred Shares of Beneficial Interest | | (43.4) | (155,200,926) |
| | Net Assets Applicable to Common Shareholders | | 100.0 % | \$ 357,163,457 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2005 (unaudited) continued

Note: The categories of investments are shown as a percentage of net assets applicable to common shareholders.

| | | |
|-------|------|--|
| | AMT | Alternative Minimum Tax. |
| | COPs | Certificates of Participation. |
| | ETM | Escrowed to maturity. |
| RITES | | Residual Interest Tax-Exempt Securities (Illiquid securities). |
| WI | | Security purchased on a when-issued basis. |
| | † | Prerefunded to call date shown. |

† A portion of this security has been physically segregated in connection with open futures contracts in the amount of \$442,500.

‡ Current coupon rate for inverse floating rate municipal obligation. This rate resets periodically as the auction rate on the related security changes. Positions in inverse floating rate municipal obligations have a total value of \$8,839,609 which represents 2.5% of net assets applicable to common shareholders.

Currently a zero coupon security; will convert to 5.125% on December 1, 2008.

Currently a zero coupon security; will convert to 5.30% on June 15, 2012.

* Current coupon of variable rate demand obligation.

** Joint exemption in locations shown.

(a) Securities have been designated as collateral in an amount equal to \$86,215,391 in connection with open futures contracts.

(b) The aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is \$29,054,602 and the aggregate gross unrealized depreciation is \$19,193, resulting in net unrealized appreciation of \$29,035,409.

Bond Insurance:

| | |
|-------|---|
| Ambac | Ambac Assurance Corporation. |
| FGIC | Financial Guaranty Insurance Company. |
| FSA | Financial Security Assurance Inc. |
| MBIA | Municipal Bond Investors Assurance Corporation. |
| XLCA | XL Capital Assurance Inc. |

Futures Contracts Open at April 30, 2005:

| NUMBER OF CONTRACTS | LONG/SHORT | DESCRIPTION, DELIVERY MONTH AND YEAR | UNDERLYING FACE AMOUNT AT VALUE | UNREALIZED DEPRECIATION |
|---------------------|------------|--------------------------------------|---------------------------------|-------------------------|
| 600 | Short | U.S. Treasury Notes 5 Yr | \$(65,071,878) | \$(156,342) |

| | | | | |
|-----|-------------------------------|------------------------|--------------|-------------|
| | | June/2005 | | |
| | | U.S. Treasury Notes 10 | | |
| | | Yr | | |
| 150 | Short | June/2005 | (16,713,282) | (157,445) |
| | Total unrealized depreciation | | | \$(313,787) |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Financial Statements

Statement of Assets and Liabilities

April 30, 2005 (unaudited)

Assets:

| | |
|---|----------------|
| Investments in securities, at value (cost \$477,844,800) | \$ 506,880,209 |
| Cash | 49,262 |
| Receivable for: | |
| Interest | 8,141,802 |
| Investments sold | 2,236,426 |
| Variation margin | 187,500 |
| Prepaid expenses and other assets | 491,646 |
| Total Assets | 517,986,845 |

Liabilities:

| | |
|---|----------------|
| Payable for: | |
| Investments purchased | 5,184,455 |
| Common shares of beneficial interest repurchased | 143,425 |
| Investment advisory fee | 139,552 |
| Administration fee | 41,349 |
| Accrued expenses and other payables | 113,681 |
| Total Liabilities | 5,622,462 |
| Preferred shares of beneficial interest (at liquidation value), <i>(1,000,000 shares authorized of non-participating \$.01 par value, 3,100 shares outstanding)</i> | 155,200,926 |
| Net Assets Applicable to Common Shareholders | \$ 357,163,457 |
| Composition of Net Assets Applicable to Common Shareholders: | |
| Common shares of beneficial interest <i>(unlimited shares authorized of \$.01 par value, 22,574,433 shares outstanding)</i> | \$ 327,072,068 |
| Net unrealized appreciation | 28,721,622 |
| Accumulated undistributed net investment income | 2,658,689 |
| Accumulated net realized loss | (1,288,922) |

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| | |
|---|---------------|
| Net Assets Applicable to Common Shareholders | \$357,163,457 |
| Net Asset Value Per Common Share, (<i>\$357,163,457 divided by 22,574,433 common shares outstanding</i>) | \$ 15.82 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Financial Statements continued

Statement of Operations

For the six months ended April 30, 2005 (unaudited)

| | |
|--|--------------|
| Net Investment Income: | |
| Interest Income | \$12,205,550 |
| Expenses | |
| Investment advisory fee | 688,830 |
| Auction commission fees | 368,766 |
| Administration fee | 204,098 |
| Transfer agent fees and expenses | 66,363 |
| Professional fees | 35,210 |
| Shareholder reports and notices | 31,093 |
| Auction agent fees | 16,530 |
| Custodian fees | 12,751 |
| Registration fees | 7,802 |
| Trustees' fees and expenses | 6,343 |
| Other | 33,236 |
| Total Expenses | 1,471,022 |
| Less: expense offset | (12,624) |
| Net Expenses | 1,458,398 |
| Net Investment Income | 10,747,152 |
| Net Realized and Unrealized Gain (Loss): | |
| Net Realized Gain (Loss) on: | |
| Investments | 1,584,547 |
| Futures contracts | (224,781) |
| Net Realized Gain | 1,359,766 |
| Net Change in Unrealized Appreciation/Depreciation on: | |
| Investments | 631,495 |
| Futures contracts | 1,751,952 |
| Net Appreciation | 2,383,447 |
| Net Gain | 3,743,213 |
| Dividends to preferred shareholders from net investment income | (1,320,616) |

Net Increase \$13,169,749

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Financial Statements continued

Statement of Changes in Net Assets

| | FOR THE SIX MONTHS ENDED APRIL 30, 2005 (unaudited) | FOR THE YEAR ENDED OCTOBER 31, 2004 |
|---|--|--|
| Increase (Decrease) in Net Assets: | | |
| Operations: | | |
| Net investment income | \$ 10,747,152 | \$ 22,599,751 |
| Net realized gain (loss) | 1,359,766 | (5,489,188) |
| Net change in unrealized appreciation/depreciation | 2,383,447 | 9,051,071 |
| Dividends to preferred shareholders from net investment income | (1,320,616) | (2,823,792) |
| Net Increase | 13,169,749 | 23,337,842 |
| Dividends and Distributions to Common Shareholders from: | | |
| Net investment income | (9,280,947) | (21,955,427) |
| Net realized gain | — | (6,940,823) |
| Total Dividends and Distributions | (9,280,947) | (28,896,250) |
| Decrease from transactions in common shares of beneficial interest | (9,193,689) | (14,118,667) |
| Net Decrease | (5,304,887) | (19,677,075) |
| Net Assets Applicable to Common Shareholders: | | |
| Beginning of period | 362,468,344 | 382,145,419 |
| End of Period | | |
| <i>(Including accumulated undistributed net investment income of \$2,658,689 and \$2,513,100, respectively)</i> | \$357,163,457 | \$362,468,344 |

See Notes to Financial Statements

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Notes to Financial Statements April 30, 2005 (unaudited)

1. Organization and Accounting Policies

Morgan Stanley Insured Municipal Income Trust (the "Trust") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Trust's investment objective is to provide current income which is exempt from federal income tax. The Trust was organized as a Massachusetts business trust on March 12, 1992 and commenced operations on February 26, 1993.

The following is a summary of significant accounting policies:

A. Valuation of Investments — (1) portfolio securities are valued by an outside independent pricing service approved by the Trustees. The pricing service uses both a computerized grid matrix of tax-exempt securities and evaluations by its staff, in each case based on information concerning market transactions and quotations from dealers which reflect the mean between the last reported bid and asked price. The portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. The Trustees believe that timely and reliable market quotations are generally not readily available for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service are more likely to approximate the fair value of such securities; (2) futures are valued at the latest sale price on the commodities exchange on which they trade unless it is determined that such price does not reflect their market value, in which case they will be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees; and (3) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

B. Accounting for Investments — Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses on security transactions are determined by the identified cost method. Discounts are accreted and premiums are amortized over the life of the respective securities. Interest income is accrued daily.

C. Futures Contracts — A futures contract is an agreement between two parties to buy and sell financial instruments or contracts based on financial indices at a set price on a future date. Upon entering into such a contract, the Trust is required to pledge to the broker cash, U.S. Government securities or other liquid portfolio securities equal to the minimum initial margin requirements of the applicable futures exchange. Pursuant to the contract, the Trust agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments known as variation margin are recorded by the Trust as unrealized gains and losses. Upon closing of the contract, the Trust realizes a gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2005 (unaudited) continued

D. Federal Income Tax Policy — It is the Trust's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable and nontaxable income to its shareholders. Accordingly, no federal income tax provision is required.

E. Dividends and Distributions to Shareholders — Dividends and distributions to shareholders are recorded on the ex-dividend date.

F. Use of Estimates — The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

2. Investment Advisory/Administration Agreements

Pursuant to an Investment Advisory Agreement with Morgan Stanley Investment Advisors Inc. (the "Investment Adviser"), the Trust pays an advisory fee, calculated weekly and payable monthly, by applying the annual rate of 0.27% to the Trust's weekly total net assets including preferred shares.

Pursuant to an Administration Agreement with Morgan Stanley Services Company Inc. (the "Administrator"), an affiliate of the Investment Adviser, the Trust pays an administration fee, accrued daily and payable monthly, by applying the annual rate of 0.08% to the Trust's weekly total net assets including preferred shares.

3. Security Transactions and Transactions with Affiliates

The cost of purchases and proceeds from sales of portfolio securities, excluding short-term investments, for the six months ended April 30, 2005, aggregated \$25,978,540 and \$33,550,206, respectively.

Morgan Stanley Trust, an affiliate of the Investment Adviser and Administrator, is the Trust's transfer agent. At April 30, 2005, the Trust had transfer agent fees and expenses payable of approximately \$12,400.

The Trust has an unfunded noncontributory defined benefit pension plan covering certain independent Trustees of the Trust who will have served as independent Trustees for at least five years at the time of retirement. Benefits under this plan are based on factors which include years of service and compensation. Aggregate pension costs for the six months ended April 30, 2005, included in Trustees' fees and expenses in the Statement of Operations amounted to \$3,079. At April 30, 2005, the Trust had an accrued pension liability of \$52,590 which is included in accrued expenses in the Statement of Assets and Liabilities. On December 2, 2003, the Trustees voted to close the plan to new participants and eliminate the future benefits growth due to increases to compensation after July 31, 2003.

The Trust has an unfunded Deferred Compensation Plan (the "Compensation Plan") which allows each independent Trustee to defer payment of all, or a portion, of the fees he receives for serving on the Board of Trustees. Each eligible Trustee generally may elect to have the deferred amounts credited with a return equal

to the total return on one or more of the Morgan Stanley funds that are offered as investment options under the Compensation Plan. Appreciation/depreciation and distributions received from these investments are recorded with an offsetting increase/decrease in the deferred compensation obligation and do not affect the net asset value of the Trust.

4. Preferred Shares of Beneficial Interest

The Trust is authorized to issue up to 1,000,000 non-participating preferred shares of beneficial interest having a par value of \$.01 per share, in one or more series, with rights as determined by the Trustees, without approval of the common shareholders. The Trust has issued Series 1 through 5 Auction Rate Preferred Shares ("Preferred Shares") which have a liquidation value of \$50,000 per share plus the redemption premium, if any, plus accumulated but unpaid dividends, whether or not declared, thereon to the date of distribution. The Trust may redeem such shares, in whole or in part, at the original purchase price of \$50,000 per share plus accumulated but unpaid dividends, whether or not declared, thereon to the date of redemption.

Dividends, which are cumulative, are reset through auction procedures.

| SERIES | SHARES* | AMOUNT IN THOUSANDS* | RATE* | RESET DATE | RANGE OF DIVIDEND RATES** |
|--------|---------|-------------------------|-------|---------------|------------------------------|
| 1 | 400 | \$ 20,000 | 2.82% | 05/02/05 | 1.36% – 2.82% |
| 2 | 900 | 45,000 | 1.20 | 07/11/05 | 1.20 |
| 3 | 1,000 | 50,000 | 2.24 | 07/10/06 | 2.24 |
| 4 | 400 | 20,000 | 1.48 | 01/09/06 | 1.48 |
| 5 | 400 | 20,000 | 1.70 | 09/12/05 | 1.70 |

* As of April 30, 2005.

** For the six months ended April 30, 2005.

Subsequent to April 30, 2005 and up through June 3, 2005, the Trust paid dividends to each of the Series 1 through 5 at rates ranging from 1.20% to 2.95% in the aggregate amount of \$435,468.

The Trust is subject to certain restrictions relating to the preferred shares. Failure to comply with these restrictions could preclude the Trust from declaring any distributions to common shareholders or purchasing common shares and/or could trigger the mandatory redemption of preferred shares at liquidation value.

The preferred shares, which are entitled to one vote per share, generally vote with the common shares but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2005 (unaudited) continued

5. Common Shares of Beneficial Interest

Transactions in common shares of beneficial interest were as follows:

| | SHARES | PAR VALUE | CAPITAL PAID IN EXCESS OF PAR VALUE |
|---|-------------|--------------|--|
| Balance, October 31, 2003 | 24,240,138 | \$242,401 | \$350,142,023 |
| Treasury shares purchased and retired (weighted average discount 8.33%)* | (1,001,300) | (10,013) | (14,108,654) |
| Balance, October 31, 2004 | 23,238,838 | 232,388 | 336,033,369 |
| Treasury shares purchased and retired (weighted average discount 11.40%)* | (664,405) | (6,644) | (9,187,045) |
| Balance, April 30, 2005 | 22,574,433 | \$225,744 | \$326,846,324 |

* The Trustees have voted to retire the shares purchased.

6. Dividends to Common Shareholders

On March 29, 2005, the Trust declared the following dividends from net investment income:

| AMOUNT PER SHARE | RECORD DATE | PAYABLE DATE |
|---------------------|----------------|-----------------|
| \$0.0675 | May 6, 2005 | May 20, 2005 |
| \$0.0675 | June 3, 2005 | June 17, 2005 |

7. Expense Offset

The expense offset represents a reduction of the custodian fees for earnings on cash balances maintained by the Trust.

8. Risks Relating to Certain Financial Instruments

The Trust may invest a portion of its assets in residual interest bonds, which are inverse floating rate municipal obligations. The prices of these securities are subject to greater market fluctuations during periods of changing prevailing interest rates than are comparable fixed rate obligations.

To hedge against adverse interest rate changes, the Trust may invest in financial futures contracts or municipal bond index futures contracts ("futures contracts").

These futures contracts involve elements of market risk in excess of the amount reflected in the Statement of Assets and Liabilities. The Trust bears the risk of an unfavorable change in the value of the underlying securities. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

Notes to Financial Statements April 30, 2005 (unaudited) continued

9. Federal Income Tax Status

The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations which may differ from generally accepted accounting principles. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for tax purposes are reported as distributions of paid-in-capital.

As of October 31, 2004, the Trust had a net capital loss carryforward of \$4,714,427 which will expire on October 31, 2012 to offset future capital gains to the extent provided by regulations.

As of October 31, 2004, the Trust had temporary book/tax differences primarily attributable to book amortization of discounts on debt securities, mark-to-market of open futures contracts and dividend payable.

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Morgan Stanley Insured Municipal Income Trust

Financial Highlights

Selected ratios and per share data for a common share of beneficial interest outstanding throughout each period:

| | FOR THE SIX MONTHS ENDED APRIL 30, 2005 (unaudited) | | FOR THE YEAR ENDED OCTOBER 31, | | | | |
|--|---|----------|--------------------------------|----------|----------|---------|--|
| | | 2004 | 2003 | 2002 | 2001 | 2000 | |
| Selected Per Share Data: | | | | | | | |
| Net asset value, beginning of period | \$ 15.60 | \$ 15.76 | \$ 15.67 | \$ 15.42 | \$ 14.44 | \$13.69 | |
| Income (loss) from investment operations: | | | | | | | |
| Net investment income* | 0.47 | 0.95 | 1.01 | 1.04 | 1.03 | 1.01 | |
| Net realized and unrealized gain | 0.17 | 0.17 | 0.03 | 0.11 | 0.90 | 0.79 | |
| Common share equivalent of dividends paid to preferred shareholders* | (0.06) | (0.12) | (0.10) | (0.13) | (0.22) | (0.22) | |
| Total income from investment operations | 0.58 | 1.00 | 0.94 | 1.02 | 1.71 | 1.58 | |
| Less dividends and distributions from: | | | | | | | |
| Net investment income | (0.41) | (0.92) | (0.90) | (0.82) | (0.78) | (0.86) | |
| Net realized gain | — | (0.29) | — | — | — | — | |
| Total dividends and distributions | (0.41) | (1.21) | (0.90) | (0.82) | (0.78) | (0.86) | |

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| | | | | | | | |
|---|----|-------------|-----------|-----------|-----------|-----------|-----------|
| Anti-dilutive effect of acquiring treasury shares* | | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.03 |
| Net asset value, end of period | \$ | 15.82 | \$ 15.60 | \$ 15.76 | \$ 15.67 | \$ 15.42 | \$14.44 |
| Market value, end of period | \$ | 13.81 | \$ 14.09 | \$ 14.73 | \$ 14.05 | \$ 14.13 | \$12.813 |
| Total Return† | | 0.89%(1) | 3.91% | 11.53% | 5.35% | 16.70% | 29% |
| Ratios to Average Net Assets of Common Shareholders: | | | | | | | |
| Total expenses (before expense offset) | | 0.83%(2)(3) | 0.82% (3) | 0.75% (3) | 0.72% | 0.71% | 0.73% |
| Net investment income before preferred stock dividends | | 6.03%(2) | 6.11% | 6.38% | 6.82% | 6.84% | 7.27% |
| Preferred stock dividends | | 0.74%(2) | 0.76% | 0.66% | 0.87% | 1.43% | 1.59% |
| Net investment income available to common shareholders | | 5.29%(2) | 5.35% | 5.72% | 5.95% | 5.41% | 5.68% |
| Supplemental Data: | | | | | | | |
| Net assets applicable to common shareholders, end of period, in thousands | | \$357,163 | \$362,468 | \$382,145 | \$396,360 | \$405,220 | \$402,513 |
| Asset coverage on preferred shares at end of period | | 330% | 334% | 346% | 355% | 361% | 352% |
| Portfolio turnover rate | | 5%(1) | 17% | 43% | 17% | 13% | 11% |

*The per share amounts were computed using an average number of common shares outstanding during the period.

†Total return is based upon the current market value on the last day of each period reported. Dividends and distributions are assumed to be reinvested at the prices obtained under the Trust's dividend reinvestment plan. Total return does not reflect brokerage commissions.

(1) Not annualized.

(2) Annualized.

(3) Does not reflect the effect of expense offset of 0.01%.

See Notes to Financial Statements

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Michael Bozic
Charles A. Fiumefreddo
Edwin J. Garn
Wayne E. Hedien
James F. Higgins
Dr. Manuel H. Johnson
Joseph J. Kearns
Michael E. Nugent
Fergus Reid

Morgan Stanley
Insured Municipal
Income Trust

Officers

Semiannual Report
April 30, 2005

Charles A. Fiumefreddo
Chairman of the Board

Mitchell M. Merin
President

Ronald E. Robison
*Executive Vice President and Principal
Executive Officer*

Joseph J. McAlinden
Vice President

Barry Fink
Vice President

Amy R. Doberman
Vice President

Carsten Otto
Chief Compliance Officer

Stefanie V. Chang
Vice President

Francis J. Smith
Treasurer and Chief Financial Officer

Thomas F. Caloia
Vice President

Mary E. Mullin
Secretary

Transfer Agent

Morgan Stanley Trust
Harborside Financial Center, Plaza Two
Jersey City, New Jersey 07311

Independent Registered Public Accounting
Firm

Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

Investment Adviser

Morgan Stanley Investment Advisors Inc.
1221 Avenue of the Americas
New York, New York 10020

The financial statements included herein
have been taken from the records of the
Trust without examination by the
independent auditors and accordingly they
do not express an opinion thereon.

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37958RPT-RA05-00450P-Y04/05
