

MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST

Form N-CSRS

July 07, 2006

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 months ended April 30, 2006

Market Conditions

The U.S. economy navigated a number of challenges and continued to grow during the reporting period, with particular strong expansion in 2006. Although the Gulf Coast hurricanes resulted in unprecedented devastation, the negative impact on the economy was less far-reaching than many had originally anticipated. Even sharply higher energy prices failed to interrupt the positive economic momentum.

In 2006, developing weakness in the real estate sector and elevated commodity prices weighed on sentiment. Yet, strong manufacturing surveys, buoyant consumer confidence and positive employment data pointed toward steady growth in real gross domestic product. While sustained higher energy costs began to push some prices upward, headline measures of inflation remained largely stable.

Given the economy's solid growth, the Federal Open Market Committee (the "Fed") continued to raise the federal funds target rate. Through four increases of 25 basis points each, the Fed brought the rate from 3.75 percent to 4.75 percent during the period. Yields on short-term municipal bonds followed the target rate and rose steadily. In contrast, the yields of long-term bonds initially declined before moving higher in April. Representative yields on 30-year AAA rated municipal bonds declined from 4.60 percent in October 2005 to a low of 4.30 percent in February, before ending the period at 4.55 percent. Accordingly, the slope of the municipal yield curve continued to flatten as the difference between short-term and long-term interest rates narrowed. In this environment, the benefits of leveraged investment strategies were less pronounced. (Leverage involves borrowing at short-term rates to purchase longer-term securities, thereby taking advantage of the differential between short- and long-term yields.)

Demand for municipal bonds strengthened among individual and institutional investors alike. Meanwhile, municipal bond supply dropped significantly as the period progressed. New issue volume continued to be robust in the final months of 2005, supporting the record pace of issuance during the calendar year (more than \$400 billion). However, volume in the first four months of 2006 fell by nearly 25 percent compared to the same period in 2005. The decline was largely attributable to a slowdown in refundings, which dropped by more than 55 percent as rising interest rates discouraged municipalities from refinancing debt. Improved fiscal conditions among state and local governments also contributed to less significant borrowing needs. Bonds backed by insurance fell to under 50 percent of issuance in 2006, from nearly 60 percent in 2005. Issuers in California, Texas, New York, Florida and Illinois accounted for over 40 percent of the total underwriting volume in 2006.

Reflecting declining supply and sustained demand, municipal bonds outperformed U.S. Treasuries with comparable maturities. That said, the relative attractiveness of tax-exempt bonds ebbed somewhat, and the 30-year municipal-to-Treasury yield ratio

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steadily declined from 97 to 88 percent. (The municipal-to-Treasury yield ratio measures the relative attractiveness of the two sectors. The higher the ratio, the greater the attractiveness of municipal yields relative to Treasury yields.)

#### Performance Analysis

For the six-month period ended April 30, 2006, the net asset value of Morgan Stanley Insured Municipal Income Trust (IIM) decreased from \$15.50 to \$15.43 per share. Based on this change plus reinvestment of tax-free dividends totaling \$0.405 per share and a long-term capital gain distribution of \$0.0453 per share, the Trust's total NAV return was 2.69 percent. IIM's value on the New York Stock Exchange (NYSE) moved from \$13.86 to \$14.53 per share during the same period. Based on this change plus reinvestment of tax-free dividends and distributions, the Trust's total market return was 8.21 percent. IIM's NYSE market price was at a 5.83 percent discount to its NAV. During the fiscal period, the Trust purchased and retired 471,200 shares of common stock at a weighted average market discount of

8.68 percent. *Past performance is no guarantee of future results.*

Monthly dividends for the second quarter of 2006, 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 \$0.088 per share on April 30, 2006, versus \$0.120 per share six months earlier.<sup>1</sup>


In anticipation of continued Fed tightening and generally higher interest rates, the Trust made modest ongoing adjustments to its portfolio to reduce volatility. For example, a U.S. Treasury futures strategy was used to reduce the portfolio's duration,\* as a hedge against rising rates. At the end of April, the Trust's option-adjusted duration was 11.0 years. This duration positioning tempered the Trust's total returns when rates declined, but helped total returns when rates rose.

All the long-term holdings in the Trust were guaranteed by AAA rated insurance providers as of the end of the period. Purchases during the period included bonds with maturities in the 25- to 30-year range and defensive characteristics. Investments continued to emphasize essential service sectors such as education, transportation, and water and sewer. The Trust also favored bonds with strong in-state investor demand. Reflecting a commitment to diversification, the Trust's net assets of approximately \$489 million, including preferred shares, were invested among 12 long-term sectors and 87 credits.

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

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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 \$0.05 per share to common-share earnings. The Trust has five ARPS series totaling \$155 million, representing 32 percent of net assets, including preferred shares as of the end of the period. At the end of April weekly ARPS yields ranged from 3.46 to 3.70 percent compared to 2.45 to 2.80 percent at the end of October 2005.

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.

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 as discussed herein or that securities in such sectors will be held by the Trust in the future.

<sup>1</sup> Income earned by certain securities in the portfolio may be subject to the federal alternative minimum 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. Duration calculations are adjusted for leverage.

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TOP FIVE SECTORS	
Transportation	30.4%
Water & Sewer	26.4
Electric	21.4
Refunded Public Facilities	19.7
	10.7

CREDIT ENHANCEMENTS	
FGIC	25.8%
Ambac	24.3
MBIA	24.0

FSA	21.3
XLCA	3.6
CIFG	0.6
AGC	0.4

Data as of April 30, 2006. Subject to change daily. All percentages for top five 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.

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. The semiannual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. 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](http://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](mailto: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, 2006

Weighted Average Maturity: 18 Years<sup>(a)</sup>

- (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	1.9%
California	14.0
Colorado	1.5
District of Columbia	3.0
Florida	6.3
Georgia	2.6
Hawaii	1.1
Illinois	7.3
Indiana	0.9
Louisiana	0.9%
Maryland	0.3
Massachusetts	2.0
Michigan	4.0
Minnesota	1.3
Missouri	0.7
Nebraska	1.1
Nevada	2.6
New Hampshire	0.3
New Jersey	4.0%
New York	8.4
North Carolina	1.9
Ohio	0.2
Oregon	0.6
Pennsylvania	3.8
Puerto Rico	0.9
Rhode Island	2.2
South Carolina	3.3
Texas	15.7%
Utah	1.1
Virginia	1.4
Washington	4.5
West Virginia	0.6
Joint exemptions*	(0.4)
Total†	100.0%

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\* Joint exemptions have been included in each geographic location.

† Does not include open short futures contracts with an underlying face amount of \$62,756,251 with unrealized appreciation of \$456,163.

Call and Cost (Book) Yield Structure  
(Based on Long-Term Portfolio) As of April 30, 2006

Years Bonds Callable—Weighted Average Call Protection: 8 Years

Cost (Book) Yield<sup>(b)</sup>—Weighted Average Book Yield: 5.0%

(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 5.0% on 1% of the long-term portfolio that is callable in 2007.

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 Investment 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 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

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Trust, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Trust's performance for the one-, three- and five-year periods ended November 30, 2005, as shown in a report provided by Lipper (the “Lipper Report”), compared to the performance of comparable funds selected

by Lipper (the “performance peer group”). The Board also discussed with the Adviser the performance goals and the actual results achieved in managing the Trust. The Board concluded that the Trust's performance was competitive with that of its performance peer group.

#### Fees Relative to Other Proprietary Funds Managed by the Adviser with Comparable

##### Investment Strategies

The Board reviewed the advisory and administrative fee (together, the “management fee”) rate paid by the Trust under the Management Agreement. The Board noted that the management fee rate was comparable to the management fee rates charged by the Adviser to other proprietary 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 as compared to the average management fee rate and average total expense ratio 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. The Board concluded that the Trust's management fee rate and total expense ratio were competitive with those of its 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 a closed-end 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 the Trust were not a factor that needed to be considered at the present time.

#### Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and affiliates during the last year from their relationship with the Trust and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and 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 affiliates from their relationship with the Trust and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Trust shares and “float” benefits derived from handling of checks for such purchases and sales of Trust shares, through a broker-dealer affiliate of the Adviser. The Board concluded that the float benefits were relatively small and that the commissions were competitive with those of other broker-dealers.



#### 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 that 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, 2006 (unaudited)

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PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	<i>Tax-Exempt Municipal Bonds (141.9%)</i>			
	<i>General Obligation (8.4%)</i>			
\$ 3,000	Los Angeles, California, Ser 2004 A (MBIA) District of Columbia,	5.00 %	09/01/24	\$ 3,119,070
5,000	Refg Ser 1993 B (Ambac)	5.50	06/01/09	5,254,200
6,000	Refg Ser 1993 B (FSA) Pennsylvania,	5.50	06/01/10	6,361,440
1,495	First Ser 2003 RITES PA – 1112 A (MBIA)	5.976‡	01/01/18	1,622,778
2,055	First Ser 2003 RITES PA – 1112 B (MBIA)	5.976‡	01/01/19	2,309,553
4,000	Houston, Texas, Public Impr & Refg Ser 2001 B (FSA)	5.50	03/01/17	4,255,160
3,000	King County, Washington, Refg 1998 Ser B (MBIA)	5.25	01/01/34	3,085,110
2,500	Spokane School District #81, Washington, Ser 2005 (MBIA)	0.00#	12/01/23	2,270,475
27,050				28,277,786
	<i>Educational Facilities Revenue (6.8%)</i>			
2,500	University of Arizona, 2003 Ser B COPs (Ambac) University of California,	5.00	06/01/23	2,577,375
2,000	Ser 2003 B (Ambac)	5.00	05/15/22	2,080,960
2,000	Multi Purpose Ser Q (FSA)	5.00	09/01/31	2,059,920
3,000	District of Columbia, American Association for the Advancement of Science Ser 1997 (Ambac)	5.125	01/01/27	3,085,170
2,000	Broward County Educational Facilities Authority, Florida, Nova Southeastern University Ser 2006 (AGC)	5.00	04/01/36	2,063,900
1,300	New Hampshire Health & Education Facilities Authority, University of New Hampshire Ser 2001 (Ambac)	5.125	07/01/33	1,344,993
5,000	New Jersey Educational Facilities Authority, Higher Education Ser 2002 A (Ambac)††	5.25	09/01/21	5,299,900
1,000	University of Medicine & Dentistry, New Jersey, Ser 2004 COPs (MBIA)	5.00	06/15/29	1,027,850
3,000	University of North Carolina at Wilmington, Student Housing Ser 2005 COPs (FGIC)	5.00	06/01/36	3,069,180
21,800				22,609,248
	<i>Electric Revenue (21.4%)</i>			
4,000	Arkansas River Power Authority, Colorado, Power Ser 2006 (XLCA)	5.25	10/01/40	4,208,160
4,000	Lafayette, Louisiana, Utilities Ser 2004 (MBIA)	5.25	11/01/25	4,246,400
5,000	Nebraska Public Power District, 2003 Ser A (Ambac)	5.00	01/01/35	5,128,400

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
\$ 4,000	Long Island Power Authority, New York, Ser 2006 A (XLCA)	5.00 %	12/01/26	\$ 4,155,680
3,000	Refg Ser 2003 C (FSA)	5.00	09/01/28	3,091,770
6,000	North Carolina Municipal Power Agency #1, Catawba Ser 2003 A (MBIA)	5.25	01/01/19	6,344,460
10,000	South Carolina Public Service Authority, Ser 2003 A (Ambac)	5.00	01/01/27	10,300,000
4,000	Ser 2006 A (MBIA)	5.00	01/01/36	4,131,440
10,000	Lower Colorado River Authority, Texas, Refg Ser 1999 A (FSA)	5.875	05/15/16	10,692,600
5,000	Refg Ser 2001 (FSA)	5.00	05/15/26	5,101,450
8,800	Refg Ser 2002 (MBIA)	5.00	05/15/31	8,985,680
5,000	Intermountain Power Agency, Utah, 2003 Ser A (FSA)	5.00	07/01/21	5,195,050
68,800				71,581,090
	<i>Hospital Revenue (5.3%)</i>			
2,000	South Broward Hospital District, Florida, Memorial Healthcare Refg Ser 2005 (MBIA)	5.00	05/01/35	2,064,400
2,000	Illinois Finance Authority, Swedish American Hospital Ser 2004 (Ambac)	5.00	11/15/31	2,040,380
2,000	Indiana Health Facilities Financing Authority, Community Health Ser 2005 A (Ambac)	5.00	05/01/35	2,048,080
1,000	Minneapolis Health Care Systems, Minnesota, Fairview Health 2005 Ser D (Ambac)	5.00	11/15/30	1,029,820
105	Missouri Health & Educational Facilities, SSM Health Care Ser 1998 A (MBIA)	5.00	06/01/22	107,730
1,500	Medical University Hospital Authority, South Carolina, FHA Insured Mtge Ser 2004 A (MBIA)	5.25	02/15/25	1,582,395
3,020	Amarillo Health Facilities Corporation, Texas, Baptist St Anthony's Hospital Ser 1998 (FSA)	5.50	01/01/16	3,253,355
5,075	Baptist St Anthony's Hospital Ser 1998 (FSA)	5.50	01/01/17	5,481,000
16,700				17,607,160
	<i>Industrial Development/Pollution Control Revenue (2.2%)</i>			
5,000	Hawaii Department of Budget & Finance, Hawaiian Electric Co Ser 1999 C (AMT) (Ambac)	6.20	11/01/29	5,385,750
2,000	Delaware County Industrial Development Authority, Pennsylvania, Aqua Inc Ser A 2005 (AMT) (FGIC)	5.00	11/01/37	2,040,500
7,000				7,426,250

See Notes to Financial Statements

## Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	<i>Nursing &amp; Health Related Facilities Revenue (1.7%)</i>			
\$ 5,490	New Jersey Health Care Facilities Financing Authority, Greystone Psychiatric Hospital Ser 2005 (Ambac)	5.00%	09/15/19	\$ 5,749,293
	<i>Public Facilities Revenue (10.7%)</i>			
15,000	Miami-Dade County School Board, Florida, 2003 Ser A COPs (FGIC)	5.00	08/01/29	15,370,350
3,000	Orange County School Board, Florida, Ser 2001 A COPs (Ambac)	5.25	08/01/14	3,208,740
5,000	Massachusetts School Building Authority, Sales Tax 2005 Ser A (FSA)	5.00	08/15/30	5,186,000
4,200	New York State Dormitory Authority, School Districts Ser 2002 E (MBIA)	5.50	10/01/17	4,547,508
3,000	Oregon Department of Administrative Services, Ser 2005 B COPs (FGIC)	5.00	11/01/24	3,113,820
4,000	Puerto Rico Public Buildings Authority, Refg Ser J (Ambac) (Mandatory Tender 07/01/12)	5.00	07/01/36	4,202,200
34,200				35,628,618
	<i>Recreational Facilities Revenue (4.7%)</i>			
3,000	Denver Convention Center Hotel Authority, Colorado, Refg Ser 2006 (XLCA) (WI)	5.00	12/01/30	3,092,790
3,000	Metropolitan Pier & Exposition Authority, Illinois, McCormick Place Refg Ser 2002 B (MBIA)	0.00##	06/15/18	2,331,720
5,000	McCormick Place Ser 2002 A (MBIA)	5.25	06/15/42	5,248,400
2,400	Marion County Convention & Recreational Facilities Authority, Indiana, Refg Ser 2003 A (Ambac)	5.00	06/01/19	2,480,160
1,500	Baltimore, Maryland, Convention Center Hotel Ser 2006 A (XLCA)	5.25	09/01/39	1,585,125
1,000	Casino Reinvestment Development Authority, New Jersey, Ser 2004 (Ambac)	5.25	01/01/22	1,075,700
15,900				15,813,895
	<i>Transportation Facilities Revenue (30.4%)</i>			
1,000	Phoenix Civic Improvement Corporation, Arizona, Sr Lien Airport Ser 2002 B (AMT) (FGIC)	5.75	07/01/19	1,076,430
9,000	Long Beach, California, Harbor Refg Ser 1998 A (AMT) (FGIC)	6.00	05/15/18	10,150,740

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3,000	Miami-Dade County, Florida, Miami-Int'l Airport Ser 2005 A (AMT) (CIFG)	5.00	10/01/38	3,052,920
5,000	Atlanta, Georgia, Airport Ser 2004 C (FSA)	5.00	01/01/33	5,119,250
5,000	Chicago, Illinois, O'Hare Int'l Airport Third Lien, Ser 2005 A (MBIA)	5.25	01/01/25	5,317,450
4,000	Illinois Toll Highway Authority, Priority Refg 1998 Ser A (FSA)	5.50	01/01/15	4,391,320

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
\$ 1,000	Massachusetts Turnpike Authority, Metropolitan Highway ROLS RR II R 536 (MBIA)	8.116 $\frac{3}{4}$ %	01/01/37	\$ 1,053,440
5,000	Minneapolis – St Paul Metropolitan Airports Commission, Minnesota, Ser 2001 C (FGIC)	5.25	01/01/32	5,183,500
3,000	St Louis, Missouri, Lambert Int'l Airport Ser 2001 A (MBIA)	5.00	07/01/20	3,074,640
7,000	Nevada Department of Business & Industry, Las Vegas Monorail 1st Tier Ser 2000 (Ambac)	5.375	01/01/40	7,255,220
2,000	Delaware River Port Authority, New Jersey & Pennsylvania Ser 1995 (FGIC)**	5.50	01/01/26	2,042,760
4,000	New Jersey Transportation Trust Fund Authority, Ser 2005 C (FGIC)	5.25	06/15/20	4,267,120
3,000	Metropolitan Transportation Authority, New York, Dedicated Tax Fund Ser 2002 A (FSA)	5.25	11/15/24	3,187,980
10,000	Transportation Refg Ser 2002 A (FGIC)	5.00	11/15/25	10,327,500
10,000	Triborough Bridge & Tunnel Authority, New York, Refg 2002 E (MBIA)	5.25	11/15/22	10,626,600
9,000	Dallas-Fort Worth Int'l Airport, Texas, Ser 2003 A (AMT) (FSA)	5.375	11/01/22	9,540,000
3,000	Harris County, Texas, Toll Road Sr Lien Ser 2005 A (FSA)	5.25	08/15/35	3,121,530
4,000	Texas Turnpike Authority, Central Texas First Tier Ser 2002 A (Ambac)	5.50	08/15/39	4,294,240
3,000	Richmond Metropolitan Authority, Virginia, Refg Ser 2002 (FGIC)	5.25	07/15/22	3,306,030

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5,000	Port of Seattle, Washington, Ser 2001 B (AMT) (MBIA)	5.625	02/01/24	5,264,650
96,000	<i>Water &amp; Sewer Revenue (26.4%)</i>			101,653,320
5,000	Los Angeles Department of Water & Power, California, Water 2004 Ser C (MBIA)	5.00	07/01/24	5,195,100
4,000	Oxnard Financing Authority, California, Water Ser 2004 (XLCA)	5.00	06/01/28	4,102,840
5,000	San Diego County Water Authority, California, Ser 2002 A COPs (MBIA)	5.00	05/01/27	5,147,300
5,000	Ser 2004 A COPs (FSA)	5.00	05/01/29	5,148,000
5,000	Tampa Bay Water Authority, Florida, Ser 2001 A (FGIC)	5.00	10/01/28	5,105,700
5,000	Atlanta, Georgia, Water & Wastewater, Ser 2004 (FSA)	5.00	11/01/23	5,191,200
2,000	Augusta, Georgia, Water & Sewer, Ser 2004 A (FSA)	5.25	10/01/39	2,106,300
3,000	Detroit, Michigan, Sewage Refg Ser 2003 A (FSA)	5.00	07/01/26	3,086,280
8,000	Sewage Refg Ser 2003 A (FSA)	5.00	07/01/28	8,205,440
3,000	Sewage Disposal Ser 2001 A (FGIC)	5.125	07/01/31	3,095,160
5,080	Las Vegas Water District, Nevada, Impr & Refg Ser 2003 A (FGIC)	5.25	06/01/19	5,383,530
1,005	Cleveland, Ohio, Waterworks Impr & Refg 1998 Ser I (FSA)	5.00	01/01/23	1,030,808

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
\$ 5,000	Philadelphia, Pennsylvania, Water & Wastewater Ser 1998 (Ambac)	5.25%	12/15/14	\$ 5,375,400
15,000	Houston, Texas, Combined Utility Refg 2004 Ser A (FGIC)	5.25	05/15/23	15,840,300
5,000	King County, Washington, Sewer Refg 2001 (FGIC)	5.00	01/01/31	5,097,350
2,890	Seattle, Washington, Water Refg 2003 (MBIA)	5.00	09/01/20	3,004,040
2,870	Water Refg 2003 (MBIA)	5.00	09/01/23	2,971,397
2,900	West Virginia Water Development Authority, Loan Program II Refg 2003 Ser B (Ambac)	5.25	11/01/23	3,094,561
84,745				88,180,706

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	<i>Other Revenue (4.2%)</i>			
3,000	California, Economic Recovery Ser 2004 A (MBIA)	5.00	07/01/15	3,190,050
6,000	Golden State Tobacco Securitization Corporation, California, Enhanced Asset Backed Ser 2005 A (FGIC)	5.00	06/01/38	6,124,980
	New York City Transitional Finance Authority, New York,			
2,000	2000 Ser C (Ambac)	5.25	08/01/21	2,125,480
2,500	2000 Ser C (Ambac)	5.25	08/01/22	2,656,850
13,500				14,097,360
	<i>Refunded (19.7%)</i>			
5,000	Mesa Industrial Development Authority, Arizona, Discovery Health Ser 1999 A (MBIA)	5.875	01/01/10†	5,392,400
5,000	California Department of Water Resources, Power Supply Ser 2002 A (Ambac)	5.375	05/01/12†	5,476,850
5,000	California Infrastructure & Economic Development Bank, Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (FGIC)	5.00	01/01/28†	5,376,000
10,000	Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (Ambac)	5.00	01/01/28†	10,752,000
15,000	Chicago, Illinois, Neighborhoods Alive 21 Ser 2001 A (FGIC)	5.50	01/01/11†	16,111,950
3,275	Massachusetts Municipal Wholesale Electric Company, 1993 Ser A (Ambac) (ETM)	5.00	07/01/10	3,372,169
5,000	Allegheny County Hospital Development Authority, Pennsylvania, Pittsburgh Mercy Health Ser 1996 (Ambac) (ETM)	5.625	08/15/18	5,268,950
10,000	Rhode Island Depositors Economic Protection Corporation, Refg 1992 Ser B (MBIA) (ETM)	6.00	08/01/17	10,541,100
3,000	Alexandria Industrial Development Authority, Virginia, Institute for Defense Analysis Ser 2000 A (Ambac)	5.90	10/01/10†	3,289,830
61,275				65,581,249
452,460	Total Tax-Exempt Municipal Bonds ( <i>Cost \$457,909,044</i> )			474,205,975

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

PRINCIPAL AMOUNT IN	COUPON RATE	MATURITY DATE	VALUE
---------------------------	----------------	------------------	-------

THOUSANDS

	Short-Term Tax-Exempt Municipal Obligations (3.2%)			
\$ 5,000	Michigan Strategic Fund, Detroit Symphony 2006 Ser B (Demand 05/01/06)	3.81*%	06/01/31	\$ 5,000,000
5,700	Harris County Health Facilities Development Corporation, Texas, Methodist Hospital Ser 2005 B (Demand 05/01/06)	3.81*	12/01/32	5,700,000
10,700	Total Short-Term Tax-Exempt Municipal Obligations (Cost \$10,700,000)			10,700,000
\$463,160	Total Investments (Cost \$468,609,044) (a) (b)		145.1%	484,905,975
	Other Assets in Excess of Liabilities		1.3	4,370,545
	Preferred Shares of Beneficial Interest		(46.4)	(155,167,574)
	Net Assets Applicable to Common Shareholders		100.0%	\$ 334,108,946

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).	
ROLS	Reset Option Longs (Illiquid security).	
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 \$280,000.

€ 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 \$4,985,771 which represents 1.5% 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 \$60,762,329 in connection with open futures contracts and the purchase of a when-issued security.

(b) The aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is \$16,914,044 and the aggregate gross unrealized depreciation is \$617,113, resulting in net unrealized appreciation \$16,296,931.

Bond Insurance:

AGC	Assured Guaranty Corporation.
Ambac	Ambac Assurance Corporation.
CIFG	CIFG Assurance North America Inc.
FGIC	Financial Guaranty Insurance Company.
FSA	Financial Security Assurance Inc.
MBIA	Municipal Bond Investors Assurance Corporation.
XLCA	XL Capital Assurance Inc.

See Notes to Financial Statements



Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2006 (unaudited) continued

Futures Contracts Open at April 30, 2006:

NUMBER OF CONTRACTS	LONG/SHORT	DESCRIPTION, DELIVERY MONTH AND YEAR	UNDERLYING FACE AMOUNT AT VALUE	UNREALIZED APPRECIATION
400	Short	U.S. Treasury Notes 5 year June 2006	\$(41,662,500)	\$345,776
200	Short	U.S. Treasury Notes 10 year June 2006	(21,093,751)	110,387
		Total Unrealized Appreciation		\$456,163

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Financial Statements

Statement of Assets and Liabilities

April 30, 2006 (unaudited)

Assets:	
Investments in securities, at value (cost \$468,609,044)	\$484,905,975
Cash	59,828
Receivable for:	
Interest	8,049,848
Investments sold	1,029,663
Prepaid expenses and other assets	73,148
Total Assets	494,118,462
Liabilities:	
Payable for:	
Investments purchased	4,387,861
Investment advisory fee	109,001
Common shares of beneficial interest repurchased	97,525
Variation margin	92,326

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Administration fee	32,297
Transfer agent fee	4,560
Accrued expenses and other payables	118,372
Total Liabilities	4,841,942
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>	155,167,574
Net Assets Applicable to Common Shareholders	\$334,108,946
Composition of Net Assets Applicable to Common Shareholders:	
Common shares of beneficial interest <i>(unlimited shares authorized of \$.01 par value, 21,658,959 shares outstanding)</i>	\$314,087,631
Net unrealized appreciation	16,753,094
Accumulated undistributed net investment income	1,903,648
Accumulated undistributed net realized gain	1,364,573
Net Assets Applicable to Common Shareholders	\$334,108,946
Net Asset Value Per Common Share <i>(\$334,108,946 divided by 21,658,959 common shares outstanding)</i>	\$ 15.43

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, 2006 (unaudited)

Net Investment Income:	
Interest Income	\$11,545,719
Expenses	
Investment advisory fee	665,765
Auction commission fees	263,645
Administration fee	197,264
Professional fees	37,294
Transfer agent fees and expenses	23,005
Auction agent fees	21,067
Shareholder reports and notices	17,468
Custodian fees	10,926
Registration fees	9,326
Trustees' fees and expenses	6,245
Other	41,856
Total Expenses	1,293,861
Less: expense offset	(10,728)

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Net Expenses	1,283,133
Net Investment Income	10,262,586
Net Realized and Unrealized Gain (Loss):	
Net Realized Gain on:	
Investments	877,902
Futures contracts	1,547,384
Net Realized Gain	2,425,286
Net Change in Unrealized Appreciation on:	
Investments	(2,222,184)
Futures contracts	(604,532)
Net Depreciation	(2,826,716)
Net Loss	(401,430)
Dividends to preferred shareholders from net investment income	(2,121,108)
Net Increase	\$ 7,740,048

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Financial Statements continued

Statements of Changes in Net Assets

	FOR THE SIX MONTHS ENDED APRIL 30, 2006 (unaudited )	FOR THE YEAR ENDED OCTOBER 31, 2005
Increase (Decrease) in Net Assets:		
Operations:		
Net investment income	\$ 10,262,586	\$ 21,386,916
Net realized gain	2,425,286	2,578,463
Net change in unrealized appreciation/depreciation	(2,826,716)	(6,758,365)
Dividends to preferred shareholders from net investment income	(2,121,108)	(2,903,008)
Net Increase	7,740,048	14,304,006
Dividends and Distributions to Common Shareholders from:		
Net investment income	(8,888,189)	(18,336,951)
Net realized gain	(1,000,186)	—
Total Dividends and Distributions	(9,888,375)	(18,336,951)
Decrease from transactions in common shares of beneficial interest	(6,698,732)	(15,479,394)
Net Decrease	(8,847,059)	(19,512,339)
Net Assets Applicable to Common Shareholders:		

Beginning of period	342,956,005	362,468,344
End of Period		
(Including accumulated undistributed net investment income of \$1,903,648 and \$2,650,359, respectively)	\$334,108,946	\$342,956,005

See Notes to Financial Statements

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## Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2006 (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, 2006 (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 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, calculated weekly and payable monthly, by applying the annual rate of 0.08% to the Trust's weekly 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, 2006, aggregated \$34,082,755 and \$43,941,892, respectively.

Morgan Stanley Trust, an affiliate of the Investment Adviser and Administrator, is the Trust's transfer agent.

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. 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. Aggregate pension costs for the six months ended April 30, 2006, included in Trustees' fees and expenses in the Statement of Operations amounted to \$3,079. At April 30, 2006, the Trust had an accrued pension liability of \$54,793 which is included in accrued expenses in the Statement of Assets and Liabilities.

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

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2006 (unaudited) continued

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	3.60%	05/01/06	2.30% – 3.70%
2	900	45,000	3.70	05/01/06	2.58 – 3.75
3	1,000	50,000	2.24	07/10/06	2.24
4	400	20,000	3.46	05/01/06	2.85 – 3.64
5	400	20,000	3.60	05/01/06	2.20 – 3.70

\* As of April 30, 2006.

\*\* For the six months ended April 30, 2006.

Subsequent to April 30, 2006 and up through June 2, 2006, the Trust paid dividends to each of the Series 1 through 5 at rates ranging from 2.24% to 3.70% in the aggregate amount of \$550,539.

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, 2006 (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, 2004	23,238,838	\$232,388	\$336,033,369
Treasury shares purchased and retired (weighted average discount 11.07%)*.	(1,108,679)	(11,087)	(15,468,307)
Balance, October 31, 2005	22,130,159	221,301	320,565,062
Treasury shares purchased and retired (weighted average discount 8.68%)*.	(471,200)	(4,712)	(6,694,020)
Balance, April 30, 2006	21,658,959	\$216,589	\$313,871,042

\* The Trustees have voted to retire the shares purchased.

6. Dividends to Common Shareholders

On March 28, 2006, the Trust declared the following dividends from net investment income:

AMOUNT PER SHARE	RECORD DATE	PAYABLE DATE
\$0.0675	May 5, 2006	May 19, 2006
\$0.0675	June 9, 2006	June 23, 2006

7. Expense Offset

The expense offset represents a reduction of custodian and transfer agent fees and expenses 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.

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## Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2006 (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, 2005, 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	2005	FOR THE YEAR ENDED OCTOBER 31, 2004	2003	2002	2001
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APRIL 30, 2006  
(unaudited)

Per Share Data:

Asset value, beginning of period	\$ 15.50	\$ 15.60	\$ 15.76	\$ 15.67	\$ 15.42	\$ 14.53
Change (loss) from investment operations:						
Investment income*	0.47	0.94	0.95	1.01	1.04	1.01
Realized and unrealized gain	(0.02)	(0.19)	0.17	0.03	0.11	0.05
Common share equivalent of dividends paid to preferred holders*	(0.10)	(0.13)	(0.12)	(0.10)	(0.13)	(0.10)
Income from investment operations	0.35	0.62	1.00	0.94	1.02	1.01
Dividends and distributions						
Investment income	(0.40)	(0.81)	(0.92)	(0.90)	(0.82)	(0.81)
Realized gain	(0.05)	—	(0.29)	—	—	—
Dividends and distributions.	(0.45)	(0.81)	(1.21)	(0.90)	(0.82)	(0.81)
Dilutive effect of acquiring treasury shares*.	0.03	0.09	0.05	0.05	0.05	0.05
Asset value, end of period	\$ 15.43	\$ 15.50	\$ 15.60	\$ 15.76	\$ 15.67	\$ 15.53
Net value, end of period	\$ 14.53	\$ 13.86	\$ 14.09	\$ 14.73	\$ 14.05	\$ 14.53
Return†	8.21% <sup>(1)</sup>	4.19%	3.91%	11.53%	5.35%	16.4%
Return to Average Net Assets of Common Shareholders:						
Operating expenses (before expense reduction)	0.76% <sup>(2)</sup>	0.80% <sup>(3)</sup>	0.82% <sup>(3)</sup>	0.75% <sup>(3)</sup>	0.72%	0.76%
Investment income before preferred dividends						
Preferred stock dividends	6.05% <sup>(2)</sup>	6.01%	6.11%	6.38%	6.82%	6.05%
Preferred stock dividends	1.25% <sup>(2)</sup>	0.81%	0.76%	0.66%	0.87%	1.25%
Investment income available to common shareholders	4.80% <sup>(2)</sup>	5.20%	5.35%	5.72%	5.95%	5.95%
Operational Data:						
Assets applicable to common shareholders, end of period, in thousands	\$334,109	\$342,956	\$362,468	\$382,145	\$396,360	\$405,200
Coverage on preferred shares at end of period	318%	321%	334%	346%	355%	361%
Portfolio turnover rate	7% <sup>(1)</sup>	15%	17%	43%	17%	17%

\*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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## Morgan Stanley Insured Municipal Income Trust

### Revised Investment Policy

On August 24, 2005, the Trustees of Morgan Stanley Insured Municipal Income Trust (the “Trust”) approved a change to the Trust’s investment policy with respect to inverse floating rate municipal obligations whereby the Trust now would be permitted to invest up to 15% of its assets in inverse floating rate municipal obligations. The inverse floating rate municipal obligations in which the Trust will invest are typically created through a division of a fixed rate municipal obligation into two separate instruments, a short-term obligation and a long-term obligation. The interest rate on the short-term obligation is set at periodic auctions. The interest rate on the long-term obligation is the rate the issuer would have paid on the fixed income obligation: (i) *plus* the difference between such fixed rate and the rate on the short-term obligation, if the short-term rate is lower than the fixed rate; or (ii) *minus* such difference if the interest rate on the short-term obligation is higher than the fixed rate. The interest rates on these obligations generally move in the reverse direction of market interest rates. If market interest rates fall, the interest rate on the obligation will increase and if market interest rates increase, the interest rate on the obligation will fall. Inverse floating rate municipal obligations offer the potential for higher income than is available from fixed rate obligations of comparable maturity and credit rating. They also carry greater risks. In particular, the prices of inverse floating rate municipal obligations are more volatile, *i.e.*, they increase and decrease in response to changes in interest rates to a greater extent than comparable fixed rate obligations.

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### Trustees

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 FUNDS

Morgan Stanley  
 Insured Municipal  
 Income Trust

### Officers

Semiannual Report  
 April 30, 2006

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Charles A. Fiumefreddo  
*Chairman of the Board*

Ronald E. Robison  
*President and Principal Executive Officer*

J. David Germany  
*Vice President*

Dennis F. Shea  
*Vice President*

Barry Fink  
*Vice President*

Amy R. Doberman  
*Vice President*

Carsten Otto  
*Chief Compliance Officer*

Stefanie V. Chang Yu  
*Vice President*

Francis J. Smith  
*Treasurer and Chief Financial Officer*

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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IIMRPT-37958RPT-RA06-00483P-Y04/06

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