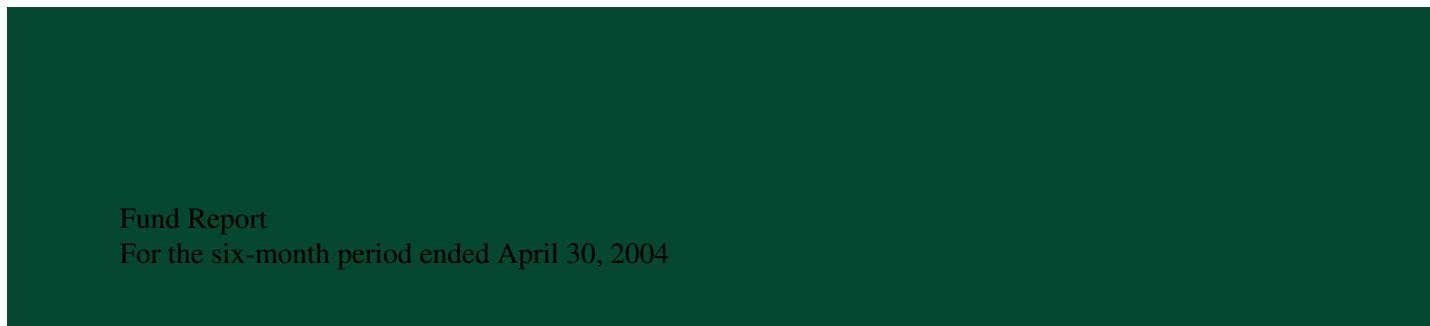


MORGAN STANLEY INSURED MUNICIPAL INCOME TRUST
Form N-CSR
June 30, 2004

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.



Market Conditions

The U.S. economy continued to show improvement over the six-month period under review. Gross domestic product growth topped 4 percent in both quarters. While strength in output has historically led to higher interest rates, yields remained stubbornly low across the curve. These yields reflected low levels of observed inflation in the economy and gradual improvement in employment. The Federal Open Market Committee maintained its accommodative monetary policy.

Surprising job growth in March, combined with escalating oil prices, led investors to anticipate that the Fed would raise interest rates sooner rather than later. Yet at its April meeting, the Federal Reserve did not change its short-term lending rate but did signal a prospective shift in policy. As a result, bond yields spiked across sectors and maturities.

The supply of new municipal bonds in calendar 2003 reached record levels as municipalities took advantage of historically low interest rates. Many cities and states reduced expenditures by refinancing existing debt at lower yields. In other cases, municipalities attempted to meet budget needs by issuing additional debt. In the first months of 2004, bond sales began to slow.

Low interest rates also had an impact on the demand for municipal bonds. Retail and mutual fund activity slowed as holders of municipal bonds saw little reason to sell bonds purchased at higher yields and reinvest at historically low yields. However, insurance companies and hedge funds purchased municipal bonds based on their attractiveness relative to taxable securities. Additionally, investors stretched for yield by buying lower-rated bonds, causing credit spreads to tighten.

Performance Analysis

The net asset value (NAV) of Morgan Stanley Insured Municipal Income Trust (IIM) decreased from \$15.76 to \$15.17 per share for the six-month period ended April 30, 2004. Based on this change plus reinvestment of tax-free dividends totaling \$0.465 per share and long-term capital gains of \$0.287107 per share, the Trust's total NAV return was 1.21 percent. The Trust's value on the New York Stock Exchange (NYSE) decreased from \$14.73 to \$13.64 per share during the same period. Based on this change plus reinvestment of distributions, the Trust's total market return was -2.63 percent. On April 30, 2004, IIM's NYSE market price was at a 10.09 percent discount to its NAV. *Past performance is no guarantee of future results.*

Monthly dividends for the second quarter of 2004, declared in March, were unchanged at \$0.0775 per share. The dividend reflects the level of the Trust's undistributed net investment income and projected earnings power. The Trust's level of undistributed net investment income was \$0.144 per share on April 30, 2004, versus \$0.194 per share six months earlier.

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The Trust's duration* was targeted to be shorter than its benchmark index. The duration, adjusted for leverage, was 11.1 years. Treasury futures were sold to reduce interest-rate exposure without raising the level of cash in the portfolio. We maintained an average tax-exempt bond maturity objective of 20 years to take advantage of the steepness of the municipal yield curve. Revenue bonds in sectors with reliable income streams from essential services such as municipal electric, transportation and water and sewer systems were emphasized. The Trust's net assets, including preferred shares, of \$518 million were diversified across 78 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 there is 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 the six-month period under review, ARPS leverage contributed approximately \$0.08 per share to common-share earnings. The Trust has five ARPS series totaling \$155 million and representing 30 percent of net assets, including preferred shares. These series are currently in two-year auction modes with maturities ranging from July 2004 to January 2006. The yields ranged from 1.20 to 2.20 percent. The latest auction of \$20 million Series 4 ARPS in January received a rate of 1.48 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 outstanding ARPS, including their purchase in the open market or in privately negotiated transactions.

* 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.

3

| LARGEST SECTORS | |
|------------------------|-------|
| Transportation | 22.0% |
| Electric | 15.8 |
| General Obligation | 15.7 |
| Water & Sewer | 14.4 |
| Public Facilities | 6.1 |

| CREDIT ENHANCEMENTS | |
|----------------------------|-------|
| MBIA | 30.7% |
| Ambac | 30.0 |

| | |
|------|------|
| FGIC | 23.3 |
| FSA | 15.2 |
| XLCA | 0.8 |

Data as April 30, 2004. Subject to change daily. All percentages are as a percentage of long-term investments. 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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Distribution by Maturity
 (% of Long-Term Portfolio) As of April 30, 2004

Weighted Average Maturity: 19 Years

Portfolio structure is subject to change.

Geographic Summary of Investments

Based on Market Value as a Percent of Total Investments

| | |
|----------------------|------|
| Arizona | 1.6% |
| California | 11.5 |
| Colorado | 1.5 |
| District of Columbia | 3.0 |
| Florida | 9.1 |
| Hawaii | 1.1 |
| Illinois | 6.9 |
| Indiana | 3.8 |
| Kentucky | 0.8% |
| Louisiana | 1.9 |
| Massachusetts | 5.1 |
| Michigan | 3.8 |
| Minnesota | 1.0 |
| Missouri | 1.0 |
| Nebraska | 1.0 |
| Nevada | 4.5 |
| New Hampshire | 0.8% |
| New Jersey | 1.8 |
| New York | 9.6 |
| North Carolina | 1.3 |

| | |
|-------------------|---------|
| Ohio | 1.0 |
| Pennsylvania | 4.3 |
| Rhode Island | 2.0 |
| South Carolina | 3.7 |
| Tennessee | 1.0 % |
| Texas | 12.2 |
| Utah | 1.0 |
| Virginia | 1.3 |
| Washington | 2.6 |
| West Virginia | 0.6 |
| Joint exemptions* | (0.8) |
| Total | 100.0 % |

* Joint exemptions have been included in each geographic location.

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Call and Cost (Book) Yield Structure
(Based on Long-Term Portfolio) As of April 30, 2004

Years Bonds Callable — Weighted Average Call Protection: 8 Years

Cost (Book) Yield^(b) — Weighted Average Book Yield: 5.2%

(a) May include issues 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 5.9% on 12% of the long-term portfolio that is callable in 2004.

Portfolio structure is subject to change.

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited)

VALUE

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| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | |
|--|--|----------------|------------------|--------------|
| | Tax-Exempt Municipal Bonds (134.2%) | | | |
| | <i>General Obligation (21.0%)</i> | | | |
| \$ 5,000 | Solano County Community College District, California, 2002 Ser A (MBIA) | 4.75 % | 08/01/26 | \$ 4,862,400 |
| 5,000 | District of Columbia, Refg Ser 1993 B (Ambac) | 5.50 | 06/01/09 | 5,551,050 |
| 6,000 | Refg Ser 1993 B (FSA) | 5.50 | 06/01/10 | 6,675,780 |
| 8,000 | Florida State Board of Education, Capital Outlay Refg 2002 Ser C (MBIA) | 5.00 | 06/01/19 | 8,310,400 |
| 1,000 | Aurora West School District 129, Illinois, Ser 2002 A (FGIC) | 5.75 | 02/01/20 | 1,099,650 |
| 2,000 | Ser 2002 A (FGIC) | 5.75 | 02/01/21 | 2,190,580 |
| 15,000 | Chicago, Illinois, Neighborhoods Alive 21 Ser 2001 A (FGIC) | 5.50 | 01/01/36 | 15,553,200 |
| 15,000 | Massachusetts, Refg 2003 Ser D (Ambac) | 5.50 | 10/01/19 | 16,592,550 |
| 8,000 | Washoe County, Nevada, Reno – Sparks Convention Ltd Tax Ser 1993 A (FGIC) | 5.75 | 07/01/22 | 8,313,040 |
| 995 | Pennsylvania, First Ser 2003 RITES PA – 1112 A (MBIA) | 8.662‡ | 01/01/18 | 1,082,361 |
| 1,555 | First Ser 2003 RITES PA – 1112 B (MBIA) | 8.662‡ | 01/01/19 | 1,675,606 |
| 4,000 | Houston, Texas, Public Impr & Refg Ser 2001 B (FSA) | 5.50 | 03/01/17 | 4,330,440 |
| 71,550 | | | | 76,237,057 |
| | <i>Educational Facilities Revenue (6.4%)</i> | | | |
| 2,500 | University of Arizona COPs 2003 Ser B (Ambac) | 5.00 | 06/01/23 | 2,526,275 |
| 4,000 | University of California, Ser 2003 B (Ambac) | 5.00 | 05/15/22 | 4,088,960 |
| 3,000 | District of Columbia, American Association for the Advancement of Science Ser 1997 (Ambac) | 5.125 | 01/01/27 | 3,008,850 |
| 4,000 | Illinois Educational Facilities Authority, DePaul University Refg Ser 1997 (Ambac) | 5.50 | 10/01/19 | 4,305,080 |
| 4,000 | New Hampshire Health & Education Facilities Authority, University of New Hampshire Ser 2001 (Ambac) | 5.125 | 07/01/33 | 4,037,720 |
| 5,000 | New Jersey Educational Facilities Authority, Higher Education Capital Impr Ser 2002 A (Ambac)†† | 5.25 | 09/01/21 | 5,252,650 |
| 22,500 | | | | 23,219,535 |
| | <i>Electric Revenue (21.3%)</i> | | | |
| 10,000 | California Department of Water Resources, Power Supply Ser 2002 A (Ambac) | 5.375 | 05/01/18 | 10,714,500 |
| 3,275 | Massachusetts Municipal Wholesale Electric Company, 1993 Ser A (Ambac) | 5.00 | 07/01/10 | 3,518,038 |
| 5,000 | Nebraska Public Power District, 2003 Ser A (Ambac) | 5.00 | 01/01/35 | 4,993,400 |

See Notes to Financial Statements

Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|---|----------------|------------------|--------------|
| \$ 3,000 | Long Island Power Authority, New York, Refg Ser 2003 C (FSA) | 5.00 % | 09/01/28 | \$ 3,010,470 |
| 6,000 | North Carolina Municipal Power Agency #1, Catawba Ser 2003 A (MBIA) | 5.25 | 01/01/19 | 6,330,720 |
| 3,000 | Piedmont Municipal Power Agency, South Carolina, Refg Ser 1993 (MBIA) | 5.375 | 01/01/25 | 3,149,670 |
| 10,000 | South Carolina Public Service Authority, Ser 2003 A (Ambac) | 5.00 | 01/01/27 | 10,061,500 |
| 5,000 | Memphis, Tennessee, Jr Lien Refg 2002 (MBIA) | 5.00 | 12/01/15 | 5,298,600 |
| 10,000 | Lower Colorado River Authority, Texas, Refg Ser 1999 A (FSA) | 5.875 | 05/15/16 | 11,207,200 |
| 5,000 | Refg Ser 2001 (FSA) | 5.00 | 05/15/26 | 5,001,350 |
| 8,800 | Refg Ser 2002 (MBIA) | 5.00 | 05/15/31 | 8,741,656 |
| 5,000 | Intermountain Power Agency, Utah, 2003 Ser A (FSA) | 5.00 | 07/01/21 | 5,108,500 |
| 74,075 | | | | 77,135,604 |
| | <i>Hospital Revenue (8.6%)</i> | | | |
| 5,000 | Mesa Industrial Development Authority, Arizona, Discovery Health Ser 1999 A (MBIA) | 5.875 | 01/01/16 | 5,564,500 |
| 5,000 | Sarasota County Public Hospital Board, Florida, Sarasota Memorial Hospital Refg Ser 1998 B (MBIA) | 5.25 | 07/01/24 | 5,212,450 |
| 5,500 | Massachusetts Health & Educational Facilities Authority, Lahey Clinic Medical Center Ser B (MBIA) | 5.625 | 07/01/15 | 5,622,760 |
| 2,000 | Missouri Health & Educational Facilities Authority, SSM Health Care Ser 1998 A (MBIA) | 5.00 | 06/01/22 | 2,014,000 |
| 4,000 | Washington County Hospital Authority, Pennsylvania, Washington Hospital Ser 1993 (Ambac) | 5.625 | 07/01/23 | 4,090,080 |
| | Amarillo Health Facilities Corporation, Texas, | | | |
| 3,020 | Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 | 01/01/16 | 3,284,491 |
| 5,075 | Baptist St Anthony's Hospital Ser 1998 (FSA) | 5.50 | 01/01/17 | 5,506,984 |
| 29,595 | | | | 31,295,265 |
| | <i>Industrial Development/Pollution Control Revenue (7.8%)</i> | | | |
| 7,500 | Adams County, Colorado, Public Service Co of Colorado Refg 1993 Ser A (MBIA) | 5.875 | 04/01/14 | 7,526,625 |
| 5,000 | Hawaii Department of Budget and Finance, Hawaiian Electric Co Ser 1999 C (AMT) (Ambac) | 6.20 | 11/01/29 | 5,489,350 |

See Notes to Financial Statements

Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|--|----------------|------------------|---------------|
| \$ 12,000 | Indiana Development Finance Authority, PSI Energy Inc Ser 1993 B (AMT) (MBIA) | 5.75 % | 02/15/28 | \$ 12,147,000 |
| 3,000 | New York State Energy Research & Development Authority, Brooklyn Union Gas Co 1991 Ser D (AMT) (MBIA) | 10.093‡ | 07/08/26 | 3,079,830 |
| 27,500 | | | | 28,242,805 |
| | <i>Public Facilities Revenue (8.2%)</i> | | | |
| 3,000 | San Jose Financing Authority, California, Civic Center Ser 2002 (Ambac) | 5.00 | 06/01/37 | 2,953,560 |
| 15,000 | Miami-Dade County School Board, Florida, 2003 Ser A (FGIC) | 5.00 | 08/01/29 | 14,966,850 |
| 3,000 | Orange County School Board, Florida Ser 2001 A COPs (Ambac) | 5.25 | 08/01/14 | 3,264,060 |
| 4,000 | Kentucky Property & Building Commission, Project # 79 (MBIA) | 5.00 | 10/01/22 | 4,085,760 |
| 4,200 | New York State Dormitory Authority, School Districts 2002 Ser E (MBIA) | 5.50 | 10/01/17 | 4,577,160 |
| 29,200 | | | | 29,847,390 |
| | <i>Recreational Facilities Revenue (2.6%)</i> | | | |
| 3,000 | Metropolitan Pier & Exposition Authority, Illinois, McCormick Place Refg Ser 2002 B (MBIA) | 0.00# | 06/15/18 | 2,080,500 |
| 5,000 | McCormick Place Ser 2002 A (MBIA) | 5.25 | 06/15/42 | 5,077,550 |
| 2,400 | Marion County Convention & Recreational Facilities Authority, Indiana, Refg Ser 2003 A (Ambac) | 5.00 | 06/01/19 | 2,462,472 |
| 10,400 | | | | 9,620,522 |
| | <i>Transportation Facilities Revenue (29.4%)</i> | | | |
| 5,000 | California Infrastructure & Economic Development Bank, Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (FGIC) | 5.00 | 07/01/29 | 5,005,100 |
| 10,000 | Bay Area Toll Bridges Seismic Retrofit 1st Lien Ser 2003 A (Ambac) | 5.00 | 07/01/33 | 9,976,400 |
| 9,000 | Long Beach California, Harbor Refg Ser 1998 A (AMT) (FGIC) | 6.00 | 05/15/18 | 10,128,240 |
| 5,000 | Miami-Dade County, Florida, Miami Int'l Airport Ser 2003 A (AMT) (FGIC) | 5.00 | 10/01/33 | 4,890,500 |

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| | | | | |
|-------|--|-------|----------|-----------|
| 4,000 | Illinois Toll Highway Authority, Priority Refg 1998 Ser A (FSA) | 5.50 | 01/01/15 | 4,434,160 |
| 5,000 | Minneapolis – St Paul Metropolitan Airports Commission, Minnesota, Ser 2001 C (FGIC) | 5.25 | 01/01/32 | 5,091,050 |
| 3,000 | St Louis, Missouri, Lambert Int'l Airport Ser 2001 A (MBIA) | 5.00 | 07/01/20 | 3,060,450 |
| 9,000 | Nevada Department of Business & Industry, Las Vegas Monorail 1st Tier Ser 2000 (Ambac) | 5.375 | 01/01/40 | 9,186,390 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|--|----------------|------------------|--------------|
| \$ 3,000 | Metropolitan Transportation Authority, New York, Dedicated Tax Fund Ser 2002 A (FSA) | 5.25% | 11/15/24 | \$ 3,113,850 |
| 10,000 | Transportation Refg Ser 2002 A (FGIC) | 5.00 | 11/15/25 | 10,100,200 |
| 4,000 | Port Authority of New York & New Jersey, Cons 135 Ser (MBIA)** | 5.00 | 09/15/29 | 4,008,640 |
| 10,000 | Triborough Bridge & Tunnel Authority, New York, Refg 2002 E (MBIA) | 5.25 | 11/15/22 | 10,501,499 |
| 5,000 | South Carolina Transportation Infrastructure Bank, Ser 1999 A (Ambac) | 5.50 | 10/01/16 | 5,461,600 |
| 9,000 | Dallas – Fort Worth Int'l Airport, Texas, Ser 2003 A (AMT) (FSA) | 5.375 | 11/01/22 | 9,283,050 |
| 4,000 | Texas Turnpike Authority, Central Texas First Tier Ser 2002 A (Ambac) | 5.50 | 08/15/39 | 4,164,920 |
| 3,000 | Richmond Metropolitan Authority, Virginia, Refg Ser 2002 (FGIC) | 5.25 | 07/15/22 | 3,221,190 |
| 5,000 | Port of Seattle, Washington, Ser 2001 B (AMT) (MBIA) | 5.625 | 02/01/24 | 5,159,100 |
| 103,000 | | | | 106,786,339 |
| | <i>Water & Sewer Revenue (19.4%)</i> | | | |
| 4,000 | Oxnard Financing Authority, California, Water Ser 2004 (XLCA) | 5.00 | 06/01/28 | 3,985,960 |
| 5,000 | San Diego County Water Authority, California, Ser 2002A COPs (MBIA) | 5.00 | 05/01/27 | 4,996,600 |
| 1,000 | Lee County, Florida, Water & Sewer Ser B (MBIA) | 5.00 | 10/01/29 | 1,001,820 |
| 5,000 | Tampa Bay Water Authority, Florida, Ser 2001 A (FGIC) | 5.00 | 10/01/28 | 5,009,300 |

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| | | | | |
|--------|--|-------|----------|------------|
| | Detroit, Michigan, | | | |
| 3,000 | Sewage Disposal Ser 2001 A (FGIC) | 5.125 | 07/01/31 | 3,019,980 |
| 3,000 | Sewage Refg Ser 2003 A (FSA) | 5.00 | 07/01/26 | 3,009,660 |
| 8,000 | Sewage Refg Ser 2003 A (FSA) | 5.00 | 07/01/28 | 8,008,800 |
| 5,080 | Las Vegas Water District, Nevada, Impr & Refg Ser 2003 A (FGIC) | 5.25 | 06/01/19 | 5,369,814 |
| | Cleveland, Ohio, | | | |
| 1,500 | Waterworks 2002 Ser K (FGIC) | 5.25 | 01/01/20 | 1,578,645 |
| 1,300 | Waterworks 2002 Ser K (FGIC) | 5.25 | 01/01/21 | 1,363,856 |
| 2,000 | Waterworks Impr & Refg 1998 Ser I (FSA) | 5.00 | 01/01/23 | 2,021,500 |
| 4,000 | Allegheny County Sanitary Authority, Pennsylvania, Sewer Ser 2000 (MBIA) | 5.50 | 12/01/24 | 4,233,200 |
| 5,000 | Philadelphia, Pennsylvania, Water & Wastewater Ser 1998 (Ambac) | 5.25 | 12/15/14 | 5,479,700 |
| 10,000 | Houston, Texas, Water & Sewer Jr Lien Refg 2000 B (FGIC) | 5.25 | 12/01/30 | 10,138,400 |
| 5,000 | King County, Washington, Sewer Refg 2001 (FGIC) | 5.00 | 01/01/31 | 4,981,400 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|---|-----------------------|------------------|--------------|
| | Seattle, Washington, | | | |
| \$ 1,445 | Water System RITES – PA – 1143 – A (MBIA) | 8.633 $\frac{3}{4}$ % | 09/01/20 | \$ 1,530,660 |
| 1,435 | Water System RITES – PA – 1143 – B (MBIA) | 8.633 $\frac{3}{4}$ | 09/01/23 | 1,474,362 |
| 2,900 | West Virginia Water Development Authority, Refg Ser B (Ambac) | 5.25 | 11/01/23 | 3,027,368 |
| 68,660 | | | | 70,231,025 |
| | <i>Other Revenue (3.8%)</i> | | | |
| 2,000 | Nassau County Interim Finance Authority, New York, Sales Tax Ser 2003 A (Ambac) | 4.75 | 11/15/22 | 1,984,140 |
| | New York City Transitional Finance Authority, New York, | | | |
| 3,575 | 2004 Ser C (MBIA) | 5.00 | 02/01/20 | 3,704,594 |
| 2,000 | 2000 Ser C (Ambac) | 5.25 | 08/01/21 | 2,107,240 |
| 2,500 | 2000 Ser C (Ambac) | 5.25 | 08/01/22 | 2,619,975 |
| 3,000 | | 5.90 | 10/01/30 | 3,278,550 |

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| | | | | |
|---------|--|--------|-----------|-------------|
| | Alexandria Industrial Development Authority, Virginia, Institute for Defense Analysis Ser 2000 A (Ambac) | | | |
| 13,075 | | | | 13,694,499 |
| | <i>Refunded (5.7%)</i> | | | |
| 1,600 | Redding, California, Electric Ser 1993 A COPs (FGIC) | 10.12‡ | 06/01/05† | 1,673,120 |
| 3,000 | Miami-Dade County School Board, Florida, Ser 2001 A COPs (MBIA) | 5.00 | 05/01/11† | 3,296,760 |
| 5,000 | Allegheny County Hospital Development Authority, Pennsylvania, Pittsburgh Mercy Health Ser 1996 (Ambac) (ETM) | 5.625 | 08/15/18 | 5,427,550 |
| 10,000 | Rhode Island Depositors Economic Protection Corporation, Refg 1992 Ser B (MBIA) (ETM) | 6.00 | 08/01/17 | 10,234,700 |
| 19,600 | | | | 20,632,130 |
| 469,155 | Total Tax-Exempt Municipal Bonds (<i>Cost \$473,564,466</i>) Short-Term Tax-Exempt Municipal Obligations (5.3%) | | | 486,942,171 |
| 4,495 | Indiana Health Facility Financing Authority, Clarian Health Ser 2000 B (Demand 05/03/04) | 1.10* | 03/01/30 | 4,495,000 |
| 2,800 | East Baton Rouge Parish, Louisiana, Exxon Corp Ser 1993 (Demand 05/03/04) | 1.03* | 03/01/22 | 2,800,000 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments April 30, 2004 (unaudited) continued

| PRINCIPAL AMOUNT IN THOUSANDS | | COUPON RATE | MATURITY DATE | VALUE |
|--|---|----------------|------------------|----------------|
| \$ 6,850 | Louisiana Public Facilities Authority, Our Lady of the Lake Regional Medical Center Ser 1993 D & E (FSA) | 8.386‡% | 05/28/04† | \$ 7,173,046 |
| 4,900 | Monroe County, Michigan, Detroit Edison Co Ser CC (AMT) (MBIA) (Called for redemption 06/01/04) | 6.55 | 06/01/24 | 4,969,727 |
| 19,045 | Total Short-Term Tax-Exempt Municipal Obligations (<i>Cost \$19,157,898</i>) | | | 19,437,773 |
| \$488,200 | Total Investments (<i>Cost \$492,722,364</i>) (a) (b) | | 139.5 % | 506,379,944 |
| | Other Assets in Excess of Liabilities | | 3.2 | 11,784,841 |
| | Preferred Shares of Beneficial Interest | | (42.7) | (155,212,304) |
| | Net Assets Applicable to Common Shareholders | | 100.0 % | \$ 362,952,481 |

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. |
| † | Prerefunded to call date shown. |

A portion of this security has been physically segregated in connection with open futures contracts in the amount of \$1,586,250.

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 \$17,688,985 which represents 4.9% of net assets applicable to common shareholders.

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

* Current coupon of variable rate demand obligation.

** Joint exemption in New York and New Jersey.

(a) Securities have been designated as collateral in an amount equal to \$149,730,258 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 \$16,443,627 and the aggregate gross unrealized depreciation is \$2,786,047, resulting in net unrealized appreciation of \$13,657,580.

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, 2004:

| NUMBER OF CONTRACTS | LONG/SHORT | DESCRIPTION, DELIVERY MONTH AND YEAR | UNDERLYING FACE AMOUNT AT VALUE | UNREALIZED APPRECIATION |
|---------------------|------------|---------------------------------------|---------------------------------|-------------------------|
| 450 | Short | U.S. Treasury Note 5 Yr June/2004 | \$(49,471,875) | \$1,049,936 |
| 900 | Short | U.S. Treasury Note 10 Yr June/2004 | (99,450,000) | 2,906,325 |
| | | Total unrealized appreciation | | \$3,956,261 |

See Notes to Financial Statements

April 30, 2004 (unaudited)

| | |
|--|----------------|
| Assets: | |
| Investments in securities, at value (cost \$492,722,364) | \$ 506,379,944 |
| Cash | 19,530 |
| Receivable for: | |
| Interest | 8,365,002 |
| Investments sold | 3,538,247 |
| Prepaid expenses and other assets | 713,987 |
| Total Assets | 519,016,710 |
| Liabilities: | |
| Payable for: | |
| Investment management fee | 176,847 |
| Common shares of beneficial interest repurchased | 167,961 |
| Variation margin | 386,712 |
| Accrued expenses and other payables | 120,405 |
| Total Liabilities | 851,925 |
| 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> | 155,212,304 |
| Net Assets Applicable to Common Shareholders | \$ 362,952,481 |
| Composition of Net Assets Applicable to Common Shareholders: | |
| Common shares of beneficial interest <i>(unlimited shares authorized of \$.01 par value, 23,919,238 shares outstanding)</i> | \$ 345,698,738 |
| Net unrealized appreciation | 17,613,841 |
| Accumulated undistributed net investment income | 3,438,110 |
| Accumulated net realized loss | (3,798,208) |
| Total Net Assets Applicable to Common Shareholders | \$ 362,952,481 |
| Net Asset Value Per Common Share, <i>(\$362,952,481 divided by 23,919,238 common shares outstanding)</i> | \$ 15.17 |

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, 2004 (unaudited)

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| | |
|--|--------------|
| Net Investment Income: | |
| Interest Income | \$13,014,865 |
| Expenses | |
| Investment management fee | 935,194 |
| Auction commission fees | 385,873 |
| Transfer agent fees and expenses | 86,188 |
| Professional fees | 34,792 |
| Shareholder reports and notices | 21,621 |
| Auction agent fees | 16,019 |
| Registration fees | 8,310 |
| Trustees' fees and expenses | 6,625 |
| Custodian fees | 5,115 |
| Other | 28,485 |
| Total Expenses | 1,528,222 |
| Less: expense offset | (4,947) |
| Net Expenses | 1,523,275 |
| Net Investment Income | 11,491,590 |
| Net Realized and Unrealized Gain (Loss): | |
| Net Realized Gain (Loss) on: | |
| Investments | 1,192,102 |
| Futures contracts | (7,828,472) |
| Net Realized Loss | (6,636,370) |
| Net Change in Unrealized Appreciation/Depreciation on: | |
| Investments | (6,467,700) |
| Futures contracts | 6,794,437 |
| Net Appreciation | 326,737 |
| Net Loss | (6,309,633) |
| Dividends to preferred shareholders from net investment income | (1,543,748) |
| Net Increase | \$ 3,638,209 |

See Notes to Financial Statements

14

Morgan Stanley Insured Municipal Income Trust

Financial Statements continued

Statement of Changes in Net Assets

| | |
|---|--|
| FOR THE SIX MONTHS ENDED APRIL 30, 2004 (unaudited) | FOR THE YEAR ENDED OCTOBER 31, 2003 |
|---|--|

Increase (Decrease) in Net Assets:

Operations:

| | | |
|---|---------------|---------------|
| Net investment income | \$ 11,491,590 | \$ 25,005,653 |
| Net realized gain (loss) | (6,636,370) | 10,225,785 |
| Net change in unrealized appreciation/depreciation | 326,737 | (9,235,006) |
| Dividends to preferred shareholders from net investment income | (1,543,748) | (2,573,199) |
| Net Increase | 3,638,209 | 23,423,233 |
| Dividends and Distributions to Common Shareholder from: | | |
| Net investment income | (11,204,638) | (22,402,100) |
| Net realized gain | (6,940,823) | — |
| Total Dividends and Distributions | (18,145,461) | (22,402,100) |
| Decrease from transactions in common shares of beneficial interest | (4,685,686) | (15,235,304) |
| Net Decrease | (19,192,938) | (14,214,171) |
| Net Assets Applicable to Common Shareholders: | | |
| Beginning of period | 382,145,419 | 396,359,590 |
| End of Period | | |
| <i>(Including accumulated undistributed net investment income of \$3,438,110 and \$4,694,906, respectively)</i> | \$362,952,481 | \$382,145,419 |

See Notes to Financial Statements

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2004 (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, 2004 (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 Management Agreement

Pursuant to an Investment Management Agreement, with Morgan Stanley Investment Advisors Inc. (the "Investment Manager") the Trust pays the Investment Manager a management fee, calculated weekly and payable monthly, by applying the annual rate of 0.35% 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, 2004, aggregated \$20,032,123 and \$38,519,470, respectively.

Morgan Stanley Trust, an affiliate of the Investment Manager, is the Trust's transfer agent. At April 30, 2004, the Trust had transfer agent fees and expenses payable of approximately \$15,700.

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 year ended April 30, 2004, included in Trustees' fees and expenses in the Statement of Operations amounted to \$3,070. At April 30, 2004, the Trust had an accrued pension liability of \$50,387 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.

Effective April 1, 2004, the Trust began 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.

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2004 (unaudited) continued

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 | 1.36% | 01/10/05 | 1.36% |
| 2 | 900 | 45,000 | 1.20 | 07/11/05 | 1.20 |
| 3 | 1,000 | 50,000 | 2.20 | 07/12/04 | 2.20 |
| 4 | 400 | 20,000 | 1.48 | 01/09/06 | 1.48 – 2.47 |
| 5 | 400 | 20,000 | 1.70 | 09/12/05 | 1.70 |

*

As of April 30, 2004.

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** For the six months ended April 30, 2004.

Subsequent to April 30, 2004 and up through June 4, 2004, the Trust paid dividends to each of the Series 1 through 5 at rates ranging from 1.20% to 2.20% in the aggregate amount of \$424,608.

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, 2004 (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, 2002 | 25,287,513 | \$252,875 | \$365,366,853 |
| Treasury shares purchased and retired (weighted average discount 7.90%)* | (1,047,375) | (10,474) | (15,224,830) |
| Balance, October 31, 2003 | 24,240,138 | 242,401 | \$350,142,023 |
| Treasury shares purchased and retired (weighted average discount 6.73%)* | (320,900) | (3,209) | (4,682,477) |
| Balance, April 30, 2004 | 23,919,238 | \$239,192 | \$345,459,546 |

* The Trustees have voted to retire the shares purchased.

6. Dividends to Common Shareholders

On March 30, 2004, the Trust declared the following dividends from net investment income:

| AMOUNT PER SHARE | RECORD DATE | PAYABLE DATE |
|------------------------|----------------|-----------------|
| \$0.0775 | May 07, 2004 | May 21, 2004 |
| \$0.0775 | June 04, 2004 | June 18, 2004 |

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.

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Morgan Stanley Insured Municipal Income Trust

Notes to Financial Statements April 30, 2004 (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, 2003, the Trust had temporary book/tax differences primarily attributable to book amortization of discount on debt securities, market-to-market of open futures contracts and dividend payable.

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Morgan Stanley Insured Municipal Income Trust

Financial Highlights

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

| | FOR THE SIX MONTHS ENDED APRIL 30, 2004 <i>(unaudited)</i> | | FOR THE YEAR ENDED OCTOBER 31, | | | |
|---|---|----------------------|--------------------------------|-----------|-----------|-----------|
| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
| Selected Per Share Data: | | | | | | |
| Net asset value, beginning of period | \$ 15.76 | \$ 15.67 | \$ 15.42 | \$ 14.44 | \$ 13.69 | \$ 15.47 |
| Income (loss) from investment operations: | | | | | | |
| Net investment income* | 0.48 | 1.01 | 1.04 | 1.03 | 1.01 | 1.01 |
| Net realized and unrealized gain (loss) | (0.26) | 0.03 | 0.11 | 0.90 | 0.79 | (1.77) |
| Common share equivalent of dividends paid to preferred shareholders* | (0.06) | (0.10) | (0.13) | (0.22) | (0.22) | (0.19) |
| Total income (loss) from investment operations | 0.16 | 0.94 | 1.02 | 1.71 | 1.58 | (0.95) |
| Less dividends and distributions from: | | | | | | |
| Net investment income | (0.47) | (0.90) | (0.82) | (0.78) | (0.86) | (0.84) |
| Net realized gain | (0.29) | — | — | — | — | — |
| Total dividends and distributions | (0.76) | (0.90) | (0.82) | (0.78) | (0.86) | (0.84) |
| Anti-dilutive effect of acquiring treasury shares* | 0.01 | 0.05 | 0.05 | 0.05 | 0.03 | 0.01 |
| Net asset value, end of period | \$ 15.17 | \$ 15.76 | \$ 15.67 | \$ 15.42 | \$ 14.44 | \$ 13.69 |
| Market value, end of period | \$ 13.64 | \$ 14.73 | \$ 14.05 | \$ 14.13 | \$ 12.813 | \$ 13.25 |
| Total Return† | (2.63)% ⁽¹⁾ | 11.53% | 5.35% | 16.70% | 3.29% | (5.17)% |
| Ratios to Average Net Assets of Common Shareholders: | | | | | | |
| Total expenses (before expense offset) | 0.80 % ⁽²⁾ | 0.75% ⁽³⁾ | 0.72% | 0.71% | 0.73% | 0.70% |
| Net investment income before preferred stock dividends | 6.05 % ⁽²⁾ | 6.38% | 6.82% | 6.84% | 7.27% | 6.71% |
| Preferred stock dividends | 0.81 % ⁽²⁾ | 0.66% | 0.87% | 1.43% | 1.59% | 1.26% |
| Net investment income available to common shareholders | 5.24 % ⁽²⁾ | 5.72% | 5.95% | 5.41% | 5.68% | 5.45% |
| Supplemental Data: | | | | | | |
| Net assets applicable to common shareholders, end of period, in thousands | \$362,952 | \$382,145 | \$396,360 | \$405,226 | \$392,513 | \$384,277 |
| Asset coverage on preferred shares at end of period | 334 % | 346% | 355% | 361% | 352% | 347% |
| Portfolio turnover rate | 4 % ⁽¹⁾ | 43% | 17% | 13% | 11% | 5% |

*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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Trustees

MORGAN STANLEY FUNDS

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, 2004

Charles A. Fiumefreddo
Chairman of the Board

Mitchell M. Merin
President

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

Barry Fink
Vice President

Joseph J. McAlinden
Vice President

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 Auditors

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

Investment Manager

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.

Investments and services offered through Morgan Stanley DW Inc., member SIPC.

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