

DWS STRATEGIC MUNICIPAL INCOME TRUST
Form N-CSRS
August 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number: 811-05767

DWS Strategic Municipal Income Trust
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, NY 10154-0004
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 250-3220

Paul Schubert
60 Wall Street
New York, NY 10005
(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period:5/31/2013

ITEM 1. REPORT TO STOCKHOLDERS

MAY 31, 2013
Semiannual Report
to Shareholders

DWS Strategic Municipal Income Trust
Ticker Symbol: KSM

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The fund's investment objective is to provide a high level of current income exempt from federal income tax.

Closed-end funds, unlike open-end funds, are not continuously offered. There is a one time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Leverage results in additional risks and can magnify the effect of any gains or losses. Although the fund seeks income that is exempt from federal income taxes, a portion of the fund's distributions may be subject to federal, state and local taxes, including the alternative minimum tax.

DWS Investments is part of the Deutsche Asset & Wealth Management division of Deutsche Bank AG.

NOT FDIC/NCUA INSURED NO BANK GUARANTEE MAY LOSE VALUE NOT A DEPOSIT NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary May 31, 2013 (Unaudited)

Performance is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.dws-investments.com for the Fund's most recent month-end performance.

Fund specific data and performance are provided for informational purposes only and are not intended for trading purposes.

Average Annual Total Returns as of 5/31/13

DWS Strategic Municipal Income Trust	6-Month‡		1-Year		5-Year		10-Year	
Based on Net Asset Value(a)	-0.19	%	9.63	%	11.65	%	8.54	%
Based on Market Price(a)	-3.49	%	4.06	%	12.74	%	8.78	%
Barclays Municipal Bond Index(b)	-1.09	%	3.05	%	5.70	%	4.68	%
Morningstar Closed-End High-Yield Municipal Funds Category(c)	0.50	%	9.58	%	7.86	%	6.41	%

‡ Total returns shown for periods less than one year are not annualized.

(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market price reflects changes in market price. Each figure assumes that dividend and capital gain distributions, if any, were reinvested. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period. Expenses of the Fund include management fee, interest expense and other fund expenses. Total returns shown take into account these fees and expenses. The annualized expense ratio of the Fund for the six months ended May 31, 2013 was 1.64% (1.12% excluding interest expense).

(b) The unmanaged, unleveraged Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

(c) Morningstar's Closed-End High-Yield Municipal Funds category represents high-yield muni portfolios that invest at least 50% of assets in high-income municipal securities that are not rated or that are rated by a major agency such as Standard & Poor's or Moody's at the level of BBB and below (considered part of the high-yield universe within the municipal industry). Morningstar figures represent the average of the total returns based on net asset value reported by all of the closed-end funds designated by Morningstar, Inc. as falling into the Closed-End High-Yield Municipal Funds category. Category returns assume reinvestment of all distributions. It is not possible to invest directly in a Morningstar category.

Net Asset Value and Market Price

	As of 5/31/13	As of 11/30/12
Net Asset Value	\$13.98	\$14.46
Market Price	\$14.48	\$15.49

Prices and net asset value fluctuate and are not guaranteed.

Distribution Information

Six Months as of 5/31/13:

Income Dividends (common shareholders)	\$.46	
May Income Dividend (common shareholders)	\$.0770	
Current Annualized Distribution Rate (Based on Net Asset Value) as of 5/31/13†	6.61	%
Current Annualized Distribution Rate (Based on Market Price) as of 5/31/13†	6.38	%
Tax Equivalent Distribution Rate (Based on Net Asset Value) as of 5/31/13†	10.17	%
Tax Equivalent Distribution Rate (Based on Market Price) as of 5/31/13†	9.82	%

† Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on May 31, 2013. Distribution rate simply measures the level of dividends and is not a complete measure of performance. Tax equivalent distribution rate is based on the Fund's distribution rate and a marginal income tax rate of 35%. Distribution rates are historical, not guaranteed and will fluctuate.

Portfolio Management Team

Philip G. Condon, Managing Director

Co-Lead Portfolio Manager of the fund. Joined the fund in 1998.

- Joined Deutsche Asset & Wealth Management in 1983.
- Head of US Retail Fixed Income.
- BA and MBA, University of Massachusetts at Amherst.

Rebecca L. Flinn, Director

Co-Lead Portfolio Manager of the fund. Joined the fund in 1998.

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- Joined Deutsche Asset & Wealth Management in 1986.

- BA, University of Redlands, California.

Portfolio Summary (Unaudited)

Investment Portfolio as of May 31, 2013 (Unaudited)

	Principal Amount (\$)	Value (\$)
Municipal Bonds and Notes 138.3%		
Arizona 1.9%		
Arizona, Project Revenue, Health Facilities Authority, The New Foundation Project, 8.25%, 3/1/2019	1,145,000	1,151,824
Maricopa County, AZ, Pollution Control Corp. Revenue, El Paso Electric Co. Project, Series B, 7.25%, 4/1/2040	1,570,000	1,843,274
		2,995,098
California 14.0%		
California, Health Facilities Financing Authority Revenue, Catholic Healthcare West, Series A, 6.0%, 7/1/2034	1,000,000	1,189,210
California, M-S-R Energy Authority, Series B, 7.0%, 11/1/2034	1,310,000	1,817,756
California, Morongo Band of Mission Indians, Enterprise Casino Revenue, Series B, 144A, 6.5%, 3/1/2028	1,000,000	1,125,510
California, South Bayside Waste Management Authority, Solid Waste Enterprise, Shoreway Environmental, Series A, 6.25%, 9/1/2029	1,425,000	1,629,858
California, Special Assessment Revenue, Golden State Tobacco Securitization Corp., Series 2003-A-1, Prerefunded, 6.75%, 6/1/2039	4,000,000	4,000,000
California, State General Obligation:		
5.25%, 4/1/2035	1,230,000	1,393,787
5.5%, 3/1/2040	1,000,000	1,144,780
5.75%, 4/1/2031	1,000,000	1,163,850
6.0%, 4/1/2038	1,000,000	1,184,970
6.5%, 4/1/2033	1,950,000	2,403,609
California, State Public Works Board Lease Revenue, Capital Projects, Series I-1, 6.375%, 11/1/2034	1,000,000	1,228,610
California, State Public Works Board Lease Revenue, Riverside Campus Project, Series B, 6.125%, 4/1/2028	2,000,000	2,409,840
Sacramento County, CA, Sales & Special Tax Revenue, Bradshaw Road Project, 7.2%, 9/2/2015	420,000	424,498
San Buenaventura, CA, Community Memorial Health Systems, 7.5%, 12/1/2041	500,000	609,130
		21,725,408
Colorado 0.8%		
Colorado, Public Energy Authority, Natural Gas Purchased Revenue, 6.25%, 11/15/2028, GTY: Merrill Lynch & Co., Inc.	635,000	798,074
Colorado, State Health Facilities Authority Revenue, Covenant Retirement Communities, Series A, 5.0%, 12/1/2033	440,000	461,538
		1,259,612

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Connecticut 2.3%		
Connecticut, Harbor Point Infrastructure Improvement District, Special Obligation Revenue, Harbor Point Project, Series A, 7.875%, 4/1/2039	2,000,000	2,264,880
Mashantucket, CT, Mashantucket Western Pequot Tribe, Special Revenue, Series A, 144A, 6.5%, 9/1/2031*	705,000	328,629
Mashantucket, CT, Sports Expo & Entertainment Revenue, Mashantucket Western Pequot Tribe:		
Series B, 144A, Zero Coupon, 9/1/2017*	2,000,000	635,600
Series B, 144A, Zero Coupon, 9/1/2018*	1,000,000	299,500
		3,528,609
Florida 8.8%		
Florida, Capital Region Community Development District, Capital Improvement Revenue, Series A, 7.0%, 5/1/2039	480,000	462,230
Florida, Middle Village Community Development District, Special Assessment, Series A, 6.0%, 5/1/2035	1,000,000	839,380
Florida, Tolomato Community Development District, Special Assessment:		
Series A-2, Step-up Coupon, 0% to 5/1/2017, 6.61% to 5/1/2039	50,000	38,151
Series A-3, Step-up Coupon, 0% to 5/1/2019, 6.61% to 5/1/2040	110,000	68,683
Series A-4, Step-up Coupon, 0% to 5/1/2022, 6.61% to 5/1/2040	55,000	25,553
5.4%, 5/1/2037	1,725,000	1,711,183
Series 1, 6.55%, 5/1/2027	15,000	8,129
Series 2, 6.55%, 5/1/2027	400,000	159,660
Series 3, 5/1/2027*	130,000	1
Series A-1, 6.55%, 5/1/2027	170,000	166,590
Florida, Village Community Development District No. 9, Special Assessment Revenue, 5.5%, 5/1/2042	175,000	187,717
Hillsborough County, FL, Industrial Development Authority Revenue, Health Facilities, University Community Hospital, Series A, Prerefunded, 5.625%, 8/15/2029	1,875,000	2,312,344
Martin County, FL, Health Facilities Authority, Martin Memorial Medical Center, 5.5%, 11/15/2042	335,000	363,857
Miami Beach, FL, Health Facilities Authority, Mount Sinai Medical Center:		
6.75%, 11/15/2029	1,385,000	1,455,870
Prerefunded, 6.75%, 11/15/2029	215,000	234,604
Miami-Dade County, FL, Aviation Revenue:		
Series A, AMT, 5.0%, 10/1/2030	165,000	180,360
Series A, AMT, 5.0%, 10/1/2031	30,000	32,620
Series A, 5.5%, 10/1/2041	3,000,000	3,382,500
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2035	1,080,000	1,174,111
Tampa-Hillsborough County, FL, Expressway Authority, Series A, 5.0%, 7/1/2037	895,000	977,904
		13,781,447
Georgia 6.5%		
Americus-Sumter County, GA, Hospital & Healthcare Revenue, Hospital Authority, South Georgia Methodist, Series A, 6.375%, 5/15/2029	1,250,000	1,250,950
Atlanta, GA, Airport Revenue, Series C, AMT, 5.0%, 1/1/2037	375,000	399,900
Atlanta, GA, Tax Allocation, Beltline Project, Series B, 7.375%, 1/1/2031	1,000,000	1,221,900
Atlanta, GA, Water & Wastewater Revenue, Series A, 6.25%, 11/1/2034	2,000,000	2,409,800

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DeKalb County, GA, Water & Sewer Revenue, Series A, 5.25%, 10/1/2036	1,000,000	1,138,280
Gainesville & Hall County, GA, Development Authority Retirement Community Revenue, ACTS Retirement Life Community, Series A-2, 6.625%, 11/15/2039	1,000,000	1,132,530
Georgia, Main Street Natural Gas, Inc., Gas Project Revenue, Series A, 5.5%, 9/15/2024	1,220,000	1,468,392
Georgia, Medical Center Hospital Authority Revenue, Anticipation Certificates, Columbus Regional Healthcare System, 6.5%, 8/1/2038, INS: AGC	1,000,000	1,128,260
		10,150,012
Guam 2.1%		
Guam, Government General Obligation, Series A, 7.0%, 11/15/2039	1,000,000	1,117,920
Guam, Government Waterworks Authority, Water & Wastewater System Revenue, 6.0%, 7/1/2025	1,000,000	1,038,540
Guam, Power Authority Revenue, Series A, 5.5%, 10/1/2030	1,000,000	1,115,990
		3,272,450
Hawaii 0.4%		
Hawaii, State Department of Budget & Finance, Special Purpose Revenue, Hawaiian Electric Co., Inc., 6.5%, 7/1/2039, GTY: Hawaiian Electric Co., Inc.	500,000	586,315
Idaho 0.2%		
Idaho, Health Facilities Authority Revenue, St. Luke's Regional Medical Center, 6.75%, 11/1/2037	305,000	354,575
Illinois 7.4%		
Chicago, IL, Airport Revenue, O'Hare International Airport Revenue, Series B, 6.0%, 1/1/2041	2,000,000	2,365,060
Chicago, IL, General Obligation, Series A, 5.25%, 1/1/2035	1,000,000	1,085,460
Chicago, IL, Waterworks Revenue, 5.0%, 11/1/2042	590,000	647,301
Illinois, Finance Authority Revenue, Friendship Village of Schaumburg, Series A, 5.625%, 2/15/2037	2,000,000	2,023,120
Illinois, Finance Authority Revenue, Park Place of Elmhurst, Series A, 8.0%, 5/15/2030	1,000,000	1,055,120
Illinois, Finance Authority Revenue, The Admiral at Lake Project, Series A, 8.0%, 5/15/2040	1,000,000	1,197,770
Illinois, Finance Authority Revenue, Three Crowns Park Plaza, Series A, 5.875%, 2/15/2038	1,000,000	1,025,740
Illinois, Metropolitan Pier & Exposition Authority Revenue, McCormick Place Project, Series A, 5.0%, 6/15/2042	300,000	325,764
Illinois, Railsplitter Tobacco Settlement Authority, 6.0%, 6/1/2028	365,000	435,919
Illinois, State Finance Authority Revenue, Trinity Health Corp., Series L, 5.0%, 12/1/2030	1,000,000	1,125,510
Illinois, Upper River Valley Development Authority, Solid Waste Disposal Revenue, Waste Recovery Project, AMT, 5.9%, 2/1/2014, GTY: GreenGold Ray Energies, Inc.	170,000	170,274
		11,457,038
Indiana 1.7%		
Indiana, Finance Authority Hospital Revenue, Deaconess Hospital Obligation, Series A, 6.75%, 3/1/2039	525,000	614,476
Indiana, State Finance Authority Revenue, Community Foundation of Northwest Indiana, 5.0%, 3/1/2041	1,000,000	1,055,390

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Vigo County, IN, Hospital Authority Revenue, Union Hospital, Inc., 144A, 5.7%, 9/1/2037	1,000,000	1,041,480 2,711,346
Iowa 1.7%		
Iowa, Finance Authority Retirement Community Revenue, Edgewater LLC Project, 6.5%, 11/15/2027	1,000,000	1,061,270
Iowa, State Finance Authority Midwestern Disaster Area Revenue, Fertilizer Co. Project, 5.25%, 12/1/2025	575,000	593,751
Iowa, State Finance Authority, Wellness Facilities Revenue, Community Marshalltown Project, 0.17%***, 1/1/2031, LOC: Northern Trust Co.	1,000,000	1,000,000 2,655,021
Kansas 0.2%		
Lenexa, KS, Health Care Facility Revenue, Lakeview Village, Inc. Project, 7.25%, 5/15/2039	300,000	335,124
Kentucky 4.1%		
Kentucky, Economic Development Finance Authority, Hospital Facilities Revenue, Owensboro Medical Health Systems, Series A, 6.5%, 3/1/2045	2,000,000	2,337,880
Kentucky, Economic Development Finance Authority, Louisville Arena Project Revenue, Series A-1, 6.0%, 12/1/2033, INS: AGC	365,000	394,609
Louisville & Jefferson County, KY, Metropolitan Government Health Systems Revenue, Norton Healthcare, Inc., 5.0%, 10/1/2030	3,425,000	3,581,317 6,313,806
Louisiana 3.7%		
Louisiana, Local Government Environmental Facilities, Community Development Authority Revenue, 6.75%, 11/1/2032	1,000,000	1,135,840
Louisiana, St. John Baptist Parish Revenue, Marathon Oil Corp., Series A, 5.125%, 6/1/2037	1,500,000	1,583,370
Morehouse Parish, LA, Pollution Control Revenue, International Paper Co. Project, Series A, 5.25%, 11/15/2013	3,000,000	3,061,200 5,780,410
Maine 0.8%		
Maine, Health & Higher Educational Facilities Authority Revenue, Maine General Medical Center, 6.75%, 7/1/2036	1,000,000	1,200,150
Maryland 4.1%		
Maryland, Economic Development Corp., Pollution Control Revenue, Potomac Electric Power Co., 6.2%, 9/1/2022	1,500,000	1,827,810
Maryland, State Economic Development Corp. Revenue, Senior Lien Project, Chesapeake Bay:		
Series A, 5.0%, 12/1/2031	1,000,000	659,750
Series B, 5.25%, 12/1/2031	1,000,000	689,650
Maryland, State Health & Higher Educational Facilities Authority Revenue, Anne Arundel Health Systems, Series A, 6.75%, 7/1/2039	500,000	615,725
Maryland, State Health & Higher Educational Facilities Authority Revenue, Washington County Hospital:		
5.75%, 1/1/2033	1,000,000	1,077,580
6.0%, 1/1/2028	1,385,000	1,514,761 6,385,276
Massachusetts 4.2%		
Massachusetts, Development Finance Agency, Senior Living Facility Revenue, Groves-Lincoln: Series A, 7.75%, 6/1/2039	250,000	117,510

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Series A, 7.875%, 6/1/2044	250,000	117,510
Massachusetts, Industrial Development Revenue, Development Finance Agency, Series A, 7.1%, 7/1/2032	1,715,000	1,715,858
Massachusetts, Project Revenue, Health & Educational Facilities Authority, Jordan Hospital, Series E, 6.75%, 10/1/2033	1,790,000	1,812,196
Massachusetts, State Development Finance Agency Revenue, Linden Ponds, Inc. Facility:		
Series B, 11/15/2056*	505,485	3,559
Series A-2, 5.5%, 11/15/2046	101,629	81,481
Series A-1, 6.25%, 11/15/2039	1,903,948	1,743,559
Massachusetts, State Health & Educational Facilities Authority Revenue, Milford Regional Medical Center, Series E, 5.0%, 7/15/2037	950,000	952,926
		6,544,599
Michigan 6.0%		
Detroit, MI, Water & Sewerage Department, Sewerage Disposal System Revenue, Series A, 5.25%, 7/1/2039	280,000	298,841
Detroit, MI, Water Supply Systems Revenue, Series A, 5.75%, 7/1/2037	1,000,000	1,102,750
Kalamazoo, MI, Economic Development Corp. Revenue, Limited Obligation, Heritage Community, 5.5%, 5/15/2036	1,000,000	999,970
Kentwood, MI, Economic Development, Limited Obligation, Holland Home, Series A, 5.375%, 11/15/2036	2,000,000	2,032,520
Michigan, State Building Authority Revenue, Facilities Program, Series I-A, 5.5%, 10/15/2045	2,000,000	2,250,160
Royal Oak, MI, Hospital Finance Authority Revenue, William Beaumont Hospital, 8.25%, 9/1/2039	1,000,000	1,264,950
Tawas City, MI, Hospital Finance Authority, St. Joseph Health Services, Series A, ETM, 5.75%, 2/15/2023	1,300,000	1,305,902
		9,255,093
Minnesota 0.8%		
Minneapolis, MN, Health Care Systems Revenue, Fairview Health Services, Series A, 6.75%, 11/15/2032	1,000,000	1,207,050
Mississippi 1.2%		
Lowndes County, MS, Solid Waste Disposal & Pollution Control Revenue, Weyerhaeuser Co. Project, Series A, 6.8%, 4/1/2022	250,000	299,275
Mississippi, Business Finance Corp., Pollution Control Revenue, Systems Energy Resources, Inc. Project, 5.875%, 4/1/2022	1,000,000	1,003,010
Warren County, MS, Gulf Opportunity Zone, International Paper Co., Series A, 6.5%, 9/1/2032	435,000	495,830
		1,798,115
Missouri 2.1%		
Missouri, State Health & Educational Facilities Authority Revenue, Lutheran Senior Services, Series C, 5.0%, 2/1/2042	2,000,000	2,037,060
Missouri, State Health & Educational Facilities Authority, Health Facilities Revenue, Lester E Cox Medical Centers, Series A, 5.0%, 11/15/2048	740,000	783,741
St. Louis, MO, Lambert-St. Louis International Airport Revenue, Series A-1, 6.625%, 7/1/2034	415,000	484,625
		3,305,426
Nevada 5.9%		
Clark County, NV, School District, Series A, 5.0%, 6/15/2022, INS: FGIC, NATL	5,140,000	5,938,962

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Henderson, NV, Health Care Facility Revenue, Catholic Healthcare West, Series B, 5.25%, 7/1/2031	2,000,000	2,106,740
Las Vegas Valley, NV, Water District, Series B, 5.0%, 6/1/2037	1,000,000	1,106,410
		9,152,112
New Hampshire 2.2%		
New Hampshire, Hospital & Healthcare Revenue, Rivermead at Peterborough Retirement Community, 5.75%, 7/1/2028	1,500,000	1,501,275
New Hampshire, State Business Finance Authority, Solid Waste Disposal Revenue, Waste Management, Inc. Project, AMT, 5.2%, 5/1/2027	1,750,000	1,901,970
		3,403,245
New Jersey 7.0%		
New Jersey, Economic Development Authority Revenue, Cigarette Tax, Prerefunded, 5.75%, 6/15/2034	290,000	306,318
New Jersey, Health Care Facilities Financing Authority Revenue, St. Joseph's Health Care System, 6.625%, 7/1/2038	715,000	814,449
New Jersey, State Economic Development Authority Revenue, School Facilities Construction:		
Series NN, 5.0%, 3/1/2030	500,000	559,940
Series NN, 5.0%, 3/1/2031	275,000	306,287
New Jersey, State Economic Development Authority, Continental Airlines, Inc. Project, AMT, 4.875%, 9/15/2019	1,000,000	1,040,270
New Jersey, State Housing & Mortgage Finance Agency, Multi-Family Housing Revenue, Series 5, AMT, 0.14%** , 11/1/2046, LOC: Citibank NA	180,000	180,000
New Jersey, State Transportation Trust Fund Authority:		
Series AA, 5.0%, 6/15/2038	840,000	915,482
Series B, 5.5%, 6/15/2031	1,500,000	1,741,095
New Jersey, State Turnpike Authority, Series A, 5.0%, 1/1/2038	1,190,000	1,292,602
New Jersey, Tobacco Settlement Financing Corp., Series 1A, 4.75%, 6/1/2034	4,280,000	3,757,241
		10,913,684
New York 10.1%		
New York, Metropolitan Transportation Authority Revenue:		
Series D, 5.0%, 11/15/2032	1,000,000	1,115,160
Series E, 5.0%, 11/15/2042	305,000	329,934
New York, State Energy Research & Development Authority, Consolidated Edison Co. of New York, Inc., Series A-2, 0.11%** , 5/1/2039, LOC: Mizuho Corporate Bank	800,000	800,000
New York, State Thruway Authority Revenue, Series I, 5.0%, 1/1/2037	270,000	296,957
New York & New Jersey, Port Authority, Special Obligation Revenue, JFK International Air Terminal LLC, 6.0%, 12/1/2042	680,000	791,629
New York & New Jersey Port Authority, One Hundred Forty-Seventh, AMT, 5.0%, 10/15/2023, INS: FGIC, NATL	8,260,000	9,239,140
New York City, NY, Industrial Development Agency, Special Facility Revenue, American Airlines, JFK International Airport, AMT, 8.0%, 8/1/2028, GTY: AMR Corp.	2,000,000	2,329,260
New York City, NY, Transitional Finance Authority Revenue, NYC Recovery, Series 1, 0.09%** , 11/1/2022, SPA: Landesbank Hessen-Thuringen	840,000	840,000
		15,742,080
North Carolina 0.8%		

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North Carolina, Medical Care Commission, Health Care Facilities Revenue, University Health Systems, Series D, 6.25%, 12/1/2033	1,000,000	1,189,270
Ohio 1.8%		
Kent, OH, State University Revenues, General Receipts, Series A, 5.0%, 5/1/2037	1,000,000	1,105,540
Ohio, American Municipal Power, Inc. Revenue, Fremont Energy Center Project, Series B, 5.0%, 2/15/2037	1,575,000	1,715,710
		2,821,250
Pennsylvania 3.0%		
Butler County, PA, Hospital Authority Revenue, Butler Health Systems Project, 7.25%, 7/1/2039	2,000,000	2,419,240
Montgomery County, PA, Industrial Development Authority Revenue, Whitemarsh Continuing Care, 6.25%, 2/1/2035	600,000	608,304
Philadelphia, PA, Redevelopment Authority Revenue, First Lien Mortgage, Series A, 6.5%, 1/1/2029	531,500	532,595
Westmoreland County, PA, Industrial Development Authority Revenue, Retirement Community-Redstone, Series A, 5.875%, 1/1/2032	1,000,000	1,022,980
		4,583,119
Puerto Rico 6.8%		
Commonwealth of Puerto Rico, Aqueduct & Sewer Authority Revenue, Series A, 6.0%, 7/1/2038	4,000,000	4,107,920
Puerto Rico, Public Buildings Authority Revenue, Series Q, 5.625%, 7/1/2039	1,000,000	1,011,230
Puerto Rico, Sales Tax Financing Corp., Sales Tax Revenue: Series A, 5.375%, 8/1/2039	1,000,000	1,050,730
Series A, 6.5%, 8/1/2044	2,000,000	2,273,640
Puerto Rico, Sales Tax Financing Corp., Sales Tax Revenue, Convertible Capital Appreciation, Series A, Step-up Coupon, 0% to 8/1/2016, 6.75% to 8/1/2032	2,000,000	2,048,920
		10,492,440
South Carolina 0.7%		
Hardeeville, SC, Assessment Revenue, Anderson Tract Municipal Improvement District, Series A, 7.75%, 11/1/2039	950,000	894,292
South Carolina, Jobs Economic Development Authority, Hospital Facilities Revenue, Palmetto Health Alliance, Series C, Prerefunded, 7.0%, 8/1/2030	170,000	171,918
		1,066,210
Tennessee 1.5%		
Clarksville, TN, Natural Gas Acquisition Corp., Gas Revenue: 5.0%, 12/15/2017	500,000	573,660
5.0%, 12/15/2018	540,000	616,399
Johnson City, TN, Health & Educational Facilities Board Hospital Revenue, Mountain States Health Alliance, Series A, 7.75%, 7/1/2038	1,000,000	1,205,640
		2,395,699
Texas 16.8%		
Austin, TX, Austin-Bergstrom Landhost Enterprises, Inc., Airport Hotel Project, Series A, 3.375%, 4/1/2027 (a)	1,960,000	939,232
Austin, TX, Electric Utility System Revenue, 5.0%, 11/15/2040	455,000	505,082
Brazos River, TX, Harbor Navigation District, Brazoria County Environmental Health, Dow Chemical Co. Project: Series B-2, 4.95%, 5/15/2033	1,000,000	1,081,380

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Series A-3, AMT, 5.125%, 5/15/2033	1,000,000	1,068,510
Central Texas, Regional Mobility Authority Revenue, Series A, 5.0%, 1/1/2043	225,000	240,723
Central Texas, Regional Mobility Authority Revenue, Senior Lien, 6.0%, 1/1/2041	545,000	628,766
Dallas-Fort Worth, TX, International Airport Revenue:		
Series F, AMT, 5.0%, 11/1/2035	1,000,000	1,045,520
Series D, AMT, 5.0%, 11/1/2038	2,000,000	2,077,160
Houston, TX, Transportation/Tolls Revenue, Special Facilities, Continental Airlines, Inc., Series E, AMT, 6.75%, 7/1/2029	2,000,000	2,008,660
Matagorda County, TX, Navigation District No. 1, Pollution Control Revenue, AEP Texas Central Co. Project, Series A, 4.4%, 5/1/2030, INS: AMBAC	2,250,000	2,316,150
North Texas, Tollway Authority Revenue, Toll Second Tier, Series F, 5.75%, 1/1/2033	2,000,000	2,217,280
Red River, TX, Health Facilities Development Corp., Retirement Facilities Revenue, Sears Methodist Retirement System Obligation Group Project, Series A, 5.45%, 11/15/2038	2,410,000	2,197,173
San Antonio, TX, Convention Center Hotel Finance Corp., Contract Revenue, Empowerment Zone, Series A, AMT, 5.0%, 7/15/2039, INS: AMBAC	1,000,000	1,001,240
Tarrant County, TX, Cultural Education Facilities Finance Corp., Retirement Facility, Mirador Project, Series A, 8.25%, 11/15/2044	570,000	641,677
Texas, Industrial Development Revenue, Waste Disposal Authority, Series A, AMT, 6.1%, 8/1/2024	1,000,000	1,004,030
Texas, Love Field Airport Modernization Corp., Special Facilities Revenue, Southwest Airlines Co. Project, 5.25%, 11/1/2040	1,055,000	1,136,066
Texas, SA Energy Acquisition Public Facility Corp., Gas Supply Revenue, 5.5%, 8/1/2020	2,000,000	2,345,000
Texas, State Municipal Gas Acquisition & Supply Corp., III Gas Supply Revenue:		
5.0%, 12/15/2030	165,000	175,491
5.0%, 12/15/2031	335,000	355,489
5.0%, 12/15/2032	1,000,000	1,058,740
Texas, State Transportation Commission, Turnpike Systems Revenue, Series A, 5.0%, 8/15/2041	1,280,000	1,366,003
Travis County, TX, Health Facilities Development Corp. Revenue, Westminster Manor Health, 7.125%, 11/1/2040	510,000	601,703
		26,011,075
Virginia 1.7%		
Virginia, Route 460 Funding Corp., Toll Road Revenue, Series A, 5.0%, 7/1/2052	1,000,000	1,036,380
Washington County, VA, Industrial Development Authority, Hospital Facility Revenue, Mountain States Health Alliance, Series C, 7.75%, 7/1/2038	1,370,000	1,665,632
		2,702,012
Washington 1.8%		
Washington, State Health Care Facilities Authority Revenue, Series C, 5.375%, 8/15/2028, INS: Radian	595,000	626,226
Washington, State Health Care Facilities Authority Revenue, Virginia Mason Medical Center, Series A, 6.125%, 8/15/2037	2,000,000	2,171,340

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		2,797,566
Wisconsin 3.2%		
Wisconsin, Hospital & Healthcare Revenue, Health & Educational Facilities Authority, Aurora Health Care, Inc., 6.875%, 4/15/2030	1,000,000	1,002,820
Wisconsin, State Health & Educational Facilities Authority Revenue, Agnesian Healthcare, Inc., Series B, 5.0%, 7/1/2036	500,000	549,635
Wisconsin, State Health & Educational Facilities Authority Revenue, Prohealth Care, Inc. Obligation Group, 6.625%, 2/15/2039	1,110,000	1,281,406
Wisconsin, State Health & Educational Facilities Authority Revenue, Thedacare, Inc., Series A, 5.5%, 12/15/2038	1,765,000	1,930,310
Wisconsin, University Hospitals & Clinics Authority, Series A, 5.0%, 4/1/2038	145,000	159,097
		4,923,268
Total Municipal Bonds and Notes (Cost \$190,137,291)		214,795,010
Municipal Inverse Floating Rate Notes (b) 11.4%		
California 2.9%		
San Diego County, CA, Water Authority Revenue, Certificates of Participation, Series 2008-A, 5.0%, 5/1/2027, INS: AGMC (c)	2,121,349	2,376,602
San Diego County, CA, Water Authority Revenue, Certificates of Participation, Series 2008-A, 5.0%, 5/1/2028, INS: AGMC (c)	1,930,312	2,162,578
Trust: San Diego County, CA, Water Utility Improvements, Certificates of Participation, Series 2008-1104, 144A, 9.304%, 11/1/2015, Leverage Factor at purchase date: 2 to 1		4,539,180
New York 4.0%		
New York, State Dormitory Authority, State Personal Income Tax Revenue, Series A, 5.0%, 3/15/2023 (c)	5,535,000	6,241,143
Trust: New York, State Dormitory Authority Revenue, Secondary Issues, Series 1955-2, 144A, 17.974%, 3/15/2015, Leverage Factor at purchase date: 4 to 1		
Tennessee 4.5%		
Nashville & Davidson County, TN, Metropolitan Government, 5.0%, 1/1/2024 (c)	5,918,585	6,972,404
Trust: Nashville & Davidson County, TN, Metropolitan Government, Series 2631-1, 144A, 17.986%, 1/1/2016, Leverage Factor at purchase date: 4 to 1		
Total Municipal Inverse Floating Rate Notes (Cost \$15,679,922)		17,752,727

	% of Net Assets	Value (\$)
Total Investment Portfolio (Cost \$205,817,213)†	149.7	232,547,737
MTPS, at Liquidation Value	(38.9)	(60,475,000)
Other Assets and Liabilities, Net	(4.7)	(7,255,160)
ARPS, at Liquidation Value	(6.1)	(9,525,000)
Net Assets Applicable to Common Shareholders	100.0	155,292,577

The following table represents bonds that are in default:

Security	Coupon	Maturity Date	Cost (\$)	Value (\$)
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				Principal Amount (\$)		
Austin, TX, Austin-Bergstrom Landhost Enterprises, Inc., Airport Hotel Project, Series A (a)	3.375	%	4/1/2027	1,960,000	1,960,000	939,232
Mashantucket, CT, Sports Expo & Entertainment Revenue, Mashantucket Western Pequot Tribe, Series B, 144A*	Zero		9/1/2017	2,000,000	1,417,501	635,600
Mashantucket, CT, Sports Expo & Entertainment Revenue, Mashantucket Western Pequot Tribe, Series B, 144A*	Zero		9/1/2018	1,000,000	667,388	299,500
Mashantucket, CT, Mashantucket Western Pequot Tribe, Special Revenue, Series A, 144A*	6.5	%	9/1/2031	705,000	733,004	328,629
					4,777,893	2,202,961

* Non-income producing security.

** Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are often payable on demand and are shown at their current rates as of May 31, 2013.

† The cost for federal income tax purposes was \$194,056,786. At May 31, 2013, net unrealized appreciation for all securities based on tax cost was \$27,875,912. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$31,832,460 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$3,956,548.

(a) Partial interest-paying security. The rate shown represents 50% of the original coupon rate.

(b) Securities represent the underlying municipal obligations of inverse floating rate obligations held by the Fund.

(c) Security forms part of the below tender option bond trust. Principal Amount and Value shown take into account the leverage factor.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

AGC: Assured Guaranty Corp.

AGMC: Assured Guaranty Municipal Corp.

AMBAC: Ambac Financial Group, Inc.

AMT: Subject to alternative minimum tax.

ETM: Bonds bearing the description ETM (escrow to maturity) are collateralized usually by U.S. Treasury securities which are held in escrow and used to pay principal and interest on bonds so designated.

FGIC: Financial Guaranty Insurance Co.

GTY: Guaranty Agreement

INS: Insured

LOC: Letter of Credit

NATL: National Public Finance Guarantee Corp.

Prerefunded: Bonds which are prerefunded are collateralized usually by U.S. Treasury securities which are held in escrow and used to pay principal and interest on tax-exempt issues and to retire the bonds in full at the earliest refunding date.

Radian: Radian Asset Assurance, Inc.

SPA: Standby Bond Purchase Agreement

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of May 31, 2013 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Municipal Investments (d)	\$—	\$232,547,737	\$—	\$232,547,737
Total	\$—	\$232,547,737	\$—	\$232,547,737

There have been no transfers between fair value measurement levels during the period ended May 31, 2013.

(d) See Investment Portfolio for additional detailed categorizations.

The accompanying notes are an integral part of the financial statements.

Statement of Assets and Liabilities

as of May 31, 2013 (Unaudited)

Assets

Investments:

Investments in securities, at value (cost \$205,817,213)	\$232,547,737
Cash	44,041
Interest receivable	3,224,016
Other assets	2,832
Deferred offering costs	276,691
Total assets	236,095,317
Liabilities	
Payable for floating rate notes issued	10,615,039
Distributions payable	193
Accrued management fee	116,050

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Accrued Trustees' fees	5,658
Other accrued expenses and payables	65,800
MTPS, at liquidation value (see page 29 for more details)	60,475,000
Total liabilities	71,277,740
ARPS, at liquidation value (see page 29 for more details)	9,525,000
Net assets applicable to common shareholders, at value	\$155,292,577
Net Assets Applicable to Common Shareholders Consist of	
Undistributed net investment income	2,751,767
Net unrealized appreciation (depreciation) on investments	26,730,524
Accumulated net realized gain (loss)	(93,051)
Paid-in capital	125,903,337
Net assets applicable to common shareholders, at value	\$155,292,577
Net Asset Value	
Net Asset Value per common share (\$155,292,577 ÷ 11,106,707 outstanding shares of beneficial interest, \$.01 par value, unlimited number of common shares authorized)	\$13.98

The accompanying notes are an integral part of the financial statements.

Statement of Operations

for the six months ended May 31, 2013 (Unaudited)

Investment Income

Income:

Interest

\$6,108,771

Expenses:

Management fee

681,153

Services to shareholders

6,368

Custodian fee

3,883

Professional fees

45,696

Reports to shareholders

30,261

Trustees' fees and expenses

6,616

Interest expense

409,001

Auction service fees

12,085

Stock exchange listing fees

11,906

Offering costs

48,327

Other

32,048

Total expenses

1,287,344

Net investment income

4,821,427

Realized and Unrealized Gain (Loss)

Net realized gain (loss) from investments

124,432

Change in net unrealized appreciation (depreciation) on investments

(5,117,608)

Net gain (loss)

(4,993,176)

Net increase (decrease) in net assets resulting from operations

(171,749)

Distributions to ARPS

(10,228)

Net increase (decrease) in net assets applicable to common shareholders

\$(181,977)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

for the six months ended May 31, 2013 (Unaudited)

Increase (Decrease) in Cash:

Cash Flows from Operating Activities

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Net increase (decrease) in net assets resulting from operations (excluding distributions to ARPS)	\$(171,749)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of long-term investments	(28,124,233)
Net amortization of premium/(accretion of discount)	(35,933)
Proceeds from sales and maturities of long-term investments	29,053,975
(Increase) decrease in interest receivable	(26,286)
(Increase) decrease in other assets	2,851
(Increase) decrease in receivable for investments sold	200,000
Increase (decrease) in payable for investments purchased — when-issued securities	(902,697)
Increase (decrease) in other accrued expenses and payables	(161,981)
Change in net unrealized (appreciation) depreciation on investments	5,117,608
Net realized (gain) loss from investments	(124,432)
Cash provided (used) by operating activities	4,827,123
Cash Flows from Financing Activities	
(Increase) decrease in deferred offering cost on MTPS	14,983
Distributions paid (net of reinvestment of distributions)	(4,886,403)
Cash provided (used) by financing activities	(4,871,420)
Increase (decrease) in cash	(44,297)
Cash at beginning of period	88,338
Cash at end of period	\$44,041
Supplemental Disclosure	
Reinvestment of distributions	\$250,486
Interest expense	\$(409,001)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets

	Six Months Ended May 31, 2013 (Unaudited)	Year Ended November 30, 2012
Increase (Decrease) in Net Assets		
Operations:		
Net investment income	\$4,821,427	\$10,541,641
Net realized gain (loss)	124,432	(1,012,969)
Change in net unrealized appreciation (depreciation)	(5,117,608)	20,288,605
Net increase (decrease) in net assets resulting from operations	(171,749)	29,817,277
Distributions to ARPS	(10,228)	(173,076)
Net increase (decrease) in net assets applicable to common shareholders	(181,977)	29,644,201
Distributions to common shareholders from:		
Net investment income	(5,126,640)	(10,294,498)
Fund share transactions:		
Net increase resulting from the tender of ARPS	—	2,419,000
Net proceeds from shares issued to common shareholders from reinvestment of distributions	250,486	534,598
Net increase (decrease) in net assets from Fund share transactions	250,486	2,953,598
Increase (decrease) in net assets	(5,058,131)	22,303,301
Net assets at beginning of period applicable to common shareholders	160,350,708	138,047,407
Net assets at end of period applicable to common shareholders (including undistributed net investment income of \$2,751,767 and \$3,067,208, respectively)	\$155,292,577	\$160,350,708
Other Information		

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Common shares outstanding at beginning of period	11,089,387	11,050,828
Shares issued to common shareholders from reinvestment of distributions	17,320	38,559
Common shares outstanding at end of period	11,106,707	11,089,387

The accompanying notes are an integral part of the financial statements.

Financial Highlights

	Six Months Ended 5/31/13 (Unaudited)	Years Ended November 30,				
		2012	2011	2010	2009	2008
Selected Per Share Data Applicable to Common Shareholders						
Net asset value, beginning of period	\$ 14.46	\$12.49	\$12.40	\$12.01	\$9.66	\$12.11
Income (loss) from investment operations:						
Net investment income ^a	.43	.95	1.01	1.00	1.01	.95
Net realized and unrealized gain (loss)	(.45)	1.75	.08	.35	2.25	(2.50)
Total from investment operations	(.02)	2.70	1.09	1.35	3.26	(1.55)
Distributions to ARPS from net investment income (common share equivalent)	(.00)***	(.02)	(.02)	(.03)	(.05)	(.24)
Net increase (decrease) in net assets resulting from operations	(.02)	2.68	1.07	1.32	3.21	(1.79)
Less distributions to common shareholders from:						
Net investment income	(.46)	(.93)	(.92)	(.93)	(.86)	(.66)
Net realized gains	—	—	(.06)	—	—	—
Total distributions	(.46)	(.93)	(.98)	(.93)	(.86)	(.66)
NAV accretion resulting from ARPS tendered at a discount ^a	—	.22	—	—	—	—
Net asset value, end of period	\$ 13.98	\$14.46	\$12.49	\$12.40	\$12.01	\$9.66
Market price, end of period	\$ 14.48	\$15.49	\$13.33	\$12.78	\$12.33	\$7.80
Total Return Based on net asset value (%) ^c	(.19)**	23.77	9.32	11.18	35.09	(14.99) ^b
Based on market price (%) ^c						