

DWS MUNICIPAL INCOME TRUST
Form N-CSR
February 05, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number: 811-05655

DWS 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) 250-2500

Diane Kenneally

One International Place

Boston, MA 02110

(Name and Address of Agent for Service)

Date of fiscal year end: 11/30

Date of reporting period: 11/30/2018

ITEM 1. REPORT TO STOCKHOLDERS

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November 30, 2018

Annual Report

to Shareholders

DWS Municipal Income Trust

(formerly Deutsche Municipal Income Trust)

Ticker Symbol: KTF

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Fund's annual and semiannual shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports. Instead, the reports will be made available on the Fund's Web site (dws.com), and you will be notified by mail each time a report is posted and provided with a Web site link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Fund electronically anytime by contacting your financial intermediary (such as a broker-dealer or bank), or if you are a direct investor, by calling (800) 728-3337 or sending an email request to service@dws.com.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. If you invest directly with the Fund, you can call (800) 728-3337 or send an email request to service@dws.com to continue receiving paper copies of your shareholder reports. Your election to receive reports in paper will apply to all funds held in your account if you invest through your financial intermediary or all funds held with DWS if you invest directly with the Fund.

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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, credit, liquidity and market risks to varying degrees. 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.

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries such as DWS Distributors, Inc. which offers investment products or DWS Investment Management Americas, Inc. and RREEF America L.L.C. which offer advisory services.

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

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Portfolio Management Review

(Unaudited)

Market Overview and Fund Performance

All performance information below is historical and does not guarantee future results. Investment return and principal fluctuate, so your shares may be worth more or less when sold. Current performance may differ from performance data shown. Please visit dws.com for the Fund's most recent month-end performance. Fund performance includes reinvestment of all distributions. Please refer to pages 8 through 9 for more complete performance information.

Investment Guidelines

The Fund's investment objective is to provide a high level of current income exempt from federal income tax. Under normal circumstances, at least 80% of the Fund's net assets, plus the amount of any borrowings for investment purposes, will be invested in municipal securities. The Fund will invest substantially all of its net assets in tax-exempt municipal securities valued at the time of purchase within the four highest grades (Baa or BBB or better) by Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). The Fund may also invest up to 20% of its assets in unrated municipal securities which, in the opinion of the Fund's investment advisor, have credit characteristics equivalent to, and will be of comparable quality to, municipal securities rated within the four highest grades by Moody's or S&P.

DWS Municipal Income Trust returned 0.35% based on net asset value for the annual period ending November 30, 2018, compared with 1.13% for the Fund's benchmark, the unmanaged, unleveraged Bloomberg Barclays Municipal Bond Index, and 1.34% for the broad taxable bond market as measured by the Bloomberg Barclays Aggregate Bond Index, for the same period. The Fund's return based on market price was 7.18%. Over the period, the Fund's traded shares went from a discount of 5.76% to a discount of 12.22%. The Fund lowered its dividend from 5.25 cents per share to 4.75 cents per share during the period.

Municipal bond returns were muted for the 12 months ended November 30, 2018, as rising interest rates weighed on bond prices generally. As the period opened, the municipal market was roiled by anticipation of a tax reform bill. Speculation that the bill would eliminate both tax-exempt advance refundings, used by municipalities to lower debt service costs, and private activity bonds led to a flood of issuance, sending most tax-free yields higher. (Only tax-exempt advance refundings were eliminated by the final bill.) The bill ultimately lowered rates for

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individual taxpayers through 2025 and included a permanent reduction in the top corporate tax rate from 35% to 21%. Municipal yields eventually declined across most maturities, as investors pondered the impact of lower supply going forward given the acceleration in the issuance calendar seen in late 2017.

As 2018 progressed, performance for the broader fixed income markets was constrained by an upward move in U.S. Treasury yields. We believe the rise in rates was attributable to investor expectations for stronger economic growth and higher inflation, as well as an environment of arguably full employment. In the municipal market, performance of long-maturity bonds was dampened to a degree as demand from banks and insurers softened as expected in the wake of a lower corporate tax rate. This was partially offset by positive flows into tax-free mutual funds and a reduction in municipal supply relative to 2017. The third quarter of 2018 actually saw negative net municipal supply due to relatively light new issuance combined with a significant volume of issues maturing or being called. Most new issues were oversubscribed as investors continued to seek yield opportunities. November of 2018 saw municipal bond funds experience net outflows on concerns that the U.S. Federal Reserve Board (the Fed) was tilting toward a more hawkish direction on interest rates.

As 2018 progressed, performance for the broader fixed income markets was constrained by an upward move in U.S. Treasury yields.

Over the 12 months ended November 30, 2018, the Fed implemented four quarter-point increases in its benchmark overnight lending rate, leaving fed funds at 2.25%, generally considered the low end of normal. The U.S. Treasury yield curve moved higher along the length of the curve, with the greatest yield increases seen on the short end of the curve. Municipal bond returns were dampened as yields rose along the length of the municipal curve as well. To illustrate, the two-year municipal yield rose 35 basis points, from 1.57% to 1.92%, while the 10-year municipal yield rose 36 basis points from 2.15% to 2.51% and the 30-year municipal yield rose 43 basis points from 2.79% to 3.22%. (100 basis points equals one percentage point. See the graph below for municipal bond yield changes from the beginning to the end of the period.)

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For the 12 months ending November 30, 2018, municipal market credit spreads – the incremental yield offered by lower-quality issues vs. AAA-rated issues – generally narrowed, as investors continued to seek sources of higher yield.

AAA Municipal Bond Yield Curve (as of 11/30/18 and 11/30/17)

Source: Thompson Reuters as of 11/30/18.

Chart is for illustrative purposes only and does not represent any DWS product.

Positive and Negative Contributors to Performance

In broad terms, the Fund's positioning with respect to the yield curve had a negative impact on performance relative to the benchmark, which was partially offset by the Fund's overall credit stance.

Given a meaningfully steep yield curve for much of the period, the Fund had significant exposure to bonds with remaining maturities in the 20-to-30-year range. This acted as the primary constraint on performance, as the yield curve steepened and longer-term issues experienced the most significant impact from rising municipal yields over the 12 months.

The Fund had meaningfully overweight exposure to bonds in the A quality range vs. the benchmark, adding to relative performance as credit spreads narrowed over the 12 months ending November 30, 2018. In terms of sectors, the Fund's overweighting of transportation bonds detracted from performance relative to the benchmark.

By prospectus, the Fund is not permitted to invest in below-investment-grade issues. The Fund's higher quality profile acted as a constraint on performance relative to the Morningstar peer group.

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Outlook and Positioning

At the end of November 2018, municipal yields on an absolute basis remained somewhat low by historical standards. Yields for longer-maturity municipals remained reasonably attractive vs. taxable alternatives. As of November 30, 2018, the 10-year municipal yield of 2.51% was 83.4% of the 3.01% yield on comparable-maturity U.S. Treasuries, as compared to a ratio of 89.2% twelve months earlier. The 30-year municipal yield of 3.22% was 97.6% of the 3.30% yield on comparable-maturity U.S. Treasuries, as compared to a ratio of 98.6% twelve months earlier.

Entering the new fiscal period, the Fund was focused on generating income by adding exposure to municipal issues in the A and BBB quality range with remaining maturities between 20 and 30 years. We continue to perform careful fundamental analysis of each issue in assessing its risk/reward profile.

Portfolio Management Team

Ashton P. Goodfield, CFA, Managing Director

Portfolio Manager of the Fund. Began managing the Fund in 2014.

Joined DWS in 1986.

Co-Head of Municipal Bonds.

BA, Duke University.
Michael J. Generazo, Director

Portfolio Manager of the Fund. Began managing the Fund in 2010.

Joined DWS in 1999.

BS, Bryant College; MBA, Suffolk University.
Peter Aloisi, CFA, Vice President

Portfolio Manager of the Fund. Began managing the Fund in 2018.

Joined DWS in 2010 with five years of industry experience; previously, served as an Associate at Banc of America Securities.

BA and MBA, Boston College.

The views expressed reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as a recommendation. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

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Terms to Know

The unmanaged, unleveraged **Bloomberg 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.

The **Bloomberg Barclays Aggregate Bond Index** is an unmanaged, unleveraged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with average maturities of one year or more.

Index returns do not reflect any fees or expenses and it is not possible to invest directly into an index.

The **yield curve** is a graphical representation of how yields on bonds of different maturities compare. Normally, yield curves slant up, as bonds with longer maturities typically offer higher yields than short-term bonds.

Spread refers to the excess yield various bond sectors offer over financial instruments with similar maturities. When spreads widen, yield differences are increasing between bonds in the two sectors being compared. When spreads narrow, the opposite is true.

Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations, such as AAA, AA and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.

Overweight means the fund holds a higher weighting in a given sector or security than the benchmark. **Underweight** means the fund holds a lower weighting.

Table of Contents**Performance Summary****November 30, 2018 (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 dws.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 11/30/18

Deutsche Municipal Income Trust	1-Year	5-Year	10-Year
Based on Net Asset Value^(a)	-0.35%	4.77%	8.79%
Based on Market Price^(a)	-7.18%	3.58%	9.14%
Bloomberg Barclays Municipal Bond Index ^(b)	1.13%	3.52%	4.88%
Morningstar Closed-End Municipal National Long Funds Category ^(c)	0.33%	6.26%	8.62%

^(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 expense ratio of the Fund for the year ended November 30, 2018 was 2.16% (0.86% excluding interest expense).

^(b) The unmanaged, unleveraged Bloomberg 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 Municipal National Long Funds category represents muni national long portfolios that invest in municipal bonds. Such bonds are issued by various state and local governments to fund public projects and are free from federal taxes. To lower risk, these funds spread their assets across many states and sectors. They focus on bonds with durations of seven years or more. This makes them more sensitive to interest rates, and thus riskier, than muni funds that focus on bonds with shorter maturities. 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 Municipal National Long Funds category. Category returns assume reinvestment of all distributions. It is not possible to invest directly in a Morningstar category.

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Net Asset Value and Market Price

	As of 11/30/18	As of 11/30/17
Net Asset Value	\$ 11.78	\$ 12.50
Market Price	\$ 10.34	\$ 11.78