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

Welcome, Shareholder:

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

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

Fund Report
For the year ended October 31, 2004

Market Conditions

The U.S. economy continued to expand during the Trust's fiscal year ended October 31, 2004. However, through the spring and summer the economy hit what Federal Reserve Board Chairman Alan Greenspan described as a "soft patch." Oil prices almost doubled, reaching record highs, and employment growth weakened. As a result, real gross domestic product growth that had averaged 4.3 percent in the first half of the fiscal period slowed to 3.5 percent in the second.

Throughout most of the year, the Federal Reserve Open Market Committee (the "Fed") maintained its short-term borrowing rate (the federal funds rate) at an historic low. By April the market had begun to anticipate that the Fed would begin to increase short-term interest rates in response to higher commodity prices and reduced concern about the risk of deflation. In a series of three measured moves between June and the end of October, the Fed did increase the federal funds rate, from 1.00 to 1.75 percent.

Rising inflation fears led to rising bond yields from April to June. The market reversed course in July, however, with yields falling from July through October as investors became concerned with slower growth. Rising and falling yields tended to offset each other over the entire period, and long-term municipal bond yields at the end of October had changed little from where they had begun the fiscal year. Higher short-term interest rates reduced the yield pickup for extending to longer maturities, and the yield curve flattened.

The supply of new-issue municipal bonds declined by 8 percent in the first 10 months of 2004. California remained the largest issuer, accounting for 16 percent of total underwriting volume. New York was second, and accounted for 9 percent of total underwriting volume. The ratio of municipal yields to Treasury yields, which serves as a gauge of relative performance, indicated that municipals generally remained attractive relative to Treasuries during the period. As a result, taxable investors such as insurance companies and hedge funds that normally focus on other sectors of the bond market supported municipal bond prices by "crossing over" to purchase municipal bonds.

Performance Analysis

The net asset value (NAV) of Morgan Stanley Insured Municipal Income Trust (IIM) moved from $15.76 to $15.60 per share. IIM declared tax-free dividends totaling $0.92 per share and long-term capital gains of $0.287107 per share. The Trust's total NAV return was 7.46 percent. IIM's value on the New York Stock Exchange (NYSE) decreased from $14.73 to $14.09 per share during the same period. Based on this change plus reinvestment of dividends and distributions, IIM's total market return was 3.91 percent. IIM's share price was trading at a 9.68 percent discount to its NAV on October 31, 2004. *Past performance is no guarantee of future results.*

Monthly dividends for the fourth quarter of 2004 declared in September were decreased from $0.0775 to $0.0675 per share to reflect the Trust's current and

projected earnings level. The Trust's level of undistributed net investment income was $0.108 per share on October 31, 2004, versus $0.194 per share 12 months earlier.

One of our key strategies in managing the Trust was to keep its overall interest-rate sensitivity lower than that of its benchmark index. This defensive strategy helped performance early in the period when rates rose but had the net effect of hampering total returns over the whole period by limiting the Trust's participation in the rally later in the period. The Trust's duration,* adjusted for leverage, was 10.1 years. The Trust's net assets, including preferred shares, of $517 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 available for distribution to holders of common shares. The level of net investment income available for distribution to holders of common shares varies with the level of short-term interest rates. ARPS leverage also increases the price volatility of common shares and has the effect of extending portfolio duration.

During this 12-month period, ARPS leverage contributed approximately $0.17 per share to common-share earnings. The Trust has five ARPS series totaling $155 million, representing 30 percent of net assets, including preferred shares. All series are currently in two-year auction modes with maturities ranging from January 2005 to July 2006. The yields ranged from 1.20 to 2.24 percent.

The Trust's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Trust's shares. In addition, we would like to remind you that the Trustees have approved a procedure whereby the Trust may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase. The Trust may also utilize procedures to reduce or eliminate the amount of ARPS outstanding, including their purchase in the open market or in privately negotiated transactions. During the 12-month period ended October 31, 2004, the Trust purchased and retired 1,001,300 shares of common stock at a weighted average market discount of 8.33 percent.

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

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

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

LARGEST SECTORS	
Transportation	29.9%
Water & Sewer	25.7
Electric	19.7
General Obligation	16.8
Public Facilities	9.2

CREDIT ENHANCEMENTS	
MBIA	30.8%
Ambac	27.3
FGIC	23.1
FSA	18.0
XLCA	0.8

Data as of October 31, 2004. Subject to change daily. All percentages for top five sectors are as a percentage of net assets applicable to common shareholders. All percentages for credit enhancements are as a percentage of total long-term investments. These data are provided for informational purposes only and should not be deemed a recommendation to buy or sell the securities mentioned. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services.

Results of Annual Shareholder Meeting

On October 26, 2004, an annual meeting of the Trust's shareholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Trustees:

Michael Bozic	
For:	18,640,576
Withheld:	764,931
James F. Higgins	
For:	18,649,474
Withheld:	756,033

Election of Trustee by preferred shareholders:

Charles A. Fiumefreddo	
For:	2,397

Withheld: 0

The following Trustees were not standing for reelection at this meeting: Edwin J. Garn, Wayne E. Hedien, Manuel H. Johnson, Joseph J. Kearns, Michael E. Nugent and Fergus Reid.

Distribution by Maturity
(% of Long-Term Portfolio) As of October 31, 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	2.1%
California	14.5
Colorado	1.5
District of Columbia	3.0
Florida	6.4
Georgia	2.1
Hawaii	1.1
Illinois	7.1
Indiana	2.9%
Kentucky	0.8
Louisiana	0.9
Massachusetts	3.4
Michigan	2.8
Minnesota	1.0
Missouri	1.0
Nebraska	1.0
Nevada	4.5%
New Hampshire	0.8
New Jersey	2.6
New York	9.5
North Carolina	1.3
Ohio	0.2

Pennsylvania	4.6
Puerto Rico	0.9
Rhode Island	2.0%
South Carolina	3.2
Texas	13.8
Utah	1.0
Virginia	1.3
Washington	3.3
West Virginia	0.6
Joint exemptions*	(1.2)
Total†	100.0%

* Joint exemptions have been included in each geographic location.

† Does not include open short futures contracts with an underlying face amount of $158,003,125 with unrealized depreciation of $2,065,739.

5

Call and Cost (Book) Yield Structure
(Based on Long-Term Portfolio) As of October 31, 2004

Years Bonds Callable — Weighted Average Call Protection: 7 Years

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

(a) Includes issues initially callable in previous years.

(b) Cost or "book" yield is the annual income earned on a portfolio investment based on its original purchase price before the Trust's operating expenses. For example, the Trust is earning a book yield of 5.9% on 8% of the long-term portfolio that is callable in 2004.

Portfolio structure is subject to change.

6

Morgan Stanley Insured Municipal Income Trust

Portfolio of Investments October 31, 2004

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	Tax-Exempt Municipal Bonds (139.6%)			
	General Obligation (16.8%)			
$ 3,000	Los Angeles, California, Ser 2004 A (MBIA)	5.00%	09/01/24	$ 3,173,040
	District of Columbia,			
5,000	Refg Ser 1993 B (Ambac)	5.50	06/01/09	5,598,250
6,000	Refg Ser 1993 B (FSA)	5.50	06/01/10	6,786,840
8,000	Florida State Board of Education, Capital Outlay Refg 2002 Ser C (MBIA)	5.00	06/01/19	8,631,040
	Aurora West School District 129, Illinois,			