

DEUTSCHE STRATEGIC MUNICIPAL INCOME TRUST  
Form N-CSRS  
August 04, 2015

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

FORM N-CSRS

Investment Company Act file number: 811-05767

Deutsche 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:5/31/2015

ITEM 1. REPORT TO STOCKHOLDERS

May 31, 2015

Semiannual Report

to Shareholders

Deutsche 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, 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Performance Summary May 31, 2015 (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 [deutschefunds.com](http://deutschefunds.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 5/31/15

Deutsche Strategic Municipal Income Trust	6-Month <sup>‡</sup>	1-Year	5-Year	10-Year
Based on Net Asset Value(a)	1.71%	4.54%	8.19%	7.64%
Based on Market Price(a)	4.13%	5.92%	7.40%	7.29%
Barclays Municipal Bond Index(b)	0.71%	3.18%	4.53%	4.52%
Morningstar Closed-End High-Yield Municipal Funds Category(c)	2.37%	6.95%	8.51%	6.01%

<sup>‡</sup> 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

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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 six months ended May 31, 2015 was 1.76% (1.25% 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 typically 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 5/31/15	As of 11/30/14
Net Asset Value	\$13.03	\$13.27
Market Price	\$13.37	\$13.30

Prices and net asset value fluctuate and are not guaranteed.

### Distribution Information

Six Months as of 5/31/15:

Income Dividends (common shareholders)	\$.46	
Capital Gain Distributions	\$.01	
May Income Dividend (common shareholders)	\$.0770	
Current Annualized Distribution Rate (Based on Net Asset Value) as of 5/31/15†	7.09	%
Current Annualized Distribution Rate (Based on Market Price) as of 5/31/15†	6.91	%
Tax Equivalent Distribution Rate (Based on Net Asset Value) as of 5/31/15†	12.53	%
Tax Equivalent Distribution Rate (Based on Market Price) as of 5/31/15†	12.21	%

† Current annualized distribution rate is the latest monthly dividend shown as an annualized percentage of net asset value/market price on May 31, 2015. 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 43.4%. Distribution rates are historical, not guaranteed and will fluctuate. Distributions do not include return of capital or other non-income sources.

### Portfolio Management Team

Ashton P. Goodfield, CFA, Managing Director

Co-Lead Portfolio Manager of the fund. Began managing the fund in 2014.

— Joined Deutsche Asset & Wealth Management in 1986.

— Co-Head of Municipal Bonds.

— BA, Duke University.

Rebecca L. Flinn, Director

Co-Lead Portfolio Manager of the fund. Began managing the fund in 1998.

— Joined Deutsche Asset & Wealth Management in 1986.

— BA, University of Redlands, California.

A. Gene Caponi, CFA, Managing Director

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

— Joined Deutsche Asset & Wealth Management in 1998.

— BS, State University of New York, Oswego; MBA, State University of New York at Albany.

Carol L. Flynn, CFA, Managing Director

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

— Joined Deutsche Asset & Wealth Management in 1994.

— Co-Head of Municipal Bonds.

— BS, Duke University; MBA, University of Connecticut.

Portfolio Summary (Unaudited)

Investment Portfolio as of May 31, 2015 (Unaudited)

	Principal Amount (\$)	Value (\$)
Municipal Bonds and Notes 142.3%		
Arizona 1.3%		
Maricopa County, AZ, Pollution Control Corp. Revenue, El Paso Electric Co. Project, Series B, 7.25%, 4/1/2040	1,570,000	1,823,320
California 15.1%		
California, Health Facilities Financing Authority Revenue, Catholic Healthcare West, Series A, 6.0%, 7/1/2034	1,000,000	1,148,640
California, M-S-R Energy Authority, Series B, 7.0%, 11/1/2034, GTY: Citigroup, Inc.	1,310,000	1,772,495
California, Morongo Band of Mission Indians, Enterprise Casino Revenue, Series B, 144A, 6.5%, 3/1/2028	1,000,000	1,123,720
California, South Bayside Waste Management Authority, Solid Waste Enterprise, Shoreway Environmental, Series A, 6.25%, 9/1/2029	1,425,000	1,690,250

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California, State General Obligation:		
5.0%, 11/1/2043	1,500,000	1,683,795
5.25%, 4/1/2035	1,230,000	1,409,740
5.5%, 3/1/2040	1,000,000	1,165,890
5.75%, 4/1/2031	1,000,000	1,152,690
6.0%, 4/1/2038	1,000,000	1,175,010
6.5%, 4/1/2033	1,950,000	2,335,768
California, State Public Works Board Lease Revenue, Capital Projects, Series I-1, 6.375%, 11/1/2034		
	1,000,000	1,205,040
California, State Public Works Board Lease Revenue, Riverside Campus Project, Series B, 6.125%, 4/1/2028		
	2,000,000	2,356,160
California, Statewide Communities Development Authority Revenue, Loma Linda University Medical Center:		
Series A, 5.25%, 12/1/2044	195,000	209,567
Series A, 5.5%, 12/1/2054	195,000	212,228
Riverside County, CA, Transportation Commission Toll Revenue Senior Lien, Series A, 5.75%, 6/1/2048		
	1,000,000	1,131,890
San Buenaventura, CA, Community Memorial Health Systems, 7.5%, 12/1/2041		
	500,000	609,770
San Francisco City & County, CA, Airports Commission, International Airport Revenue, Series A, AMT, 5.0%, 5/1/2044		
	1,000,000	1,079,840
San Joaquin Hills, CA, Transportation Corridor Agency, Toll Road Revenue, Series A, 5.0%, 1/15/2050		
	445,000	473,694
		21,936,187
Colorado 2.3%		
Colorado, Public Energy Authority, Natural Gas Purchased Revenue, 6.25%, 11/15/2028, GTY: Merrill Lynch & Co., Inc.		
	635,000	790,118
Colorado, State Health Facilities Authority Revenue, Covenant Retirement Communities:		
Series A, 5.0%, 12/1/2033	440,000	459,721
Series A, 5.0%, 12/1/2035	250,000	264,420
Colorado, State Health Facilities Authority Revenue, School Health Systems, Series A, 5.5%, 1/1/2035		
	1,000,000	1,168,230
Denver, CO, City & County Airport Revenue, Series A, AMT, 5.25%, 11/15/2043		
	600,000	656,082
		3,338,571
Connecticut 1.8%		
Connecticut, Harbor Point Infrastructure Improvement District, Special Obligation Revenue, Harbor Point Project, Series A, 7.875%, 4/1/2039		
	2,000,000	2,394,580
Connecticut, Mashantucket Western Pequot Tribe Bond, 144A, 6.05%, 7/1/2031(PIK)		
	2,419,575	174,209
		2,568,789
District of Columbia 0.8%		
District of Columbia, Metropolitan Airport Authority Systems Revenue: Series A, AMT, 5.0%, 10/1/2038		
	200,000	218,800
Series A, AMT, 5.0%, 10/1/2043	850,000	919,743
		1,138,543
Florida 10.5%		
Collier County, FL, Industrial Development Authority, Continuing Care Community Revenue, Arlington of Naples Project, Series A, 8.125%, 5/15/2044		
	500,000	594,600

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Florida, Capital Region Community Development District, Capital Improvement Revenue, Series A, 7.0%, 5/1/2039	470,000	476,707
Florida, Middle Village Community Development District, Special Assessment, Series A, 6.0%, 5/1/2035	930,000	791,588
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	36,750
Series 2015-1, Step-Up Coupon, 0% to 11/1/2021, 6.61% to 5/1/2040	250,000	154,453
Series 2015-2, Step-Up Coupon, 0% to 11/1/2024, 6.61% to 5/1/2040	150,000	78,411
Series A-3, Step-up Coupon, 0% to 5/1/2019, 6.61% to 5/1/2040	110,000	65,922
Series A-4, Step-up Coupon, 0% to 5/1/2022, 6.61% to 5/1/2040	55,000	24,425
5.4%, 5/1/2037	1,565,000	1,566,095
Series 1, 6.55%, 5/1/2027*	10,000	10,186
Series 3, 6.55%, 5/1/2027*	130,000	1
Series A-1, 6.55%, 5/1/2027	170,000	170,707
Series 2015-3, 6.61%, 5/1/2040*	165,000	2
Florida, Village Community Development District No. 9, Special Assessment Revenue, 5.5%, 5/1/2042	155,000	178,421
Hillsborough County, FL, Industrial Development Authority Revenue, Health Facilities, University Community Hospital, Series A, Prerefunded, 5.625%, 8/15/2029	1,875,000	2,143,087
Martin County, FL, Health Facilities Authority, Martin Memorial Medical Center, 5.5%, 11/15/2042	335,000	367,250
Miami Beach, FL, Health Facilities Authority, Mount Sinai Medical Center, 5.0%, 11/15/2044	500,000	538,850
Miami-Dade County, FL, Aviation Revenue:		
Series A, AMT, 5.0%, 10/1/2031	30,000	33,157
Series A, 5.5%, 10/1/2041	3,000,000	3,396,150
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2035	1,080,000	1,197,504
Tampa-Hillsborough County, FL, Expressway Authority:		
Series A, 5.0%, 7/1/2031	1,500,000	1,677,045
Series A, 5.0%, 7/1/2037	1,590,000	1,758,508
		15,259,819
Georgia 7.1%		
Americus-Sumter County, GA, Hospital Authority, Magnolia Manor Obligated Group, Series A, 6.25%, 5/15/2033	1,000,000	1,101,930
Atlanta, GA, Airport Revenue, Series C, AMT, 5.0%, 1/1/2037	375,000	402,356
Atlanta, GA, Tax Allocation, Beltline Project, Series B, 7.375%, 1/1/2031	1,000,000	1,162,950
Atlanta, GA, Water & Wastewater Revenue, Series A, Prerefunded, 6.25%, 11/1/2034	2,000,000	2,418,120
DeKalb County, GA, Water & Sewer Revenue, Series A, 5.25%, 10/1/2036	1,000,000	1,143,610
Gainesville & Hall County, GA, Development Authority Retirement Community Revenue, ACTS Retirement Life Community, Series A-2, 6.625%, 11/15/2039	1,000,000	1,132,430
Gainesville & Hall County, GA, Hospital Authority, Northeast Georgia Health System, Inc. Project:		
Series A, 5.25%, 8/15/2049	100,000	112,638
Series A, 5.5%, 8/15/2054	180,000	204,959

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Georgia, Main Street Natural Gas, Inc., Gas Project Revenue, Series A, 5.5%, 9/15/2024, GTY: Merrill Lynch & Co., Inc.	1,220,000	1,440,869
Georgia, Medical Center Hospital Authority Revenue, Anticipation Certificates, Columbus Regional Healthcare System, 6.5%, 8/1/2038, INS: AGC	1,000,000	1,128,720 10,248,582
Guam 2.5%		
Guam, Government General Obligation, Series A, 7.0%, 11/15/2039	1,000,000	1,197,190
Guam, Government Waterworks Authority, Water & Wastewater System Revenue, Prerefunded, 6.0%, 7/1/2025	1,000,000	1,004,630
Guam, International Airport Authority Revenue, Series C, AMT, 6.375%, 10/1/2043	215,000	253,059
Guam, Power Authority Revenue, Series A, 5.5%, 10/1/2030	1,000,000	1,120,350 3,575,229
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	575,270
Idaho 0.2%		
Idaho, Health Facilities Authority Revenue, St. Luke's Regional Medical Center, 6.75%, 11/1/2037	305,000	350,500
Illinois 6.3%		
Chicago, IL, Airport Revenue, O'Hare International Airport Revenue, Series B, 6.0%, 1/1/2041	2,000,000	2,335,680
Illinois, Finance Authority Revenue, Friendship Village of Schaumburg, Series A, 5.625%, 2/15/2037	2,000,000	2,000,220
Illinois, Finance Authority Revenue, Park Place of Elmhurst, Series A, 8.0%, 5/15/2030	1,000,000	630,000
Illinois, Finance Authority Revenue, The Admiral at Lake Project, Series A, 8.0%, 5/15/2040	1,000,000	1,145,920
Illinois, Finance Authority Revenue, Three Crowns Park Plaza, Series A, 5.875%, 2/15/2038	1,000,000	1,006,980
Illinois, Metropolitan Pier & Exposition Authority Revenue, McCormick Place Project, Series A, 5.0%, 6/15/2042	300,000	311,349
Illinois, Railsplitter Tobacco Settlement Authority, 6.0%, 6/1/2028	365,000	431,346
Illinois, State Finance Authority Revenue, Trinity Health Corp., Series L, 5.0%, 12/1/2030	1,000,000	1,119,290
Illinois, State General Obligation, 5.5%, 7/1/2038	130,000	138,364 9,119,149
Indiana 4.1%		
Indiana, Finance Authority Hospital Revenue, Deaconess Hospital Obligation, Series A, 6.75%, 3/1/2039	525,000	604,685
Indiana, State Finance Authority Revenue, Community Foundation of Northwest Indiana, 5.0%, 3/1/2041	1,000,000	1,068,080
Indiana, State Finance Authority Revenue, Greencroft Obligation Group, Series A, 7.0%, 11/15/2043	460,000	535,946
Indiana, State Finance Authority Revenue, I-69 Development Partners LLC, AMT, 5.25%, 9/1/2034	225,000	248,029
Indiana, State Finance Authority Revenue, Stadium Project, Series A, 5.25%, 2/1/2037	1,330,000 780,000	1,511,824 952,138

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Valparaiso, IN, Exempt Facilities Revenue, Pratt Paper LLC Project,  
AMT, 7.0%, 1/1/2044, GTY: Pratt Industries (U.S.A.)  
Vigo County, IN, Hospital Authority Revenue, Union Hospital, Inc.,  
144A, 5.7%, 9/1/2037

1,000,000

1,041,670  
5,962,372