

Edgar Filing: Delaware Investments National Municipal Income Fund - Form N-CSR

Delaware Investments National Municipal Income Fund
Form N-CSR
June 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES**

Investment Company Act file number:	811-07410
Exact name of registrant as specified in charter:	Delaware Investments® National Municipal Income Fund
Address of principal executive offices:	2005 Market Street Philadelphia, PA 19103
Name and address of agent for service:	David F. Connor, Esq. 2005 Market Street Philadelphia, PA 19103
Registrant's telephone number, including area code:	(800) 523-1918
Date of fiscal year end:	March 31
Date of reporting period:	March 31, 2013

Item 1. Reports to Stockholders

Annual Report
Delaware
Investments[®]
Closed-End
Municipal Bond
Funds

March 31, 2013

The figures in the annual report for Delaware Investments Closed-End Municipal Bond Funds represent past results, which are not a guarantee of future results. A rise or fall in interest rates can have a significant impact on bond prices. Funds that invest in bonds can lose their value as interest rates rise.

Closed-end funds

Table of contents

> Portfolio management review	1
> Fund basics	2
> Security type/Sector/State allocations	3
> Statements of net assets	5
> Statements of assets and liabilities	17
> Statements of operations	18
> Statements of changes in net assets	19
> Financial highlights	20
> Notes to financial statements	23
> Report of independent registered public accounting firm	31
> Other Fund information	32
> Board of trustees/directors and officers addendum	34
> About the organization	37

Delaware Management Holdings, Inc. and its subsidiaries (collectively known by the marketing name of Delaware Investments) are wholly owned subsidiaries of Macquarie Group Limited, a global provider of banking, financial, advisory, investment and funds management services. For more information, including press releases, please visit delawareinvestments.com.

Unless otherwise noted, views expressed herein are current as of March 31, 2013, and subject to change. Information is as of the date indicated and subject to change.

Funds are not FDIC insured and are not guaranteed. It is possible to lose the principal amount invested. Mutual fund advisory services are provided by Delaware Management Company, a series of Delaware Management Business Trust, which is a registered investment advisor. Delaware Investments, a member of Macquarie Group, refers to Delaware Management Holdings, Inc. and its subsidiaries. Macquarie Group refers to Macquarie Group Limited and its subsidiaries and affiliates worldwide.

Investments in Delaware Investments® Closed-End Municipal Bond Funds are not and will not be deposits with or liabilities of Macquarie Bank Limited ABN 46 008 583 542 and its holding companies, including their subsidiaries or related companies (Macquarie Group), and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. No Macquarie Group company guarantees or will guarantee the performance of the Funds, the repayment of capital from the Funds, or any particular rate of return.

© 2013 Delaware Management Holdings, Inc.

All third-party marks cited are the property of their respective owners.

Portfolio management review

Delaware Investments® Closed-End Municipal Bond Funds

April 9, 2013

Municipal bond market conditions

During the Funds' fiscal year ended March 31, 2013, the U.S. tax-exempt bond market, as measured by the Barclays Municipal Bond Index, returned 5.25%. In this favorable environment, higher yielding, lower-rated municipal bonds fared the best overall, with below-investment-grade issues gaining 14.23%, compared to returns of 6.50% and 3.78% generated by the higher-rated BBB and AAA segments of the market, respectively. (Data: Barclays.)

On Jan. 1, 2013, an agreement was reached in Washington, D.C., known as the American Taxpayer Relief Act of 2012. The good news for the municipal market was that the deal did not include a 28% cap on the municipal tax exemption.

Fund positioning: maintaining a long-standing approach

Our portfolio management strategy remained consistent throughout the Funds' fiscal year. We continued investing by utilizing a bottom-up approach to portfolio construction, meaning that we evaluated investment opportunities individually based on thorough research; ultimately, we selected bonds that we believed offered a favorable balance between risk and potential reward.

We were also mindful of market shifts that could lead to new opportunities (or risks) for investors. Several such situations occurred during the fiscal year, as risks emerged that we believed justified making the portfolio slightly more defensive.

One of these shifts took place in the final months of the fiscal year. Especially in light of back-to-back years of strong performance in the municipal bond market, we thought it prudent to take a defensive position in an effort to seek to mitigate some of the risk to the Funds from a potential rise in long-term interest rates. This entailed modestly reducing the Funds' exposure to longer-maturity securities. In addition, given global macroeconomic challenges, we limited the Funds' allocations to certain lower-rated bonds that we believed were potentially at risk. We should note that this shift represented only subtle changes to the Funds' portfolios. Throughout the Funds' fiscal year, we maintained our usual focus on seeking to generate relative outperformance by emphasizing bonds within the lower tiers of the investment-grade credit ratings.

This is a segment of the market in which we believe our credit research capabilities have the potential to add value to the overall investment process.

Performance effects

Although we slightly reduced the Funds' exposure to lower rated credit and decreased positions in bonds with longer maturities, these credits were among the strongest-performing bonds within the Funds. Additionally, the typically maintained overweight positions in these securities during the fiscal year.

Within **Delaware Investments Colorado Municipal Income Fund, Inc.**, the strongest performing bonds tended to include issues within the healthcare sector (one example was issued by the Colorado Health Facilities Authority, with a coupon of 5% and a maturity date of 2040). The weaker performers, meanwhile, included an issue by the Puerto Rico Infrastructure Financing Authority, which felt much pressure among that commonwealth's pension-related challenges and uncertainty surrounding a newly elected governor.

Within **Delaware Investments Minnesota Municipal Income Fund, II Inc.**, notable performers included bonds issued by the Dakota and Washington Counties Housing and Redevelopment Authority. These bonds were issued with a 8.375% coupon, and are scheduled to mature in 2021. Other contributors included tobacco settlement bonds, with an S&P rating of A- and a maturity date of 2031. The positive effects generated by these bonds were offset somewhat by the underperformance of bonds such as those issued by the Laurentian Energy Authority, with a 5.0% coupon and a maturity of 2021. Puerto Rican bonds likewise posed a mild drag on the Fund's performance, including bonds issued by the Puerto Rico Electric Power Authority.

Delaware Investments National Municipal Income Fund experienced a positive contribution from so-called tobacco settlement bonds. Another notable contributor to the Fund's performance was a bond issued by the West Virginia Hospital Finance Authority, with a stated coupon of 9.125% and a maturity date of 2041. Bonds issued out of Puerto Rico, including an issue by the Puerto Rico Sales Tax Financing Corporation,

were the weakest performers across the Fund.

Fund basics

**Delaware Investments®
Colorado Municipal Income Fund, Inc.**

As of March 31, 2013

Fund objective

The Fund seeks to provide current income exempt from both regular federal income tax and Colorado state personal income tax, consistent with the preservation of capital.

Total Fund net assets

\$74 million

Number of holdings

78

Fund start date

July 29, 1993

CUSIP number

246101109

**Delaware Investments
Minnesota Municipal Income Fund II, Inc.**

As of March 31, 2013

Fund objective

The Fund seeks to provide current income exempt from both regular federal income tax and Minnesota state personal income tax, consistent with the preservation of capital.

Total Fund net assets

\$176 million

Number of holdings

139

Fund start date

Feb. 26, 1993

CUSIP number

24610V103

**Delaware Investments
National Municipal Income Fund**

As of March 31, 2013

Fund objective

The Fund seeks to provide current income exempt from regular federal income tax, consistent with the preservation of capital.

Total Fund net assets

\$68 million

Number of holdings

163

Fund start date

Feb. 26, 1993

CUSIP number

24610T108

2

Security type/Sector/State allocations

As of March 31, 2013 (Unaudited)

Sector designations may be different than the sector designations presented in other Fund materials.

Delaware Investments® Colorado Municipal Income Fund, Inc.

Security type/Sector	Percentage of Net Assets
Municipal Bonds*	138.04%
Corporate-Backed Revenue Bond	1.39%
Education Revenue Bonds	21.32%
Electric Revenue Bonds	6.41%
Healthcare Revenue Bonds	29.67%
Housing Revenue Bonds	2.38%
Lease Revenue Bonds	10.56%
Local General Obligation Bonds	13.81%
Pre-Refunded Bonds	7.54%
Special Tax Revenue Bonds	33.52%
State & Territory General Obligation Bonds	1.80%
Transportation Revenue Bonds	8.12%
Water & Sewer Revenue Bond	1.52%
Short-Term Investment	0.27%
Total Value of Securities	138.31%
Liquidation Value of Preferred Stock	(40.35%)
Receivables and Other Assets Net of Liabilities	2.04%
Total Net Assets	100.00%

* As of the date of this report, Delaware Investments Colorado Municipal Income Fund, Inc. held bonds issued by or on behalf of territories of the United States as follows:

Territory	(as a % of fixed income investments)
Guam	1.1%
Puerto Rico	12.4%

Delaware Investments Minnesota Municipal Income Fund II, Inc.

Security type/Sector	Percentage of Net Assets
Municipal Bonds	140.31%
Corporate-Backed Revenue Bonds	7.39%
Education Revenue Bonds	16.90%
Electric Revenue Bonds	6.43%
Healthcare Revenue Bonds	40.12%
Housing Revenue Bonds	6.31%
Lease Revenue Bonds	14.94%
Local General Obligation Bonds	8.45%
Pre-Refunded/Escrowed to Maturity Bonds	17.94%
Special Tax Revenue Bonds	7.69%
State & Territory General Obligation Bonds	9.16%
Transportation Revenue Bonds	3.37%
Water & Sewer Revenue Bonds	1.61%
Total Value of Securities	140.31%
Liquidation Value of Preferred Stock	(42.70%)
Receivables and Other Assets Net of Liabilities	2.39%
Total Net Assets	100.00%

As of the date of this report, Delaware Investments Minnesota Municipal Income Fund II, Inc. held bonds issued by or on behalf of territories of the United States as follows:

Territory	(as a % of fixed income investments)
Guam	0.1%
Puerto Rico	2.3%

Security type/Sector/State allocations

As of March 31, 2013 (Unaudited)

Sector designations may be different than the sector designations presented in other Fund materials.

Delaware Investments® National Municipal Income Fund

Security type/Sector	Percentage of Net Assets
Municipal Bonds	143.61%
Corporate-Backed Revenue Bonds	15.82%
Education Revenue Bonds	24.78%
Electric Revenue Bonds	4.75%
Healthcare Revenue Bonds	20.02%
Housing Revenue Bonds	2.44%
Lease Revenue Bonds	12.35%
Local General Obligation Bonds	3.33%
Special Tax Revenue Bonds	25.68%
State & Territory General Obligation Bonds	6.30%
Transportation Revenue Bonds	22.55%
Water & Sewer Revenue Bonds	5.59%
Total Value of Securities	143.61%
Liquidation Value of Preferred Stock	(44.20%)
Receivables and Other Assets Net of Liabilities	0.59%
Total Net Assets	100.00%

State/Territory	(as a % of fixed income investments)
Alaska	0.35%
Arizona	12.52%
California	11.70%
Colorado	1.21%
Florida	2.92%
Georgia	1.62%
Guam	2.06%
Hawaii	0.34%
Idaho	1.12%
Illinois	1.38%
Indiana	1.02%
Iowa	0.55%
Kansas	0.16%
Louisiana	2.40%
Maine	0.37%
Maryland	2.55%
Massachusetts	0.99%
Minnesota	1.28%
Missouri	2.21%
New Hampshire	0.36%
New Jersey	5.42%
New Mexico	0.56%
New York	18.02%
Ohio	1.85%
Oregon	4.01%
Pennsylvania	6.39%
Puerto Rico	6.48%
Texas	6.57%
Virginia	1.85%
Washington D.C.	0.28%
West Virginia	0.66%
Wisconsin	0.51%

Edgar Filing: Delaware Investments National Municipal Income Fund - Form N-CSR

Wyoming	0.29%
Total	100.00%

4

Statements of net assets

Delaware Investments® Colorado Municipal Income Fund, Inc.

March 31, 2013

	Principal Amount	Value
Municipal Bonds 138.04%		
Corporate-Backed Revenue Bond 1.39%		
Public Authority for Colorado Energy Natural Gas Revenue Series 2008 6.50% 11/15/38	\$ 750,000	\$ 1,030,680
		1,030,680
Education Revenue Bonds 21.32%		
Colorado Educational & Cultural Facilities Authority Revenue (Academy Charter School Project) 5.50% 5/1/36 (SGI)	1,720,000	1,784,552
(Bromley Charter School Project) 5.25% 9/15/32 (SGI)	3,245,000	3,331,187
(Johnson & Wales University Project) Series A 5.00% 4/1/28 (SGI)	3,000,000	3,002,850
(Littleton Charter School Project) 4.375% 1/15/36 (ASSURED GTY)	1,200,000	1,201,800
(Student Housing - Campus Village Apartments) 5.00% 6/1/23	1,065,000	1,187,400
Colorado State Board of Governors Revenue (University Enterprise System) Series A 5.00% 3/1/39	700,000	780,087
University of Colorado 5.00% 6/1/31	3,185,000	3,677,337
University of Colorado Enterprise Systems Revenue Series A 5.375% 6/1/38	750,000	883,208
		15,848,421
Electric Revenue Bonds 6.41%		
Colorado Springs Utilities System Improvement Revenue Series C 5.50% 11/15/48	750,000	866,955
Platte River Power Authority Revenue Series HH 5.00% 6/1/28	1,500,000	1,781,130
Puerto Rico Electric Power Authority Revenue Series A 5.00% 7/1/42	500,000	460,735
Series TT 5.00% 7/1/37	685,000	639,804
Series WW 5.50% 7/1/38	300,000	299,364
Series XX 5.25% 7/1/40	750,000	720,030
		4,768,018
Healthcare Revenue Bonds 29.67%		
Aurora Hospital Revenue (Children's Hospital Association Project) Series A 5.00% 12/1/40	2,000,000	2,185,480
Colorado Health Facilities Authority Revenue (Boulder Community Hospital Project) 5.00% 10/1/32	500,000	556,155
(Catholic Health Initiatives) Series A 5.00% 7/1/39	750,000	819,488
Series A 5.00% 2/1/41	2,400,000	2,623,391
Series A 5.25% 2/1/33	1,625,000	1,861,015
Series C-1 5.10% 10/1/41 (AGM)	1,000,000	1,079,830
Series D 6.125% 10/1/28 (Christian Living	750,000	900,075

Edgar Filing: Delaware Investments National Municipal Income Fund - Form N-CSR

Communities Project)		
6.375% 1/1/41	615,000	702,441
Series A 5.75% 1/1/37	885,000	943,260
(Covenant Retirement		
Communities) 5.00% 12/1/33	1,000,000	1,059,340
(Evangelical Lutheran Good		
Samaritan Society) 5.25% 6/1/23	1,000,000	1,072,410
(National Jewish Health Project)		
5.00% 1/1/27	500,000	534,510
(Sisters of Charity of Leavenworth		
Health System) 5.00% 1/1/40	4,750,000	5,141,067
(Total Long-Term Care)		
Series A 6.00% 11/15/30	400,000	452,560
Denver Health & Hospital Authority		
Revenue (Recovery Zone Facilities)		
5.625% 12/1/40	750,000	817,140
University of Colorado Hospital		
Authority Revenue Series A		