

MORGAN STANLEY INSURED CALIFORNIA MUNICIPAL SEC

Form N-Q

March 30, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

**Investment Company Act file number: 811-07111**

**Morgan Stanley Insured California Municipal Securities**

(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York 10036  
(Address of principal executive offices) (Zip code)

Randy Takian

522 Fifth Avenue, New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-6963

Date of fiscal year end: October 31, 2009

Date of reporting period: January 31, 2009

**Item 1. Schedule of Investments.**

The Trust's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

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**Morgan Stanley Insured California Municipal Securities  
Portfolio of Investments § January 31, 2009 (unaudited)**

| <b>PRINCIPAL<br/>AMOUNT<br/>IN<br/>THOUSANDS</b> |                                                                                                                                       | <b>COUPON<br/>RATE</b> | <b>MATURITY<br/>DATE</b> | <b>VALUE</b> |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------------------|--------------|
| <b>Tax-Exempt Municipal Bonds (98.2%)</b>        |                                                                                                                                       |                        |                          |              |
| <b>California (96.0%)</b>                        |                                                                                                                                       |                        |                          |              |
| \$ 235                                           | Alameda County Joint Powers Authority, Ser 2008 (FSA Insd)                                                                            | 5.00%                  | 12/01/24                 | \$ 242,125   |
| 185                                              | Alvord Unified School District, California, Ser 2007 A (FSA Insd)                                                                     | 5.00                   | 08/01/28                 | 185,139      |
| 2,000                                            | Anaheim Public Financing Authority, Distribution Electric Ser 2007-A (MBIA Insd)                                                      | 4.50                   | 10/01/37                 | 1,644,380    |
| 205                                              | Beverly Hills Unified School District Ser 2009 (WI)                                                                                   | 0.00                   | 08/01/26                 | 76,524       |
| 430                                              | Beverly Hills Unified School District Ser 2009 (WI)                                                                                   | 0.00                   | 08/01/32                 | 104,507      |
| 2,000                                            | California Department of Veterans Affairs, Home Purchase 2002 Ser A (AMBAC Insd)                                                      | 5.35                   | 12/01/27                 | 2,012,140    |
| 1,480                                            | California Department of Water Resources, Central Valley Ser Y (FGIC Insd)                                                            | 5.25                   | 12/01/19                 | 1,613,762    |
| 2,000                                            | California Infrastructure & Economic Development Bank, Bay Area Toll Bridges Seismic Retrofit First Lien Ser 2003 A (FGIC Insd) (ETM) | 5.00                   | 07/01/29                 | 2,305,520    |
| 1,000                                            | California State University, Ser 2005 A (AMBAC Insd)                                                                                  | 5.00                   | 11/01/35                 | 932,951      |
| 400                                              | California Veterans Ser BH (AMT) (FSA Insd)                                                                                           | 5.40                   | 12/01/16                 | 402,700      |
| 590                                              | Campbell, California Union High School                                                                                                | 5.00                   | 08/01/35                 | 569,840      |
| 1,000                                            | Capistrano Unified School District, Community Facilities District #98-2 Ladera Ser 2005 (FGIC Insd)                                   | 5.00                   | 09/01/29                 | 795,500      |
| 105                                              | Clovis Unified School District 2004 Ser A                                                                                             | 0.00                   | 08/01/29                 | 31,320       |
| 890                                              | Corona-Norco California Unified School District (WI)                                                                                  | 0.00                   | 08/01/28                 | 266,982      |
| 615                                              | El Segundo Unified School District 2008 Ser A (WI)                                                                                    | 0.00                   | 08/01/33                 | 128,898      |
| 3,025                                            | Fairfield, California 2007 Ser A                                                                                                      | 0.00                   | 04/01/30                 | 771,103      |
| 1,055                                            | Fontana Unified School District, Ser 2008 B (FSA Insd)                                                                                | 0.00                   | 02/01/33                 | 252,018      |
| 1,000                                            | Golden State Tobacco Securitization Corporation, Enhanced Asset Backed Ser 2005 A (FGIC Insd)                                         | 5.00                   | 06/01/38                 | 796,820      |
| 775                                              | Grossmont Union High School District, Election of 2004 Ser 2006 (MBIA Insd)                                                           | 0.00                   | 08/01/24                 | 344,643      |
| 775                                              | Grossmont-Cuyamaca Community College District, Election of 2002 Ser 2008C (AGC Insd)                                                  | 0.00                   | 08/01/30                 | 229,997      |

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|       |                                                                                                  |      |             |           |
|-------|--------------------------------------------------------------------------------------------------|------|-------------|-----------|
| 1,280 | Huntington Beach Union High School District Ser 2004 (FSA Insd)                                  | 5.00 | 08/01/26    | 1,290,406 |
| 1,110 | Kern County Board of Education Refg 2006 Ser A COPs (MBIA Insd)                                  | 5.00 | 06/01/31    | 979,275   |
| 245   | Kern County Water Agency, Improvement District No 4 Ser 2008A COPs (AGC Insd)                    | 5.00 | 05/01/28    | 238,194   |
| 1,100 | La Quinta Financing Authority, Local Agency 2004 Ser A (AMBAC Insd)                              | 5.25 | 09/01/24    | 1,064,701 |
| 1,030 | Los Angeles, Ser 2004 A (MBIA Insd)                                                              | 5.00 | 09/01/24    | 1,058,737 |
| 1,000 | Los Angeles County Metropolitan Transportation Authority Sales Tax Ser 2000 A (FGIC Insd)        | 4.50 | 07/01/29(a) | 908,550   |
| 1,000 | Los Angeles Department of Water & Power, 2001 Ser A (FSA Insd)                                   | 5.25 | 07/01/21    | 1,032,250 |
| 800   | Los Angeles Municipal Improvement Corporation, Police Headquarters Ser 2006 - A (FGIC Insd)      | 4.75 | 01/01/31    | 725,977   |
| 1,000 | Metropolitan Water District of Southern California, 2003 Ser B-2 (FGIC Insd)                     | 5.00 | 10/01/27    | 1,009,040 |
| 1,020 | Murrieta Valley Unified School District, Election of 2006 Ser 2008 (FSA Insd)                    | 0.00 | 09/01/31    | 246,493   |
| 820   | Murrieta Valley Unified School District, Election of 2006 Ser 2008 (FSA Insd)                    | 0.00 | 09/01/33    | 173,914   |
| 235   | Oakland Joint Powers Financing Authority, Oakland Administration Buildings Ser 2008 A (AGC Insd) | 5.00 | 08/01/26    | 232,568   |
| 1,000 | Oxnard Financing Authority, Wastewater 2004 Ser A (FGIC Insd)                                    | 5.00 | 06/01/29    | 954,480   |
| 250   | Placer County Water Agency Water Refg, Ser 2008 COPs (FSA Insd)                                  | 4.75 | 07/01/29    | 232,373   |
| 730   | Poway Unified School District,, San Diego, 2008 Ser A                                            | 0.00 | 08/01/31    | 190,077   |
| 790   | Poway Unified School District,, San Diego, 2008 Ser A                                            | 0.00 | 08/01/30    | 220,671   |
| 1,000 | Rancho Mirage Redevelopment Agency, Ser 2003 A (MBIA Insd)                                       | 5.00 | 04/01/33    | 866,320   |
| 360   | Redding Electric System, Ser 2008 A COPs (FSA Insd)                                              | 5.00 | 06/01/27    | 344,963   |
| 500   | Riverside Electric, Issue of 2008D (FSA Insd)                                                    | 5.00 | 10/01/28    | 498,105   |
| 1,235 | Rocklin Unified School District, Community Facilities District No 2 Ser 2007 (MBIA Insd)         | 0.00 | 09/01/34    | 230,290   |
| 1,255 | Rocklin Unified School District, Community Facilities District No 2 Ser 2007 (MBIA Insd)         | 0.00 | 09/01/35    | 217,579   |
| 1,230 | Rocklin Unified School District, Community Facilities District No 2 Ser 2007 (MBIA Insd)         | 0.00 | 09/01/36    | 199,272   |
| 1,025 | Rocklin Unified School District, Community Facilities District No 2 Ser 2007 (MBIA Insd)         | 0.00 | 09/01/37    | 155,113   |
| 675   | Roseville Joint Union High School District, Election Ser 2004 C (FSA Insd)                       | 0.00 | 08/01/25    | 280,888   |
| 1,000 | Sacramento County Utility Districts, 2008 Ser U                                                  | 5.00 | 08/15/24    | 1,018,060 |
| 1,000 | Sacramento County Sanitation Districts Financing Authority, Refg Ser 2006 (FGIC Insd)            | 5.00 | 12/01/28    | 988,770   |
| 180   |                                                                                                  | 5.75 | 12/01/22    | 186,446   |

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|       |                                                                                    |      |          |           |
|-------|------------------------------------------------------------------------------------|------|----------|-----------|
|       | Sacramento City Financing Authority, 1999 Solid Waste & Redevelopment (AMBAC Insd) |      |          |           |
| 1,000 | San Diego County Water Authority, California, Ser 2004 A COPs (FSA Insd)           | 5.00 | 05/01/29 | 991,120   |
| 1,000 | San Francisco City & County, City Buildings Ser 2007 A COPs (FGIC Insd)            | 4.50 | 09/01/37 | 834,110   |
| 1,360 | San Francisco City & County, Laguna Honda Hospital Ser 2005 I (FSA Insd)           | 5.00 | 06/15/30 | 1,344,088 |
| 2,000 | San Francisco Public Utilities Commission, Water Refg Ser A 2001 (FSA Insd)        | 5.00 | 11/01/31 | 1,941,639 |

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| PRINCIPAL<br>AMOUNT<br>IN<br>THOUSANDS |                                                                                                          | COUPON<br>RATE | MATURITY<br>DATE | VALUE      |
|----------------------------------------|----------------------------------------------------------------------------------------------------------|----------------|------------------|------------|
| 1,000                                  | San Jose, Airport Ser 2001 A (FGIC Insd)                                                                 | 5.00           | 03/01/25         | 1,002,510  |
| 1,000                                  | San Jose-Evergreen Community College District,<br>Election Ser 2004 B (FSA Insd)                         | 0.00           | 09/01/32         | 244,890    |
| 500                                    | San Ysidro California School District Ser E                                                              | 0.00           | 08/01/27         | 175,225    |
| 760                                    | San Ysidro California School District Ser E                                                              | 0.00           | 08/01/29         | 229,429    |
| 1,870                                  | School Facilities Financing Authority, Grant<br>Joint Union High School District Ser 2008A<br>(FSA Insd) | 0.00           | 08/01/33         | 400,311    |
| 480                                    | Simi Valley Unified School District Ser.2007 C                                                           | 0.00           | 08/01/28         | 152,486    |
| 380                                    | Simi Valley Unified School District Ser.2007 C                                                           | 0.00           | 08/01/30         | 104,823    |
| 1,000                                  | Simi Valley Public Financing Authority, Ser<br>2004 COPs (AMBAC Insd)                                    | 5.00           | 09/01/30         | 889,770    |
| 1,000                                  | Southern California Public Power Authority,<br>Transmission Refg Ser 2002 A (FSA Insd)                   | 5.25           | 07/01/18         | 1,072,580  |
| 250                                    | Tustin Unified School Facilities District No<br>2002-1-2002 Election Ser 2008 C (FSA Insd)               | 5.00           | 06/01/28         | 251,095    |
| 1,000                                  | University of California, Ser 2007- J (FSA Insd)                                                         | 4.50           | 05/15/31         | 880,541    |
| 1,000                                  | University of California, Ser 2007- J (FSA Insd)                                                         | 4.50           | 05/15/35         | 863,010    |
| 1,000                                  | University of California Regents Ser 2007 A<br>(MBIA Insd)                                               | 4.50           | 05/15/37         | 834,770    |
| 1,000                                  | Upland School District, Election 2000 Ser 2001<br>B (FSA Insd)                                           | 5.125          | 08/01/25         | 1,017,470  |
| 675                                    | Val Verde Unified School District of<br>Construction, Ser 2005 B COPs (FGIC Insd)                        | 5.00           | 01/01/30         | 540,398    |
| 1,375                                  | Washington Unified School District, 2004 Ser A<br>(FGIC Insd)                                            | 5.00           | 08/01/22         | 1,411,753  |
| 245                                    | West Basin Municipal Water District, Refg Ser<br>2008B COPs (AGC Insd)                                   | 5.00           | 08/01/27         | 241,222    |
| 570                                    | Yosemite Community College District, Election<br>of 2004, Ser 2008 C (FSA Insd)                          | 0.00           | 08/01/25         | 245,499    |
| 1,000                                  | Yucaipa Valley Water District, Ser 2004 A COPs<br>(MBIA Insd)                                            | 5.25           | 09/01/24         | 926,600    |
|                                        |                                                                                                          |                |                  | 45,845,720 |
|                                        | <b>Puerto Rico (2.2%)</b>                                                                                |                |                  |            |
| 1,000                                  | Puerto Rico Infrastructure Financing Authority,<br>2000 Ser A (ETM) (b)                                  | 5.50           | 10/01/32         | 1,037,080  |
|                                        | <b>Total Tax-Exempt Municipal Bonds</b><br>(Cost \$49,249,316)                                           |                |                  | 46,882,800 |

|                                                                                          |                                                                                        |         |          |               |
|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------|----------|---------------|
| <b>California Short-Term Tax-Exempt<br/>Municipal Obligations (1.9%)</b>                 |                                                                                        |         |          |               |
| 600                                                                                      | California Housing Finance Agency, Multifamily<br>Housing Ser 2000 D (Demand 02/02/09) | 1.40(c) | 08/01/40 | 600,000       |
| 300                                                                                      | California Economic Recovery, Ser 2004C-3<br>(Demand 02/02/09)                         | 0.60(c) | 07/01/23 | 300,000       |
| <b>Total California Short-Term Tax-Exempt<br/>Municipal Obligations (Cost \$900,000)</b> |                                                                                        |         |          | 900,000       |
| <b>Total Investments</b>                                                                 |                                                                                        |         |          |               |
| (Cost \$50,149,316) (d)(e)                                                               |                                                                                        |         | 100.1%   | 47,782,800    |
| <b>Liabilities in Excess of Other Assets</b>                                             |                                                                                        |         | (0.1)    | (35,538)      |
| <b>Net Assets Applicable to Common<br/>Shareholders</b>                                  |                                                                                        |         | 100.0%   | \$ 47,747,262 |

*Note: The categories of investments are shown as a percentage of net assets applicable to common shareholders.*

*AMT Alternative  
Minimum Tax.*

*COPs Certificates of  
Participation.*

*ETM Escrowed to  
Maturity.*

*WI Securities on a  
when-issued  
basis.*

*(a) Prefunded to  
call date shown.*

*(b) A portion of this  
security has  
been physically  
segregated in  
connection with  
open futures  
contracts in the  
amount of  
\$260,925.*

- (c) *Current coupon rate of variable rate demand obligation.*
- (d) *Securities have been designated as collateral in an amount equal to \$15,352,939 in connection with open futures contracts securities purchased on a when-issued basis.*
- (e) *The aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes.*

**Bond Insurance:**

*AGC Assured Guaranty Corporation.*

*AMBAC AMBAC Assurance Corporation.*

*FGIC Financial Guaranty Insurance Company.*

*FSA Financial Security Assurance Inc.*

*MBIA Municipal Bond Investors Assurance Corporation.*

**FUTURES CONTRACTS OPEN AT January 31, 2009:**

| <b>NUMBER OF<br/>CONTRACTS</b> | <b>LONG/SHORT</b> | <b>DESCRIPTION, DELIVERY<br/>MONTH AND YEAR</b> | <b>UNDERLYING<br/>FACE<br/>AMOUNT AT<br/>VALUE</b> | <b>UNREALIZED<br/>APPRECIATION<br/>(DEPRECIATION)</b> |
|--------------------------------|-------------------|-------------------------------------------------|----------------------------------------------------|-------------------------------------------------------|
| 84                             | Long              | U.S. Treasury Notes 10 Year,<br>March 2008      | \$10,303,125                                       | (\$135,366)                                           |
| 89                             | Long              | Swap Futures 5 Year<br>March 2008               | 10,330,954                                         | 37,889                                                |
| 10                             | Long              | Swap Futures 10 Year<br>March 2008              | 1,247,969                                          | (12,599)                                              |
| 11                             | Short             | U.S. Treasury Notes 2 Year,<br>March 2008       | (2,393,875)                                        | 3,933                                                 |
| 39                             | Short             | U.S. Treasury Notes 20 Year,<br>March 2008      | (4,941,422)                                        | 228,037                                               |
| Net Unrealized Appreciation    |                   |                                                 |                                                    | 121,894                                               |

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**MS Insured California Municipal Securities****Notes to the Portfolio of Investments****FAS 157****1/31/2009**

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), effective November 1, 2008. In accordance with SFAS 157, fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. SFAS 157 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 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 and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

The following is a summary of the inputs used as of January 31, 2009 in valuing the Fund's investments carried at value:

|                              |               | Fair Value Measurements at January 31, 2009                                     |                                                           |                                                    |
|------------------------------|---------------|---------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                              |               | Using                                                                           |                                                           |                                                    |
|                              |               | Quoted<br>Prices In<br>Active<br>Market for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                              | Total         |                                                                                 |                                                           |                                                    |
| Investments in Securities    | \$ 47,782,800 |                                                                                 | \$ 47,782,800                                             |                                                    |
| Other Financial Instruments* | 121,894       | 121,894                                                                         |                                                           |                                                    |
| Total                        | \$ 47,904,694 | \$ 121,894                                                                      | \$ 47,782,800                                             |                                                    |

\* Other financial instruments include futures contracts.

Valuation of Investments (1) portfolio securities are valued by an outside independent pricing service approved by the Trustees. The pricing service uses both a computerized grid matrix of tax-exempt securities and and evaluations by its

staff, in each case based on information concerning market transactions and quotations from dealers which reflect the mean between the last reported bid and asked price. The portfolio securities are thus valued by reference to a combination of transactions and quotations for the same or other securities believed to be comparable in quality, coupon, maturity, type of issue, call provisions, trading characteristics and other features deemed to be relevant. The Trustees believe that timely and reliable market quotations are generally not readily available for purposes of valuing tax-exempt securities and that the valuations supplied by the pricing service are more likely to approximate the fair value of such securities; (2) futures are valued at the latest sale price on the commodities exchange on which they trade unless it is determined that such price does

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not reflect their market value, in which case they will be valued at their fair value as determined in good faith under procedures established by and under the supervision of the Trustees; (3) interest rate swaps are marked- to-market daily based upon quotations from market makers; (4) investments in open-end mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day; and (5) short-term debt securities having a maturity date of more than sixty days at time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost.

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**Item 2. Controls and Procedures.**

(a) The Trust's principal executive officer and principal financial officer have concluded that the Trust's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the Trust's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting.

**Item 3. Exhibits.**

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Insured California Municipal Securities

/s/ Randy Takian

Randy Takian

Principal Executive Officer

March 19, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Randy Takian

Randy Takian

Principal Executive Officer

March 19, 2009

/s/ Francis Smith

Francis Smith

Principal Financial Officer

March 19, 2009