

MFS GOVERNMENT MARKETS INCOME TRUST  
Form N-CSR  
January 31, 2011  
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**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 811-05078

**MFS GOVERNMENT MARKETS INCOME TRUST**

(Exact name of registrant as specified in charter)

**500 Boylston Street, Boston, Massachusetts 02116**

(Address of principal executive offices) (Zip code)

**Susan S. Newton**

**Massachusetts Financial Services Company**

**500 Boylston Street**

**Boston, Massachusetts 02116**

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: November 30, 2010

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**ITEM 1. REPORTS TO STOCKHOLDERS.**

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Annual report

# MFS® Government Markets Income Trust

11/30/10

MGF-ANN

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Managed Distribution Policy Disclosure

The MFS Government Markets Income Trust's (the fund) Board of Trustees has adopted a managed distribution policy. The fund seeks to pay monthly distributions based on an annual rate of 7.25% of the fund's average monthly net asset value. The fund's total return in relation to changes in net asset value is presented in the Financial Highlights. You should not draw any conclusions about the fund's investment performance from the amount of the current distribution or from the terms of the fund's managed distribution policy. The Board may amend or terminate the managed distribution policy at any time without prior notice to fund shareholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination of the managed distribution policy.

With each distribution, the fund will issue a notice to shareholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other related information. In accordance with the amounts and sources of distributions reported in the notice to shareholders - the sources of distributions are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the fund's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.

Under a managed distribution policy the fund may at times distribute more than its net investment income and net realized capital gains; therefore, a portion of your distribution may result in a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the fund is paid back to you. A return of capital does not necessarily reflect the fund's investment performance and should not be confused with yield or income.

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# MFS® Government Markets Income Trust

New York Stock Exchange Symbol: **MGF**

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**NOT FDIC INSURED    MAY LOSE VALUE    NO BANK GUARANTEE**

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## LETTER FROM THE CEO

Dear Shareholders:

After an extended rebound in the financial markets, uncertainty returned in early 2010 as investors began to question the durability of the recovery for global economies and markets. That uncertainty led to increased risk aversion, especially as investors saw the eurozone struggle with the debt woes of many of its members. In September, the U.S. Federal Reserve Board's promises to further loosen monetary policy helped assuage market fears and drive asset prices off their recent lows. A combination of solid earnings and improving economic data gave an additional boost to investor sentiment. As we begin 2011, we are cautiously optimistic that economic growth will continue to improve and that the global economies will recover from the shocks of the past few years. We expect the pace of recovery worldwide will be uneven and volatile.

As always, we continue to be mindful of the many challenges faced at the individual, national, and international levels. It is in times such as these that we want to remind investors of the merits of maintaining a long-term view, adhering to basic investing principles such as asset allocation and diversification, and working closely with their advisors to research and identify investment opportunities.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

January 14, 2011

The opinions expressed in this letter are subject to change, may not be relied upon for investment advice, and no forecasts can be guaranteed.

**Table of Contents****PORTFOLIO COMPOSITION****Portfolio structure at market value****Fixed income sectors reflecting equivalent exposure of derivative positions (i)**

Mortgage-Backed Securities	44.1%
U.S. Government Agencies	18.3%
High Grade Corporates	9.0%
Emerging Markets Bonds	5.3%
U.S. Treasury Securities	4.9%
Commercial Mortgage-Backed Securities	4.4%
Municipal Bonds	1.1%

**Portfolio structure reflecting equivalent exposure of derivative positions (i)(j)****Composition including fixed income credit quality (a)(i)**

AAA	32.6%
AA	4.4%
A	2.2%
BBB	11.0%
BB	0.2%
B (o)	0.0%
U.S. Agency (NR)	47.8%
Other Fixed Income (NR)	(11.1)%
Cash & Other	12.9%

**Portfolio facts (i)**

Average Duration (d)	3.7
Average Effective Maturity (m)	6.7 yrs.

(a) The rating categories include debt securities and fixed-income structured products where these have long-term public ratings. All ratings are assigned in accordance with the following hierarchy: If a security is rated by Moody's, then that rating is used; if not rated by Moody's, then a Standard & Poor's rating is used; if not rated by S&P, then a Fitch rating is used. Ratings from Moody's are shown in the S&P and Fitch scale (e.g., AAA). All ratings are subject to change. Other Fixed Income (NR) includes unrated long-term fixed income securities, interest rate swaps and fixed income futures. Cash & Other includes cash, other assets less liabilities, offsets to derivative positions, and short-term securities. The fund may not hold all of these instruments.

(d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.

(i) For purposes of this presentation, the components include the market value of securities, and reflect the impact of the equivalent exposure of derivative positions, if applicable. These amounts may be negative from time to time. The bond component will include any accrued interest amounts. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount





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*Portfolio Composition continued*

of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than market value. Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

(j) For the purpose of managing the fund's duration, the fund holds short treasury futures with a bond equivalent exposure of (11.1)%, which reduce the fund's interest exposure but not its credit exposure.

(m) In determining an instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity.

(o) Less than 0.1%.

Percentages are based on net assets as of 11/30/10, unless otherwise noted.

The portfolio is actively managed and current holdings may be different.

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## MANAGEMENT REVIEW

### Summary of Results

The MFS Government Markets Income Trust (the fund) is a closed-end fund and maintains a portfolio that includes investments in U.S. government securities, mortgage-backed securities, international and emerging markets debt securities, and U.S. investment-grade corporate bonds.

For the twelve months ended November 30, 2010, the fund provided a total return of 5.98%, at net asset value. This compares with a return of 4.68% for the fund's benchmark, the Barclays Capital U.S. Government/Mortgage Bond Index. Over the same period, the fund's other benchmark, the Government Markets Income Trust Blended Index (the Blended Index), generated a return of 5.43%. The Blended Index reflects the blended returns of various fixed income market indices, with percentage allocations to each index designed to resemble the fixed income allocations of the fund. The market indices and related percentage allocations used to compile the Blended Index are set forth in the Performance Summary.

### Market Environment

The first half of the reporting period witnessed a continuation of the financial market and macroeconomic rebounds that had begun in early 2009. These recoveries in global activity and asset valuations were generally synchronized around the world, led importantly by emerging Asian economies, but broadening to include most of the global economy to varying degrees. Primary drivers of the recoveries included an unwinding of the inventory destocking that took place earlier, the production of manufacturing and capital goods, as well as massive fiscal and monetary stimulus.

During the second half of the period, heightened risk surrounding the public-debt profiles of several of the peripheral European countries impaired market sentiment. At the same time, the improving trend in global macroeconomic data began to weaken somewhat. These two dynamics caused many asset prices to retrench significantly, as many questioned the durability of the global recovery.

Towards the end of the period, the U.S. Federal Reserve led markets to believe that further monetary loosening would be forthcoming if macroeconomic activity did not show signs of improvement. The prospects for more easing by the Fed improved market sentiment and drove risk-asset prices markedly higher. However, in a text-book case of buy the rumor, sell the fact, the weeks following the early November announcement of further quantitative easing saw a sell-off in U.S. Treasury bonds. This rise in Treasury yields occurred despite risk-off behavior in equities and credit markets (which would normally

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*Management Review continued*

result in Treasury yield compression), and appears to have been the result of a few factors: signs of improved U.S. economic activity; opposition to quantitative easing from some quarters; and crowded long positions in U.S. Treasuries.

### **Contributors to Performance**

During the reporting period, the fund's return from yield, which was greater than that of the Blended Index, was a key contributor to performance. The fund's yield was enhanced by its positions in lower-quality corporate bonds.

The fund's greater exposure to shifts at the long end of the yield curve (y) (centered around maturities of 30 years), was another positive factor impacting the fund's performance as the yield curve flattened.

A greater relative exposure to Federal National Mortgage Association (Fannie Mae) mortgage-backed securities also boosted relative performance as these bonds exhibited strong returns for the reporting period. The fund's greater exposure to bonds in the *industrial* sector and to U.S. agency debt also helped relative results.

### **Detractors from Performance**

The fund's greater exposure to shifts in the middle portion of the yield curve (centered around maturities of 7 years) detracted from relative performance.

A lesser exposure to Government National Mortgage Association (Ginnie Mae) mortgage-backed securities, which turned in strong performance over the reporting period, also held back relative results.

Respectfully,

Geoffrey Schechter  
Portfolio Manager

(y) A yield curve graphically depicts the yields of different maturity bonds of the same credit quality and type; a normal yield curve is upward sloping, with short-term rates lower than long-term rates.

The views expressed in this report are those of the portfolio manager only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

**Table of Contents****PERFORMANCE SUMMARY** THROUGH 11/30/10

The following chart represents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

**Price Summary for MFS Government Markets Income Trust**

Year Ended 11/30/10

	Date	Price
Net Asset Value	11/30/10	\$7.17
	11/30/09	\$7.27
New York Stock Exchange Price	11/30/10	\$7.15
	3/16/10 (high) (t)	\$7.85
	11/17/10 (low) (t)	\$7.14
	11/30/09	\$7.28

**Total Returns vs Benchmark**

Year Ended 11/30/10

MFS Government Markets Income Trust at	
New York Stock Exchange Price (r)	5.54%
Net Asset Value (r)	5.98%
Barclays Capital U.S. Government/Mortgage Bond Index (f)	4.68%
Government Markets Income Trust Blended Index (f)(x)	5.43%

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period December 1, 2009 through November 30, 2010.

(x) Government Markets Income Trust Blended Index is at a point in time and allocations during the period can change. As of November 30, 2010 the blended index was comprised of 80% Barclays Capital U.S. Government/Mortgage Bond Index and 20% Barclays Capital U.S. Credit Bond Index.

**Benchmark Definitions**

Barclays Capital U.S. Credit Bond Index a market capitalization-weighted index that measures the performance of publicly issued, SEC-registered, U.S.



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*Performance Summary continued*

corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. This index generated a total return of 8.48% for the year ended November 30, 2010.

Barclays Capital U.S. Government/Mortgage Bond Index measures debt issued by the U.S. Government, and its agencies, as well as mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

It is not possible to invest directly in an index.

**Notes to Performance Summary**

The fund's shares may trade at a discount or premium to net asset value. Shareholders do not have the right to cause the fund to repurchase their shares at net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different.

The fund's monthly distributions may include a return of capital to shareholders to the extent that the fund's net investment income and net capital gains are insufficient to meet the fund's target annual distribution rate. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. It may also result in a recharacterization of what economically represents a return of capital to ordinary income in those situations where a fund has long term capital gains and a capital loss carryforward. Returns of shareholder capital have the effect of reducing the fund's assets and increasing the fund's expense ratio.

The fund's target annual distribution rate is calculated based on an annual rate of 7.25% of the fund's average monthly net asset value, not a fixed share price, and the fund's dividend amount will fluctuate with changes in the fund's average monthly net assets.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

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# INVESTMENT OBJECTIVE, PRINCIPAL INVESTMENT STRATEGIES AND RISKS OF THE FUND

## **Investment Objective**

The fund's investment objective is to seek high current income, but may also consider capital appreciation. The fund's objective may be changed without shareholder approval.

## **Principal Investment Strategies**

MFS (Massachusetts Financial Services Company, the fund's investment adviser) normally invests at least 80% of the fund's net assets, including assets attributable to borrowings for investment purposes, in U.S. and foreign government securities.

MFS may invest the fund's assets in other types of debt instruments.

MFS generally invests substantially all of the fund's assets in investment grade debt instruments.

MFS may invest the fund's assets in U.S. and foreign securities, including emerging market securities.

MFS may invest a relatively large percentage of the fund's assets in instruments of issuers in a single country, a small number of countries, or a particular geographic region.

MFS may invest a relatively large percentage of the fund's assets in the instruments of a single issuer or a small number of issuers.

The fund seeks to make a monthly distribution at an annual fixed rate of 7.25% of the fund's average monthly net asset value.

MFS may use derivatives for any investment purpose, including to earn income and enhance returns, to increase or decrease exposure to a particular market, to manage or adjust the risk profile of the fund, or as alternatives to direct investments.

MFS uses a bottom-up investment approach to buying and selling investments for the fund. Investments are selected primarily based on fundamental analysis of individual instruments and their issuers in light of issuers' current financial condition and current market, economic, political, and regulatory conditions. Factors considered may include the instrument's credit quality, collateral characteristics, and indenture provisions, and the issuer's management ability, capital structure, leverage, and ability to meet its current obligations. Quantitative models that systematically evaluate the structure of the debt instrument and its features may also be considered.

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*Investment Objective, Principal Investment Strategies and Risks of the Fund continued*

If approved by the fund's Board of Trustees, the fund may use leverage through the issuance of preferred shares, borrowing from banks, and/or other methods of creating leverage, and investing the proceeds pursuant to its investment strategies.

MFS may engage in active and frequent trading in pursuing the fund's principal investment strategies.

In response to market, economic, political, or other conditions, MFS may depart from the fund's principal investment strategies by temporarily investing for defensive purposes.

**Principal Risks**

The fund may not achieve its objective and/or you could lose money on your investment in the fund. Investments in debt instruments may decline in value as the result of increases in interest rates, declines in the credit quality of the issuer, borrower, counterparty or underlying collateral, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile. Investments in derivatives can be used to take both long and short positions, be highly volatile, result in leverage (which can magnify losses), and involve risks in addition to the risks of the underlying indicator(s) on which the derivative is based, such as counterparty and liquidity risk. Mortgage-backed securities can be subject to prepayment and/or extension and therefore can offer less potential for gains and greater potential for loss. The market price of common shares of the fund will be based on factors such as the supply and demand for common shares in the market and general market, economic, political or regulatory conditions. Whether shareholders will realize gains or losses upon the sale of common shares of the fund will depend on the market price of common shares at the time of the sale, not on the fund's net asset value. The market price may be lower or higher than the fund's net asset value. Shares of closed-end funds frequently trade at a discount to their net asset value. Leverage involves investment exposure in an amount exceeding the initial investment. Leverage can cause increased volatility by magnifying gains or losses. Please see the fund's registration statement for further information regarding these and other risk considerations. A copy of the fund's registration statement on Form N-2 is available on the EDGAR database on the Securities and Exchange Commission's Internet Web site at <http://sec.gov>.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.



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## PORTFOLIO MANAGER PROFILE

Geoffrey Schechter

Investment Officer of MFS; employed in the investment area of MFS since 1993. Manager of the fund since April 2006.

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## DIVIDEND REINVESTMENT AND

## CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount \$100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

You may withdraw from the Plan at any time by going to the Plan Agent's website at [www.computershare.com](http://www.computershare.com), by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent's website at [www.computershare.com](http://www.computershare.com), or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

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11/30/10

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

<b>Bonds - 97.4%</b>		
<b>Issuer</b>	<b>Shares/Par</b>	<b>Value (\$)</b>
<b>U.S. Bonds - 90.9%</b>		
<b>Agency - Other - 13.6%</b>		
Financing Corp., 10.7%, 2017	\$ 4,095,000	\$ 6,190,932
Financing Corp., 9.4%, 2018	3,085,000	4,454,280
Financing Corp., 9.8%, 2018	4,350,000	6,424,598
Financing Corp., 10.35%, 2018	6,820,000	10,367,259
Financing Corp., STRIPS, 0%, 2017	5,000,000	4,169,970
		\$ 31,607,039
<b>Asset-Backed &amp; Securitized - 4.4%</b>		
Citigroup Commercial Mortgage Trust, FRN, 5.884%, 2049	\$ 1,000,000	\$ 1,060,855
Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 2049	1,200,000	1,234,426
Commercial Mortgage Pass-Through Certificates, A4, 5.306%, 2046	1,366,646	1,411,111
Credit Suisse Mortgage Capital Certificate, 5.311%, 2039	500,000	521,923
CWCcapital LLC, 5.223%, 2048	1,000,000	1,030,317
JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 2049	1,000,000	1,043,028
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.001%, 2049	1,000,000	1,051,912
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.186%, 2051	754,902	793,416
Merrill Lynch Mortgage Trust, FRN, B, 6.019%, 2050	750,000	242,828
Prudential Securities Secured Financing Corp., FRN, 7.316%, 2013 (z)	1,819,000	1,833,131
		\$ 10,222,947
<b>Cable TV - 0.5%</b>		
Time Warner Cable, Inc., 8.25%, 2019	\$ 1,000,000	\$ 1,272,745
<b>Chemicals - 0.3%</b>		
Dow Chemical Co., 8.55%, 2019	\$ 500,000	\$ 631,357
Dow Chemical Co., 9.4%, 2039	70,000	98,542
		\$ 729,899
<b>Computer Software - Systems - 0.3%</b>		
International Business Machines Corp., 8%, 2038	\$ 500,000	\$ 700,057
<b>Energy - Integrated - 0.0%</b>		
Hess Corp., 8.125%, 2019	\$ 30,000	\$ 38,967

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*Portfolio of Investments continued*

<b>Issuer</b>	<b>Shares/Par</b>	<b>Value (\$)</b>
<b>Bonds - continued</b>		
U.S. Bonds - continued		
Food & Beverages - 1.0%		
Anheuser-Busch InBev S.A., 7.75%, 2019 (n)	\$ 750,000	\$ 963,680
Dr. Pepper Snapple Group, Inc., 6.82%, 2018	231,000	278,899
Kraft Foods, Inc., 6.125%, 2018	960,000	1,130,586