

Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-Q

BlackRock Enhanced Government Fund, Inc.
Form N-Q
November 28, 2011
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 811-21793

Name of Fund: BlackRock Enhanced Government Fund, Inc. (EGF)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock Enhanced Government Fund, Inc., 55 East 52nd Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 12/31/2011

Date of reporting period: 09/30/2011

Item 1 – Schedule of Investments

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Schedule of Investments September 30, 2011 (Unaudited)

BlackRock Enhanced Government Fund, Inc (EGF)
(Percentages shown are based on Net Assets)

| | Par (000) | Value |
|--|--------------|------------------|
| Asset-Backed Securities (a) | | |
| First Franklin Mortgage Loan Asset-Backed Certificates, Series 2005-FF2, Class M2, 0.67%, 3/25/35 | \$ 3,220 | \$ 2,715,690 |
| GSAA Home Equity Trust, Series 2005-1, Class AF2, 4.32%, 11/25/34 | 83 | 82,564 |
| Securitized Asset-Backed Receivables LLC Trust: | | |
| Series 2005-OP1, Class M2, 0.68%, 1/25/35 | 2,000 | 1,380,132 |
| Series 2005-OP2, Class M1, 0.66%, 10/25/35 | 1,025 | 601,909 |
| Soundview Home Equity Loan Trust, Series 2007-OPT5, Class 2A2, 1.18%, 10/25/37 | 2,500 | 1,296,560 |
| Total Asset-Backed Securities 3.2% | | 6,076,855 |

**Non-Agency Mortgage-Backed
Securities**

**Collateralized Mortgage
Obligations 2.3%**

| | | |
|--|-------|-----------|
| Bank of America Mortgage Securities, Inc., Series 2003-J, Class 2A1, 3.22%, 11/25/33 (a) | 284 | 265,537 |
| Bear Stearns Alt-A Trust, Series 2004-13, Class A1, 0.97%, 11/25/34 (a) | 389 | 337,920 |
| Countrywide Alternative Loan Trust, Series 2006-41CB, Class 2A17, 6.00%, 1/25/37 | 878 | 589,546 |
| Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.50%, 10/25/35 (a) | 1,579 | 1,023,383 |
| Thornburg Mortgage Securities Trust (a): | | |
| Series 2006-6, Class A1, 0.34%, 11/25/46 | 1,321 | 1,314,064 |
| Series 2007-2, Class A2A, 0.36%, 6/25/37 | 868 | 839,521 |
| WaMu Mortgage Pass-Through Certificates, Series 2005-AR7, Class A1, 2.58%, 8/25/35 (a) | 67 | 66,270 |
| | | 4,436,241 |

**Non-Agency Mortgage-Backed
Securities**

**Commercial Mortgage-Backed
Securities 4.3%**

| | Par (000) | Value |
|--|--------------|--------------|
| Commercial Mortgage Pass- Through Certificates, Series 2007-C9, Class A2, 5.81%, 12/10/49 (a) | \$ 3,164 | \$ 3,187,099 |

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| | | |
|---|-------|------------|
| Credit Suisse Mortgage Capital Certificates, Series 2007-C5, Class A2, 5.59%, 9/15/40 | 3,340 | 3,393,596 |
| LB-UBS Commercial Mortgage Trust, Series 2007-C1, Class A2, 5.32%, 2/15/40 | 1,575 | 1,581,331 |
| Interest Only Collateralized Mortgage Obligations 0.1% | | 8,162,026 |
| CitiMortgage Alternative Loan Trust, Series 2007-A5, Class 1A7, 6.00%, 5/25/37 (a) | 489 | 94,537 |
| Total Non-Agency Mortgage-Backed Securities 6.7% | | 12,692,804 |
| Preferred Securities | | |
| Capital Trusts | | |
| Diversified Financial Services 1.1% | | |
| JPMorgan Chase Capital XXII, 6.45%, 1/15/87 | 2,000 | 1,992,372 |
| Electric Utilities 1.0% | | |
| PPL Capital Funding, 6.70%, 3/30/67 (a) | 2,000 | 1,910,000 |
| Insurance 0.2% | | |
| ZFS Finance (USA) Trust V, 6.50%, 5/09/67 (a)(b) | 504 | 435,960 |
| Total Capital Trusts 2.3% | | 4,338,332 |

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

| | |
|-------|-------------------------------|
| GO | General Obligation Bonds |
| LIBOR | London Interbank Offered Rate |
| TBA | To Be Announced |

Schedule of Investments (continued)

BlackRock Enhanced Government Fund, Inc (EGF)
(Percentages shown are based on Net Assets)

| | Shares | | Value |
|--|--------|----|-----------|
| Trust Preferreds | | | |
| Capital Markets 0.9% | | | |
| Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67 | 80,000 | \$ | 1,744,000 |
| Media 1.1% | | | |
| Comcast Corp., 6.63%, 5/15/56 | 80,000 | | 2,096,000 |
| Total Trust Preferreds 2.0% | | | 3,840,000 |
| Total Preferred Securities 4.3% | | | 8,178,332 |

| | Par (000) | | Value |
|---|--------------|--|-----------|
| Taxable Municipal Bonds | | | |
| State of California, GO, Various Purpose 3, Mandatory Put Bonds, 5.65%, 4/01/39 (a) | \$ 1,220 | | 1,295,518 |
| Total Taxable Municipal Bonds 0.7% | | | 1,295,518 |

US Government Sponsored**Agency Securities****Agency Obligations 14.4%**

Fannie Mae:

| | | | |
|---|--------|--|------------|
| 5.25%, 8/01/12 (c) | 2,460 | | 2,561,554 |
| 4.00%, 2/01/41 | 19,729 | | 20,705,022 |
| Federal Farm Credit Bank, 4.55%, 6/08/20 (d) | 3,500 | | 4,077,419 |
| | | | 27,343,995 |

Collateralized Mortgage**Obligations 11.9%**

Ginnie Mae Mortgage-Backed

Securities, Class C (a):

| | | | |
|-----------------------------------|--------|--|------------|
| Series 2005-87, 5.21%, 9/16/34 | 10,000 | | 10,789,900 |
| Series 2006-3, 5.24%, 4/16/39 | 10,000 | | 11,714,810 |
| | | | 22,504,710 |

**Interest Only Collateralized
Mortgage Obligations 0.5%**

Fannie Mae Mortgage-Backed

Securities, Series 2010-126,

Class UI, 5.50%, 10/25/40

| | | | |
|---|-------|--|---------|
| | 4,173 | | 671,244 |
| Ginnie Mae Mortgage-Backed Securities, Series 2006-30, Class IO, 0.66%, 5/16/46 (a) | 6,293 | | 204,813 |
| | | | 876,057 |

US Government Sponsored**Agency Securities****Mortgage-Backed Securities 74.8%**Fannie Mae Mortgage-Backed
Securities:

| | Par (000) | | Value |
|--------------------------|--------------|----|------------|
| 3.50%, 8/01/26 - 9/01/26 | \$ 14,930 | \$ | 15,612,422 |
| 4.00%, 4/01/24 - 2/01/41 | 16,516 | | 17,456,143 |
| 4.50%, 10/01/41(d)(e) | 42,951 | | 45,775,878 |

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| | | |
|---|--------|-------------|
| 4.96%, 2/01/13 | 5,018 | 5,145,141 |
| 5.00%, 11/01/33 - 2/01/40 (c) | 18,367 | 19,879,218 |
| 5.24%, 4/01/12 (c) | 7,939 | 7,935,924 |
| 5.50%, 7/01/17 10/25/40 (c) | 20,095 | 21,949,760 |
| 6.00%, 2/01/36 10/01/36 | 5,081 | 5,590,940 |
| 6.20%, 2/01/12 | 1,459 | 1,458,156 |
| Freddie Mac Mortgage-Backed Securities, 4.50%, 5/01/34 | 780 | 830,351 |
| Ginnie Mae Mortgage-Backed Securities, 5.00%, 11/15/35 | 27 | 29,650 |
| | | 141,663,583 |
| Total US Government Sponsored Agency Securities 101.6% | | 192,388,345 |

US Treasury Obligations

| | | |
|--|--------|-------------|
| US Treasury Bonds (d): | | |
| 6.63%, 2/15/27 | 4,000 | 6,112,500 |
| 3.88%, 8/15/40 | 12,000 | 14,257,500 |
| 4.38%, 5/15/41 | 10,000 | 12,918,800 |
| 3.75%, 8/15/41 | 12,000 | 13,970,640 |
| US Treasury Notes (d): | | |
| 0.13%, 8/31/13 | 375 | 374,077 |
| 1.00%, 8/31/16 | 1,175 | 1,177,938 |
| 3.13%, 5/15/21 | 15,000 | 16,648,800 |
| 2.13%, 8/15/21 | 2,000 | 2,035,320 |
| Total US Treasury Obligations 35.7% | | 67,495,575 |
| Total Long-Term Investments (Cost \$276,327,416) 152.2% | | 288,127,429 |

Short-Term Securities

| | | |
|---|---------------|-------------|
| | Shares | |
| BlackRock Liquidity Funds, TempFund, Institutional Class, 0.09% (f)(g) | 3,353,157 | 3,353,157 |
| Total Short-Term Securities (Cost \$3,353,157) 1.8% | | 3,353,157 |
| Total Investments Before TBA Sale Commitments and Options Written (Cost \$279,680,573*) 154.0% | | 291,480,586 |

Schedule of Investments (continued)

BlackRock Enhanced Government Fund, Inc (EGF)
(Percentages shown are based on Net Assets)

| | Par (000) | Value |
|---|--------------------------------------|-----------------|
| TBA Sale Commitments | | |
| Fannie Mae Mortgage-Backed Securities, 4.50%, 10/01/41 (e) | \$ 21,500 | \$ (22,830,801) |
| Total TBA Sale Commitments | | |
| (Proceeds \$22,562,402) (12.1)% | | (22,830,801) |
| | Notional Amount (000) | |
| Options Written | | |
| Over-the-Counter Call Swaptions (0.3)% | | |
| Pay a fixed rate of 0.50% and receive a floating rate based on 3-month LIBOR, Expires 10/27/11, Broker Deutsche Bank AG | 50,000 | (23,450) |
| Pay a fixed rate of 1.20% and receive a floating rate based on 3-month LIBOR, Expires 10/27/11, Broker Deutsche Bank AG | 50,000 | (90,040) |
| Pay a fixed rate of 2.10% and receive a floating rate based on 3-month LIBOR, Expires 10/27/11, Broker Deutsche Bank AG | 20,000 | (200,876) |
| Pay a fixed rate of 2.70% and receive a floating rate based on 3-month LIBOR, Expires 10/27/11, Broker Deutsche Bank AG | 5,000 | (162,923) |
| Total Options Written | | |
| (Premiums Received \$360,000) (0.3)% | | (477,289) |
| Total Investments, Net of TBA Sale Commitments and Options Written - 141.6% | | 268,172,496 |
| Liabilities in Excess of Other Assets (41.6)% | | (78,851,980) |
| Net Assets 100.0% | | \$ 189,320,516 |

* The cost and unrealized appreciation (depreciation) of investments as of September 30, 2011, as computed for federal income tax purposes, were as follows:

| | |
|-------------------------------|----------------|
| Aggregate cost | \$ 279,681,638 |
| Gross unrealized appreciation | \$ 15,549,755 |
| Gross unrealized depreciation | (3,750,807) |
| Net unrealized appreciation | \$ 11,798,948 |

- (a) Variable rate security. Rate shown is as of report date and maturity shown is the date the principal owed can be recovered through demand.
- (b) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional investors.

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- (c) All or a portion of security has been pledged as collateral in connection with swaps.
- (d) All or a portion of security has been pledged as collateral in connection with open reverse repurchase agreements.
- (e) Represents or includes a TBA transaction. Unsettled TBA transactions as of report date were as follows:

| Counterparty | Value | Unrealized Depreciation |
|----------------------------|-------|----------------------------|
| JPMorgan Chase Bank NA | | \$ (138,348) |
| Morgan Stanley & Co., Inc. | | \$ (140,484) |

- (f) Investments in companies considered to be an affiliate of the Fund during the period, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

| Affiliate | Shares Held at December 31, 2010 | Net Activity | Shares Held at September 30, 2011 | Income |
|---|---|-----------------|--|----------|
| BlackRock Liquidity Funds, TempFund, Institutional Class | 13,611,942 | (10,258,785) | 3,353,157 | \$ 4,530 |

- (g) Represents the current yield as of report date.

Schedule of Investments (continued)

BlackRock Enhanced Government Fund, Inc (EGF)

Reverse repurchase agreements outstanding as of September 30, 2011 were as follows:

| Counterparty | Interest Rate | Trade Date | Maturity Date ¹ | Net Closing Amount | Face Amount |
|------------------------------------|---------------|------------|----------------------------|----------------------|----------------------|
| Merrill Lynch & Co., Inc. | 0.05% | 8/18/11 | Open | \$ 16,557,262 | \$ 16,556,250 |
| Bank of America, NA | (0.01)% | 8/31/11 | 11/15/11 | 1,992,483 | 1,992,500 |
| Credit Suisse Securities (USA) LLC | 0.04% | 8/31/11 | Open | 12,570,433 | 12,570,000 |
| Credit Suisse Securities (USA) LLC | 0.00% | 9/13/11 | Open | 10,875,000 | 10,875,000 |
| Deutsche Bank AG | 0.12% | 9/13/11 | Open | 3,990,239 | 3,990,000 |
| Deutsche Bank AG | 0.10% | 9/14/11 | Open | 12,100,572 | 12,100,000 |
| Deutsche Bank AG | (0.15)% | 9/14/11 | Open | 374,510 | 374,532 |
| Deutsche Bank AG | 0.14% | 9/16/11 | Open | 6,020,351 | 6,020,000 |
| Deutsche Bank AG | 0.25% | 9/23/11 | 10/13/11 | 3,299,688 | 3,299,505 |
| BNP Paribas | (0.06)% | 9/30/11 | 10/03/11 | 2,307,496 | 2,307,500 |
| Deutsche Bank AG | 0.03% | 9/30/11 | 10/03/11 | 1,179,407 | 1,179,406 |
| Total | | | | \$ 71,267,441 | \$ 71,264,693 |

¹ Certain agreements have no stated maturity and can be terminated by either party at any time.

Interest rate swaps outstanding as of September 30, 2011 were as follows:

| Fixed Rate | Floating Rate | Counterparty | Expiration Date | Notional Amount (000) | Unrealized Depreciation |
|--------------------|---------------|------------------|-----------------|-----------------------|-------------------------|
| 5.96% ¹ | 3-month LIBOR | Deutsche Bank AG | 12/27/37 | \$ 23,900 | \$ (15,139,127) |

¹ Pays fixed interest rate and receives floating rate.

Fair Value Measurements - Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs are categorized in three broad levels for financial reporting purposes as follows:

Level 1 price quotations in active markets/exchanges for identical assets and liabilities

Level 2 other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market- corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund's own assumptions used in determining the fair value of investments and derivative financial instruments)

The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and does not necessarily correspond to the Fund's perceived risk of investing in those securities. For information about the Fund's policy regarding valuation of investments and derivative financial instruments and other significant accounting policies, please refer to the Fund's most recent financial statements as contained in its semi-annual report.

Schedule of Investments (concluded)

BlackRock Enhanced Government Fund, Inc (EGF)

The following tables summarize the inputs used as of September 30, 2011 in determining the fair valuation of the Fund's investments and derivative financial instruments:

| Valuation Inputs | Level 1 | Level 2 | Level 3 | Total |
|---|--------------|----------------|---------|----------------|
| Assets: | | | | |
| Investments: | | | | |
| Long-Term Investments: | | | | |
| Asset-Backed Securities | | \$ 6,076,855 | | \$ 6,076,855 |
| Non-Agency Mortgage-Backed Securities | | 12,692,804 | | 12,692,804 |
| Preferred Securities | \$ 3,840,000 | 4,338,332 | | 8,178,332 |
| Taxable Municipal Bonds | | 1,295,518 | | 1,295,518 |
| US Government Sponsored Agency Securities | | 192,388,345 | | 192,388,345 |
| US Treasury Obligations | | 67,495,575 | | 67,495,575 |
| Short-Term Securities: | | | | |
| Money Market Funds | 3,353,157 | | | 3,353,157 |
| Liabilities: | | | | |
| TBA Sale Commitments | | (22,830,801) | | (22,830,801) |
| Total | \$ 7,193,157 | \$ 261,456,628 | | \$ 268,649,785 |

| Valuation Inputs | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-----------------|---------|-----------------|
| Derivative Financial Instruments ¹ | | | | |
| Liabilities: | | | | |
| Interest rate contracts | | \$ (15,616,416) | | \$ (15,616,416) |

¹ Derivative financial instruments are swaps and options written. Swaps are valued at the unrealized appreciation/depreciation on the instrument and options written are shown at value.

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Item 2 – Controls and Procedures

2(a) – The registrant’s principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant’s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the “1940 Act”)) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.

2(b) – There were no changes in the registrant’s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant’s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

Item 3 – Exhibits

Certifications – Attached hereto

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.

BlackRock Enhanced Government Fund, Inc.

By: /s/ John M. Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Government Fund, Inc.

Date: November 23, 2011

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

By: /s/ John M. Perlowski
John M. Perlowski
Chief Executive Officer (principal executive officer) of
BlackRock Enhanced Government Fund, Inc.

Date: November 23, 2011

By: /s/ Neal J. Andrews
Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock Enhanced Government Fund, Inc.

Date: November 23, 2011

