EVERGREEN MULTI-SECTOR INCOME FUND
Form N-CSR
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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 811-21331

Evergreen Multi-Sector Income Fund

(Exact name of registrant as specified in charter)

200 Berkeley Street

Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Michael H. Koonce, Esq.

200 Berkeley Street

Boston, Massachusetts 02116

(Name and address of agent for service)

Registrant s telephone number, including area code: (617) 210-3200

Date of fiscal year end: October 31

Date of reporting period: October 31, 2009

Item 1 - Reports to Stockholders.

Evergreen Multi-Sector Income Fund

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The fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund s Form N-Q will be available on the SEC s Web site at http://www.sec.gov. In addition, the fund s Form N-Q may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800.SEC.0330.

A description of the fund s proxy voting policies and procedures, as well as information regarding how the fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available by visiting our Web site at EvergreenInvestments.com or by visiting the SEC s Web site at http://www.sec.gov. The fund s proxy voting policies and procedures are also available without charge, upon request, by calling 800.343.2898.

Evergreen Investment Management Company, LLC is a subsidiary of Wells Fargo & Company and is an affiliate of Wells Fargo & Company s other Broker Dealer subsidiaries.

LETTER TO SHAREHOLDERS

December 2009

W. Douglas Munn

President and Chief Executive Officer

Dear Shareholder:

We are pleased to provide the Annual Report for Evergreen Multi-Sector Income Fund for the twelve-month period ended October 31, 2009 (the period).

Capital markets throughout the globe continued to experience extreme pressure during the period. Home prices fell and job losses persisted. Distrust prevailed, and counterparty risk, whether real or imagined, escalated. Inter-bank lending ceased to exist, and the credit markets froze. In response, the Federal Reserve Board (the Fed), the U.S. Treasury, the Federal Deposit Insurance Corporation, and the Securities and Exchange Commission took a series of dramatic and innovative steps to help the economy and the financial markets emerge from this crisis. In October 2008, Congress rushed through a $700 billion rescue plan designed to address the capital inadequacy of banks. Meanwhile, in a further effort to re-stimulate lending activity, the Fed twice slashed the key fed funds rate in October, bringing the influential overnight lending rate to just 1.00%. The Fed slashed rates again in December to near zero, where it stayed during the remainder of the period. Overseas, other major central banks also cut short-term rates to inject liquidity into the financial markets. At the same time, foreign governments took other measures to buttress financial institutions.

Early in 2009, the fixed income markets worried about deflation, as evidenced by investor willingness to accept virtually nothing for short-term loans to the government. Concerns about federal spending also increased with the $787 billion American Recovery and Reinvestment Act of 2009, signed into law in February. Yields climbed for longer-term U.S. Treasuries during the first quarter of 2009. International markets were hit hard, as economies in both developed and emerging countries struggled. Equity markets were affected by the weakness in economic data and corporate profits, although stocks rallied off their March 9th lows, with international and small cap stocks leading the gains. Signs of stability emerged in the corporate credit markets, as both issuance and performance improved. Stocks finished a banner third quarter, with all major market indexes climbing by approximately 15%, as investor sentiment was buoyed by signs of improvement in the economy and corporate earnings. At fiscal year end, however, stocks closed lower for the first time in seven months as investors questioned whether the huge rally had exceeded the economy s ability to generate growth in output and profits. The weakness in U.S. markets failed to extend beyond our borders, as developed markets, which had also rallied off the lows of last year, experienced just a fractional loss in October 2009, and emerging markets managed to rise by 1%, adding to impressive year-to-date returns by the end of the period.

LETTER TO SHAREHOLDERS continued

Fortunately, the fundamental picture has brightened. Better-than-expected economic data at the end of the fiscal year suggests the possibility of improvements in corporate performance. Interest rates and inflation remain low, providing a healthy backdrop for corporations that have been very aggressive cutting costs from their expense structures. However, given our projections for a less spectacular recovery in 2010, we continue to question whether the fundamentals are in place for sustainable growth. Until we see stabilization in home prices and employment, it is unlikely that activity will exceed anything beyond what is considered to be below potential for any period of time.

During a volatile and challenging period in the capital markets, the investment managers of Evergreen Multi-Sector Income Fund maintained their strategy seeking a high level of income with limited exposure to the risks from changing interest rates. Assets of this closed-end fund were allocated among sleeves of U.S. high yield, corporate bonds, investment-grade foreign debt securities and U.S. adjustable-rate, mortgage-backed securities.

We believe the changing conditions in the investment environment over the period have underscored the value of a well-diversified, long-term investment strategy to help soften the effects of volatility in any one market or asset class. As always, we encourage investors to maintain diversified investment portfolios in pursuit of their long-term investment goals.

Please visit us at **EvergreenInvestments.com** for more information about our funds and other investment products available to you. Thank you for your continued support of Evergreen Investments.

Sincerely,

W. Douglas Munn

President and Chief Executive Officer

Evergreen Funds

FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout each period)

	Year Ended October 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Net asset value, beginning of period	$13.47	$18.74	$18.55	$18.91	$20.19
Income from investment operations					
Net investment income	1.33	1.68	1.73 [1]	1.60 [1]	1.49 [1]
Net realized and unrealized gains or losses on investments	3.26	(5.35)	0.29	(0.06)	(1.06)
Distributions to preferred shareholders from[1]					
Net investment income	(0.03)	(0.30)	(0.51)	(0.45)	(0.28)
Net realized gains	0	0	0	0	0 [2]
Total from investment operations	4.56	(3.97)	1.51	1.09	0.15
Distributions to shareholders from					
Net investment income	(2.20)	(1.30)	(1.29)	(1.34)	(1.43)
Net realized gains	0	0	0	(0.01)	0
Tax basis return of capital	(0.22)	0	(0.03)	(0.10)	0
Total distributions to common shareholders	(2.42)	(1.30)	(1.32)	(1.45)	(1.43)
Offering costs charged to capital for Preferred Shares	0	0	0	0	0 [2]
Net asset value, end of period	$15.61	$13.47	$18.74	$18.55	$18.91
Market value, end of period	$13.73	$11.68	$16.22	$17.07	$16.42
Total return based on market value[3]	44.93%	(21.43)%	2.64%	13.46%	(3.77)%
Ratios and supplemental data					
Net assets of common shareholders, end of period (thousands)	$656,404	$566,515	$787,919	$780,321	$795,244
Liquidation value of Preferred Shares, end of period (thousands)	$80,035	$80,108	$400,475	$400,402	$400,309
Asset coverage ratio, end of period	385%	249%	296%	299%	299%
Ratios to average net assets applicable to common shareholders					
Expenses including waivers/reimbursements and interest expense but excluding expense reductions	1.62%	1.90%	1.15%	1.15%	1.11%

Expenses including interest expense but excluding waivers/reimbursements and expense reductions	3.07 %	1.95 %	1.15 %	1.15 %	1.11 %
Expenses including waivers/reimbursements but excluding expense reductions and interest expense	1.15 %	1.36 %	1.13 %	1.14 %	1.11 %
Interest expense[4]	0.47 %	0.54 %	0.02 %	0.01 %	0.00 %
Net investment income[5]	9.65 %	7.85 %	6.54 %	6.18 %	6.08 %
Portfolio turnover rate	93 %	92 %	95 %	62 %	80 %

1 Calculated based on average common shares outstanding during the period.
2 Amount represents less than $0.005 per share.
3 Total return is calculated assuming a purchase of common stock on the first day and a sale on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund s Automatic Dividend Reinvestment Plan. Total return does not reflect brokerage commissions or sales charges.
4 Interest expense ratio relates to interest associated with borrowings and/or leverage transactions.
5 The net investment income ratio reflects distributions paid to preferred shareholders.

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS

October 31, 2009

	Principal Amount	Value
AGENCY MORTGAGE-BACKED COLLATERALIZED MORTGAGE OBLIGATIONS 2.6%		
FIXED-RATE 0.2%		
FNMA:		
Ser. 2001-25, Class Z, 6.00%, 06/25/2031	$987,713	$1,046,660
Ser. 2001-51, Class P, 6.00%, 08/25/2030	228,104	229,666
		1,276,326
FLOATING-RATE 2.4%		
FHLMC:		
Ser. 0196, Class A, 1.05%, 12/15/2021	122,452	123,321
Ser. 2390, Class FD, 0.70%, 12/15/2031	123,423	122,523
Ser. 2411, Class F, 0.80%, 02/15/2032	167,343	166,274
Ser. 2431, Class F, 0.75%, 03/15/2032	5,803,607	5,771,669
Ser. 2567, Class FH, 0.65%, 02/15/2033	316,387	314,435
FNMA:		
Ser. 1996-46, Class FA, 0.78%, 08/25/2021	73,943	72,732
Ser. 2001-35, Class F, 0.84%, 07/25/2031	47,730	47,578
Ser. 2001-57, Class F, 0.74%, 06/25/2031	48,054	47,756
Ser. 2002-77, Class FH, 0.65%, 12/18/2032	293,959	291,534
Ser. 2002-95, Class FK, 0.74%, 01/25/2033	7,239,621	7,242,595
Ser. 2002-97, Class FR, 0.79%, 01/25/2033	110,134	109,635
Ser. 2003-W8, Class 3F2, 0.59%, 05/25/2042	1,579,903	1,415,414
Ser. G91-16, Class F, 0.73%, 06/25/2021	88,578	88,567
Ser. G92-17, Class F, 1.33%, 03/25/2022	164,185	167,022
GNMA, Ser. 2001-61, Class FA, 0.75%, 09/20/2030	65,388	65,303
		16,046,358
Total Agency Mortgage-Backed Collateralized Mortgage Obligations (cost $17,609,058)		17,322,684
AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES 24.4%		
FIXED-RATE 0.4%		
FHLMC, 8.50%, 04/01/2015-07/01/2028	308,683	342,753
FNMA:		
6.00%, 04/01/2033	432,503	464,356
6.50%, 11/01/2032	69,281	75,127
7.50%, 07/01/2017-07/01/2032	790,162	866,423

8.00%, 12/01/2024-06/01/2030	232,994	258,506
12.00%, 01/01/2016	36,641	40,188
GNMA:		
6.50%, 06/15/2028	91,495	99,050
7.25%, 07/15/2017-05/15/2018	760,649	822,899
		2,969,302
FLOATING-RATE 24.0%		
FHLB:		
3.37%, 12/01/2034 µ	9,216,315	9,502,680
3.77%, 07/01/2033	303,825	314,500

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
AGENCY MORTGAGE-BACKED PASS THROUGH SECURITIES continued		
FLOATING-RATE continued		
FHLB:		
3.81%, 06/01/2035 µ	$4,083,005	$4,202,585
4.09%, 11/01/2030	592,541	606,147
FHLMC:		
3.16%, 10/01/2030	23,858	24,113