

MFS GOVERNMENT MARKETS INCOME TRUST

Form N-CSRS

July 29, 2010

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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 811-5078

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: May 31, 2010

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ITEM 1. REPORTS TO STOCKHOLDERS.

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Semiannual report

MFS® Government Markets Income Trust

5/31/10

MGF-SEM

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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 having suffered their biggest declines since the Great Depression, most global markets experienced an impressive resurgence during the latter months of 2009 and the first quarter of 2010. The global economy was able to reap the benefits of two major trends. The first of these was the massive efforts of governments and central banks to increase liquidity in the financial system as they sought to prevent the credit crisis from further affecting the banking system. The second was the move by companies around the world to cut costs and operations to prepare for rapidly changing market conditions. We believe that these moves not only shortened the length of the downturn but also set the stage for recovery.

Even with the significant market gains of 2009 and the early part of 2010, the recovery is unrolling at a moderate pace, with rebounds in the manufacturing sector and corporate America leading the way. Central bankers are proceeding with caution and many have held benchmark interest rates unchanged as they debate the best way to withdraw stimulus measures without disrupting the fragile growth process. Complicating that debate late in the period was the emergence of the European debt crisis and worries about whether this crisis could derail the global recovery.

While hurdles remain, we believe that the global economy is proceeding on the road to recovery. As always, we continue to be mindful of the many challenges faced at the individual, national, and international levels. It is at 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 advisors to identify and research investment opportunities. At MFS®, we take particular pride in how well mutual funds can help investors by providing the diversification that is important in any type of market climate.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

July 15, 2010

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 (i)****Fixed income sectors (i)**

Mortgage-Backed Securities	50.4%
U.S. Government Agencies	18.3%
High Grade Corporates	9.3%
Commercial Mortgage-Backed Securities	4.0%
Emerging Markets Bonds	3.7%
Municipal Bonds	2.7%
U.S. Treasury Securities	1.7%

Composition including fixed income credit quality (a)(i)

AAA	83.4%
AA	4.1%
A	2.5%
BBB	9.6%
BB	0.2%
Other	0.2%

Portfolio facts (i)

Average Duration (d)	4.0
Average Effective Maturity (m)	6.9 yrs.

- (a) Included in the rating categories are: (1) debt securities and fixed income structured products which have long-term public ratings; (2) U.S. Government Securities (all of which are given AAA ratings); and (3) credit default swaps, if applicable, for which the underlying security has a long term public rating. U.S. Government Securities consist of U.S. Treasury securities, and certain securities issued by certain U.S. government agencies or U.S. government-sponsored entities. All rated securities are assigned a rating in accordance with the following ratings 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. Any equity securities are listed separately. The Other category includes cash, other assets, liabilities (including any derivative offsets), short-term and unrated debt securities. Ratings from Moody's (e.g., Aaa) are shown in the S&P and Fitch scale (e.g. AAA). All ratings are subject to change.
- (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.
- (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 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.
- (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.

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Percentages are based on net assets as of 5/31/10, unless otherwise noted.

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

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MARKET ENVIRONMENT

After having suffered through one of the largest and most concentrated downturns since the 1930s, most asset markets staged a remarkable rebound during 2009 and early 2010. This recovery in global activity, which covers this reporting period, has been led importantly by emerging Asian economies, but broadening to include most of the global economy to varying degrees. Primary drivers of the recovery 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 worst of the credit crisis, policy makers globally loosened monetary and fiscal policy on a massive scale. Having reached their lower bound on policy rates prior to the beginning of the reporting period, several central banks were implementing quantitative easing as a means to further loosen monetary policy to offset the continuing fall in global economic activity. However, by the beginning of the period, there were ever-broadening signs that the global macroeconomic deterioration had passed, which caused the subsequent rise in asset valuations. As most asset prices rebounded during the period and the demand for liquidity waned, the debate concerning the existence of asset bubbles and the need for monetary exit strategies had begun, creating added uncertainty regarding the forward path of policy rates. Late in the period, though, heightened risk surrounding the public-debt profiles of several of the peripheral European countries caused risky asset valuations to retrench considerably.

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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 normally invests at least 80% of the fund's net assets, including 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 high percentage of the fund's assets in a single country, a small number of countries, or a particular geographic region.

MFS may invest a relatively high percentage of the fund's assets in the debt 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 different purposes, 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 in buying and selling investments for the fund. Investments are selected primarily based on fundamental analysis of instruments and their issuers in light of 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 analysis of the structure of the instrument and its features may also be considered.

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.

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

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 portfolio's yield and share prices change daily based on the credit quality of its investments and changes in interest rates. In general, the value of debt securities will decline when interest rates rise and will increase when interest rates fall. Debt securities with longer maturity dates will generally be subject to greater price fluctuations than those with shorter maturities. Mortgage securities are subject to prepayment risk which can offer less potential for gains in a declining interest rate environment and greater potential for loss in a rising interest rate environment. The value of mortgage-backed securities may depend, in part, on the issuer's or borrower's credit quality or ability to pay principal and interest when due and may fall if an issuer or borrower defaults on its obligation to pay principal or interest or if the instrument's credit rating is downgraded by a credit rating agency. U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae. Derivatives can be highly volatile and involve risks in addition to those of the underlying indicators upon whose value the derivative is based. Gains or losses from derivatives can be substantially greater than the derivatives' original cost. Interest payments on inflation adjusted debt instruments can be unpredictable and vary based on the level of inflation. Foreign investments can be more volatile than U.S. investments. Changes in currency exchange rates can affect the U.S. dollar rate of foreign currency investments and investments denominated in foreign currency. Investing in emerging markets can involve risks in addition to those generally associated with investing in more developed foreign markets. When you sell your shares, they may be worth more or less than the amount you paid for them. 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> and on the MFS Web site at mfs.com.

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.

OTHER NOTES

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. In addition, distributions of current year long-term gains may be recharacterized as ordinary income. Returns of shareholder capital have the effect of reducing the fund's assets and may increase 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. The fund's dividend amount will fluctuate with changes in the fund's average monthly net assets.

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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, 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, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

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5/31/10 (unaudited)

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

Bonds - 99.0%		
Issuer	Shares/Par	Value (\$)
U.S. Bonds - 94.1%		
Agency - Other - 13.0%		
Financing Corp., 10.7%, 2017	\$ 4,095,000	\$ 6,049,240
Financing Corp., 9.4%, 2018	3,085,000	4,288,545
Financing Corp., 9.8%, 2018	4,350,000	6,080,117
Financing Corp., 10.35%, 2018	6,820,000	10,060,475
Financing Corp., STRIPS, 0%, 2017	5,000,000	3,811,130
		\$ 30,289,507
Asset-Backed & Securitized - 4.0%		
Citigroup Commercial Mortgage Trust, FRN, 5.699%, 2049	\$ 1,000,000	\$ 987,471
Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 2049	1,200,000	1,135,915
Commercial Mortgage Pass-Through Certificates, 5.306%, 2046	1,366,646	1,293,112
Credit Suisse Mortgage Capital Certificate, 5.311%, 2039	500,000	483,908
CWCapital LLC, 5.223%, 2048	1,000,000	958,886
JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 2049	1,000,000	937,040
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 5.818%, 2049	1,000,000	935,459
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 5.962%, 2051	754,902	760,559
Merrill Lynch Mortgage Trust, FRN, 5.826%, 2050	750,000	226,432
Prudential Securities Secured Financing Corp., FRN, 7.223%, 2013 (z)	1,819,000	1,654,864
		\$ 9,373,646
Cable TV - 0.5%		
Time Warner Cable, Inc., 8.25%, 2019	\$ 1,000,000	\$ 1,217,338
Chemicals - 0.3%		
Dow Chemical Co., 8.55%, 2019	\$ 500,000	\$ 593,004
Dow Chemical Co., 9.4%, 2039	70,000	91,581
		\$ 684,585
Computer Software - Systems - 0.3%		
International Business Machines Corp., 8%, 2038	\$ 500,000	\$ 680,264
Energy - Integrated - 0.0%		
Hess Corp., 8.125%, 2019	\$ 30,000	\$ 37,023

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Food & Beverages - 1.0%		
Anheuser-Busch InBev, 7.75%, 2019 (n)	\$ 750,000	\$ 888,856
Dr. Pepper Snapple Group, Inc., 6.82%, 2018	231,000	269,988
Kraft Foods, Inc., 6.125%, 2018	960,000	1,056,448
		\$ 2,215,292
Local Authorities - 1.3%		
Metropolitan Transportation Authority, NY (Build America Bonds), 7.336%, 2039	\$ 665,000	\$ 806,858
Nashville & Davidson County, TN, Metropolitan Government Convention Center Authority (Build America Bonds), 6.731%, 2043	580,000	610,972
New Jersey Turnpike Authority Rev. (Build America Bonds), F, 7.414%, 2040	32,000	38,731
University of California Rev. (Build America Bonds), 5.77%, 2043	450,000	451,368
Utah Transit Authority Sales Tax Rev. (Build America Bonds), B, 5.937%, 2039	1,020,000	1,108,485
		\$ 3,016,414
Major Banks - 0.4%		
Bank of America Corp., 7.625%, 2019	\$ 170,000	\$ 193,018
Merrill Lynch & Co., Inc., 6.05%, 2016	750,000	759,174
		\$ 952,192
Mortgage-Backed - 50.2%		
Fannie Mae, 4.79%, 2012	\$ 265,013	\$ 277,631
Fannie Mae, 4.542%, 2013	956,367	1,012,534
Fannie Mae, 5%, 2013 - 2040	5,457,640	5,717,898
Fannie Mae, 5.06%, 2013	377,549	397,627
Fannie Mae, 5.37%, 2013	991,349	1,053,392
Fannie Mae, 4.77%, 2014	464,918	499,360
Fannie Mae, 4.841%, 2014	2,678,820	2,874,133
Fannie Mae, 5.1%, 2014	501,914	544,382
Fannie Mae, 4.7%, 2015	457,764	490,061
Fannie Mae, 4.74%, 2015	371,580	398,305
Fannie Mae, 4.78%, 2015	519,224	556,779
Fannie Mae, 4.815%, 2015	543,000	583,378
Fannie Mae, 4.82%, 2015	920,391	989,684
Fannie Mae, 4.85%, 2015	326,742	351,694
Fannie Mae, 4.86%, 2015	152,125	163,832
Fannie Mae, 4.87%, 2015	345,947	372,209
Fannie Mae, 4.89%, 2015	387,806	417,993
Fannie Mae, 5.466%, 2015	857,461	944,719

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Fannie Mae, 5.09%, 2016	\$ 500,000	\$ 543,923
Fannie Mae, 5.424%, 2016	761,983	840,738
Fannie Mae, 5.845%, 2016	370,913	410,823
Fannie Mae, 6.5%, 2016 - 2037	4,790,740	5,286,041
Fannie Mae, 5.05%, 2017	522,963	568,262
Fannie Mae, 5.3%, 2017	576,271	633,430
Fannie Mae, 5.5%, 2017 - 2037	38,103,002	40,837,295
Fannie Mae, 6%, 2017 - 2037	10,408,789	11,325,173
Fannie Mae, 4.88%, 2020	288,717	310,580
Freddie Mac, 5%, 2016 - 2040	12,747,219	13,362,742
Freddie Mac, 6%, 2021 - 2038	4,787,596	5,174,691
Freddie Mac, 4.5%, 2024	1,207,341	1,264,941
Freddie Mac, 5.5%, 2024 - 2036	8,112,384	8,660,226
Freddie Mac, 6.5%, 2037	1,609,909	1,756,750
Ginnie Mae, 5.5%, 2033 - 2038	5,500,650	5,940,796
Ginnie Mae, 5.612%, 2058	1,136,530	1,233,300
Ginnie Mae, 6.357%, 2058	1,012,789	1,115,136
		\$ 116,910,458
Municipals - 2.6%		
California Educational Facilities Authority Rev. (Stanford University), 5.25%, 2040	\$ 620,000	\$ 746,889
California Educational Facilities Authority Rev. (Stanford University), T-1, 5%, 2039	3,075,000	3,568,661
Massachusetts Health & Educational Facilities Authority Rev. (Boston College), 5.5%, 2027	755,000	904,075
Massachusetts Health & Educational Facilities Authority Rev. (Massachusetts Institute of Technology), K, 5.5%, 2032	745,000	920,336
		\$ 6,139,961
Natural Gas - Pipeline - 0.5%		
Energy Transfer Partners LP, 8.5%, 2014	\$ 21,000	\$ 24,508
Kinder Morgan Energy Partners, 6.85%, 2020	1,000,000	1,104,290
		\$ 1,128,798
Network & Telecom - 0.2%		
Verizon Communications, Inc., 8.75%, 2018	\$ 449,000	\$ 572,206
Oil Services - 0.6%		
Smith International, Inc., 9.75%, 2019	\$ 1,000,000	\$ 1,355,538

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Other Banks & Diversified Financials - 0.5%		
Capital One Financial Corp., 8.8%, 2019	\$ 280,000	\$ 333,917
Citigroup, Inc., 8.5%, 2019	94,000	110,139
UBS Preferred Funding Trust V, 6.243% to 2016, FRN to 2049	750,000	637,500
		\$ 1,081,556
Pollution Control - 0.5%		
Allied Waste North America, Inc., 6.875%, 2017	\$ 1,000,000	\$ 1,090,000
Real Estate - 0.3%		
Simon Property Group, Inc., REIT, 5.875%, 2017	\$ 750,000	\$ 800,498
Retailers - 0.4%		
Staples, Inc., 9.75%, 2014	\$ 750,000	\$ 918,500
Tobacco - 1.2%		
Altria Group, Inc., 9.7%, 2018	\$ 500,000	\$ 606,241
Altria Group, Inc., 9.25%, 2019	250,000	296,533
Lorillard Tobacco Co., 8.125%, 2019	796,000	866,397
Lorillard Tobacco Co., 6.875%, 2020	1,000,000	1,007,311
		\$ 2,776,482
U.S. Government Agencies and Equivalents - 5.0%		
Aid-Egypt, 4.45%, 2015	\$ 1,755,000	\$ 1,912,511
Farmer Mac, 5.5%, 2011 (n)	3,010,000	3,168,856
Small Business Administration, 8.875%, 2011	26,158	26,859
Small Business Administration, 6.35%, 2021	607,846	659,646
Small Business Administration, 6.34%, 2021	579,418	629,086
Small Business Administration, 6.44%, 2021	609,711	662,420
Small Business Administration, 6.625%, 2021	675,320	736,458
Small Business Administration, 5.52%, 2024	934,029	1,001,842
U.S. Department of Housing & Urban Development, 6.36%, 2016	1,580,000	1,675,631
U.S. Department of Housing & Urban Development, 6.59%, 2016	1,146,000	1,153,982
		\$ 11,627,291
U.S. Treasury Obligations - 11.3%		
U.S. Treasury Bonds, 4.75%, 2037	\$ 2,000,000	\$ 2,185,624
U.S. Treasury Bonds, 4.375%, 2038	3,225,000	3,312,681
U.S. Treasury Bonds, 4.5%, 2039	2,500,000	2,614,845
U.S. Treasury Notes, 4.625%, 2011	3,500,000	3,678,007
U.S. Treasury Notes, 1.375%, 2013	550,000	553,438
U.S. Treasury Notes, 4%, 2015	1,860,000	2,025,220

Table of Contents*Portfolio of Investments (unaudited) continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
U.S. Treasury Obligations - continued		
U.S. Treasury Notes, 2.625%, 2016	\$ 4,499,000	\$ 4,526,768
U.S. Treasury Notes, 4.75%, 2017 (f)	3,389,000	3,836,985
U.S. Treasury Notes, 3.75%, 2018	975,000	1,021,084
U.S. Treasury Notes, 3.125%, 2019	2,500,000	2,476,953
		\$ 26,231,605
Total U.S. Bonds		\$ 219,099,154
Foreign Bonds - 4.9%		
Brazil - 1.0%		
Banco do Brasil (Cayman Branch), 6%, 2020 (n)	\$ 100,000	\$ 103,130
Banco Santander (Brasil) S.A., 4.5%, 2015 (n)	125,000	121,563
BNDES Participacoes S.A., 6.5%, 2019 (n)	475,000	489,250
Federative Republic of Brazil, 11%, 2040	183,000	242,695
Federative Republic of Brazil, 5.625%, 2041	323,000	311,049
Net Servicos de Comunicacao S.A., 7.5%, 2020 (n)	226,000	227,130
Petrobras International Finance Co., 7.875%, 2019	453,000	512,488
Vale Overseas Ltd., 6.875%, 2039	217,000	216,144
Votorantim Participacoes S.A., 6.75%, 2021 (n)	125,000	122,813
		\$ 2,346,262
Canada - 0.8%		
Rogers Communications, Inc., 6.8%, 2018	\$ 1,000,000	\$ 1,158,183
Talisman Energy, Inc., 7.75%, 2019	650,000	783,296
		\$ 1,941,479
Chile - 0.5%		
Colbun S.A., 6%, 2020 (n)	\$ 704,000	\$ 699,220
Sociedad Quimica y Minera de Chile S.A., 6.125%, 2016	429,000	448,239
		\$ 1,147,459
Luxembourg - 0.1%		
ArcelorMittal, 6.125%, 2018	\$ 91,000	\$ 92,330
UniCredito Luxembourg Finance S.A., 6%, 2017 (n)	200,000	195,497
		\$ 287,827
Malaysia - 0.2%		
Petronas Capital Ltd., 7.875%, 2022	\$ 370,000	\$ 446,196
Mexico - 0.5%		
Grupo Financiero BBVA Bancomer S.A. de C.V., 7.25%, 2020 (n)	\$ 375,000	\$ 368,672
Pemex Project Funding Master Trust, 5.75%, 2018	160,000	162,449

Table of Contents*Portfolio of Investments (unaudited) continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Mexico - continued		
Petroleos Mexicanos, 8%, 2019	\$ 228,000	\$ 262,770
Petroleos Mexicanos, 6%, 2020 (n)	404,000	409,050
		\$ 1,202,941
Peru - 0.2%		
Republic of Peru, 8.75%, 2033	\$ 180,000	\$ 238,050
Southern Copper Corp., 6.75%, 2040	117,000	116,155
		\$ 354,205
Portugal - 0.0%		
EDP Finance B.V., 6%, 2018 (n)	\$ 100,000	\$ 99,669
Qatar - 0.4%		
Qtel International Finance Ltd., 7.875%, 2019	\$ 132,000	\$ 148,170
Qtel International Finance Ltd., 7.875%, 2019 (n)	213,000	239,093
State of Qatar, 5.15%, 2014 (n)	477,000	508,959
		\$ 896,222
Russia - 0.8%		
Bank of Moscow Capital PLC, 6.699%, 2015 (n)	\$ 1,057,000	\$ 1,006,793
Gaz Capital S.A., 8.125%, 2014 (n)	509,000	542,085
VTB Capital S.A., 6.465%, 2015 (n)	307,000	303,163
		\$ 1,852,041
South Africa - 0.1%		
Republic of South Africa, 5.5%, 2020	\$ 140,000	\$ 141,050
United Kingdom - 0.3%		
Diageo Capital PLC, 5.75%, 2017	\$ 520,000	\$ 579,813
Total Foreign Bonds		\$ 11,295,164
Total Bonds (Identified Cost, \$214,034,897)		\$ 230,394,318
Money Market Funds (v) - 0.3%		
MFS Institutional Money Market Portfolio, 0.24%, at Cost and Net Asset Value	691,323	\$ 691,323
Total Investments (Identified Cost, \$214,726,220)		\$ 231,085,641
Other Assets, Less Liabilities - 0.7%		1,690,118
Net Assets - 100.0%		\$ 232,775,759

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Portfolio of Investments (unaudited) continued

(f) All or a portion of the security has been segregated as collateral for open futures contracts.

(n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$9,493,799, representing 4.1% of net assets.

(v) Underlying fund that is available only to investment companies managed by MFS. The rate quoted is the annualized seven-day yield of the fund at period end.

(z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

Restricted Securities	Acquisition Date	Cost	Current Market Value
Prudential Securities Secured Financing Corp., FRN, 7.223%, 2013	12/06/04	\$1,889,659	\$1,654,864
% of Net Assets			0.7%

The following abbreviations are used in this report and are defined:

FRN Floating Rate Note. Interest rate resets periodically and may not be the rate reported at period end.

PLC Public Limited Company

REIT Real Estate Investment Trust

STRIPS Separate Trading of Registered Interest and Principal of Securities

Derivative Contracts at 5/31/10

Futures Contracts Outstanding at 5/31/10

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Note 10 yr (Short)	USD	120	\$14,385,000	Sep-10	\$49,267
U.S. Treasury Bond 30 yr (Short)	USD	87	10,671,094	Sep-10	114,563
					\$163,830
Liability Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Note 5 yr (Long)	USD	21	\$2,450,109	Sep-10	\$(133)

At May 31, 2010, the fund had sufficient cash and/or other liquid securities to cover any commitments under these derivative contracts.

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENT OF ASSETS AND LIABILITIES**

At 5/31/10 (unaudited)

This statement represents your fund's balance sheet, which details the assets and liabilities comprising the total value of the fund.

Assets		
Investments-		
Non-affiliated issuers, at value (identified cost, \$214,034,897)	\$230,394,318	
Underlying funds, at cost and value	691,323	
Total investments, at value (identified cost, \$214,726,220)		\$231,085,641
Receivables for		
Interest	1,988,940	
Receivable from investment adviser	8,645	
Other assets	26,010	
Total assets		\$233,109,236
Liabilities		
Payables for		
Distributions	\$19	
Daily variation margin on open futures contracts	55,008	
Payable to affiliates		
Investment adviser	17,779	
Transfer agent and dividend disbursing costs	8,675	
Administrative services fee	574	
Payable for independent Trustees' compensation	162,419	
Accrued expenses and other liabilities	89,003	
Total liabilities		\$333,477
Net assets		\$232,775,759
Net assets consist of		
Paid-in capital	\$236,321,480	
Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies	16,523,118	
Accumulated net realized gain (loss) on investments and foreign currency transactions	(16,395,939)	
Accumulated distributions in excess of net investment income	(3,672,900)	
Net assets		\$232,775,759
Shares of beneficial interest outstanding		32,354,233
Net asset value per share (net assets of \$232,775,759 / 32,354,233 shares of beneficial interest outstanding)		\$7.19
See Notes to Financial Statements		

Table of Contents*Financial Statements***STATEMENT OF OPERATIONS**

Six months ended 5/31/10 (unaudited)

This statement describes how much your fund earned in investment income and accrued in expenses. It also describes any gains and/or losses generated by fund operations.

Net investment income		
Income		
Interest	\$5,931,683	
Dividends from underlying funds	10,038	
Foreign taxes withheld	(202)	
Total investment income		\$5,941,519
Expenses		
Management fee	\$705,699	
Transfer agent and dividend disbursing costs	56,702	
Administrative services fee	21,468	
Independent Trustees' compensation	38,690	
Stock exchange fee	14,899	
Custodian fee	26,500	
Shareholder communications	65,046	
Auditing fees	33,413	
Legal fees	5,391	
Miscellaneous	12,135	
Total expenses		\$979,943
Fees paid indirectly	(6)	
Reduction of expenses by investment adviser	(53,930)	
Net expenses		\$926,007
Net investment income		\$5,015,512
Realized and unrealized gain (loss) on investments		
Realized gain (loss) (identified cost basis)		
Investment transactions	\$184,225	
Futures contracts	(953,092)	
Net realized gain (loss) on investments		\$(768,867)
Change in unrealized appreciation (depreciation)		
Investments	\$1,190,868	
Futures contracts	504,851	
Net unrealized gain (loss) on investments		\$1,695,719
Net realized and unrealized gain (loss) on investments		\$926,852
Change in net assets from operations		\$5,942,364

See Notes to Financial Statements

Table of Contents*Financial Statements***STATEMENTS OF CHANGES IN NET ASSETS**

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

	Six months ended 5/31/10 (unaudited)	Year ended 11/30/09
Change in net assets		
From operations		
Net investment income	\$5,015,512	\$10,311,648
Net realized gain (loss) on investments	(768,867)	187,322
Net unrealized gain (loss) on investments	1,695,719	14,449,910
Change in net assets from operations	\$5,942,364	\$24,948,880
Distributions declared to shareholders		
From net investment income	\$(5,015,512)	\$(11,015,463)
From tax return of capital		(5,603,818)
From other sources	(3,412,654)	
Total distributions declared to shareholders	\$(8,428,166)	\$(16,619,281)
Change in net assets from fund share transactions	\$670,231	\$1,082,350
Total change in net assets	\$(1,815,571)	\$9,411,949
Net assets		
At beginning of period	234,591,330	225,179,381
At end of period (including accumulated distributions in excess of net investment income of \$3,672,900 and \$260,246, respectively)	\$232,775,759	\$234,591,330
See Notes to Financial Statements		

Table of Contents*Financial Statements***FINANCIAL HIGHLIGHTS**

The financial highlights table is intended to help you understand the fund's financial performance for the semiannual period and the past 5 fiscal years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate by which an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

	Six months ended 5/31/10 (unaudited)	2009	Years ended 11/30			
		2009	2008	2007	2006	2005
Net asset value, beginning of period	\$7.27	\$7.01	\$7.35	\$7.28	\$7.27	\$7.43
Income (loss) from investment operations						
Net investment income (d)	\$0.16	\$0.32	\$0.33	\$0.32	\$0.31	\$0.31
Net realized and unrealized gain (loss) on investments and foreign currency	0.02	0.46	(0.15)	0.09	0.04	(0.17)
Total from investment operations	\$0.18	\$0.78	\$0.18	\$0.41	\$0.35	\$0.14
Less distributions declared to shareholders						
From net investment income	\$(0.16)	\$(0.35)	\$(0.34)	\$(0.36)	\$(0.35)	\$(0.32)
From tax return of capital		(0.17)	(0.18)	(0.02)		
From other sources	(0.10)					
Total distributions declared to shareholders	\$(0.26)	\$(0.52)	\$(0.52)	\$(0.38)	\$(0.35)	\$(0.32)
Net increase from repurchase of capital shares	\$	\$	\$	\$0.04	\$0.01	\$0.02
Net asset value, end of period	\$7.19	\$7.27	\$7.01	\$7.35	\$7.28	\$7.27
Per share market value, end of period	\$7.58	\$7.28	\$7.21	\$6.59	\$6.60	\$6.39
Total return at market value (%)	7.88(n)	8.45	17.96	5.73	9.06	2.36
Total return at net asset value (%) (j)(r)(s)	2.52(n)	11.39	2.83	6.91	5.74	2.67
Ratios (%) (to average net assets) and Supplemental data:						
Expenses before expense reductions (f)	0.85(a)	0.83	0.94	0.89	0.80	0.83
Expenses after expense reductions (f)	0.80(a)	0.80	0.80	0.89	0.80	0.83
Net investment income	4.33(a)	4.48	4.55	4.33	4.29	4.20
Portfolio turnover	13	21	31	28	26	68
Net assets at end of period (000 omitted)	\$232,776	\$234,591	\$225,179	\$235,654	\$373,505	\$378,714

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Financial Highlights continued

- (a) Annualized.
- (d) Per share data is based on average shares outstanding.
- (f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
- (j) Total return at net asset value is calculated using the net asset value of the fund, not the publicly traded price and therefore may be different than the total return at market value.
- (n) Not annualized.
- (r) Certain expenses have been reduced without which performance would have been lower.
- (s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS

(unaudited)

(1) Business and Organization

MFS Government Markets Income Trust (the fund) is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a closed-end management investment company.

(2) Significant Accounting Policies

General The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund's Statement of Assets and Liabilities through the date that the financial statements were issued. The fund may invest a significant portion of its assets in asset-backed and/or mortgage-backed securities. The value of these securities may depend, in part, on the issuer's or borrower's credit quality or ability to pay principal and interest when due and may fall if an issuer or borrower defaults on its obligation to pay principal or interest or if the instrument's credit rating is downgraded by a credit rating agency. U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae. The fund can invest in foreign securities, including securities of emerging market issuers. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country's legal, political, and economic environment. The markets of emerging markets countries are generally more volatile than the markets of developed countries with more mature economies. All of the risks of investing in foreign securities previously described are heightened when investing in emerging markets countries.

Investment Valuations Debt instruments and floating rate loans (other than short-term instruments), including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less generally are valued at amortized cost, which approximates market value. Futures contracts are generally valued at last posted settlement price as provided by a third-party pricing service on the market on which they are

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Notes to Financial Statements (unaudited) continued

primarily traded. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation as provided by a third-party pricing service on the market on which such futures contracts are primarily traded. Open-end investment companies are generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. Values obtained from third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. The values of foreign securities and other assets and liabilities expressed in foreign currencies are converted to U.S. dollars using the mean of bid and asked prices for rates provided by a third-party pricing service.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund's investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with such procedures under the oversight of the Board of Trustees. Under the fund's valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment's value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund's net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund's net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund's net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

Table of Contents*Notes to Financial Statements (unaudited) continued*

Various inputs are used in determining the value of the fund's assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments not reflected in total investments, such as futures, forwards, swap contracts, and written options. The following is a summary of the levels used as of May 31, 2010 in valuing the fund's assets or liabilities:

Investments at Value	Level 1	Level 2	Level 3	Total
U.S. Treasury Bonds & U.S. Government Agency & Equivalents	\$	\$68,148,403	\$	\$68,148,403
Non-U.S. Sovereign Debt		4,756,485		4,756,485
Municipal Bonds		6,139,961		6,139,961
Corporate Bonds		18,526,686		18,526,686
Residential Mortgage-Backed Securities		116,910,458		116,910,458
Commercial Mortgage-Backed Securities		9,373,646		9,373,646
Foreign Bonds		6,538,679		6,538,679
Mutual Funds	691,323			691,323
Total Investments	\$691,323	\$230,394,318	\$	\$231,085,641
Other Financial Instruments				
Futures	\$163,697	\$	\$	\$163,697

For further information regarding security characteristics, see the Portfolio of Investments.

Inflation-Adjusted Debt Securities The fund invests in inflation-adjusted debt securities issued by the U.S. Treasury. The fund may also invest in inflation-adjusted debt securities issued by U.S. Government agencies and instrumentalities other than the U.S. Treasury and by other entities such as U.S. and foreign corporations and foreign governments. The principal value of these debt securities is adjusted through income according to changes in the Consumer Price Index or another general price or wage index. These debt securities typically pay a fixed rate of interest, but this fixed rate is applied to the inflation-adjusted principal amount. The principal paid at maturity of the

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Notes to Financial Statements (unaudited) continued

debt security is typically equal to the inflation-adjusted principal amount, or the security’s original par value, whichever is greater. Other types of inflation-adjusted securities may use other methods to adjust for other measures of inflation.

Foreign Currency Translation Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions or on the reporting date for foreign denominated receivables and payables. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on receivables, payables, income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

Derivatives The fund may use derivatives for different purposes, 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. Derivatives may be used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative’s original cost.

Derivative instruments include written options, purchased options, futures contracts, forward foreign currency exchange contracts, and swap agreements. The fund’s period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract Tables, generally are indicative of the volume of its derivative activity during the period.

The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at May 31, 2010:

Risk	Derivative	Fair Value (a)	
		Asset Derivatives	Liability Derivatives
Interest Rate Contracts	Interest Rate Futures	\$163,830	\$(133)

(a) All derivative valuations are specifically referenced within the fund’s Statement of Assets and Liabilities except for futures contracts. The value of futures contracts outstanding includes cumulative appreciation/depreciation as reported in the fund’s Portfolio of Investments. Only the current day variation margin for futures contracts is separately reported within the fund’s Statement of Assets and Liabilities.

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Notes to Financial Statements (unaudited) continued

The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the six months ended May 31, 2010 as reported in the Statement of Operations:

Interest Rate Contracts	Futures Contracts
	\$(953,092)

The following table presents, by major type of derivative contract, the change in unrealized appreciation (depreciation) on derivatives held by the fund for the six months ended May 31, 2010 as reported in the Statement of Operations:

Interest Rate Contracts	Futures Contracts
	\$504,851

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain over-the-counter derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an International Swaps and Derivatives Association (ISDA) Master Agreement on a bilateral basis with each of the counterparties with whom it undertakes a significant volume of transactions. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a certain deterioration in the credit quality of the other party. The ISDA Master Agreement gives the fund the right, upon an event of default by the applicable counterparty or a termination of the agreement, to close out all transactions traded under such agreement and to net amounts owed under each transaction to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a reduction of the fund's credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any. However, absent an event of default by the counterparty or a termination of the agreement, the ISDA Master Agreement does not result in an offset of reported balance sheet assets and liabilities across transactions between the fund and the applicable counterparty.

Collateral requirements differ by type of derivative. Collateral or margin requirements are set by the broker or exchange clearing house for exchange traded derivatives (i.e., futures and exchange-traded options) while collateral terms are contract specific for over-the-counter traded derivatives (i.e., forwards, swaps and over-the-counter options). For derivatives traded under an ISDA Master Agreement, the collateral requirements are netted across all transactions traded under such agreement and one amount is posted from one party to the other to collateralize such obligations. Cash collateral that has been pledged to cover obligations of the fund under derivative contracts will be

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Notes to Financial Statements (unaudited) continued

reported separately on the Statement of Assets and Liabilities as restricted cash. Securities collateral pledged for the same purpose is noted in the Portfolio of Investments.

Futures Contracts The fund may use futures contracts to gain or to hedge against broad market, interest rate or currency exposure. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a certain percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures is realized.

The fund bears the risk of interest rates, exchange rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures may present less counterparty risk to the fund since the contracts are exchange traded and the exchange's clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund's maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

Indemnifications Under the fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

Investment Transactions and Income Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted upward or downward to the rate of inflation. Interest is accrued based on the principal value, which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond is generally recorded as an increase or decrease in interest income, respectively, even though the adjusted principal is not received until maturity. Dividends

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Notes to Financial Statements (unaudited) continued

received in cash are recorded on the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

The fund may enter into TBA (to be announced) purchase commitments to purchase securities for a fixed unit price at a future date. Although the unit price has been established, the principal value has not been finalized. However, the principal amount of the commitments will not fluctuate more than 0.01%. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to settlement date, which is in addition to the risk of decline in the value of the fund's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities.

Fees Paid Indirectly The fund's custody fee may be reduced according to an arrangement that measures the value of cash deposited with the custodian by the fund. This amount, for the six months ended May 31, 2010, is shown as a reduction of total expenses on the Statement of Operations.

Tax Matters and Distributions The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements.

Distributions to shareholders are recorded on the ex-dividend date. The fund seeks to pay monthly distributions based on an annual rate of 7.25% of the fund's average monthly net asset value. As a result, distributions may exceed actual earnings which may result in a tax return of capital or, to the extent the fund has long-term gains, distributions of current year long-term gains may be recharacterized as ordinary income. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the

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Notes to Financial Statements (unaudited) continued

financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions from other sources, in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

Book/tax differences primarily relate to amortization and accretion of debt securities, straddle loss deferrals, and derivative transactions.

The tax character of distributions made during the current period will be determined at fiscal year end. The tax character of distributions declared to shareholders for the last fiscal year is as follows:

	11/30/09
Ordinary income (including any short-term capital gains)	\$11,015,463
Tax return of capital (b)	5,603,818
Total distributions	\$16,619,281

(b) Distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

The federal tax cost and the tax basis components of distributable earnings were as follows:

As of 5/31/10	
Cost of investments	\$219,008,020
Gross appreciation	13,964,005
Gross depreciation	(1,886,384)
Net unrealized appreciation (depreciation)	\$12,077,621
As of 11/30/09	
Capital loss carryforwards	(11,509,484)