

MFS GOVERNMENT MARKETS INCOME TRUST

Form N-CSRS

July 31, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05078

MFS GOVERNMENT MARKETS INCOME TRUST

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199

(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, 2013

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ITEM 1. REPORTS TO STOCKHOLDERS.

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SEMIANNUAL REPORT

May 31, 2013

MFS® GOVERNMENT MARKETS INCOME TRUST

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 CHAIRMAN AND CEO

Dear Shareholders:

With the year almost half over, the global economy continues to grind forward slowly, weighed down by various austerity measures. The U.S. economy remains a steady

force with resilient consumers, who took the payroll tax increase in stride and did not seem fazed by the sequestration's early impact. The U.S. housing market recovery remains robust. With U.S. consumer sentiment rising to multi-year highs, the country's economic outlook remains positive, except for an anticipated mid-year sequestration-related slowdown. However, market volatility has been heightened, with renewed expectations of a shift in U.S. Federal Reserve policy and a tapering of its monthly bond-buying program.

Japan has been another bright spot, with signs of a turnaround prompted by Abenomics, the stimulus policies of Prime

Minister Shinzo Abe. Consumer and business sentiment have risen, along with prospects for exporters, who gain as a devalued yen means less expensive products overseas and boosted sales. The Japanese stock market advanced more than 30% from January through May. However, doubts remain over whether Abenomics will succeed in lifting Japan out of its long-term deflationary slump. The major deterrent to global growth remains the eurozone's chronic contraction, which has weighed on that 17-member region. China has seen its factory activity decelerate, which is worrisome news for the country's trading partners.

As always, managing risk in the face of uncertainty remains a top priority for investors. At MFS®, our uniquely collaborative investment process employs integrated, global research and active risk management. Our global team of investment professionals shares ideas and evaluates opportunities across continents, investment disciplines and asset classes—all with a goal of building better insights, and ultimately better results, for our clients.

We are mindful of the many economic challenges investors face, and believe it is more important than ever to maintain a long-term view and employ time-tested principles, such as asset allocation and diversification. We remain confident that our unique approach can serve investors well as they work with their financial advisors to identify and pursue the most suitable opportunities.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

July 17, 2013

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

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Fixed income sectors (i)	
Mortgage-Backed Securities	50.4%
U.S. Government Agencies	17.4%
U.S. Treasury Securities	17.3%
High Grade Corporates	9.4%
Emerging Markets Bonds	6.2%
Commercial Mortgage-Backed Securities	3.6%
Non-U.S. Government Bonds	0.7%
Municipal Bonds (o)	0.0%
Composition including fixed income credit quality (a)(i)	
AAA	2.3%
AA	3.0%
A	3.6%
BBB	11.0%
U.S. Government	20.4%
Federal Agencies	67.8%
Not Rated	(3.1)%
Cash & Other	(5.0)%
Portfolio facts (i)	
Average Duration (d)	5.3
Average Effective Maturity (m)	6.7 yrs.

- (a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody's, Fitch, and Standard & Poor's rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. U.S. Government includes securities issued by the U.S. Department of the Treasury. Federal Agencies includes rated and unrated U.S. Agency fixed-income securities, U.S. Agency mortgage-backed securities, and collateralized mortgage obligations of U.S. Agency mortgage-backed securities. Not Rated includes fixed income securities, including fixed income futures contracts, which have not been rated by any rating agency. Cash & Other includes cash, other assets less liabilities, offsets to derivative positions, and short-term securities. The fund may not hold all of these instruments. The fund is not rated by these agencies.

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Portfolio Composition continued

- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.
 - (i) For purposes of this presentation, the components include the market value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. 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. Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.
 - (m) In determining an instrument's effective maturity for purposes of calculating the fund's dollar-weighted average effective maturity, MFS uses the instrument's stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument's stated maturity.
 - (o) Less than 0.1%.
- From time to time Cash & Other Net Assets may be negative due to borrowings for leverage transactions, timing of cash receipts, and/or equivalent exposure from any derivative holdings.

Percentages are based on net assets as of 5/31/13.

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

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PORTFOLIO MANAGERS PROFILES

Ward Brown	Investment Officer of MFS; employed in the investment management area of MFS since 2008. Portfolio Manager of the Fund since December 2012.
Robert Persons	Investment Officer of MFS; employed in the investment management area of MFS since 2000. Portfolio Manager of the Fund since December 2012.
Matthew Ryan	Investment Officer of MFS; employed in the investment management area of MFS since 1997. Portfolio Manager of the Fund since December 2012.
Geoffrey Schechter	Investment Officer of MFS; employed in the investment management area of MFS since 1993. Portfolio Manager of the Fund since April 2006.

Note to Shareholders: Effective December 1, 2012, Ward Brown, Robert Persons and Matthew Ryan are also Portfolio Managers of the Fund.

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 of underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different.

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

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

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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5/31/13 (unaudited)

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

Issuer	Shares/Par	Value (\$)
Bonds - 107.4%		
U.S. Bonds - 99.3%		
Agency - Other - 14.4%		
Financing Corp., 10.7%, 2017	\$ 4,095,000	\$ 5,737,091
Financing Corp., 9.4%, 2018	3,085,000	4,201,551
Financing Corp., 9.8%, 2018	4,350,000	6,053,677
Financing Corp., 10.35%, 2018	6,820,000	9,827,845
Financing Corp., STRIPS, 0%, 2017	5,000,000	4,719,900
		\$ 30,540,064
Asset-Backed & Securitized - 3.6%		
Citigroup Commercial Mortgage Trust, FRN, 5.696%, 2049	\$ 1,000,000	\$ 1,150,462
Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 2049	1,200,000	1,346,780
Commercial Mortgage Pass-Through Certificates, A4 , 5.306%, 2046	1,366,646	1,526,940
Credit Suisse Mortgage Capital Certificate, 5.311%, 2039	500,000	556,196
CWCapital LLC, 5.223%, 2048	1,000,000	1,102,698
JPMorgan Chase Commercial Mortgage Securities Corp., A3 , FRN, 5.929%, 2051	754,902	788,185
JPMorgan Chase Commercial Mortgage Securities Corp., A4 , FRN, 5.813%, 2049	1,000,000	1,139,602
		\$ 7,610,863
Cable TV - 0.6%		
Time Warner Cable, Inc., 8.25%, 2019	\$ 1,000,000	\$ 1,288,001
Chemicals - 0.3%		
Dow Chemical Co., 8.55%, 2019	\$ 500,000	\$ 665,274
Computer Software - Systems - 0.4%		
IBM Corp., 4%, 2042	\$ 847,000	\$ 823,707
Consumer Products - 0.3%		
Avon Products, Inc., 5%, 2023	\$ 619,000	\$ 654,262
Energy - Independent - 0.0%		
Hess Corp., 8.125%, 2019	\$ 30,000	\$ 38,616

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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 S.A., 7.75%, 2019	\$ 750,000	\$ 971,969
Kraft Foods Group, Inc., 6.125%, 2018	960,000	1,148,055
		\$ 2,120,024
Local Authorities - 2.3%		
Nashville & Davidson County, TN, Metropolitan Government Convention Center Authority (Build America Bonds), 6.731%, 2043	\$ 580,000	\$ 718,394
New Jersey Turnpike Authority Rev. (Build America Bonds), F, 7.414%, 2040	32,000	46,299
Port Authority NY & NJ (168th Series), 4.926%, 2051	770,000	839,323
San Francisco, CA, City & County Public Utilities Commission, Water Rev. (Build America Bonds), 6%, 2040	1,650,000	2,016,795
State of California (Build America Bonds), 7.6%, 2040	420,000	609,550
University of California Rev. (Build America Bonds), 5.77%, 2043	450,000	540,171
		\$ 4,770,532
Major Banks - 0.7%		
Bank of America Corp., 7.625%, 2019	\$ 170,000	\$ 214,124
Goldman Sachs Group, Inc., 3.625%, 2023	446,000	439,740
Merrill Lynch & Co., Inc., 6.05%, 2016	750,000	833,157
		\$ 1,487,021
Medical & Health Technology & Services - 0.2%		
Catholic Health Initiatives, 2.95%, 2022	\$ 432,000	\$ 424,970
Metals & Mining - 0.1%		
Freeport-McMoRan Copper & Gold, Inc., 5.45%, 2043 (n)	\$ 316,000	\$ 303,655
Mortgage-Backed - 50.3%		
Fannie Mae, 4.665%, 2013	\$ 60,874	\$ 60,695
Fannie Mae, 4.77%, 2014	433,929	445,141
Fannie Mae, 4.826%, 2014	2,365,083	2,427,697
Fannie Mae, 5.1%, 2014	474,100	490,081
Fannie Mae, 4.74%, 2015	350,664	369,381
Fannie Mae, 4.78%, 2015	487,948	518,025
Fannie Mae, 4.815%, 2015	519,960	549,469
Fannie Mae, 4.82%, 2015	869,820	908,942
Fannie Mae, 4.85%, 2015	307,867	322,558
Fannie Mae, 4.86%, 2015	139,312	145,509
Fannie Mae, 4.87%, 2015	325,633	344,106
Fannie Mae, 4.89%, 2015	365,196	383,815
Fannie Mae, 5.464%, 2015	786,029	851,579
Fannie Mae, 5.09%, 2016	497,284	543,918

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

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Fannie Mae, 5.424%, 2016	\$ 704,015	\$ 779,946
Fannie Mae, 5.845%, 2016	207,272	221,052
Fannie Mae, 6.5%, 2016 - 2037	1,967,783	2,198,933
Fannie Mae, 1.9%, 2017	166,995	170,293
Fannie Mae, 5.05%, 2017	501,264	549,711
Fannie Mae, 5.3%, 2017	548,135	603,983
Fannie Mae, 5.5%, 2017 - 2038	12,101,056	13,195,726
Fannie Mae, 6%, 2017 - 2037	3,708,872	4,090,241
Fannie Mae, 4.88%, 2020	215,912	238,495
Fannie Mae, 3%, 2027	879,999	916,970
Fannie Mae, 5%, 2035 - 2040	1,579,933	1,718,020
Fannie Mae, 4%, 2041	2,475,884	2,618,784
Fannie Mae, 4.5%, 2041	1,362,784	1,484,184
Fannie Mae, TBA, 3%, 2028 - 2043	3,228,000	3,246,251
Fannie Mae, TBA, 3.5%, 2043	7,406,000	7,653,974
Fannie Mae, TBA, 4.5%, 2043	4,215,000	4,502,737
Freddie Mac, 5%, 2016 - 2040	5,557,827	5,938,521
Freddie Mac, 1.426%, 2017	1,112,000	1,123,762
Freddie Mac, 2.303%, 2018	275,000	284,039
Freddie Mac, 2.323%, 2018	499,000	515,562
Freddie Mac, 2.412%, 2018	1,152,000	1,195,290
Freddie Mac, 2.699%, 2018	800,000	841,978
Freddie Mac, 2.13%, 2019	1,575,000	1,608,944
Freddie Mac, 4.186%, 2019	600,000	674,006
Freddie Mac, 5.085%, 2019	752,000	877,522
Freddie Mac, 6%, 2021 - 2038	2,105,135	2,309,348
Freddie Mac, 4.5%, 2024 - 2040	1,924,120	2,041,323
Freddie Mac, 5.5%, 2024 - 2036	2,477,365	2,707,038
Freddie Mac, 6.5%, 2037	547,375	610,675
Freddie Mac, 3.5%, 2042	444,006	461,932
Freddie Mac, TBA, 2.5%, 2028	7,173,000	7,295,799
Freddie Mac, TBA, 3%, 2028	463,000	479,621
Freddie Mac, TBA, 3.5%, 2043	9,150,000	9,434,400
Ginnie Mae, 5.5%, 2033 - 2042	2,701,689	2,957,065
Ginnie Mae, 4%, 2040 - 2041	521,753	558,770
Ginnie Mae, 3.5%, 2042	329,303	347,327
Ginnie Mae, 4.5%, 2042	574,000	625,552
Ginnie Mae, 5.612%, 2058	696,727	737,187
Ginnie Mae, 6.357%, 2058	560,220	598,598
Ginnie Mae, TBA, 3%, 2043	1,464,000	1,486,360
Ginnie Mae, TBA, 3.5%, 2043	8,249,000	8,629,872
		\$ 106,890,707

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Municipals - 0.0%		
Florida Hurricane Catastrophe Fund Finance Corp. Rev. A, 1.298%, 2016	\$ 5,000	\$ 5,003
Natural Gas - Pipeline - 0.6%		
Energy Transfer Partners LP, 8.5%, 2014	\$ 17,000	\$ 18,098
Kinder Morgan Energy Partners LP, 6.85%, 2020	1,000,000	1,238,036
		\$ 1,256,134
Network & Telecom - 0.2%		
Verizon Communications, Inc., 8.75%, 2018	\$ 292,000	\$ 389,210
Other Banks & Diversified Financials - 0.2%		
Capital One Bank (USA) N.A., 3.375%, 2023	\$ 336,000	\$ 331,473
Citigroup, Inc., 8.5%, 2019	80,000	104,802
		\$ 436,275
Real Estate - 0.4%		
Simon Property Group, Inc., REIT, 5.875%, 2017	\$ 750,000	\$ 861,515
Tobacco - 0.6%		
Altria Group, Inc., 9.7%, 2018	\$ 169,000	\$ 230,776
Altria Group, Inc., 9.25%, 2019	84,000	114,978
Lorillard Tobacco Co., 8.125%, 2019	796,000	1,006,755
		\$ 1,352,509
U.S. Government Agencies and Equivalents - 2.8%		
Aid-Egypt, 4.45%, 2015	\$ 1,755,000	\$ 1,911,799
Freddie Mac, 2.375%, 2022	1,120,000	1,138,817
Small Business Administration, 6.34%, 2021	208,604	230,193
Small Business Administration, 6.35%, 2021	283,941	314,612
Small Business Administration, 6.44%, 2021	267,358	295,660
Small Business Administration, 6.625%, 2021	297,401	330,252
Small Business Administration, 5.52%, 2024	529,500	592,092
Small Business Administration, 2.21%, 2033	333,000	332,577
Small Business Administration, 2.22%, 2033	546,000	545,245
U.S. Department of Housing & Urban Development, 6.36%, 2016	113,000	113,390
U.S. Department of Housing & Urban Development, 6.59%, 2016	171,000	171,472
		\$ 5,976,109
U.S. Treasury Obligations - 20.3%		
U.S. Treasury Bonds, 5.25%, 2029	\$ 1,448,000	\$ 1,905,025
U.S. Treasury Bonds, 4.75%, 2037	2,000,000	2,552,812

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 Bonds, 4.375%, 2038	\$ 4,168,000	\$ 5,049,790
U.S. Treasury Bonds, 4.5%, 2039	3,220,100	3,984,874
U.S. Treasury Bonds, 3.125%, 2043	453,700	439,238
U.S. Treasury Notes, 4%, 2015	4,140,000	4,400,853
U.S. Treasury Notes, 0.875%, 2016	2,300,000	2,315,093
U.S. Treasury Notes, 2.625%, 2016	6,999,000	7,425,505
U.S. Treasury Notes, 4.75%, 2017 (f)	3,389,000	3,937,594
U.S. Treasury Notes, 2.625%, 2018	2,702,000	2,909,716
U.S. Treasury Notes, 2.625%, 2020	162,000	173,429
U.S. Treasury Notes, 3.125%, 2021	668,000	735,687
U.S. Treasury Notes, 1.75%, 2022	7,495,000	7,345,100
		\$ 43,174,716
Total U.S. Bonds		\$ 211,069,167
Foreign Bonds - 8.1%		
Brazil - 2.0%		
Banco do Brasil (Cayman Branch), 6%, 2020 (n)	\$ 100,000	\$ 113,500
Banco do Nordeste do Brasil (BNB), 3.625%, 2015 (n)	253,000	256,163
BNDES Participacoes S.A., 6.5%, 2019 (n)	475,000	544,350
Federative Republic of Brazil, 11%, 2040	183,000	220,240
Federative Republic of Brazil, 5.625%, 2041	323,000	359,338
Petrobras International Finance Co., 7.875%, 2019	453,000	546,974
Petrobras International Finance Co., 5.375%, 2021	1,377,000	1,455,949
Vale Overseas Ltd., 6.875%, 2039	165,000	177,707
Vale Overseas Ltd., 4.625%, 2020	104,000	107,665
Vale Overseas Ltd., 4.375%, 2022	309,000	306,911
Votorantim Participacoes S.A., 6.75%, 2021 (n)	125,000	142,500
		\$ 4,231,297
Canada - 1.0%		
Barrick North America Finance LLC, 5.75%, 2043 (n)	\$ 108,000	\$ 101,222
Rogers Communications, Inc., 6.8%, 2018	1,000,000	1,232,550
Talisman Energy, Inc., 7.75%, 2019	650,000	810,583
		\$ 2,144,355
Chile - 0.7%		
Corporacion Nacional del Cobre de Chile, 3.75%, 2020 (n)	\$ 209,000	\$ 214,305
E.CL S.A., 5.625%, 2021	566,000	623,473
Empresa Nacional del Petroleo, 6.25%, 2019	214,000	239,353
Sociedad Quimica y Minera de Chile S.A., 6.125%, 2016	429,000	470,595
		\$ 1,547,726

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
China - 0.1%		
CNPC (HK) Overseas Capital Ltd., 4.5%, 2021 (n)	\$ 226,000	\$ 242,922
Colombia - 0.1%		
Republic of Colombia, 6.125%, 2041	\$ 104,000	\$ 124,540
France - 0.3%		
Electricite de France, FRN, 5.25%, 2049 (n)	\$ 650,000	\$ 652,438
Iceland - 0.4%		
Republic of Iceland, 4.875%, 2016 (n)	\$ 667,000	\$ 708,687
Republic of Iceland, 5.875%, 2022 (n)	101,000	113,878
		\$ 822,565
Malaysia - 0.2%		
Petronas Capital Ltd., 7.875%, 2022	\$ 370,000	\$ 502,486
Mexico - 1.2%		
Pemex Project Funding Master Trust, 5.75%, 2018	\$ 160,000	\$ 181,600
Petroleos Mexicanos, 8%, 2019	228,000	283,860
Petroleos Mexicanos, 6%, 2020	404,000	462,580
Petroleos Mexicanos, 5.5%, 2021	130,000	144,300
Petroleos Mexicanos, 4.875%, 2022	261,000	277,965
Petroleos Mexicanos, 5.5%, 2044 (n)	21,000	20,580
United Mexican States, 3.625%, 2022	1,164,000	1,204,740
		\$ 2,575,625
Peru - 0.1%		
Republic of Peru, 8.75%, 2033	\$ 180,000	\$ 281,250
Romania - 0.0%		
Republic of Romania, 4.375%, 2023 (n)	\$ 36,000	\$ 35,616
Russia - 1.1%		
Gaz Capital S.A., 8.125%, 2014 (n)	\$ 509,000	\$ 546,615
Gaz Capital S.A., 5.999%, 2021 (n)	796,000	879,381
Gaz Capital S.A., 3.85%, 2020 (n)	200,000	195,946
Lukoil International Finance B.V., 3.416%, 2018 (n)	200,000	200,000
Lukoil International Finance B.V., 4.563%, 2023 (n)	226,000	218,655
Rosneft, 4.199%, 2022 (n)	200,000	191,000
VTB Capital S.A., 6.465%, 2015 (n)	154,000	164,675
		\$ 2,396,272

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Slovakia - 0.5%		
Republic of Slovakia, 4.375%, 2022 (n)	\$ 909,000	\$ 970,539
South Africa - 0.1%		
Myriad International Holdings B.V., 6.375%, 2017 (n)	\$ 174,000	\$ 195,089
United Kingdom - 0.3%		
Diageo Capital PLC, 5.75%, 2017	\$ 520,000	\$ 609,400
Total Foreign Bonds		\$ 17,332,120
Total Bonds (Identified Cost, \$211,392,052)		\$ 228,401,287
Money Market Funds - 12.5%		
MFS Institutional Money Market Portfolio, 0.12%, at Cost and Net Asset Value (v)	26,684,403	\$ 26,684,403
Total Investments (Identified Cost, \$238,076,455)		\$ 255,085,690
Other Assets, Less Liabilities - (19.9)%		(42,423,356)
Net Assets - 100.0%		\$ 212,662,334

(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 \$7,011,716 representing 3.3% of net assets.

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

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
TBA	To Be Announced

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Portfolio of Investments (unaudited) continued

Derivative Contracts at 5/31/13

Futures Contracts Outstanding at 5/31/13

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
<i>Interest Rate Futures Contracts</i>					
U.S. Treasury Bond 30 yr (Short)	USD	47	\$6,581,469	September - 2013	\$31,184

At May 31, 2013, the fund had liquid securities with an aggregate value of \$123,159 to cover any commitments for certain derivative contracts.

See Notes to Financial Statements

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

At 5/31/13 (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, \$211,392,052)	\$228,401,287
Underlying affiliated funds, at cost and value	26,684,403
Total investments, at value (identified cost, \$238,076,455)	\$255,085,690
Receivables for	
Daily variation margin on open futures contracts	22,031
Interest	1,594,397
Other assets	18,078
Total assets	\$256,720,196
Liabilities	
Payables for	
Distributions	\$86,258
TBA purchase commitments	43,728,351
Payable to affiliates	
Investment adviser	5,550
Transfer agent and dividend disbursing costs	16,216
Payable for independent Trustees' compensation	95,022
Accrued expenses and other liabilities	126,465
Total liabilities	\$44,057,862
Net assets	\$212,662,334
Net assets consist of	
Paid-in capital	\$215,759,653
Unrealized appreciation (depreciation) on investments	17,040,419
Accumulated net realized gain (loss) on investments	(15,228,812)
Accumulated distributions in excess of net investment income	(4,908,926)
Net assets	\$212,662,334
Shares of beneficial interest outstanding	32,601,117
Net asset value per share (net assets of \$212,662,334 / 32,601,117 shares of beneficial interest outstanding)	\$6.52

See Notes to Financial Statements

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

Six months ended 5/31/13 (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	\$4,087,620
Dividends from underlying affiliated funds	18,163
Total investment income	\$4,105,783
Expenses	
Management fee	\$592,029
Transfer agent and dividend disbursing costs	51,097
Administrative services fee	19,210
Independent Trustees' compensation	20,499
Stock exchange fee	14,280
Custodian fee	16,660
Shareholder communications	69,141
Audit and tax fees	36,820
Legal fees	2,232
Miscellaneous	11,281
Total expenses	\$833,249
Fees paid indirectly	(87)
Reduction of expenses by investment adviser	(350)
Net expenses	\$832,812
Net investment income	\$3,272,971
Realized and unrealized gain (loss) on investments	
Realized gain (loss) (identified cost basis)	
Investments	\$1,500,648
Futures contracts	299,564
Net realized gain (loss) on investments	\$1,800,212
Change in unrealized appreciation (depreciation)	
Investments	\$(8,611,317)
Futures contracts	55,216
Net unrealized gain (loss) on investments	\$(8,556,101)
Net realized and unrealized gain (loss) on investments	\$(6,755,889)
Change in net assets from operations	\$(3,482,918)

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 5/31/13 (unaudited)	Year ended 11/30/12
Change in net assets		
From operations		
Net investment income	\$3,272,971	\$7,596,035
Net realized gain (loss) on investments	1,800,212	1,843,739
Net unrealized gain (loss) on investments	(8,556,101)	2,533,835
Change in net assets from operations	\$(3,482,918)	\$11,973,609
Distributions declared to shareholders		
From net investment income	\$(3,272,971)	\$(10,314,471)
From tax return of capital		(6,130,505)
From other sources	(4,714,220)	
Total distributions declared to shareholders	\$(7,987,191)	\$(16,444,976)
Change in net assets from fund share transactions	\$190,620	\$804,526
Total change in net assets	\$(11,279,489)	\$(3,666,841)
Net assets		
At beginning of period	223,941,823	227,608,664
At end of period (including accumulated distributions in excess of net investment income of \$4,908,926 and \$194,706, respectively)	\$212,662,334	\$223,941,823
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 5/31/13	2012	Years ended 11/30			2008
		2011	2010	2009		
(unaudited)						
Net asset value, beginning of period	\$6.88	\$7.01	\$7.17	\$7.27	\$7.01	\$7.35
Income (loss) from investment operations						
Net investment income (d)	\$0.10	\$0.23	\$0.26	\$0.30	\$0.32	\$0.33
Net realized and unrealized gain (loss) on investments and foreign currency	(0.21)	0.15	0.09	0.12	0.46	(0.15)
Total from investment operations	\$(0.11)	\$0.38	\$0.35	\$0.42	\$0.78	\$0.18
Less distributions declared to shareholders						
From net investment income	\$(0.10)	\$(0.32)	\$(0.32)	\$(0.32)	\$(0.35)	\$(0.34)
From tax return of capital		(0.19)	(0.19)	(0.20)	(0.17)	(0.18)
From other sources	(0.15)					
Total distributions declared to shareholders	\$(0.25)	\$(0.51)	\$(0.51)	\$(0.52)	\$(0.52)	\$(0.52)
Net asset value, end of period (x)	\$6.52	\$6.88	\$7.01	\$7.17	\$7.27	\$7.01
Market value, end of period	\$6.17	\$6.76	\$6.85	\$7.15	\$7.28	\$7.21
Total return at market value (%)	(5.28)(n)	6.12	3.36	5.54	8.45	17.96
Total return at net asset value (%) (j)(r)(s)(x)	(1.65)(n)	5.54	5.48	5.98	11.39	2.83
Ratios (%) (to average net assets) and Supplemental data:						
Expenses before expense reductions (f)	0.76(a)	0.78	0.80	0.83	0.83	0.94
Expenses after expense reductions (f)	0.76(a)	0.78	0.80	0.80	0.80	0.80
Net investment income	3.00(a)	3.36	3.75	4.19	4.48	4.55
Portfolio turnover	63(n)	41	14	26	21	31
Net assets at end of period (000 omitted)	\$212,662	\$223,942	\$227,609	\$232,865	\$234,591	\$225,179

(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.

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Financial Highlights continued

- (s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
- (x) The net asset values per share and total returns at net asset value per share have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

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 invests 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.

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-01 (ASU 2013-01) entitled Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities which is intended to clarify the scope of Accounting Standards Update 2011-11 (ASU 2011-11), Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. Consistent with the effective date for ASU 2011-11, ASU 2013-01 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. ASU 2013-01 limits the scope of ASU 2011-11's disclosure requirements on offsetting to financial assets and financial liabilities related to derivatives, repurchase and reverse repurchase agreements, and securities lending and securities borrowing transactions. Although still evaluating the potential impact of these two ASUs to the fund, management expects that the impact of the fund's adoption will be limited to additional financial statement disclosures.

In June 2013, FASB issued Accounting Standards Update 2013-08 Financial Services Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements (ASU 2013-08) which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. ASU 2013-08 sets forth a methodology for determining whether an entity should be characterized as an investment company and prescribes fair value accounting for an investment company's non-controlling ownership interest in another investment company. FASB has determined that a fund registered under the Investment Company Act of 1940

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Notes to Financial Statements (unaudited) continued

automatically meets ASU 2013-08's criteria for an investment company. Although still evaluating the potential impacts of ASU 2013-08 to the fund, management expects that the impact of the fund's adoption will be limited to additional financial statement disclosures.

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 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

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Notes to Financial Statements (unaudited) continued

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.

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 contracts. The following is a summary of the levels used as of May 31, 2013 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	\$	\$79,690,889	\$	\$79,690,889
Non-U.S. Sovereign Debt		12,135,770		12,135,770
Municipal Bonds		5,003		5,003
U.S. Corporate Bonds		16,871,705		16,871,705
Residential Mortgage-Backed Securities		106,890,707		106,890,707
Commercial Mortgage-Backed Securities		7,610,863		7,610,863
Foreign Bonds		5,196,350		5,196,350
Mutual Funds	26,684,403			26,684,403
Total Investments	\$26,684,403	\$228,401,287	\$	\$255,085,690
Other Financial Instruments				
Futures Contracts	\$ 31,184	\$	\$	\$31,184

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

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 uses derivatives for different purposes, primarily to increase or decrease exposure to a particular market or segment of the market, or security, to

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Notes to Financial Statements (unaudited) continued

increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are 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.

The derivative instruments used by the fund were futures contracts. 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, 2013 as reported in the Statement of Assets and Liabilities:

Risk	Derivative Contracts	Fair Value (a) Asset Derivatives
Interest Rate	Interest Rate Futures	\$31,184

(a) 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.

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, 2013 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$299,564

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, 2013 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$55,216

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.

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Notes to Financial Statements (unaudited) continued

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 amounts of assets and liabilities in the Statement of 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 contracts and exchange-traded options) while collateral terms are contract specific for over-the-counter traded derivatives (i.e., forward foreign currency exchange contracts, swap agreements 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 segregated to cover obligations of the fund under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as restricted cash. Securities collateral pledged for the same purpose, if any, is noted in the Portfolio of Investments.

Futures Contracts The fund entered into futures contracts which may be used to hedge against or obtain broad market exposure, interest rate exposure, currency exposure, or to manage duration. 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 contracts 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 contracts 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.

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Notes to Financial Statements (unaudited) continued

generally accepted accounting principles. Interest payments received in additional securities are recorded on the 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 purchased or sold debt securities on a when-issued or delayed delivery basis, or in a To Be Announced (TBA) or forward commitment transaction with delivery or payment to occur at a later date beyond the normal settlement period. TBA securities resulting from these transactions are included in the Portfolio of Investments. At the time a fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the security acquired is reflected in the fund's net asset value. The price of such security and the date that the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. TBA purchase commitments are held at carrying amount, which approximates fair value and are categorized as level 2 within the fair value hierarchy disclosure. No interest accrues to the fund until payment takes place. At the time that a fund enters into this type of transaction, the fund is required to have sufficient cash and/or liquid securities to cover its commitments. Losses may arise due to changes in the value of the underlying securities or if the counterparty does not perform under the contract's terms, or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to declines in the value of the securities prior to settlement date.

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, 2013, is shown as a reduction of total expenses in 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, when filed, will remain subject to examination by the Internal Revenue Service for a three year period.

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 financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments

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Notes to Financial Statements (unaudited) continued

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 expiration of capital loss carryforwards, amortization and accretion of debt securities, and straddle loss deferrals.

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:

	11/30/12
Ordinary income (including any short-term capital gains) (a)	\$10,314,471
Tax return of capital (b)	6,130,505
Total distributions	\$16,444,976

(a) Included in the fund's distributions from ordinary income is \$1,780,698 in excess of investment company taxable income which, in accordance with applicable U.S. tax law, is taxable to shareholders as ordinary income distributions.

(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 5/31/13	
Cost of investments	\$244,048,663
Gross appreciation	13,659,571