

MFS GOVERNMENT MARKETS INCOME TRUST

Form N-CSRS

July 27, 2017

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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)

Christopher R. Bohane

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, 2017

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ITEM 1. REPORTS TO STOCKHOLDERS.

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SEMIANNUAL REPORT

May 31, 2017

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 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 primary purpose of the managed distribution policy is to provide shareholders with a constant, but not guaranteed, fixed minimum rate of distribution each month. 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. The amendment or termination of the managed distribution policy could have an adverse effect on the market price of the fund's shares.

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. The amounts and sources of distributions reported in the notice to shareholders 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. Please refer to Tax Matters and Distributions under Note 2 of the Notes to Financial Statements for information regarding the tax character of the fund's distributions.

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. Any such returns of capital will decrease the fund's total assets and, therefore, could have the effect of increasing the fund's expense ratio. In addition, in order to make the level of distributions called for under its managed distribution policy, the fund may have to sell portfolio securities at a less than opportune time. A return of capital does not necessarily reflect the fund's investment performance and should not be confused with yield or income. The fund's total return in relation to changes in net asset value is presented in the Financial Highlights.

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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 EXECUTIVE CHAIRMAN

Dear Shareholders:

Despite policy uncertainty accompanying a new presidential administration in the United States and unease over looming Brexit negotiations, most markets have proved

resilient. U.S. share prices have reached new highs, and U.S. bond yields rose on hopes surrounding President Trump's proposed fiscal policies and indications that the U.S. Federal Reserve will continue to gradually hike interest rates. However, interest rates in most developed markets remain very low, with central banks maintaining accommodative monetary policies in hopes of reinvigorating slow-growing economies and lifting inflation.

Globally, economic growth has shown signs of recovery, led by China, the U.S. and the eurozone. Despite better growth, there are few immediate signs of worrisome inflation, as wage growth remains muted. Emerging market economies are recovering at a

somewhat slower pace amid fears that restrictive U.S. trade policies could further hamper the restrained pace of global trade growth. Looking ahead, markets will have to contend with elections in the United Kingdom and Germany in the months ahead, as well as geopolitical hot spots on the Korean peninsula and in the Middle East.

At MFS®, we believe time is an asset. A patient, long-term approach to investing can have a powerful impact on decision making and outcomes. Time arbitrage, as we call it, simply comes down to having the conviction and discipline to allow enough time for good investment ideas to play out. In our view, such an approach, along with the professional guidance of a financial advisor, will help you reach your investment objectives.

Respectfully,

Robert J. Manning

Executive Chairman

MFS Investment Management

July 14, 2017

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

Table of Contents**PORTFOLIO COMPOSITION****Portfolio structure (i)****Fixed income sectors (i)**

Mortgage-Backed Securities	49.8%
U.S. Treasury Securities	24.7%
U.S. Government Agencies	9.7%
Investment Grade Corporates	8.5%
Emerging Markets Bonds	3.6%
Collateralized Debt Obligations	1.7%
Municipal Bonds	1.2%
Commercial Mortgage-Backed Securities	0.6%
High Yield Corporates	0.4%
Non-U.S. Government Bonds	0.1%
Asset-Backed Securities (o)	0.0%

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

AAA	1.9%
AA	1.5%
A	3.1%
BBB	9.1%
BB	0.4%
B	0.1%
U.S. Government	22.7%
Federal Agencies	59.5%
Not Rated	2.0%
Cash & Cash Equivalents	1.7%
Other	(2.0)%

Portfolio facts (i)

Average Duration (d)	5.6
Average Effective Maturity (m)	8.2 yrs.

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Portfolio Composition continued

- (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. The fund may or may not have held all of these instruments on this date. The fund is not rated by these agencies.
- (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 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. 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 value. The bond component will include any accrued interest amounts.
- (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%.

Where the fund holds convertible bonds, they are treated as part of the equity portion of the portfolio.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund's cash position and other assets and liabilities.

Other includes equivalent exposure from currency derivatives and/or any offsets to derivative positions and may be negative.

Percentages are based on net assets as of May 31, 2017.

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

Table of Contents**PORTFOLIO MANAGERS PROFILE**

Portfolio Manager	Primary Role	Since	Title and Five Year History
Geoffrey Schechter	Lead and U.S. Government Securities Portfolio Manager	2006	Investment Officer of MFS; employed in the investment management area of MFS since 1993.
Ward Brown	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; employed in the investment management area of MFS since 2005.
Robert Persons	Investment Grade Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; employed in the investment management area of MFS since 2000.
Matt Ryan	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; employed in the investment management area of MFS since 1997.

OTHER NOTES

The fund's shares may trade at a discount or premium to 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 concurrent liquidation.

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, determined in accordance with federal income tax regulations, 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 may 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.

Table of Contents**PORTFOLIO OF INVESTMENTS**

5/31/17 (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 - 97.7%		
Issuer	Shares/Par	Value (\$)
U.S. Bonds - 92.7%		
Agency - Other - 6.8%		
Financing Corp., 10.7%, 10/06/2017	\$ 4,095,000	\$ 4,230,626
Financing Corp., 9.4%, 2/08/2018	3,085,000	3,254,314
Financing Corp., 10.35%, 8/03/2018	3,820,000	4,225,772
		\$ 11,710,712
Asset-Backed & Securitized - 2.3%		
A Voce CLO Ltd., 2014-1A, A1R, FRN, 2.318%, 7/15/2026 (n)	\$ 541,000	\$ 540,819
ALM Loan Funding CLO, 2014-14A, A1R, FRN, 2.321%, 7/28/2026 (z)	371,723	371,804
Atrium CDO Corp., 2011-A, A1R, FRN, 2.293%, 10/23/2025 (n)	548,000	548,503
Babson CLO Ltd., 2013-IIA, BR, FRN, 3.408%, 1/18/2025 (n)	583,669	585,019
Citigroup Commercial Mortgage Trust, FRN, 5.701%, 12/10/2049	85,599	85,526
CNH Equipment Trust, 2015-C, A2B, FRN, 1.459%, 12/17/2018	26,296	26,302
Commercial Mortgage Trust, 2015-DC1, A5, 3.35%, 2/10/2048	327,000	334,498
Credit Suisse Commercial Mortgage Trust, A4, FRN, 5.936%, 9/15/2039	111,919	111,826
Credit Suisse Commercial Mortgage Trust, C4, FRN, 5.936%, 9/15/2039	378,313	379,027
Fortress Credit BSL Ltd., 2013-1A, A, FRN, 2.338%, 1/19/2025 (n)	292,734	292,658
JPMorgan Chase Commercial Mortgage Securities Corp., A4, FRN, 5.722%, 6/15/2049	3,262	3,259
Morgan Stanley Capital I Trust, AM, FRN, 5.744%, 4/15/2049	96,577	97,543
TICP CLO Ltd., FRN, 2.336%, 1/20/2027 (n)	538,454	538,463
		\$ 3,915,247
Automotive - 0.1%		
Ford Motor Credit Co. LLC, 2.551%, 10/05/2018	\$ 241,000	\$ 242,596
Building - 0.1%		
Martin Marietta Materials, Inc., 4.25%, 7/02/2024	\$ 82,000	\$ 86,469
Business Services - 0.8%		
Cisco Systems, Inc., 2.6%, 2/28/2023	\$ 299,000	\$ 301,866
Fidelity National Information Services, Inc., 3.875%, 6/05/2024	1,000,000	1,045,980
		\$ 1,347,846
Cable TV - 0.9%		
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., 4.908%, 7/23/2025	\$ 242,000	\$ 262,661

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Cable TV - continued		
Comcast Corp., 4.2%, 8/15/2034	\$ 96,000	\$ 101,305
Time Warner Cable, Inc., 8.25%, 4/01/2019	1,000,000	1,109,458
Time Warner Cable, Inc., 4.5%, 9/15/2042	100,000	95,487
		\$ 1,568,911
Chemicals - 0.2%		
Sherwin Williams Co., 2.75%, 6/01/2022	\$ 345,000	\$ 347,298
Computer Software - 0.1%		
Microsoft Corp., 3.125%, 11/03/2025	\$ 124,000	\$ 127,447
Computer Software - Systems - 0.3%		
Apple, Inc., 3.25%, 2/23/2026	\$ 400,000	\$ 409,943
Apple, Inc., 4.375%, 5/13/2045	121,000	129,717
		\$ 539,660
Consumer Products - 0.2%		
Newell Rubbermaid, Inc., 3.15%, 4/01/2021	\$ 369,000	\$ 380,733
Food & Beverages - 0.3%		
Anheuser-Busch InBev Worldwide, Inc., 3.3%, 2/01/2023	\$ 167,000	\$ 172,110
Anheuser-Busch InBev Worldwide, Inc., 4.7%, 2/01/2036	219,000	238,660
Tyson Foods, Inc., 5.15%, 8/15/2044	38,000	42,056
		\$ 452,826
Food & Drug Stores - 0.2%		
CVS Health Corp., 5.125%, 7/20/2045	\$ 270,000	\$ 305,790
Insurance - 0.1%		
American International Group, Inc., 4.7%, 7/10/2035	\$ 108,000	\$ 114,176
Insurance - Health - 0.4%		
UnitedHealth Group, Inc., 4.625%, 7/15/2035	\$ 672,000	\$ 751,735
Insurance - Property & Casualty - 0.1%		
Liberty Mutual Group, Inc., 4.85%, 8/01/2044 (n)	\$ 99,000	\$ 105,040
Local Authorities - 1.2%		
New Jersey Turnpike Authority Rev. (Build America Bonds), F, 7.414%, 1/01/2040	\$ 32,000	\$ 47,086
State of California (Build America Bonds), 7.6%, 11/01/2040	925,000	1,418,682
University of California Rev. (Build America Bonds), 5.77%, 5/15/2043	450,000	572,382
		\$ 2,038,150

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Major Banks - 0.4%		
Bank of America Corp., 7.625%, 6/01/2019	\$ 170,000	\$ 188,310
Goldman Sachs Group, Inc., 3.625%, 1/22/2023	446,000	461,934
Goldman Sachs Group, Inc., 4.8%, 7/08/2044	94,000	102,568
		\$ 752,812
Medical & Health Technology & Services - 0.2%		
Becton, Dickinson and Co., 4.685%, 12/15/2044	\$ 179,000	\$ 181,782
Laboratory Corp. of America Holdings, 4.7%, 2/01/2045	106,000	108,808
		\$ 290,590
Medical Equipment - 0.1%		
Medtronic, Inc., 4.625%, 3/15/2045	\$ 237,000	\$ 262,999
Metals & Mining - 0.3%		
Freeport-McMoRan, Inc., 3.875%, 3/15/2023	\$ 500,000	\$ 464,700
Midstream - 0.9%		
Enterprise Products Operating LLC, 3.9%, 2/15/2024	\$ 29,000	\$ 30,470
Kinder Morgan Energy Partners LP, 6.85%, 2/15/2020	1,000,000	1,117,554
Kinder Morgan Energy Partners LP, 5.4%, 9/01/2044	358,000	367,730
		\$ 1,515,754
Mortgage-Backed - 49.6%		
Fannie Mae, 1.9%, 6/01/2017	\$ 152,796	\$ 152,652
Fannie Mae, 6%, 8/01/2017 - 7/01/2037	1,058,151	1,205,350
Fannie Mae, 5.5%, 9/01/2017 - 3/01/2038	3,441,554	3,854,149
Fannie Mae, 4.88%, 3/01/2020	99,047	103,117
Fannie Mae, 3.87%, 7/01/2022	182,427	194,581
Fannie Mae, 2.152%, 1/25/2023	401,000	398,160
Fannie Mae, 2.41%, 5/01/2023	128,180	130,081
Fannie Mae, 2.55%, 5/01/2023	110,309	112,754
Fannie Mae, 2.59%, 5/01/2023	69,829	71,523
Fannie Mae, 3.78%, 10/01/2023	63,767	68,271
Fannie Mae, 2.7%, 7/01/2025	200,000	202,014
Fannie Mae, 3.43%, 6/01/2026	197,321	207,729
Fannie Mae, 3.59%, 9/01/2026	73,098	77,852
Fannie Mae, 2.597%, 12/25/2026	729,000	718,507
Fannie Mae, 3%, 4/01/2027 - 11/01/2046	4,618,499	4,712,921
Fannie Mae, 4.96%, 6/01/2030	128,278	147,216
Fannie Mae, 6.5%, 5/01/2031 - 2/01/2037	654,992	753,294
Fannie Mae, 5%, 6/01/2035 - 3/01/2042	672,447	740,794
Fannie Mae, 4.5%, 1/01/2040 - 4/01/2044	5,932,917	6,422,230
Fannie Mae, 4%, 9/01/2040 - 2/01/2045	11,313,598	12,005,164

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

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Fannie Mae, 3.5%, 4/01/2043 - 1/01/2047	\$ 8,910,085	\$ 9,219,768
Fannie Mae, TBA, 4%, 6/01/2047	1,012,800	1,070,089
Freddie Mac, 2.699%, 5/25/2018	783,806	791,338
Freddie Mac, 2.412%, 8/25/2018	1,125,498	1,135,710
Freddie Mac, 2.303%, 9/25/2018	275,000	277,238
Freddie Mac, 2.323%, 10/25/2018	493,309	498,409
Freddie Mac, 2.13%, 1/25/2019	1,549,734	1,563,919
Freddie Mac, 5.085%, 3/25/2019	752,000	789,134
Freddie Mac, 2.456%, 8/25/2019	383,000	388,705
Freddie Mac, 4.186%, 8/25/2019	600,000	630,948
Freddie Mac, 3.808%, 8/25/2020	219,000	231,932
Freddie Mac, 3.034%, 10/25/2020	291,000	301,608
Freddie Mac, 2.856%, 1/25/2021	400,000	413,153
Freddie Mac, 6%, 5/01/2021 - 10/01/2038	546,232	625,371
Freddie Mac, 2.791%, 1/25/2022	517,000	533,996
Freddie Mac, 2.716%, 6/25/2022	399,000	410,402
Freddie Mac, 2.355%, 7/25/2022	500,000	505,728
Freddie Mac, 2.682%, 10/25/2022	189,000	193,879
Freddie Mac, 2.51%, 11/25/2022	496,000	504,570
Freddie Mac, 3.32%, 2/25/2023	433,000	458,078
Freddie Mac, 3.3%, 4/25/2023 - 10/25/2026	1,034,471	1,090,063
Freddie Mac, 3.06%, 7/25/2023	181,000	189,154
Freddie Mac, 2.454%, 8/25/2023	379,000	382,158
Freddie Mac, 3.458%, 8/25/2023	367,000	390,761
Freddie Mac, 4.5%, 9/01/2024 - 5/01/2042	1,174,483	1,268,634
Freddie Mac, 2.67%, 12/25/2024	827,000	839,208
Freddie Mac, 2.811%, 1/25/2025	642,000	656,589
Freddie Mac, 3.329%, 5/25/2025	928,000	980,707
Freddie Mac, 3.01%, 7/25/2025	225,000	232,359
Freddie Mac, 2.745%, 1/25/2026	629,000	634,864
Freddie Mac, 2.673%, 3/25/2026	900,000	902,131
Freddie Mac, 3.224%, 3/25/2027	575,000	598,433
Freddie Mac, 5.5%, 8/01/2035 - 6/01/2036	607,131	679,423
Freddie Mac, 6.5%, 5/01/2037	145,670	162,626
Freddie Mac, 5%, 4/01/2040 - 7/01/2041	2,207,818	2,424,303
Freddie Mac, 4%, 1/01/2041 - 4/01/2044	633,022	669,836
Freddie Mac, 3.5%, 5/01/2042 - 1/01/2047	8,721,800	9,033,052
Freddie Mac, 3%, 4/01/2043 - 11/01/2046	4,801,552	4,844,202
Freddie Mac, TBA, 4.5%, 6/01/2047 - 7/01/2047	1,390,000	1,496,777
Ginnie Mae, 5.5%, 7/15/2033 - 1/20/2042	1,143,147	1,291,303
Ginnie Mae, 4%, 8/15/2040 - 4/20/2041	179,051	190,748
Ginnie Mae, 4.5%, 9/20/2041	211,538	228,948

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Ginnie Mae, 3.5%, 4/15/2042 - 7/20/2043	\$ 2,833,090	\$ 2,968,399
Ginnie Mae, 6.157%, 4/20/2058	10,981	12,144
		\$ 84,989,156
Network & Telecom - 0.8%		
Verizon Communications, Inc., 5.05%, 3/15/2034	\$ 750,000	\$ 788,482
Verizon Communications, Inc., A , 5.012%, 4/15/2049 (n)	596,000	600,746
		\$ 1,389,228
Oils - 0.1%		
Valero Energy Corp., 4.9%, 3/15/2045	\$ 130,000	\$ 134,620
Pharmaceuticals - 0.1%		
Gilead Sciences, Inc., 4.5%, 2/01/2045	\$ 82,000	\$ 83,983
Gilead Sciences, Inc., 4.75%, 3/01/2046	80,000	84,905
		\$ 168,888
Restaurants - 0.1%		
McDonald s Corp., 2.75%, 12/09/2020	\$ 134,000	\$ 136,882
Supranational - 0.1%		
Inter-American Development Bank, 4.375%, 1/24/2044	\$ 158,000	\$ 189,529
Tobacco - 0.6%		
Altria Group, Inc., 9.25%, 8/06/2019	\$ 55,000	\$ 63,404
Altria Group, Inc., 4%, 1/31/2024	14,000	14,988
Reynolds American, Inc., 8.125%, 6/23/2019	583,000	653,776
Reynolds American, Inc., 4%, 6/12/2022	79,000	84,137
Reynolds American, Inc., 4.45%, 6/12/2025	217,000	233,836
		\$ 1,050,141
Transportation - Services - 0.0%		
ERAC USA Finance LLC, 3.85%, 11/15/2024 (n)	\$ 34,000	\$ 34,932
U.S. Government Agencies and Equivalents - 2.7%		
AID-Tunisia, 2.452%, 7/24/2021	\$ 235,000	\$ 240,190
AID-Ukraine, 1.844%, 5/16/2019	444,000	448,177
AID-Ukraine, 1.847%, 5/29/2020	330,000	330,877
Hashemite Kingdom of Jordan, 1.945%, 6/23/2019	443,000	446,306
Hashemite Kingdom of Jordan, 2.503%, 10/30/2020	418,000	429,495
Private Export Funding Corp., 2.25%, 3/15/2020	86,000	87,529
Private Export Funding Corp., 2.3%, 9/15/2020	360,000	365,597
Private Export Funding Corp., 1.875%, 7/15/2018	460,000	462,600

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
U.S. Bonds - continued		
U.S. Government Agencies and Equivalents - continued		
Small Business Administration, 6.35%, 4/01/2021	\$ 40,242	\$ 42,433
Small Business Administration, 6.34%, 5/01/2021	40,260	42,404
Small Business Administration, 6.44%, 6/01/2021	57,383	60,511
Small Business Administration, 6.625%, 7/01/2021	61,321	64,720
Small Business Administration, 5.52%, 6/01/2024	117,285	125,012
Small Business Administration, 2.21%, 2/01/2033	224,844	222,080
Small Business Administration, 2.22%, 3/01/2033	378,126	375,187
Small Business Administration, 3.15%, 7/01/2033	327,812	340,239
Small Business Administration, 3.62%, 9/01/2033	290,653	308,899
Tennessee Valley Authority, 1.75%, 10/15/2018	292,000	293,912
		\$ 4,686,168
U.S. Treasury Obligations - 22.6%		
U.S. Treasury Bonds, 5.25%, 2/15/2029	\$ 48,000	\$ 62,505
U.S. Treasury Bonds, 4.75%, 2/15/2037	336,000	449,361
U.S. Treasury Bonds, 4.375%, 2/15/2038	4,287,000	5,485,684
U.S. Treasury Bonds, 4.5%, 8/15/2039 (f)	5,097,100	6,613,487
U.S. Treasury Bonds, 3.125%, 2/15/2043	453,700	477,697
U.S. Treasury Bonds, 2.875%, 5/15/2043	1,697,100	1,706,514
U.S. Treasury Bonds, 2.5%, 2/15/2045	2,504,000	2,328,818
U.S. Treasury Notes, 4.75%, 8/15/2017	838,000	844,633
U.S. Treasury Notes, 3.125%, 5/15/2019	300,000	310,688
U.S. Treasury Notes, 1%, 6/30/2019	3,593,000	3,572,509
U.S. Treasury Notes, 2.625%, 8/15/2020	162,000	167,708
U.S. Treasury Notes, 3.125%, 5/15/2021	5,026,000	5,312,442
U.S. Treasury Notes, 1.75%, 5/15/2022	2,208,000	2,207,311
U.S. Treasury Notes, 2.75%, 2/15/2024	577,000	604,791
U.S. Treasury Notes, 2.5%, 5/15/2024	4,038,000	4,167,184
U.S. Treasury Notes, 2%, 8/15/2025	98,000	97,035
U.S. Treasury Notes, 2%, 11/15/2026	1,587,000	1,560,343
U.S. Treasury Notes, 2.875%, 11/15/2046	2,766,000	2,771,294
		\$ 38,740,004
Total U.S. Bonds		\$ 158,841,039
Foreign Bonds - 5.0%		
Australia - 0.0%		
APT Pipelines Ltd., 4.25%, 7/15/2027 (n)	\$ 16,000	\$ 16,526
Brazil - 0.2%		
Federative Republic of Brazil, 5.625%, 1/07/2041	\$ 162,000	\$ 157,950
Vale Overseas Ltd., 6.875%, 11/10/2039	165,000	177,078
		\$ 335,028

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Chile - 0.6%		
Engie Energia Chile S.A., 5.625%, 1/15/2021	\$ 566,000	\$ 620,729
GNL Quintero S.A., 4.634%, 7/31/2029 (n)	200,000	209,250
Transelec S.A., 4.25%, 1/14/2025	200,000	206,136
		\$ 1,036,115
China - 0.7%		
Baidu, Inc., 3.25%, 8/06/2018	\$ 240,000	\$ 243,173
CNPC (HK) Overseas Capital Ltd., 4.5%, 4/28/2021 (n)	226,000	241,473
State Grid Overseas Investment (2014) Ltd., 4.125%, 5/07/2024 (n)	690,000	731,624
		\$ 1,216,270
France - 0.2%		
Banque Federative du Credit Mutuel S.A., 2.5%, 4/13/2021 (n)	\$ 395,000	\$ 395,071
Italy - 0.2%		
Enel Finance International N.V., 2.875%, 5/25/2022 (n)	\$ 366,000	\$ 365,450
Kazakhstan - 0.1%		
Republic of Kazakhstan, 5.125%, 7/21/2025 (n)	\$ 201,000	\$ 219,928
Mexico - 1.3%		
Comision Federal de Electricidad, 4.875%, 5/26/2021	\$ 277,000	\$ 294,659
Petroleos Mexicanos, 6%, 3/05/2020	202,000	218,336
Petroleos Mexicanos, 5.5%, 1/21/2021	130,000	138,274
Petroleos Mexicanos, 5.5%, 6/27/2044	12,000	10,751
Petroleos Mexicanos, 4.875%, 1/18/2024	95,000	96,900
Petroleos Mexicanos, 4.25%, 1/15/2025	15,000	14,719
Petroleos Mexicanos, 5.625%, 1/23/2046	23,000	20,746
Petroleos Mexicanos, 6.75%, 9/21/2047	21,000	21,555
Petroleos Mexicanos, 4.625%, 9/21/2023	53,000	54,028
Southern Copper Corp., 5.875%, 4/23/2045	80,000	83,970
United Mexican States, 3.625%, 3/15/2022	1,164,000	1,203,576
		\$ 2,157,514
Netherlands - 0.7%		
ING Bank N.V., 5.8%, 9/25/2023 (n)	\$ 769,000	\$ 870,619
ING Groep N.V., 3.15%, 3/29/2022	350,000	356,797
		\$ 1,227,416
Panama - 0.1%		
Republic of Panama, 3.875%, 3/17/2028	\$ 213,000	\$ 218,858

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Foreign Bonds - continued		
Peru - 0.3%		
El Fondo Mivivienda S.A., 3.5%, 1/31/2023	\$ 226,000	\$ 228,599
Republic of Peru, 8.75%, 11/21/2033	180,000	277,974
		\$ 506,573
Romania - 0.1%		
Republic of Romania, 4.375%, 8/22/2023 (n)	\$ 36,000	\$ 38,269
Republic of Romania, 4.875%, 1/22/2024 (n)	58,000	63,420
		\$ 101,689
Russia - 0.1%		
LUKOIL International Finance B.V., 4.563%, 4/24/2023	\$ 213,000	\$ 219,401
United Kingdom - 0.3%		
Imperial Tobacco Finance PLC, 3.75%, 7/21/2022 (n)	\$ 266,000	\$ 277,554
Royal Bank of Scotland Group PLC, 6%, 12/19/2023	124,000	136,310
		\$ 413,864
Uruguay - 0.1%		
Oriental Republic of Uruguay, 4.5%, 8/14/2024	\$ 26,762	\$ 28,783
Oriental Republic of Uruguay, 4.375%, 10/27/2027	47,300	49,996
		\$ 78,779
Total Foreign Bonds		\$ 8,508,482
Total Bonds (Identified Cost, \$161,380,410)		\$ 167,349,521
Money Market Funds - 3.3%		
MFS Institutional Money Market Portfolio, 0.87% (v) (Identified Cost, \$5,599,265)	5,599,527	\$ 5,599,527
Total Investments (Identified Cost, \$166,979,675)		\$ 172,949,048
Other Assets, Less Liabilities - (1.0)%		(1,681,225)
Net Assets - 100.0%		\$ 171,267,823

(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 \$6,675,364, representing 3.9% 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.

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Portfolio of Investments (unaudited) continued

(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	Value
ALM Loan Funding CLO, 2014-14A, A1R, FRN, 2.321%, 7/28/2026	4/5/17	\$371,723	\$371,804
% of Net assets			0.2%

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

- CDO Collateralized Debt Obligation
- CLO Collateralized Loan Obligation
- FRN Floating Rate Note. Interest rate resets periodically and the current rate may not be the rate reported at period end.
- PLC Public Limited Company
- TBA To Be Announced

Derivative Contracts at 5/31/17

Futures Contracts at 5/31/17

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Asset Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Note 10 yr (Long)	USD	35	\$4,420,391	September - 2017	\$15,245
U.S. Treasury Note 5 yr (Long)	USD	50	5,915,625	September - 2017	11,055
					\$26,300

Description	Currency	Contracts	Value	Expiration Date	Unrealized Appreciation (Depreciation)
Liability Derivatives					
<i>Interest Rate Futures</i>					
U.S. Treasury Bond 30 yr (Short)	USD	45	\$6,921,563	September - 2017	\$(69,088)

At May 31, 2017, the fund had liquid securities with an aggregate value of \$107,693 to cover any commitments for certain derivative contracts.

See Notes to Financial Statements

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

At 5/31/17 (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, \$161,380,410)	\$167,349,521
Underlying affiliated funds, at value (identified cost, \$5,599,265)	5,599,527
Total investments, at value (identified cost, \$166,979,675)	\$172,949,048
Interest	1,050,480
Other assets	19,324
Total assets	\$174,018,852
Liabilities	
Payables for	
Distributions	\$58,216
Daily variation margin on open futures contracts	15,234
TBA purchase commitments	2,554,372
Payable to affiliates	
Investment adviser	5,075
Transfer agent and dividend disbursing costs	2,114
Payable for independent Trustees' compensation	27,063
Accrued expenses and other liabilities	88,955
Total liabilities	\$2,751,029
Net assets	\$171,267,823
Net assets consist of	
Paid-in capital	\$177,956,740
Unrealized appreciation (depreciation) on investments	5,926,585
Accumulated net realized gain (loss) on investments	(8,552,561)
Accumulated distributions in excess of net investment income	(4,062,941)
Net assets	\$171,267,823
Shares of beneficial interest outstanding	32,601,117
Net asset value per share (net assets of \$171,267,823 / 32,601,117 shares of beneficial interest outstanding)	\$5.25

See Notes to Financial Statements

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

Six months ended 5/31/17 (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	\$2,943,269
Dividends from underlying affiliated funds	13,784
Total investment income	\$2,957,053
Expenses	
Management fee	\$452,248
Transfer agent and dividend disbursing costs	36,377
Administrative services fee	18,400
Independent Trustees' compensation	20,545
Stock exchange fee	15,800
Custodian fee	6,676
Shareholder communications	45,901
Audit and tax fees	39,360
Legal fees	2,566
Miscellaneous	14,492
Total expenses	\$652,365
Net investment income	\$2,304,688
Realized and unrealized gain (loss) on investments	
Realized gain (loss) (identified cost basis)	
Investments:	
Non-affiliated issuers	\$(81,069)
Underlying affiliated funds	4
Futures contracts	(39,255)
Net realized gain (loss) on investments	\$(120,320)
Change in unrealized appreciation (depreciation)	
Investments	\$999,743
Futures contracts	(36,466)
Net unrealized gain (loss) on investments	\$963,277
Net realized and unrealized gain (loss) on investments	\$842,957
Change in net assets from operations	\$3,147,645
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 5/31/17 (unaudited)	Year ended 11/30/16
Change in net assets		
From operations		
Net investment income	\$2,304,688	\$5,098,196
Net realized gain (loss) on investments	(120,320)	875,861
Net unrealized gain (loss) on investments	963,277	(3,057,169)
Change in net assets from operations	\$3,147,645	\$2,916,888
Distributions declared to shareholders		
From net investment income	\$(3,212,382)	\$(6,599,348)
From tax return of capital		(6,745,927)
From other sources	(3,063,014)	
Total distributions declared to shareholders	\$(6,275,396)	\$(13,345,275)
Total change in net assets	\$(3,127,751)	\$(10,428,387)
Net assets		
At beginning of period	174,395,574	184,823,961
At end of period (including accumulated distributions in excess of net investment income of \$4,062,941 and \$92,233, respectively)	\$171,267,823	\$174,395,574
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 that 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 5/31/17	2016	Years ended 11/30		2013	2012
	(unaudited)		2015	2014		
Net asset value, beginning of period	\$5.35	\$5.67	\$6.07	\$6.24	\$6.88	\$7.01
Income (loss) from investment operations						
Net investment income (d)	\$0.07	\$0.16(c)	\$0.17	\$0.18	\$0.20	\$0.23
Net realized and unrealized gain (loss) on investments	0.02	(0.07)	(0.14)	0.10	(0.36)	0.15
Total from investment operations	\$0.09	\$0.09	\$0.03	\$0.28	\$(0.16)	\$0.38
Less distributions declared to shareholders						
From net investment income	\$(0.10)	\$(0.20)	\$(0.20)	\$(0.22)	\$(0.23)	\$(0.32)
From tax return of capital		(0.21)	(0.23)	(0.23)	(0.25)	(0.19)
From other sources	(0.09)					
Total distributions declared to shareholders	\$(0.19)	\$(0.41)	\$(0.43)	\$(0.45)	\$(0.48)	\$(0.51)
Net asset value, end of period (x)	\$5.25	\$5.35	\$5.67	\$6.07	\$6.24	\$6.88
Market value, end of period	\$4.94	\$5.06	\$5.26	\$5.80	\$5.62	\$6.76
Total return at market value (%)	1.45(n)	3.82	(2.02)	11.46	(10.19)	6.12
Total return at net asset value (%) (j)(r)(s)(x)	1.97(n)	1.84(c)	0.92	5.06	(2.02)	5.54
Ratios (%) (to average net assets) and Supplemental data:						
Expenses before expense reductions (f)	0.76(a)	0.72(c)	0.76	0.75	0.75	0.78
Expenses after expense reductions (f)	N/A	N/A	N/A	0.75	0.75	0.78
Net investment income	2.69(a)	2.78(c)	2.84	2.93	3.04	3.36
Portfolio turnover	19(n)	41	74	62	100	41
Net assets at end of period (000 omitted)	\$171,268	\$174,396	\$184,824	\$197,831	\$203,337	\$223,942

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Financial Highlights continued

- (a) Annualized.
- (c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher.
- (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.
- (x) The net asset values and total returns at net asset value 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 diversified closed-end management investment company.

The fund is an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services – Investment Companies.

(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 increases and decreases in net assets from operations 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.

In October 2016, the Securities and Exchange Commission (SEC) released its Final Rule on Investment Company Reporting Modernization (the Rule). The Rule, which introduces two new regulatory reporting forms for investment companies – Form N-PORT and Form N-CEN – also contains amendments to Regulation S-X which impact financial statement presentation, particularly the presentation of derivative investments. Although still evaluating the impacts of the Rule, management believes that many of the Regulation S-X amendments are consistent with the fund’s current financial statement presentation and expects that the fund will be able to comply with the Rule’s Regulation S-X amendments by the August 1, 2017 compliance date.

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08). For entities that hold callable debt securities at a premium, ASU 2017-08 requires that the premium be amortized to the earliest call date. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management is still evaluating the potential impacts of ASU 2017-08 but believes that adoption of ASU 2017-08 will not have a material effect on the fund’s overall financial position or its overall results of operations.

Balance Sheet Offsetting The fund’s accounting policy with respect to balance sheet offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the International Swaps and Derivatives Association (ISDA) Master Agreement does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the fund and the applicable counterparty. The fund’s right to setoff may be restricted or prohibited by the bankruptcy or insolvency laws of the particular jurisdiction to which a specific master netting agreement counterparty is subject. Balance sheet

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Notes to Financial Statements (unaudited) continued

offsetting disclosures, to the extent applicable to the fund, have been included in the fund's Significant Accounting Policies note under the captions for each of the fund's in-scope financial instruments and transactions.

Investment Valuations Debt instruments and floating rate loans, 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 may be valued at amortized cost, which approximates market value. Futures contracts are generally valued at last posted settlement price on their primary exchange as provided by a third-party pricing service. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation on their primary exchange as provided by a third-party pricing service. 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 contracts. The following is a summary of the levels used as of May 31, 2017 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	\$	\$55,136,884	\$	\$55,136,884
Non-U.S. Sovereign Debt		4,519,946		4,519,946
Municipal Bonds		2,038,150		2,038,150
U.S. Corporate Bonds		12,572,075		12,572,075
Residential Mortgage-Backed Securities		84,992,415		84,992,415
Commercial Mortgage-Backed Securities		1,008,421		1,008,421
Asset-Backed Securities (including CDOs)		2,903,568		2,903,568
Foreign Bonds		4,178,062		4,178,062
Mutual Funds	5,599,527			5,599,527
Total Investments	\$5,599,527	\$167,349,521	\$	\$172,949,048
Other Financial Instruments				
Futures Contracts Assets	\$26,300	\$	\$	\$26,300
Futures Contracts Liabilities	(69,088)			(69,088)

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 principal value of these debt securities is adjusted through income according to changes in the Consumer Price 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 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

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Notes to Financial Statements (unaudited) continued

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 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, 2017 as reported in the Statement of Assets and Liabilities:

Risk	Derivative Contracts	Fair Value (a)	
		Asset Derivatives	Liability Derivatives
Interest Rate	Interest Rate Futures	\$26,300	\$(69,088)

(a) The value of futures contracts includes cumulative appreciation (depreciation) as reported in the fund's Portfolio of Investments. Only the current day net 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, 2017 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$(39,255)

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, 2017 as reported in the Statement of Operations:

Risk	Futures Contracts
Interest Rate	\$(36,466)

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. 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

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Notes to Financial Statements (unaudited) continued

credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each agreement 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.

Collateral and margin requirements differ by type of derivative. Margin requirements are set by the clearing broker and the clearing house for cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options) while collateral terms are contract specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options). For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, 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 that has been segregated to cover the fund's collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as

Restricted cash or Deposits with brokers. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments. The fund may be required to make payments of interest on uncovered collateral or margin obligations with the broker. Any such payments are included in Miscellaneous expense in the Statement of Operations.

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.

Dollar Roll Transactions The fund enters into dollar roll transactions, with respect to mortgage-backed securities issued by Ginnie Mae, Fannie Mae, and Freddie Mac, in which the fund sells mortgage-backed securities to financial institutions and simultaneously agrees to purchase similar (same issuer, type and coupon) securities at a

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later date at an agreed-upon price. During the period between the sale and repurchase in a dollar roll transaction the fund will not be entitled to receive interest and principal payments on the securities sold but is compensated by interest earned on the proceeds of the initial sale and by a lower purchase price on the securities to be repurchased which enhances the fund's total return. The fund accounts for dollar roll transactions as purchases and sales and realizes gains and losses on these transactions.

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. Some securities may be purchased on a when-issued or forward delivery basis, which means that the securities will be delivered to the fund at a future date, usually beyond customary settlement time. Inflation-indexed bonds are fixed-income securities whose principal value is periodically adjusted upward or downward based on 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. 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 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 that value 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 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. At the time a fund enters into a commitment to purchase or sell a security, the transaction is

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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 securities resulting from these transactions are included in the Portfolio of Investments. TBA purchase commitments are held at carrying amount, which approximates fair value and are categorized as level 2 within the fair value hierarchy. 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.

To mitigate this risk of loss on TBA securities and other types of forward settling mortgage-backed securities, the fund whenever possible enters into a Master Securities Forward Transaction Agreement (MSFTA) on a bilateral basis with each of the counterparties with whom it undertakes a significant volume of transactions. The MSFTA 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. Upon an event of default or a termination of the MSFTA, the non-defaulting party has the right 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 MSFTA 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.

For mortgage-backed securities traded under a MSFTA, the collateral and margining requirements are contract specific. Collateral amounts across all transactions traded under such agreement are netted and one amount is posted from one party to the other to collateralize such obligations. Cash that has been pledged to cover the fund's collateral or margin obligations under a MSFTA, if any, will be reported separately on the Statement of Assets and Liabilities as restricted cash. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments.

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. Management has analyzed the fund's tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain tax positions that require recognition of a tax liability. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements in accordance with the applicable foreign tax law. Foreign income taxes may be withheld by certain countries in which the fund invests. Additionally, capital gains realized by the fund on securities issued in or by certain foreign countries may be subject to capital gains tax imposed by those countries.

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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