

MFS GOVERNMENT MARKETS INCOME TRUST

Form N-CSRS

July 29, 2011

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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)

**500 Boylston Street, Boston, Massachusetts 02116**

(Address of principal executive offices) (Zip code)

**Susan S. Newton**

**Massachusetts Financial Services Company**

**500 Boylston Street**

**Boston, Massachusetts 02116**

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: May 31, 2011

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**ITEM 1. REPORTS TO STOCKHOLDERS.**

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# MFS® Government Markets Income Trust

## SEMIANNUAL REPORT

*May 31, 2011*

MGF-SEM

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Managed Distribution Policy Disclosure

The MFS Government Markets Income Trust's (the fund) Board of Trustees has adopted a managed distribution policy. The fund seeks to pay monthly distributions based on an annual rate of 7.25% of the fund's average monthly net asset value. The fund's total return in relation to changes in net asset value is presented in the Financial Highlights. You should not draw any conclusions about the fund's investment performance from the amount of the current distribution or from the terms of the fund's managed distribution policy. The Board may amend or terminate the managed distribution policy at any time without prior notice to fund shareholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination of the managed distribution policy.

With each distribution, the fund will issue a notice to shareholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other related information. In accordance with the amounts and sources of distributions reported in the notice to shareholders, the sources of distributions are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the fund's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.

Under a managed distribution policy the fund may at times distribute more than its net investment income and net realized capital gains; therefore, a portion of your distribution may result in a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the fund is paid back to you. A return of capital does not necessarily reflect the fund's investment performance and should not be confused with yield or income.

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**MFS® GOVERNMENT MARKETS INCOME TRUST**

New York Stock Exchange Symbol: **MGF**

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NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

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## LETTER FROM THE CEO

Dear Shareholders:

After an extended rebound in the financial markets, uncertainty returned in 2010 as investors began to question the durability of the recovery for global economies and markets. That uncertainty led to increased risk aversion, especially as investors saw the eurozone struggle with the debt

woes of many of its members and amid a weakening trend in the global macroeconomic data. Last September, the U.S. Federal Reserve Board's promises to further loosen monetary policy helped assuage market fears and drive asset prices off their recent lows. A combination of solid earnings and improving economic data gave an additional boost to investor sentiment. For the remainder of 2011, we are cautiously optimistic that economic growth will continue to improve and that the global economies

will recover from the shocks of the past few years. We expect the pace of recovery worldwide to be uneven and volatile and acknowledge the elevated uncertainty created by events in Japan, Europe, and the Middle East.

As always, we continue to be mindful of the many economic challenges faced at the local, national, and international levels. It is in times such as these that we want to remind investors of the merits of maintaining a long-term view, adhering to basic investing principles such as asset allocation and diversification, and working closely with their advisors to research and identify appropriate investment opportunities.

Respectfully,

**Robert J. Manning**

*Chairman and Chief Executive Officer*

*MFS Investment Management®*

*July 15, 2011*

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

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

Mortgage-Backed Securities	40.8%
U.S. Government Agencies	18.1%
U.S. Treasury Securities	14.1%
High Grade Corporates	8.6%
Emerging Markets Bonds	6.8%
Commercial Mortgage-Backed Securities	4.5%

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

AAA	2.5%
AA	1.7%
A	2.6%
BBB	11.9%
BB	0.9%
B (o)	0.0%
U.S. Government	20.0%
Federal Agencies	58.9%
Not Rated	(5.6)%
Cash & Other	7.1%

**Portfolio facts (i)**

Average Duration (d)	4.3
Average Effective Maturity (m)	6.8 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). 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, 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 itself has not been rated.
- (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 applicable. These amounts may be negative from time to time. The bond component will include any accrued interest amounts. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio's ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than market value. Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

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*Portfolio Composition continued*

(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%.

Percentages are based on net assets as of 5/31/11.

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



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## PORTFOLIO MANAGER PROFILE

Geoffrey Schechter

Investment Officer of MFS; employed in the investment area of MFS since 1993. Manager of the fund since April 2006.

## OTHER NOTES

The fund's shares may trade at a discount or premium to net asset value. Shareholders do not have the right to cause the fund to repurchase their shares at net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different.

The fund's monthly distributions may include a return of capital to shareholders to the extent that the fund's net investment income and net capital gains are insufficient to meet the fund's target annual distribution rate. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. 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.

**Table of Contents****PORTFOLIO OF INVESTMENTS**

5/31/11 (unaudited)

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

<b>Bonds - 97.9%</b>		
<b>Issuer</b>	<b>Shares/Par</b>	<b>Value (\$)</b>
<b>U.S. Bonds - 89.9%</b>		
<b>Agency - Other - 13.5%</b>		
Financing Corp., 10.7%, 2017	\$ 4,095,000	\$ 6,018,962
Financing Corp., 9.4%, 2018	3,085,000	4,341,508
Financing Corp., 9.8%, 2018	4,350,000	6,259,924
Financing Corp., 10.35%, 2018	6,820,000	10,133,777
Financing Corp., STRIPS, 0%, 2017	5,000,000	4,203,400
		\$ 30,957,571
<b>Asset-Backed &amp; Securitized - 4.5%</b>		
Citigroup Commercial Mortgage Trust, FRN, 5.697%, 2049	\$ 1,000,000	\$ 1,109,235
Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 2049	1,200,000	1,281,112
Commercial Mortgage Pass-Through Certificates, A4, 5.306%, 2046	1,366,646	1,471,720
Credit Suisse Mortgage Capital Certificate, 5.311%, 2039	500,000	537,963
CWCapital LLC, 5.223%, 2048	1,000,000	1,075,243
JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 2049	1,000,000	1,084,317
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 5.817%, 2049	1,000,000	1,096,828
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 5.988%, 2051	754,902	804,941
Prudential Securities Secured Financing Corp., FRN, 7.292%, 2013 (z)	1,819,000	1,836,367
		\$ 10,297,726
<b>Cable TV - 0.6%</b>		
Time Warner Cable, Inc., 8.25%, 2019	\$ 1,000,000	\$ 1,251,022
<b>Chemicals - 0.3%</b>		
Dow Chemical Co., 8.55%, 2019	\$ 500,000	\$ 651,110
<b>Computer Software - Systems - 0.3%</b>		
International Business Machines Corp., 8%, 2038	\$ 500,000	\$ 704,054
<b>Energy - Integrated - 0.0%</b>		
Hess Corp., 8.125%, 2019	\$ 30,000	\$ 38,608

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*Portfolio of Investments (unaudited) continued*

Issuer	Shares/Par	Value (\$)
<b>Bonds - continued</b>		
<b>U.S. Bonds - continued</b>		
<b>Food &amp; Beverages - 0.9%</b>		
Anheuser-Busch InBev S.A., 7.75%, 2019	\$ 750,000	\$ 957,468
Kraft Foods, Inc., 6.125%, 2018	960,000	1,105,445
		\$ 2,062,913
<b>Local Authorities - 1.2%</b>		
Nashville & Davidson County, TN, Metropolitan Government Convention Center Authority (Build America Bonds), 6.731%, 2043	\$ 580,000	\$ 606,721
New Jersey Turnpike Authority Rev. (Build America Bonds), F , 7.414%, 2040	32,000	39,496
San Francisco, CA, City & County Public Utilities Commission, Water Rev. (Build America Bonds), 6%, 2040	1,650,000	1,709,235
University of California Rev. (Build America Bonds), 5.77%, 2043	450,000	458,064
		\$ 2,813,516
<b>Major Banks - 0.4%</b>		
Bank of America Corp., 7.625%, 2019	\$ 170,000	\$ 202,068
Merrill Lynch & Co., Inc., 6.05%, 2016	750,000	811,794
		\$ 1,013,862
<b>Mortgage-Backed - 40.6%</b>		
Fannie Mae, 4.791%, 2012	\$ 119,608	\$ 123,375
Fannie Mae, 4.542%, 2013	933,856	977,859
Fannie Mae, 5%, 2013 - 2040	4,226,628	4,487,174
Fannie Mae, 5.06%, 2013	368,923	380,573
Fannie Mae, 5.37%, 2013	974,751	1,014,571
Fannie Mae, 4.77%, 2014	455,126	489,129
Fannie Mae, 4.841%, 2014	2,612,249	2,802,842
Fannie Mae, 5.1%, 2014	493,172	535,154
Fannie Mae, 4.7%, 2015	449,057	485,632
Fannie Mae, 4.74%, 2015	364,959	395,693
Fannie Mae, 4.78%, 2015	509,303	554,088
Fannie Mae, 4.815%, 2015	536,143	583,094
Fannie Mae, 4.82%, 2015	904,428	980,130
Fannie Mae, 4.85%, 2015	320,784	348,007
Fannie Mae, 4.86%, 2015	148,098	160,468
Fannie Mae, 4.87%, 2015	339,520	369,530
Fannie Mae, 4.89%, 2015	380,661	413,798
Fannie Mae, 5.466%, 2015	841,966	932,740
Fannie Mae, 5.09%, 2016	500,000	547,881
Fannie Mae, 5.424%, 2016	741,004	820,742
Fannie Mae, 5.845%, 2016	319,694	350,404

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

<b>Issuer</b>	<b>Shares/Par</b>	<b>Value (\$)</b>
<b>Bonds - continued</b>		
U.S. Bonds - continued		
Mortgage-Backed - continued		
Fannie Mae, 6.5%, 2016 - 2037	\$ 3,724,281	\$ 4,212,969
Fannie Mae, 5.05%, 2017	516,099	565,707
Fannie Mae, 5.3%, 2017	567,389	624,145
Fannie Mae, 5.5%, 2017 - 2037	26,815,131	29,202,695
Fannie Mae, 6%, 2017 - 2037	7,649,600	8,451,164
Fannie Mae, 4.88%, 2020	265,718	284,189
Fannie Mae, 4.5%, 2041	1,832,115	1,907,958
Freddie Mac, 5%, 2016 - 2040	9,701,776	10,376,332
Freddie Mac, 6%, 2021 - 2038	3,718,297	4,111,876
Freddie Mac, 4.5%, 2024	867,215	919,862
Freddie Mac, 5.5%, 2024 - 2036	5,692,601	6,199,546
Freddie Mac, 6.5%, 2037	1,126,716	1,271,428
Ginnie Mae, 5.5%, 2033 - 2038	4,462,498	4,939,863
Ginnie Mae, 5.612%, 2058	1,083,663	1,167,756
Ginnie Mae, 6.357%, 2058	924,451	1,007,326
		\$ 92,995,700
Natural Gas - Pipeline - 0.5%		
Energy Transfer Partners LP, 8.5%, 2014	\$ 21,000	\$ 24,644
Kinder Morgan Energy Partners, 6.85%, 2020	1,000,000	1,177,803
		\$ 1,202,447