

MFS CHARTER INCOME TRUST
Form N-CSR
February 03, 2011
[Table of Contents](#)

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 811-05822

MFS CHARTER 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: November 30, 2010

Table of Contents

ITEM 1. REPORTS TO STOCKHOLDERS.

Table of Contents

Annual report

MFS® Charter Income Trust

11/30/10

MCR-ANN

Table of Contents

MFS® Charter Income Trust

New York Stock Exchange Symbol: **MCR**

<u>LETTER FROM THE CEO</u>	1
<u>PORTFOLIO COMPOSITION</u>	2
<u>MANAGEMENT REVIEW</u>	4
<u>PERFORMANCE SUMMARY</u>	6
<u>INVESTMENT OBJECTIVE, PRINCIPAL INVESTMENT STRATEGIES AND RISKS OF THE FUND</u>	9
<u>PORTFOLIO MANAGERS PROFILES</u>	11
<u>DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN</u>	12
<u>PORTFOLIO OF INVESTMENTS</u>	13
<u>STATEMENT OF ASSETS AND LIABILITIES</u>	38
<u>STATEMENT OF OPERATIONS</u>	39
<u>STATEMENTS OF CHANGES IN NET ASSETS</u>	40
<u>STATEMENT OF CASH FLOWS</u>	41
<u>FINANCIAL HIGHLIGHTS</u>	42
<u>NOTES TO FINANCIAL STATEMENTS</u>	43
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	59
<u>RESULTS OF SHAREHOLDER MEETING</u>	60
<u>TRUSTEES AND OFFICERS</u>	61
<u>BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT</u>	66
<u>PROXY VOTING POLICIES AND INFORMATION</u>	71
<u>QUARTERLY PORTFOLIO DISCLOSURE</u>	71
<u>FURTHER INFORMATION</u>	71
<u>FEDERAL TAX INFORMATION</u>	71
<u>MFS® PRIVACY NOTICE</u>	72
<u>CONTACT INFORMATION</u> BACK COVER	

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

Table of Contents

LETTER FROM THE CEO

Dear Shareholders:

After an extended rebound in the financial markets, uncertainty returned in early 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. In 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. As we begin 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 will be uneven and volatile.

As always, we continue to be mindful of the many challenges faced at the individual, 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 investment opportunities.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

January 14, 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)**

High Yield Corporates	59.0%
Non-U.S. Government Bonds	13.5%
Emerging Markets Bonds	13.3%
High Grade Corporates	12.6%
Commercial Mortgage-Backed Securities	5.7%
Mortgage-Backed Securities	3.9%
Floating Rate Loans	0.7%
U.S. Government Agencies	0.7%
Collateralized Debt Obligations	0.5%
Asset-Backed Securities	0.4%
U.S. Treasury Securities	(6.2)%

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

AAA	12.1%
AA	11.3%
A	4.6%
BBB	15.7%
BB	26.2%
B	28.9%
CCC	9.1%
CC	0.2%
C	0.1%
D (o)	0.0%
U.S. Agency (NR)	3.9%
Other Fixed Income (NR)	(8.0)%
Non-Fixed Income (NR)	0.3%
Cash & Other	(4.4)%

Portfolio facts (i)

Average Duration (d)	5.1
Average Effective Maturity (m)	7.3 yrs.

Issuer country weightings (i)

United States	64.5%
Japan	4.7%
United Kingdom	2.7%
Italy	2.6%
Brazil	2.2%
Canada	1.9%
Russia	1.8%
Germany	1.5%
France	1.5%
Other Countries	16.6%

Table of Contents

Portfolio Composition continued

(a) The rating categories include debt securities and fixed-income structured products where these have long-term public ratings. All ratings are assigned in accordance with the following hierarchy: If a security is rated by Moody's, then that rating is used; if not rated by Moody's, then a Standard & Poor's rating is used; if not rated by S&P, then a Fitch rating is used. Ratings from Moody's are shown in the S&P and Fitch scale (e.g., AAA). All ratings are subject to change. U.S. Agency (NR) includes unrated U.S. Agency fixed income securities and collateralized mortgage obligations of U.S. Agency mortgage-backed securities. Other Fixed Income (NR) includes unrated long-term fixed income securities, interest rate swaps and fixed income futures. Non-Fixed Income (NR) includes equity securities (including convertible bonds and equity derivatives) and commodities. 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.

(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.

(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 11/30/10.

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

Table of Contents

MANAGEMENT REVIEW

Summary of Results

The MFS Charter Income Trust (the fund) is a closed-end fund and maintains a portfolio that includes investments in high-yield and investment-grade corporate bonds, emerging markets debt securities, U.S. government securities, and international investment-grade debt securities.

For the twelve months ended November 30, 2010, shares of the fund provided a total return of 13.30%, at net asset value. This compares with a return of 16.78% for the fund's benchmark, the Barclays Capital U.S. High-Yield Corporate Bond Index. Over the same period, the fund's other benchmark, the Charter Income Trust Blended Index (the Blended Index), generated a return of 10.63%. The Blended Index reflects the blended returns of various fixed income market indices, with percentage allocations to each index designed to resemble the fixed income allocations of the fund. The market indices and related percentage allocations used to compile the Blended Index are set forth in the Performance Summary.

Market Environment

The first half of the reporting period witnessed a continuation of the financial market and macroeconomic rebounds that had begun in early 2009. These recoveries in global activity and asset valuations were generally synchronized around the world, led importantly by emerging Asian economies, but broadening to include most of the global economy to varying degrees. Primary drivers of the recoveries included an unwinding of the inventory destocking that took place earlier, the production of manufacturing and capital goods, as well as massive fiscal and monetary stimulus.

During the second half of the period, heightened risk surrounding the public-debt profiles of several of the peripheral European countries impaired market sentiment. At the same time, the improving trend in global macroeconomic data began to weaken somewhat. These two dynamics caused many asset prices to retrench significantly, as many questioned the durability of the global recovery.

Towards the end of the period, the U.S. Federal Reserve led markets to believe that further monetary loosening would be forthcoming if macroeconomic activity did not show signs of improvement. The prospects for more easing by the Fed improved market sentiment and drove risk-asset prices markedly higher. However, in a text-book case of buy the rumor, sell the fact, the weeks following the early November announcement of further quantitative easing saw a sell-off in U.S. Treasury bonds. This rise in Treasury yields occurred despite risk-off behavior in equities and credit markets (which would normally result in Treasury yield compression), and appears to have been the result of a few

Table of Contents

Management Review continued

factors: signs of improved U.S. economic activity; opposition to quantitative easing from some quarters; and crowded long positions in U.S. Treasuries.

Detractors from Performance

Relative to the Blended Index, the fund's greater exposure to CCC rated (r) securities, which underperformed higher-rated securities during the months of May and August 2010, detracted from performance.

The fund's lesser exposure to mortgage-backed securities, particularly to General National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) securities, also held back results as this market segment turned in strong performance over the reporting period.

Contributors to Performance

The fund's return from yield, which was greater than that of the Blended Index, was a key contributor to performance. Yield curve (y) positioning, particularly our greater exposure to shifts in the middle portion of the yield curve (centered around maturities of 7 years), was another positive factor for the fund's results.

A greater exposure to corporate bonds in the *industrial* and *financial* sectors also boosted relative performance as holdings within these sectors exhibited strong returns for the reporting period. Greater exposures to B and BB rated securities were additional positive factors.

The fund employs leverage which has been created through the use of loan agreements. To the extent that investments are purchased through leverage, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. During the reporting period, the fund's leverage enhanced its absolute positive returns.

Respectfully,

John Addeo
Portfolio Manager

David Cole
Portfolio Manager

Richard Hawkins
Portfolio Manager

Matthew Ryan
Portfolio Manager

(r) Bonds rated BBB, Baa, or higher are considered investment grade; bonds rated BB, Ba, or below are considered non-investment grade. The primary source for bond quality ratings is Moody's Investors Service. If not available, ratings by Standard & Poor's are used, else ratings by Fitch, Inc. For securities which are not rated by any of the three agencies, the security is considered Not Rated.

(y) A yield curve graphically depicts the yields of different maturity bonds of the same credit quality and type; a normal yield curve is upward sloping, with short-term rates lower than long-term rates.

The views expressed in this report are those of the portfolio managers only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio's current or future investments.

Table of Contents**PERFORMANCE SUMMARY** THROUGH 11/30/10

The following chart represents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

Price Summary for MFS Charter Income Trust

Year Ended 11/30/10

	Date	Price
Net Asset Value	11/30/10	\$9.99
	11/30/09	\$9.50
New York Stock Exchange Price	11/30/10	\$9.51
	10/27/10 (high) (t)	\$9.90
	5/21/10 (low) (t)	\$8.78
	11/30/09	\$8.96

Total Returns vs Benchmarks

Year Ended 11/30/10

MFS Charter Income Trust at	
New York Stock Exchange Price (r)	14.36%
Net Asset Value (r)	13.30%
Barclays Capital U.S. High-Yield Corporate Bond Index (f)	16.78%
Charter Income Trust Blended Index (f)(x)	10.63%

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period December 1, 2009 through November 30, 2010.

(x) Charter Income Trust Blended Index is at a point in time and allocations during the period can change. As of November 30, 2010, the blended index was comprised of 15.2% Citigroup World Government Bond Non-Dollar Hedged Index, 12.8% JPMorgan Emerging Markets Bond Index Global, 42% Barclays Capital U.S. High-Yield Corporate Bond Index, 10% Barclays Capital U.S. Credit Bond Index, and 20% Barclays Capital U.S. Government/Mortgage Bond

Index.

6

Table of Contents

Performance Summary continued

Benchmark Definitions

Barclays Capital U.S. Credit Bond Index a market capitalization-weighted index that measures the performance of publicly issued, SEC-registered, U.S. corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. This index generated a total return of 8.48% for the year ended November 30, 2010.

Barclays Capital U.S. Government/Mortgage Bond Index measures debt issued by the U.S. Government, and its agencies, as well as mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). This index generated a total return of 4.68% for the year ended November 30, 2010.

Barclays Capital U.S. High-Yield Corporate Bond Index a market capitalization-weighted index that measures the performance of non-investment grade, fixed rate debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded.

Citigroup World Government Bond Non-Dollar Hedged Index a market capitalization-weighted index that is designed to represent the currency-hedged performance of the international developed government bond markets, excluding the United States. This index generated a total return of 1.83% for the year ended November 30, 2010.

JPMorgan Emerging Markets Bond Index Global measures the performance of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. This index generated a total return of 12.77% for the year ended November 30, 2010.

It is not possible to invest directly in an index.

Notes to Performance Summary

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 distributions are in excess of the fund's net investment income and net capital gains, determined in accordance with federal income tax regulations. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder's basis in his or

Table of Contents

Performance Summary continued

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. Returns of shareholder capital have the effect of reducing the fund's assets and increasing the fund's expense ratio.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

Table of Contents

INVESTMENT OBJECTIVE, PRINCIPAL INVESTMENT STRATEGIES AND RISKS OF THE FUND

Investment Objective

The fund's investment objective is to seek high current income, but may also consider capital appreciation. The fund's objective may be changed without shareholder approval.

Principal Investment Strategies

MFS (Massachusetts Financial Services Company, the fund's investment adviser) normally invests the Fund's assets primarily in debt instruments.

MFS normally invests the fund's assets in U.S. Government securities, foreign government securities, mortgage-backed and other asset-backed securities of U.S. and/or foreign issuers, corporate bonds of U.S. and/or foreign issuers, and/or debt instruments of issuers located in emerging market countries. MFS allocates the fund's assets across these categories with a view toward broad diversification across and within these categories.

MFS may invest up to 100% of the fund's assets in lower quality debt instruments.

MFS may invest a relatively large percentage of the fund's assets in instruments of issuers in a single country, a small number of countries, or a particular geographic region.

MFS may use derivatives for any investment purpose, including to earn income and enhance returns, to increase or decrease exposure to a particular market, to manage or adjust the risk profile of the fund, or as alternatives to direct investments.

MFS uses a bottom-up investment approach to buying and selling investments for the fund. Investments are selected primarily based on fundamental analysis of individual instruments and their issuers in light of issuers' current financial condition and current market, economic, political, and regulatory conditions. Factors considered may include the instrument's credit quality, collateral characteristics, and indenture provisions, and the issuer's management ability, capital structure, leverage, and ability to meet its current obligations. Quantitative models that systematically evaluate the structure of the debt instrument and its features may also be considered.

The fund may use leverage by borrowing up to 33 1/3% of the fund's assets, including borrowings for investment purposes, and investing the proceeds pursuant to its investment strategies. If approved by the fund's Board of Trustees, the fund may use leverage by other methods.

Table of Contents

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

MFS may engage in active and frequent trading in pursuing the fund's principal investment strategies.

In response to market, economic, political, or other conditions, MFS may depart from the Fund's principal investment strategies by temporarily investing for defensive purposes.

Principal Risks

The fund may not achieve its objective and/or you could lose money on your investment in the fund. Investments in debt instruments may decline in value as the result of increases in interest rates, declines in the credit quality of the issuer, borrower, counterparty or underlying collateral, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile. Investments in foreign markets through issuers or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, or other conditions. Emerging markets can have less market structure, depth, and regulatory oversight and greater political, social, and economic instability than developed markets. Investments in derivatives can be used to take both long and short positions, be highly volatile, result in leverage (which can magnify losses), and involve risks in addition to the risks of the underlying indicator(s) on which the derivative is based, such as counterparty and liquidity risk. Investments in lower-quality debt instruments can be more volatile and have greater risk of default than higher-quality debt instruments. The fund's performance could be more volatile than the performance of more diversified funds. The market price of common shares of the fund will be based on factors such as the supply and demand for common shares in the market and general market, economic, political or regulatory conditions. Whether shareholders will realize gains or losses upon the sale of common shares of the fund will depend on the market price of common shares at the time of the sale, not on the fund's net asset value. The market price may be lower or higher than the fund's net asset value. Shares of closed-end funds frequently trade at a discount to their net asset value. Leverage involves investment exposure in an amount exceeding the initial investment. Leverage can cause increased volatility by magnifying gains or losses. Please see the fund's registration statement for further information regarding these and other risk considerations. A copy of the fund's registration statement on Form N-2 is available on the EDGAR database on the Securities and Exchange Commission's Internet Web site at <http://sec.gov>.

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 MANAGERS PROFILES

Richard Hawkins	Investment Officer of MFS; employed in the investment management area of MFS since 1988. Portfolio Manager of the Fund since July 2004.
John Addeo	Investment Officer of MFS; employed in the investment management area of MFS since 1998. Portfolio Manager of the Fund since February 2005.
David Cole	Investment Officer of MFS; employed in the investment management area of MFS since 2004. Portfolio Manager of the Fund since October 2006.
Matthew Ryan	Investment Officer of MFS; employed in the investment management area of MFS since 1997. Portfolio Manager of the Fund since September 2004.

Table of Contents

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount \$100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

You may withdraw from the Plan at any time by going to the Plan Agent's website at www.computershare.com, by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent's website at www.computershare.com, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940-3078.

Table of Contents**PORTFOLIO OF INVESTMENTS**

11/30/10

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

Bonds - 109.9%		
Issuer	Shares/Par	Value (\$)
Aerospace - 1.0%		
Alliant Techsystems, Inc., 6.875%, 2020	\$ 475,000	\$ 484,500
BE Aerospace, Inc., 8.5%, 2018	1,225,000	1,332,188
BE Aerospace, Inc., 6.875%, 2020	375,000	385,781
Bombardier, Inc., 7.5%, 2018 (n)	885,000	946,950
Bombardier, Inc., 7.45%, 2034 (n)	625,000	612,500
Hawker Beechcraft Acquisition Co. LLC, 8.5%, 2015	1,534,000	1,150,500
Oshkosh Corp., 8.25%, 2017	290,000	311,750
Oshkosh Corp., 8.5%, 2020	320,000	347,200
		\$ 5,571,369
Airlines - 0.1%		
Continental Airlines, Inc., 7.25%, 2021	\$ 213,920	\$ 241,197
GOL Linhas Aereas Inteligentes S.A., 9.25%, 2020 (n)	169,000	176,605
		\$ 417,802
Apparel Manufacturers - 0.4%		
Hanesbrands, Inc., 8%, 2016	\$ 965,000	\$ 1,026,519
Hanesbrands, Inc., 6.375%, 2020 (z)	475,000	453,625
Phillips-Van Heusen Corp., 7.375%, 2020	700,000	750,750
		\$ 2,230,894
Asset-Backed & Securitized - 6.6%		
Anthracite Ltd., A, CDO, FRN, 0.613%, 2019 (z)	\$ 1,476,001	\$ 1,107,001
Banc of America Commercial Mortgage, Inc., FRN, 5.933%, 2051	1,500,000	1,593,926
Bayview Financial Acquisition Trust, FRN, 5.483%, 2041	319,317	318,136
Bayview Financial Revolving Mortgage Loan Trust, FRN, 1.855%, 2040 (z)	874,262	398,576
Citigroup/Deutsche Bank Commercial Mortgage Trust, FRN, 5.366%, 2049	1,605,000	1,473,566
Commercial Mortgage Pass-Through Certificates, FRN, 5.982%, 2046	230,000	235,479
Countrywide Asset-Backed Certificates, FRN, 5.147%, 2035	1,432,982	1,441,531
Credit Suisse Mortgage Capital Certificate, FRN, 5.91%, 2039	1,400,000	1,456,750
Crest Ltd., CDO, 7%, 2040	2,070,613	103,531
First Union-Lehman Brothers Bank of America, FRN, 0.581%, 2035 (i)	17,957,802	315,154
First Union-Lehman Brothers Commercial Mortgage Trust, 7%, 2029 (n)	469,727	489,825
JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 2049	1,255,000	1,309,000

13

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Asset-Backed & Securitized - continued		
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.001%, 2049	\$ 5,000,000	\$ 5,259,561
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.001%, 2049	1,000,000	1,058,228
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.186%, 2051	6,000,000	6,306,110
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.258%, 2051	185,000	83,169
Merrill Lynch Mortgage Trust, FRN, 6.019%, 2050	1,350,000	1,449,649
Merrill Lynch Mortgage Trust, FRN, B, 6.019%, 2050	185,000	59,898
Multi Security Asset Trust, A3, 5%, 2035 (z)	1,461,810	1,417,956
PNC Mortgage Acceptance Corp., 7.1%, 2032 (z)	1,060,685	1,060,494
Spirit Master Funding LLC, 5.05%, 2023 (z)	1,476,536	1,312,315
Structured Asset Securities Corp., FRN, 4.67%, 2035	229,149	227,536
Wachovia Bank Commercial Mortgage Trust, FRN, 5.883%, 2047	1,503,155	326,761
Wachovia Bank Commercial Mortgage Trust, FRN, 6.099%, 2051	7,250,000	7,585,152
		\$ 36,389,304
Automotive - 1.8%		
Accuride Corp., 9.5%, 2018 (n)	\$ 775,000	\$ 827,313
Allison Transmission, Inc., 11%, 2015 (n)	1,135,000	1,228,638
Ford Motor Credit Co. LLC, 5.625%, 2015	5,965,000	6,043,493
General Motors Corp., 7.125%, 2013 (d)	1,427,000	438,803
Goodyear Tire & Rubber Co., 10.5%, 2016	1,200,000	1,314,000
Hyundai Capital America, 3.75%, 2016 (n)	174,000	174,219
		\$ 10,026,466
Basic Industry - 0.2%		
TriMas Corp., 9.75%, 2017 (n)	\$ 795,000	\$ 850,650
Broadcasting - 3.0%		
Allbritton Communications Co., 8%, 2018	\$ 565,000	\$ 560,763
Entravision Communications Corp., 8.75%, 2017 (n)	240,000	250,800
Inmarsat Finance PLC, 7.375%, 2017 (n)	1,145,000	1,202,250
Intelsat Jackson Holdings Ltd., 9.5%, 2016	4,100,000	4,325,500
Intelsat Jackson Holdings Ltd., 7.25%, 2020 (n)	710,000	708,225
Lamar Media Corp., 6.625%, 2015	740,000	752,950
Lamar Media Corp., C, 6.625%, 2015	245,000	246,838
Local TV Finance LLC, 10%, 2015 (p)(z)	799,312	690,073
Newport Television LLC, 13%, 2017 (n)(p)	58,939	53,499
News America, Inc., 6.2%, 2034	325,000	343,039
News America, Inc., 6.9%, 2039	205,000	234,424

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Broadcasting - continued		
Nexstar Broadcasting, Inc., 0.5% to 2011, 7% to 2014	\$ 510,722	\$ 494,421
Nexstar Broadcasting, Inc., 7%, 2014	168,000	164,640
Salem Communications Corp., 9.625%, 2016	137,000	143,127
Sinclair Broadcast Group, Inc., 9.25%, 2017 (n)	1,425,000	1,542,563
Sinclair Broadcast Group, Inc., 8.375%, 2018 (n)	185,000	189,625
SIRIUS XM Radio, Inc., 8.75%, 2015 (n)	725,000	763,063
Univision Communications, Inc., 12%, 2014 (n)	335,000	363,056
Univision Communications, Inc., 9.75%, 2015 (n)(p)	2,555,290	2,644,086
Univision Communications, Inc., 7.875%, 2020 (n)	350,000	357,875
XM Satellite Radio, Inc., 7.625%, 2018 (z)	280,000	278,600
		\$ 16,309,417
Brokerage & Asset Managers - 0.6%		
E*TRADE Financial Corp., 7.875%, 2015	\$ 785,000	\$ 773,225
E*TRADE Financial Corp., 12.5%, 2017	320,000	368,800
Janus Capital Group, Inc., 6.95%, 2017	1,900,000	1,965,244
		\$ 3,107,269
Building - 1.7%		
Building Materials Holding Corp., 6.875%, 2018 (n)	\$ 680,000	\$ 666,400
Building Materials Holding Corp., 7%, 2020 (n)	600,000	618,000
CEMEX Finance Europe B.V., 9.625%, 2017 (n)	EUR 490,000	610,603
CEMEX Finance LLC, 9.5%, 2016 (n)	\$ 1,275,000	1,275,000
Masco Corp., 7.125%, 2020	980,000	1,028,324
Nortek, Inc., 11%, 2013	1,611,711	1,696,326
Nortek, Inc., 10%, 2018 (z)	435,000	435,000
Owens Corning, 9%, 2019	1,550,000	1,839,858
Ply Gem Industries, Inc., 11.75%, 2013	350,000	371,000
Ply Gem Industries, Inc., 13.125%, 2014	670,000	703,500
		\$ 9,244,011
Business Services - 1.3%		
First Data Corp., 9.875%, 2015	\$ 1,725,000	\$ 1,466,250
Interactive Data Corp., 10.25%, 2018 (n)	680,000	734,400
Iron Mountain, Inc., 6.625%, 2016	775,000	776,938
Iron Mountain, Inc., 8.375%, 2021	460,000	503,700
SunGard Data Systems, Inc., 10.25%, 2015	1,955,000	2,028,313
SunGard Data Systems, Inc., 7.375%, 2018 (z)	445,000	440,550
SunGard Data Systems, Inc., 7.625%, 2020 (z)	265,000	265,000
Terremark Worldwide, Inc., 12%, 2017	625,000	706,250
		\$ 6,921,401

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Cable TV - 3.6%		
Cablevision Systems Corp., 8.625%, 2017	\$ 475,000	\$ 516,563
CCH II LLC, 13.5%, 2016	640,000	752,800
Charter Communications Holding Co. LLC, 7.875%, 2018 (n)	735,000	760,725
Charter Communications Holding Co. LLC, 8.125%, 2020 (n)	470,000	493,500
Charter Communications Operating LLC, 10.875%, 2014 (n)	650,000	724,750
CSC Holdings LLC, 8.5%, 2014	770,000	844,113
CSC Holdings LLC, 8.5%, 2015	2,315,000	2,511,775
DIRECTV Holdings LLC, 5.2%, 2020	1,240,000	1,310,493
EchoStar Corp., 7.125%, 2016	1,615,000	1,659,413
Insight Communications Co., Inc., 9.375%, 2018 (n)	670,000	726,950
Mediacom LLC, 9.125%, 2019	1,395,000	1,408,950
Myriad International Holdings B.V., 6.375%, 2017 (n)	857,000	886,652
TCI Communications, Inc., 9.8%, 2012	701,000	767,418
Time Warner Cable, Inc., 5%, 2020	1,150,000	1,210,805
Videotron LTEE, 6.875%, 2014	2,110,000	2,136,375
Virgin Media Finance PLC, 9.125%, 2016	2,185,000	2,321,563
Virgin Media Finance PLC, 9.5%, 2016	395,000	441,413
		\$ 19,474,258
Chemicals - 3.0%		
Ashland, Inc., 9.125%, 2017	\$ 1,845,000	\$ 2,117,138
Braskem S.A., 7%, 2020 (n)	1,312,000	1,364,480
Celanese U.S. Holdings LLC, 6.625%, 2018 (n)	540,000	554,850
Hexion Specialty Chemicals, Inc., 8.875%, 2018	1,030,000	1,060,900
Hexion U.S. Finance Corp/Hexion Nova Scotia Finance, 9%, 2020 (n)	270,000	267,975
Huntsman International LLC, 8.625%, 2021 (n)	1,120,000	1,187,200
Lumena Resources Corp., 12%, 2014 (n)	669,000	620,498
Lyondell Chemical Co., 8%, 2017 (z)	515,000	555,556
Lyondell Chemical Co., 11%, 2018	1,988,207	2,211,880
Momentive Performance Materials, Inc., 12.5%, 2014	1,706,000	1,910,720
Momentive Performance Materials, Inc., 11.5%, 2016	598,000	627,900
Momentive Performance Materials, Inc., 9%, 2021 (n)	540,000	537,300
Mosaic Co., 7.625%, 2016 (n)	1,525,000	1,648,283
Omnova Solutions, Inc., 7.875%, 2018 (n)	360,000	358,200
Polypore International, Inc., 7.5%, 2017 (z)	180,000	182,250
Sociedad Quimica y Minera de Chile S.A., 5.5%, 2020 (n)	414,000	433,911
Solutia, Inc., 7.875%, 2020	1,000,000	1,077,500
		\$ 16,716,541
Computer Software - 0.4%		
Seagate Technology HDD Holdings, 6.375%, 2011	\$ 1,950,000	\$ 1,979,250

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Computer Software - Systems - 0.5%		
DuPont Fabros Technology, Inc., REIT, 8.5%, 2017	\$ 1,380,000	\$ 1,493,850
International Business Machines Corp., 8%, 2038	1,000,000	1,400,115
		\$ 2,893,965
Conglomerates - 0.6%		
Actuant Corp., 6.875%, 2017	\$ 1,005,000	\$ 1,025,100
Amsted Industries, Inc., 8.125%, 2018 (n)	1,125,000	1,198,125
Kennametal, Inc., 7.2%, 2012	684,000	703,201
Pinafore LLC, 9%, 2018 (n)	375,000	395,625
		\$ 3,322,051
Construction - 0.1%		
Corporacion GEO S.A.B. de C.V., 8.875%, 2014 (n)	\$ 465,000	\$ 523,125
Corporacion GEO S.A.B. de C.V., 9.25%, 2020 (n)	249,000	284,483
		\$ 807,608
Consumer Products - 0.9%		
ACCO Brands Corp., 10.625%, 2015	\$ 105,000	\$ 116,813
ACCO Brands Corp., 7.625%, 2015	255,000	251,813
Central Garden & Pet Co., 8.25%, 2018	455,000	465,238
Easton-Bell Sports, Inc., 9.75%, 2016	295,000	315,650
Fortune Brands, Inc., 5.125%, 2011	671,000	674,054
Jarden Corp., 7.5%, 2017	1,405,000	1,471,738
Libbey Glass, Inc., 10%, 2015 (n)	740,000	791,800
NBTY, Inc., 9%, 2018 (n)	135,000	141,750
Visant Corp., 10%, 2017 (n)	925,000	955,063
		\$ 5,183,919
Consumer Services - 1.3%		
KAR Holdings, Inc., 10%, 2015	\$ 1,135,000	\$ 1,200,263
KAR Holdings, Inc., FRN, 4.286%, 2014	380,000	353,400
Service Corp. International, 7.375%, 2014	235,000	256,738
Service Corp. International, 6.75%, 2015	265,000	272,950
Service Corp. International, 7%, 2017	4,030,000	4,145,863
Ticketmaster Entertainment, Inc., 10.75%, 2016	1,020,000	1,106,700
		\$ 7,335,914
Containers - 1.3%		
Crown Americas LLC, 7.75%, 2015	\$ 565,000	\$ 583,363
Graham Packaging Co. LP/GPC Capital Corp., 9.875%, 2014	1,800,000	1,863,000
Graham Packaging Co. LP/GPC Capital Corp., 8.25%, 2018	185,000	187,775
Greif, Inc., 6.75%, 2017	855,000	895,613
Greif, Inc., 7.75%, 2019	1,000,000	1,100,625

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Containers - continued		
Owens-Illinois, Inc., 7.375%, 2016	\$ 1,000,000	\$ 1,072,500
Reynolds Group, 7.75%, 2016 (n)	1,050,000	1,094,625
Reynolds Group, 7.125%, 2019 (n)	565,000	574,888
		\$ 7,372,389
Defense Electronics - 0.2%		
BAE Systems Holdings, Inc., 5.2%, 2015 (n)	\$ 450,000	\$ 491,015
ManTech International Corp., 7.25%, 2018	260,000	269,100
MOOG, Inc., 7.25%, 2018	335,000	345,050
		\$ 1,105,165
Electronics - 0.6%		
Flextronics International Ltd., 6.25%, 2014	\$ 434,000	\$ 442,680
Freescale Semiconductor, Inc., 10.125%, 2018 (n)	385,000	415,800
Freescale Semiconductor, Inc., 9.25%, 2018 (n)	545,000	570,888
Jabil Circuit, Inc., 7.75%, 2016	1,140,000	1,273,950
NXP B.V., 7.875%, 2014	520,000	533,650
NXP B.V., 9.75%, 2018 (n)	103,000	111,240
		\$ 3,348,208
Emerging Market Quasi-Sovereign - 5.5%		
Banco del Estado de Chile, 4.125%, 2020 (n)	\$ 234,000	\$ 230,085
Banco do Brasil S.A., 5.375%, 2021 (n)	1,696,000	1,687,520
Banco do Nordeste do Brasil (BNB), 3.625%, 2015 (z)	848,000	831,528
BNDES Participacoes S.A., 5.5%, 2020 (n)	138,000	147,315
Corporacion Nacional del Cobre de Chile, 3.75%, 2020 (n)	1,012,000	988,588
Dubai Electricity & Water Authority, 6.375%, 2016 (n)	178,000	168,210
Dubai Electricity & Water Authority, 7.375%, 2020 (n)	221,000	204,425
Ecopetrol S.A., 7.625%, 2019	594,000	708,345
Empresa Nacional del Petroleo, 5.25%, 2020 (n)	206,000	211,253
Gaz Capital S.A., 8.125%, 2014 (n)	1,464,000	1,647,000
Gaz Capital S.A., 5.092%, 2015 (z)	380,000	381,900
Gaz Capital S.A., 9.25%, 2019	583,000	709,074
KazMunaiGaz Finance B.V., 11.75%, 2015 (n)	2,051,000	2,513,706
KazMunaiGaz Finance B.V., 9.125%, 2018 (n)	733,000	842,657
KazMunaiGaz Finance B.V., 6.375%, 2021 (z)	245,000	237,038
Majapahit Holding B.V., 7.25%, 2017 (n)	1,478,000	1,707,090
Majapahit Holding B.V., 8%, 2019 (n)	492,000	590,400
Pemex Project Funding Master Trust, 5.75%, 2018	642,000	698,331
Petrobras International Finance Co., 7.875%, 2019	1,361,000	1,655,045
Petroleos de Venezuela S.A., 5.25%, 2017	950,000	509,200
Petroleos Mexicanos, 8%, 2019	1,101,000	1,348,175
Petroleos Mexicanos, 6%, 2020	1,195,000	1,302,550

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Emerging Market Quasi-Sovereign - continued		
Petroleos Mexicanos, 5.5%, 2021	\$ 696,000	\$ 727,320
Qatari Diar Finance Q.S.C., 5%, 2020 (n)	1,125,000	1,145,169
Qtel International Finance Ltd., 3.375%, 2016 (n)	216,000	208,089
Qtel International Finance Ltd., 7.875%, 2019 (n)	553,000	659,863
Qtel International Finance Ltd., 7.875%, 2019	344,000	410,475
Qtel International Finance Ltd., 4.75%, 2021 (n)	303,000	281,935
Ras Laffan Liquefied Natural Gas Co. Ltd., 8.294%, 2014 (n)	1,045,800	1,152,995
Ras Laffan Liquefied Natural Gas Co. Ltd., 6.75%, 2019 (n)	1,442,000	1,698,483
SCF Capital Ltd., 5.375%, 2017 (n)	726,000	704,220
Sinochem Overseas Capital Co. Ltd., 4.5%, 2020 (z)	287,000	281,916
State Bank of India, 4.5%, 2015 (n)	914,000	943,239
VEB Finance Ltd., 6.902%, 2020 (n)	1,140,000	1,165,650
VTB Capital S.A., 6.465%, 2015 (n)	658,000	679,385
VTB Capital S.A., 6.551%, 2020 (n)	974,000	964,231
		\$ 30,342,405
Emerging Market Sovereign - 2.6%		
Dominican Republic, 7.5%, 2021 (n)	\$ 239,000	\$ 262,924
Government of Ukraine, 6.875%, 2015 (n)	353,000	338,880
Government of Ukraine, 7.75%, 2020 (n)	245,000	237,650
Republic of Argentina, 2.5% to 2019, 3.75% to 2029, 5.25% to 2038	1,848,000	785,400
Republic of Argentina, FRN, 0.677%, 2012	973,575	899,327
Republic of Colombia, 7.375%, 2019	465,000	571,950
Republic of Colombia, 8.125%, 2024	664,000	863,200
Republic of Indonesia, 6.875%, 2018	204,000	244,290
Republic of Indonesia, 11.625%, 2019 (n)	1,423,000	2,166,518
Republic of Indonesia, 7.75%, 2038 (n)	593,000	753,110
Republic of Panama, 9.375%, 2029	1,062,000	1,518,660
Republic of Peru, 7.35%, 2025	355,000	436,650
Republic of Philippines, 6.5%, 2020	358,000	426,468
Republic of Philippines, 6.375%, 2034	1,377,000	1,507,815
Republic of South Africa, 5.5%, 2020	751,000	818,590
Republic of Sri Lanka, 6.25%, 2020 (n)	144,000	148,320
Republic of Turkey, 5.625%, 2021	362,000	390,960
Ukraine Government International, 6.58%, 2016	1,389,000	1,322,189
United Mexican States, 5.95%, 2019	134,000	153,765
United Mexican States, 5.75%, 2110	206,000	193,484
		\$ 14,040,150
Energy - Independent - 3.5%		
Anadarko Petroleum Corp., 5.95%, 2016	\$ 630,000	\$ 672,252
Anadarko Petroleum Corp., 8.7%, 2019	330,000	403,401
Anadarko Petroleum Corp., 6.45%, 2036	160,000	155,100

Table of Contents*Portfolio of Investments continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Energy - Independent - continued		
Anadarko Petroleum Corp., 6.2%, 2040	\$ 580,000	\$ 550,027
Atlas Energy Operating Co. LLC, 12.125%, 2017	270,000	353,700
Atlas Energy Operating Co. LLC, 10.75%, 2018	260,000	316,875
Carrizo Oil & Gas, Inc., 8.625%, 2018 (n)	685,000	681,575
Denbury Resources, Inc., 8.25%, 2020	655,000	713,950
Harvest Operations Corp., 6.875%, 2017 (n)	690,000	712,425
Hilcorp Energy I LP, 9%, 2016 (n)	1,080,000	1,134,000
Linn Energy LLC, 8.625%, 2020 (n)	470,000	498,200
Linn Energy LLC, 7.75%, 2021 (n)	648,000	657,720
Newfield Exploration Co., 6.625%, 2014	650,000	663,000
Newfield Exploration Co., 6.625%, 2016	560,000	574,000
OPTI Canada, Inc., 9.75%, 2013 (n)	505,000	502,475
OPTI Canada, Inc., 8.25%, 2014	985,000	684,575
Penn Virginia Corp., 10.375%, 2016	1,010,000	1,111,000
Pioneer Natural Resources Co., 6.875%, 2018	1,175,000	1,250,501
Pioneer Natural Resources Co., 7.5%, 2020	1,015,000	1,132,326
Plains Exploration & Production Co., 7%, 2017	1,705,000	1,726,313
QEP Resources, Inc., 6.875%, 2021	910,000	960,050
Quicksilver Resources, Inc., 8.25%, 2015	780,000	797,550
Quicksilver Resources, Inc., 9.125%, 2019	695,000	747,125
Range Resources Corp., 8%, 2019	1,045,000	1,139,050
SandRidge Energy, Inc., 8%, 2018 (n)	1,015,000	964,250
Talisman Energy, Inc., 7.75%, 2019	280,000	354,643
		\$ 19,456,083
Energy - Integrated - 0.7%		
CCL Finance Ltd., 9.5%, 2014	\$ 457,000	\$ 530,120
CCL Finance Ltd., 9.5%, 2014 (n)	1,244,000	1,443,040
Hess Corp., 8.125%, 2019	100,000	129,890
Husky Energy, Inc., 5.9%, 2014	306,000	339,297
Husky Energy, Inc., 7.25%, 2019	324,000	391,273
Pacific Rubiales Energy Corp., 8.75%, 2016 (n)	1,005,000	1,133,138
		\$ 3,966,758
Entertainment - 0.8%		
AMC Entertainment, Inc., 11%, 2016	\$ 1,200,000	\$ 1,272,000
AMC Entertainment, Inc., 8.75%, 2019	1,360,000	1,445,000
Cinemark USA, Inc., 8.625%, 2019	1,460,000	1,565,850
		\$ 4,282,850
Financial Institutions - 2.4%		