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MFS CHARTER INCOME TRUST  
Form N-CSRS  
August 03, 2006

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 811-5822

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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: May 31, 2006

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ITEM 1. REPORTS TO STOCKHOLDERS.

MFS(R) Mutual Funds  
SEMIANNUAL REPORT

5/31/06

MFS(R) CHARTER INCOME TRUST

[graphic omitted]

A path for pursuing opportunity

M F S (SM)  
INVESTMENT MANAGEMENT (R)

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-----  
NOT FDIC INSURED    MAY LOSE VALUE    NO BANK OR CREDIT UNION GUARANTEE    NOT A DEPOSIT  
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY OR NCUA/NCUSIF  
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MFS(R) CHARTER INCOME TRUST

5/31/06

The trust seeks to maximize current income.

New York Stock Exchange Symbol: MCR

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LETTER FROM THE CEO

[Photo of Robert J. Manning]

Dear Shareholders,

It has been said that change is the only constant in life. As investors have seen, that theme is still accurate today as we recently have experienced shifting economic cycles because of natural disasters and political instability around the globe.

Markets worldwide have fluctuated in the past year as devastating hurricanes had a dramatic effect on the international economy, particularly on oil prices. We witnessed political unrest in the Middle East, highlighted by instability in Iraq, and in Africa, the usually stable Nigeria also experienced violence. As a result, energy prices have bounced up and down, with crude oil prices at one point topping a record \$70 per barrel.

Such cycles are not uncommon and in fact have almost become the norm in our

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everyday lives. What does all of this mean to you as an investor? In times like these, it helps to know that you're working with a seasoned investment professional who has experience to guide you through difficult times. At MFS(R), we believe our investment management team has the knowledge and confidence to navigate through difficult cycles and at the same time see through adversity to find investment opportunities for our clients and shareholders.

Our investment management process, honed over 80 years, combines a unique concept of teamwork with our unwavering focus on the long term. We firmly believe that the best way to realize long-term financial goals - be it a college education, a comfortable retirement, or a secure family legacy - is to follow a three-pronged approach that focuses on longer time horizons. Allocate holdings across the major asset classes - including stocks, bonds, and cash. Diversify within each class to take advantage of different market segments and investing styles. Rebalance assets regularly to maintain a desired asset allocation. Of course, these strategies cannot guarantee a profit or protect against a loss. This long-term approach requires diligence and patience, two traits that in our experience are essential to capitalizing on the many opportunities the financial markets can offer - through both up and down economic cycles.

Respectfully,

/s/ Robert J. Manning

Robert J. Manning  
Chief Executive Officer and Chief Investment Officer  
MFS Investment Management (R)

July 17, 2006

The opinions expressed in this letter are those of MFS, and no forecasts can be guaranteed.

### PORTFOLIO COMPOSITION

#### PORTFOLIO STRUCTURE (i)

|                         |       |
|-------------------------|-------|
| Bonds                   | 98.2% |
| Cash & Other Net Assets | 1.7%  |
| Convertible Stocks      | 0.1%  |

#### FIXED INCOME SECTORS (i)

|                                       |       |
|---------------------------------------|-------|
| Non-U.S. Government Bonds             | 24.0% |
| -----                                 | ----- |
| High Yield Corporates                 | 16.4% |
| -----                                 | ----- |
| High Grade Corporates                 | 15.6% |
| -----                                 | ----- |
| Mortgage-Backed Securities            | 13.6% |
| -----                                 | ----- |
| U.S. Treasury Securities              | 9.2%  |
| -----                                 | ----- |
| Emerging Market Bonds                 | 7.5%  |
| -----                                 | ----- |
| Commercial Mortgage-Backed Securities | 6.2%  |
| -----                                 | ----- |
| U.S. Government Agencies              | 3.8%  |
| -----                                 | ----- |
| Asset-Backed Securities               | 1.8%  |
| -----                                 | ----- |

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|  |      |
|--|------|
| Residential Mortgage-Backed Securities | 0.1% |
|--|------|

### CREDIT QUALITY OF BONDS (r)

|           |       |
|-----------|-------|
| AAA       | 55.8% |
| AA        | 2.4%  |
| A         | 3.5%  |
| BBB       | 17.4% |
| BB        | 14.8% |
| B         | 5.7%  |
| CCC       | 0.3%  |
| Not Rated | 0.1%  |

### PORTFOLIO FACTS

|  |           |
|--|-----------|
| Average Duration (d)                           | 4.7       |
| Average Life (m)                               | 7.3 yrs.  |
| Average Maturity (m)                           | 12.2 yrs. |
| Average Credit Quality of Rated Securities (a) | A+        |
| Average Short Term Credit Quality              | A-1       |

### COUNTRY WEIGHTINGS (i)

|                 |       |
|-----------------|-------|
| United States   | 63.5% |
| United Kingdom  | 4.7%  |
| Germany         | 4.6%  |
| France          | 3.3%  |
| Ireland         | 3.1%  |
| Finland         | 2.7%  |
| Netherlands     | 2.5%  |
| Spain           | 2.4%  |
| Russia          | 1.8%  |
| Other Countries | 11.4% |

(a) The average credit quality of rated securities is based upon a market weighted average of portfolio holdings that are rated by public rating

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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.
- (i) For purposes of this graphical presentation, the bond component includes both accrued interest amounts and the equivalent exposure from any derivative holdings, if applicable.
- (m) The average maturity shown is calculated using the final stated maturity on the portfolio's holdings without taking into account any holdings which have been prerefunded to an earlier date or which have a mandatory put date prior to the stated maturity. The average life shown takes into account these earlier dates.
- (r) Each security is assigned a rating from Moody's Investors Service. If not rated by Moody's, the rating will be that assigned by Standard & Poor's. Likewise, if not assigned a rating by Standard & Poor's, it will be based on the rating assigned by Fitch, Inc. For those portfolios that hold a security which is not rated by any of the three agencies, the security is considered Not Rated. Holdings in U.S. Treasuries and government agency mortgage-backed securities, if any, are included in the "AAA"-rating category. Percentages are based on the total market value of investments as of 5/31/06.

Percentages are based on net assets as of 5/31/06, unless otherwise noted.

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

### PORTFOLIO MANAGERS' PROFILES

John F. Addeo, CFA, is Vice President and Associate Director of Fixed Income Research of MFS Investment Management (R) (MFS(R)) and portfolio manager of the high-yield bond portfolios of our mutual funds, variable annuities, offshore accounts and closed-end funds. John joined MFS as a research analyst in 1998. He became Vice President in 1999, associate portfolio manager in 2000, and portfolio manager in 2001. He has been a portfolio manager of the fund since February 2005. John was named Associate Director of Fixed Income Research in 2004. Previously, he was a quantitative analyst and a vice president in the high-yield groups of several major investment companies. He received a Bachelor of Science degree from Siena College in 1984. He holds the Chartered Financial Analyst (CFA) designation.

Richard O. Hawkins, CFA, is Senior Vice President of MFS Investment Management (R) an investment grade fixed income research analyst; and a portfolio manager of MFS(R) Charter Income Trust. Prior to joining the firm in 1988, he spent two years as an International Bond Analyst for Fidelity Management & Research Company; and five years as an International Lending Officer for Manufacturers Hanover Trust Company. He was named portfolio manager at MFS in 2004. He has been a portfolio manager of the fund since July 2004. Richard earned a bachelor's degree from Brown University and a Master's of Business Administration from the University of Pennsylvania. He is a member of the Association for Investment Management and Research (AIMR) and the Boston Security Analysts Society, Inc. He holds the Chartered Financial Analyst (CFA) designation.

Scott B. Richards, CFA, is Vice President of MFS Investment Management (R) (MFS(R)) and a portfolio manager of the firm's high-yield and strategic income portfolios. He has been a portfolio manager of the fund since February 2005. Scott joined MFS in May 2004 with more than 24 years experience as a high-yield bond portfolio manager and research director at several leading investment management firms. He earned a M.B.A. degree from the Amos Tuck School at Dartmouth College in 1984 and a bachelor's degree in applied economics from Cornell University in 1981. He holds the Chartered Financial Analyst (CFA) designation and is a member of the Boston Security Analysts Society, Inc.

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Matthew W. Ryan, CFA, is Senior Vice President of MFS Investment Management (R) (MFS(R)) and portfolio manager of strategic income and high yield portfolios, as well as the firm's emerging market debt portfolios. Before joining the firm in 1997, Matt worked for four years as an economist at the International Monetary Fund and for five years as an international economist with the U.S. Treasury Department. He was named a portfolio manager of MFS in 1998; Vice President in 1999; and Senior Vice President in 2005. He has been a portfolio manager of the fund since September 2004. Matt is a graduate of Williams College and earned a master's degree in international economics and foreign policy from Johns Hopkins University. Matt also holds the Chartered Financial Analyst (CFA) designation.

### PERFORMANCE SUMMARY THROUGH 5/31/06

All results are historical. Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost. More recent returns may be more or less than those shown. Past performance is no guarantee of future results.

### PRICE SUMMARY

|                               | Date               | Price  |
|-------------------------------|--------------------|--------|
| Six months ended<br>5/31/06   |                    |        |
| Net asset value per share     | 5/31/06            | \$9.38 |
|                               | 11/30/05           | \$9.58 |
| New York Stock Exchange Price | 5/31/06            | \$8.30 |
|                               | 1/24/06 (high) (t) | \$8.67 |
|                               | 4/13/06 (low) (t)  | \$8.23 |
|                               | 11/30/05           | \$8.43 |

### TOTAL RETURNS VS BENCHMARKS

|   |  |        |
|---|--|--------|
| Six months ended<br>5/31/06                                 |  |        |
| New York Stock Exchange Price (r)                           |  | 1.41%  |
| Net asset value (r)   |  | 0.85%  |
| Citigroup World Government Bond Non-Dollar Hedged Index (f) |  | 0.02%  |
| J.P. Morgan EMBI Global (f)                                 |  | 1.16%  |
| Lehman Brothers U.S. Credit Bond Index (f)                  |  | -0.73% |
| Lehman Brothers U.S. Government/Mortgage Bond Index (f)     |  | 0.23%  |
| Lehman Brothers U.S. High-Yield Corporate Bond Index (f)    |  | 4.41%  |

(f) Source: FactSet Research Systems, Inc.

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

(t) For the period December 1, 2005 through May 31, 2006.

### INDEX DEFINITIONS

Citigroup World Government Bond Non-Dollar Hedged Index - a market capitalization-weighted index that tracks the currency-hedged performance of the

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major government bond markets, excluding the United States. Country eligibility is determined based upon market capitalization and investability criteria.

J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) - tracks total returns for U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds.

Lehman Brothers U.S. Credit Bond Index - measures publicly issued, SEC-registered, U.S. corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Lehman Brothers U.S. Government/Mortgage Bond Index - measures debt issued by the U.S. Government as well as mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Lehman Brothers U.S. High-Yield Corporate Bond Index - measures the universe 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.

It is not possible to invest directly in an index.

### NOTES TO PERFORMANCE SUMMARY

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

The trust's monthly distributions may include a return of capital to shareholders. 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. Returns of shareholder capital have the effect of reducing the trust's assets and may increase the trust's expense ratio.

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

Shareholders will be sent notices at least annually reporting the tax status of such distributions. The notices will indicate whether any portion of such distributions represent a return of capital. Effective August 1, 2006, the trust will only send monthly notices reporting the tax status of such distributions when required by SEC rules.

### KEY RISK CONSIDERATIONS

The portfolio's yield and share prices change daily based on the credit quality of its investments and changes in interest rates. In general, the value of debt securities will decline when interest rates rise and will increase when interest rates fall. Debt securities with longer maturity dates will be subject to greater price fluctuations than those with shorter maturities. Mortgage securities are subject to prepayment risk which can offer less potential for gains in a declining interest rate environment and greater potential for loss in a rising interest rate environment. Derivatives involve risks different from, and greater than, those of the underlying indicator's in whose value the derivative is based. The value of the derivative can move in unexpected ways and result in unanticipated losses and increased volatility if the value of the

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underlying indicator(s) does not move in the direction or the extent anticipated. Interest payments on inflation adjusted debt instruments can be unpredictable and vary based on the level of inflation. The value of floating rate loans depends on the credit quality and adequacy of the collateral securing the loan. Enforcing rights against the collateral may be difficult or insufficient if the borrower of the floating rate loan defaults. Lower quality debt securities involve substantially greater risk of default and their value can decline significantly over time. Foreign investments can be more volatile than U.S. investments. Changes in currency exchange rates may affect the portfolio's net asset value, the value of dividends and interest earned and gains and losses realized on the sale of securities. Investing in emerging markets can involve risks in addition to those generally associated with investing in more developed foreign markets. When you sell your shares, they may be worth more or less than the amount you paid for them. Please see the prospectus for further information regarding these and other risk considerations.

These risks may increase share price volatility.

In accordance with Section 23(c) of the Investment Company Act of 1940, the trust hereby gives notice that it may from time to time repurchase shares of the trust in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

### DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

The trust offers a Dividend Reinvestment and Cash Purchase Plan that allows you to reinvest either all of the distributions paid by the trust or only the long-term capital gains. 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 discounted price of either the net asset value or 95% of the market price, whichever is greater. Twice each year you can also buy shares. Investments may be made in any amount over \$100 in January and July on the 15th of the month or shortly thereafter.

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 trust. 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 commissions. 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.

To enroll in or withdraw from the plan, or if you have any questions, call 1-800-637-2304 any business day from 8 a.m. to 8 p.m. Eastern time. Please have available the name of the trust and your account and Social Security numbers. 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 two ways: a check for the value of the full and fractional shares, or a certificate for the full shares and a check for the fractional shares.

### PORTFOLIO OF INVESTMENTS (unaudited) - 5/31/06

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



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Bonds - 98.6%

| ISSUER  | SHARES/PAR   | VALUE (\$)   |
|---|--------------|--------------|
| <b>Advertising &amp; Broadcasting - 1.1%</b>                              |              |              |
| Allbritton Communications Co., 7.75%, 2012                                | \$ 365,000   | \$ 365,456   |
| CBS Corp., 6.625%, 2011   | 860,000      | 884,512      |
| EchoStar DBS Corp., 6.375%, 2011  | 1,945,000    | 1,867,200    |
| Intelsat Subsidiary Holding Co. Ltd., 8.625%, 2015                        | 340,000      | 344,250      |
| Lamar Media Corp., 7.25%, 2013  | 675,000      | 669,094      |
| News America Holdings, 7.7%, 2025   | 1,140,000    | 1,206,475    |
| News America, Inc., 6.2%, 2034  | 542,000      | 489,972      |
|   |              | \$ 5,826,959 |
| <b>Aerospace - 0.1%</b>   |              |              |
| DRS Technologies, Inc., 7.625%, 2018                                      | \$ 440,000   | \$ 444,400   |
| <b>Agency - Other - 1.0%</b>  |              |              |
| Financing Corp., 10.35%, 2018   | \$ 3,600,000 | \$ 5,103,112 |
| <b>Airlines - 0.2%</b>  |              |              |
| Continental Airlines, Inc., 7.566%, 2020                                  | \$ 1,015,699 | \$ 955,076   |
| <b>Asset Backed &amp; Securitized - 8.0%</b>                              |              |              |
| Amresco Commercial Mortgage Funding I, 7%, 2029                           | \$ 3,000,000 | \$ 3,021,048 |
| Asset Securitization Corp., 7.525%, 2029                                  | 1,586,134    | 1,714,918    |
| Asset Securitization Corp., FRN, 8.2937%, 2029                            | 2,000,000    | 2,066,849    |
| Bayview Financial Acquisition Trust, FRN, 5.483%, 2041                    | 404,000      | 399,518      |
| Bayview Financial Revolving Mortgage Loan Trust, FRN, 5.8906%, 2040 (a)   | 1,160,000    | 1,161,845    |
| Bear Stearns Commercial Mortgage Securities, Inc., FRN, 5.116%, 2041      | 1,120,248    | 1,066,015    |
| Countrywide Asset-Backed Certificates, FRN, 5.147%, 2035                  | 2,000,000    | 1,976,877    |
| Credit Suisse First Boston Mortgage Securities Corp., 6.75%, 2030 (a)     | 2,000,000    | 2,001,479    |
| Crest Ltd., 7%, 2040 (a)  | 2,000,000    | 1,795,800    |
| DLJ Commercial Mortgage Corp., 6.04%, 2031                                | 2,000,000    | 2,007,247    |
| First Union-Lehman Brothers Bank of America, FRN, 0.6883%, 2035 (i)       | 67,839,557   | 1,191,147    |
| First Union-Lehman Brothers Commercial Mortgage Trust, 7%, 2029 (a)       | 850,000      | 931,560      |
| First Union-Lehman Brothers Commercial Mortgage Trust, FRN, 7.5%, 2029    | 3,000,000    | 3,318,322    |
| J.P. Morgan Chase Commercial Mortgage Securities Corp., FRN, 5.038%, 2046 | 4,000,000    | 3,782,455    |
| Morgan Stanley Capital I, Inc., 5.168%, 2042                              | 1,532,020    | 1,463,847    |
| Mortgage Capital Funding, Inc., FRN, 0.9324%, 2031 (i)                    | 18,072,179   | 212,661      |
| New Century Home Equity Loan Trust, FRN, 4.532%, 2035                     | 2,500,000    | 2,437,528    |
| Residential Asset Mortgage Products, Inc., 3.878%, 2035                   | 1,340,523    | 1,324,288    |
| Spirit Master Funding LLC, 5.05%, 2023 (a)                                | 1,928,754    | 1,813,524    |
| Structured Asset Securities Corp., FRN, 4.67%, 2035                       | 2,484,152    | 2,445,935    |
| TIAA Real Estate CDO Ltd., 7.17%, 2032 (a)                                | 2,003,810    | 2,023,650    |
| Wachovia Bank Commercial Mortgage Trust, FRN, 4.847%, 2041                | 2,000,000    | 1,867,381    |
| Wachovia Bank Commercial Mortgage Trust, FRN, 5.083%, 2042                | 2,000,000    | 1,894,873    |

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|  |    |           |              |
|--|----|-----------|--------------|
|  |    | \$        | 41,918,767   |
| -----  |    |           |              |
| Automotive - 1.6%  |    |           |              |
| -----  |    |           |              |
| American Axle & Manufacturing, Inc., 5.25%, 2014                 | \$ | 515,000   | \$ 426,806   |
| DaimlerChrysler N.A. Holdings Corp., 8.5%, 2031                  |    | 400,000   | 458,489      |
| Ford Motor Credit Co., 4.95%, 2008                               |    | 200,000   | 187,476      |
| Ford Motor Credit Co., 6.625%, 2008                              |    | 196,000   | 185,629      |
| Ford Motor Credit Co., 5.8%, 2009                                |    | 1,600,000 | 1,462,269    |
| Ford Motor Credit Co., 7%, 2013                                  |    | 254,000   | 219,107      |
| General Motors Acceptance Corp., 6.125%, 2008                    |    | 234,000   | 226,594      |
| General Motors Acceptance Corp., 5.85%, 2009                     |    | 1,842,000 | 1,738,406    |
| General Motors Acceptance Corp., 6.875%, 2011                    |    | 1,400,000 | 1,315,188    |
| General Motors Acceptance Corp., 6.75%, 2014                     |    | 1,391,000 | 1,262,696    |
| General Motors Acceptance Corp., 8%, 2031                        |    | 534,000   | 501,583      |
| General Motors Corp., 8.375%, 2033                               |    | 100,000   | 75,875       |
| Lear Corp., 8.11%, 2009  |    | 285,000   | 277,875      |
| Lear Corp., 5.75%, 2014  |    | 50,000    | 40,750       |
|  |    |           | -----        |
|  |    | \$        | 8,378,743    |
| -----  |    |           |              |
| Banks & Credit Companies - 5.6%                                  |    |           |              |
| -----  |    |           |              |
| Abbey National Capital Trust I, 8.963% to 2030, FRN to 2049      | \$ | 1,500,000 | \$ 1,872,987 |
| Banco BMG S.A., 9.15%, 2016 (a)                                  |    | 982,000   | 962,360      |
| Banco do Estado de Sao Paulo S.A., 8.7%, 2049 (a)                |    | 1,400,000 | 1,380,750    |
| Banco Mercantil del Norte S.A., 5.875% to 2009, FRN to 2014 (a)  |    | 808,000   | 799,920      |
| BNP Paribas, 5.186% to 2015, FRN to 2049 (a)                     |    | 1,667,000 | 1,533,097    |
| Bosphorus Financial Services Ltd., FRN, 6.97%, 2012 (a)          |    | 1,500,000 | 1,505,954    |
| Chuo Mitsui Trust & Banking Co., 5.506% to 2015, FRN to 2049(a)  |    | 1,676,000 | 1,568,873    |
| DFS Funding Corp., FRN, 6.91%, 2010 (a)                          |    | 1,750,000 | 1,776,250    |
| HBOS Capital Funding LP, 6.071% to 2014, FRN to 2049 (a)         |    | 1,330,000 | 1,306,369    |
| HSBK Europe B.V., 7.75%, 2013 (a)                                |    | 637,000   | 644,963      |
| J.P. Morgan Chase & Co., 5.125%, 2014                            |    | 2,100,000 | 1,986,531    |
| Kazkommerts International B.V., 10.125%, 2007 (a)                |    | 367,000   | 379,295      |
| Kazkommerts International B.V., 10.125%, 2007                    |    | 128,000   | 132,288      |
| Mizuho Capital Investment 1 Ltd., 6.686% to 2016, FRN to 2049(a) |    | 3,800,000 | 3,670,747    |
| Mizuho Financial Group, Inc., 5.79%, 2014 (a)                    |    | 1,898,000 | 1,869,365    |
| MUFG Capital Finance 1 Ltd., 6.346% to 2016, FRN to 2049         |    | 1,408,000 | 1,386,414    |
| RBS Capital Trust II, 6.425% to 2034, FRN to 2049                |    | 829,000   | 806,437      |
| Resona Bank Ltd., 5.85% to 2016, FRN to 2049 (a)                 |    | 655,000   | 624,133      |
| Russian Standard Finance S.A., 8.125%, 2008 (a)                  |    | 682,000   | 681,148      |
| Russian Standard Finance S.A., 7.5%, 2010 (a)                    |    | 176,000   | 168,520      |
| Russian Standard Finance S.A., 8.625%, 2011 (a)                  |    | 498,000   | 493,070      |
| Turanalem Finance B.V., 7.75%, 2013 (a)                          |    | 590,000   | 584,100      |
| UFJ Finance Aruba AEC, 6.75%, 2013                               |    | 1,300,000 | 1,357,383    |
| Woori Bank, FRN, 6.125%, 2016 (a)                                |    | 1,490,000 | 1,477,156    |
|  |    |           | -----        |
|  |    | \$        | 28,968,110   |
| -----  |    |           |              |
| Broadcast & Cable TV - 1.2%                                      |    |           |              |
| -----  |    |           |              |
| CCH II LLC, 10.25%, 2010   | \$ | 475,000   | \$ 473,812   |
| CSC Holdings, Inc., 8.125%, 2009                                 |    | 1,050,000 | 1,076,250    |
| Lenfest Communications, Inc., 10.5%, 2006                        |    | 1,900,000 | 1,902,134    |
| Mediacom LLC, 9.5%, 2013   |    | 280,000   | 281,400      |
| Rogers Cable, Inc., 5.5%, 2014                                   |    | 1,025,000 | 927,625      |
| TCI Communications, Inc., 9.8%, 2012                             |    | 1,169,000 | 1,359,528    |
|  |    |           | -----        |
|  |    | \$        | 6,020,749    |
| -----  |    |           |              |

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### Brokerage & Asset Managers - 1.0%

|  |    |           |  |    |           |
|--|----|-----------|--|----|-----------|
| Goldman Sachs Group, Inc., 5.7%, 2012        | \$ | 2,680,000 |  | \$ | 2,662,360 |
| Morgan Stanley Dean Witter, Inc., 6.6%, 2012 |    | 2,537,000 |  |    | 2,642,077 |
|  |    |           |  | \$ | 5,304,437 |

### Business Services - 0.6%

|                                  |    |           |  |    |           |
|----------------------------------|----|-----------|--|----|-----------|
| Iron Mountain, Inc., 7.75%, 2015 | \$ | 175,000   |  | \$ | 174,562   |
| Xerox Corp., 7.625%, 2013        |    | 920,000   |  |    | 943,000   |
| Xerox Corp., 6.4%, 2016          |    | 2,000,000 |  |    | 1,910,000 |
|                                  |    |           |  | \$ | 3,027,562 |

### Chemicals - 0.9%

|  |    |           |  |    |           |
|--|----|-----------|--|----|-----------|
| BCP Crystal Holdings Corp., 9.625%, 2014   | \$ | 204,000   |  | \$ | 223,890   |
| Equistar Chemicals, LP, 10.125%, 2008      |    | 240,000   |  |    | 255,600   |
| Hercules, Inc., 6.75%, 2029                |    | 860,000   |  |    | 817,000   |
| Huntsman International LLC, 10.125%, 2009  |    | 331,000   |  |    | 336,792   |
| Lyondell Chemical Co., 11.125%, 2012       |    | 615,000   |  |    | 676,500   |
| Nalco Co., 7.75%, 2011                     |    | 650,000   |  |    | 651,625   |
| Nalco Co., 8.875%, 2013                    |    | 70,000    |  |    | 72,013    |
| Yara International A.S.A., 5.25%, 2014 (a) |    | 2,000,000 |  |    | 1,863,654 |
|  |    |           |  | \$ | 4,897,074 |

### Conglomerates - 0.2%

|                              |    |           |  |    |           |
|------------------------------|----|-----------|--|----|-----------|
| Kennametal, Inc., 7.2%, 2012 | \$ | 1,140,000 |  | \$ | 1,198,260 |
|------------------------------|----|-----------|--|----|-----------|

### Construction - 0.5%

|                                      |    |           |  |    |           |
|--------------------------------------|----|-----------|--|----|-----------|
| Beazer Homes USA, Inc., 6.875%, 2015 | \$ | 2,300,000 |  | \$ | 2,173,500 |
| M/I Homes, Inc., 6.875%, 2012        |    | 675,000   |  |    | 612,562   |
|                                      |    |           |  | \$ | 2,786,062 |

### Consumer Goods & Services - 0.1%

|   |    |         |  |    |         |
|---|----|---------|--|----|---------|
| Church & Dwight Co., Inc., 6%, 2012         | \$ | 460,000 |  | \$ | 437,000 |
| Service Corp. International, 7.5%, 2017 (a) |    | 260,000 |  |    | 247,000 |
|   |    |         |  | \$ | 684,000 |

### Containers - 0.4%

|  |    |         |  |    |           |
|--|----|---------|--|----|-----------|
| Ball Corp., 6.625%, 2018                           | \$ | 475,000 |  | \$ | 453,625   |
| Crown Americas, 7.75%, 2015 (a)                    |    | 565,000 |  |    | 569,238   |
| Owens-Brockway Glass Container, Inc., 8.875%, 2009 |    | 430,000 |  |    | 443,975   |
| Owens-Brockway Glass Container, Inc., 8.25%, 2013  |    | 865,000 |  |    | 873,650   |
|  |    |         |  | \$ | 2,340,488 |

### Defense Electronics - 0.9%

|   |    |           |  |    |           |
|---|----|-----------|--|----|-----------|
| BAE Systems Holdings, Inc., 4.75%, 2010 (a) | \$ | 790,000   |  | \$ | 758,590   |
| BAE Systems Holdings, Inc., 5.2%, 2015 (a)  |    | 2,000,000 |  |    | 1,863,890 |
| L-3 Communications Corp., 5.875%, 2015      |    | 750,000   |  |    | 690,000   |
| L-3 Communications Corp., 6.375%, 2015      |    | 1,500,000 |  |    | 1,417,500 |

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\$ 4,729,980

-----  
 Electronics - 0.1%

Flextronics International Ltd., 6.5%, 2013 \$ 790,000 \$ 763,337  
 -----

Emerging Market Quasi-Sovereign - 1.1%

Banco do Brasil S.A., 7.95%, 2049 (a) \$ 161,000 \$ 152,950  
 Gazprom OAO, 9.625%, 2013 (a) 1,510,000 1,744,050  
 Pemex Project Funding Master Trust, 8.625%, 2022 1,218,000 1,370,250  
 Petroleum Export/Cayman, 5.265%, 2011 (a) 275,252 267,853  
 Petronas Capital Ltd., 7.875%, 2022 (a) 464,000 534,794  
 Petronas Capital Ltd., 7.875%, 2022 1,340,000 1,544,448  
 -----  
 \$ 5,614,345  
 -----

Emerging Market Sovereign - 2.5%

Republic of Argentina, FRN, 4.889%, 2012 \$ 1,449,000 \$ 1,330,929  
 Republic of Bulgaria, 8.25%, 2015 600,000 686,160  
 Republic of Colombia, FRN, 6.97%, 2015 1,514,000 1,566,936  
 Republic of Indonesia, 6.875%, 2017 (a) 171,000 167,477  
 Republic of Panama, 9.375%, 2029 1,121,000 1,367,620  
 Republic of South Africa, 9.125%, 2009 469,000 511,210  
 Russian Federation, 3%, 2008 6,252,000 5,913,767  
 Russian Federation, 11%, 2018 326,000 453,564  
 United Mexican States, 8.125%, 2019 976,000 1,094,584  
 -----  
 \$ 13,092,247  
 -----

Energy - Independent - 0.7%

Chesapeake Energy Corp., 7.5%, 2014 \$ 335,000 \$ 342,119  
 Chesapeake Energy Corp., 7%, 2014 240,000 239,100  
 Chesapeake Energy Corp., 6.875%, 2016 1,025,000 996,812  
 Forest Oil Corp., 7.75%, 2014 550,000 555,500  
 Newfield Exploration Co., 6.625%, 2014 540,000 517,050  
 Quicksilver Resources, Inc., 7.125%, 2016 510,000 487,050  
 Vintage Petroleum, Inc., 8.25%, 2012 550,000 583,046  
 -----  
 \$ 3,720,677  
 -----

Entertainment - 0.5%

AMC Entertainment, Inc., 9.5%, 2011 \$ 224,000 \$ 222,338  
 AMC Entertainment, Inc., 11%, 2016 (a) 200,000 216,000  
 Six Flags, Inc., 9.75%, 2013 220,000 220,550  
 Turner Broadcasting System, Inc., 8.375%, 2013 1,784,000 1,972,710  
 -----  
 \$ 2,631,598  
 -----

Financial Institutions - 0.3%

HSBC Finance Corp., 5.5%, 2016 \$ 1,481,000 \$ 1,415,694  
 International Lease Finance Corp., 5%, 2010 321,000 312,959  
 -----  
 \$ 1,728,653  
 -----

Food & Non Alcoholic Beverages - 0.1%

B&G Foods Holding Corp., 8%, 2011 \$ 170,000 \$ 171,275

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|   |               |    |               |
|---|---------------|----|---------------|
| Michael Foods, Inc., 8%, 2013                           | 315,000       |    | 314,212       |
|   |               |    | -----         |
|   |               |    | \$ 485,487    |
| <hr/>   |               |    |               |
| Forest & Paper Products - 0.8%                          |               |    |               |
| <hr/>   |               |    |               |
| Buckeye Technologies, Inc., 8.5%, 2013                  | \$ 460,000    | \$ | 450,800       |
| Jefferson Smurfit Corp., 8.25%, 2012                    | 185,000       |    | 173,900       |
| MDP Acquisitions PLC, 9.625%, 2012                      | 310,000       |    | 323,175       |
| Norske Skog Canada Ltd., 7.375%, 2014                   | 695,000       |    | 639,400       |
| Stone Container Corp., 7.375%, 2014                     | 1,000,000     |    | 895,000       |
| Stora Enso Oyj, 6.404%, 2016 (a)                        | 1,560,000     |    | 1,532,954     |
|   |               |    | -----         |
|   |               |    | \$ 4,015,229  |
| <hr/>   |               |    |               |
| Gaming & Lodging - 2.3%                                 |               |    |               |
| <hr/>   |               |    |               |
| Boyd Gaming Corp., 6.75%, 2014                          | \$ 520,000    | \$ | 501,800       |
| Caesars Entertainment, Inc., 8.125%, 2011               | 730,000       |    | 777,450       |
| GTECH Holdings Corp., 5.25%, 2014                       | 235,000       |    | 226,125       |
| Harrah's Operating Co., Inc., 5.625%, 2015              | 2,147,000     |    | 2,017,815     |
| Host Marriott LP, 7.125%, 2013                          | 465,000       |    | 467,325       |
| Host Marriott LP, 6.375%, 2015                          | 250,000       |    | 238,125       |
| Host Marriott LP, 6.75%, 2016 (a)                       | 1,000,000     |    | 971,250       |
| Mandalay Resort Group, 9.375%, 2010                     | 450,000       |    | 480,375       |
| MGM Mirage, Inc., 8.375%, 2011                          | 1,155,000     |    | 1,206,975     |
| MGM Mirage, Inc., 6.75%, 2013 (a)                       | 230,000       |    | 224,538       |
| MGM Mirage, Inc., 6.875%, 2016 (a)                      | 195,000       |    | 187,200       |
| Royal Caribbean Cruises Ltd., 8%, 2010                  | 990,000       |    | 1,042,567     |
| Scientific Games Corp., 6.25%, 2012                     | 380,000       |    | 365,750       |
| Starwood Hotels & Resorts Worldwide, Inc., 7.875%, 2012 | 2,390,000     |    | 2,527,425     |
| Station Casinos, Inc., 6.5%, 2014                       | 440,000       |    | 420,200       |
| Wynn Las Vegas LLC, 6.625%, 2014                        | 225,000       |    | 213,469       |
|   |               |    | -----         |
|   |               |    | \$ 11,868,389 |
| <hr/>   |               |    |               |
| Industrial - 0.2%                                       |               |    |               |
| <hr/>   |               |    |               |
| Amsted Industries, Inc., 10.25%, 2011 (a)               | \$ 725,000    | \$ | 783,000       |
| JohnsonDiversey Holdings, Inc., "B", 9.625%, 2012       | 310,000       |    | 313,100       |
|   |               |    | -----         |
|   |               |    | \$ 1,096,100  |
| <hr/>   |               |    |               |
| Insurance - 0.9%  |               |    |               |
| <hr/>   |               |    |               |
| American International Group, Inc., 4.25%, 2013         | \$ 4,250,000  | \$ | 3,871,746     |
| UnumProvident Corp., 7.625%, 2011                       | 215,000       |    | 225,750       |
| UnumProvident Corp., 6.85%, 2015 (a)                    | 580,000       |    | 573,438       |
|   |               |    | -----         |
|   |               |    | \$ 4,670,934  |
| <hr/>   |               |    |               |
| Insurance - Property & Casualty - 0.6%                  |               |    |               |
| <hr/>   |               |    |               |
| AXIS Capital Holdings Ltd., 5.75%, 2014                 | \$ 1,689,000  | \$ | 1,611,029     |
| Fund American Cos., Inc., 5.875%, 2013                  | 1,351,000     |    | 1,311,283     |
|   |               |    | -----         |
|   |               |    | \$ 2,922,312  |
| <hr/>   |               |    |               |
| International Market Quasi-Sovereign - 2.6%             |               |    |               |
| <hr/>   |               |    |               |
| KfW Bankengruppe, FRN, 2.844%, 2007                     | EUR 3,321,000 | \$ | 4,250,289     |
| Landesbank Baden-Wuerttemberg, FRN, 2.764%, 2007        | EUR 1,105,000 |    | 1,414,837     |

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|   |     |           |               |
|---|-----|-----------|---------------|
| Landesbank Baden-Württemberg, FRN, 2.879%, 2007 | EUR | 1,033,000 | 1,318,758     |
| Landesbank Baden-Württemberg, FRN, 2.704%, 2007 | EUR | 1,950,000 | 2,497,209     |
| Network Rail MTN Finance PLC, FRN, 2.913%, 2007 | EUR | 3,359,000 | 4,301,568     |
|   |     |           | \$ 13,782,661 |

### International Market Sovereign - 20.8%

|  |     |           |                |
|--|-----|-----------|----------------|
| Federal Republic of Germany, 3.5%, 2008  | EUR | 4,199,000 | \$ 5,380,749   |
| Federal Republic of Germany, 3.75%, 2015 | EUR | 3,906,000 | 4,936,858      |
| Federal Republic of Germany, 6.25%, 2030 | EUR | 774,000   | 1,278,045      |
| Government of New Zealand, 6.5%, 2013    | NZD | 9,660,000 | 6,367,638      |
| Government of New Zealand, 6%, 2017      | NZD | 1,975,000 | 1,278,072      |
| Kingdom of Netherlands, 5.75%, 2007      | EUR | 4,645,000 | 6,052,640      |
| Kingdom of Netherlands, 3.75%, 2009      | EUR | 5,253,000 | 6,767,279      |
| Kingdom of Spain, 6%, 2008               | EUR | 5,210,000 | 6,945,670      |
| Kingdom of Spain, 5.35%, 2011            | EUR | 3,009,000 | 4,144,686      |
| Republic of Austria, 5.5%, 2007          | EUR | 5,174,000 | 6,813,612      |
| Republic of Finland, 5.375%, 2013        | EUR | 8,575,000 | 12,004,613     |
| Republic of France, 4.75%, 2007          | EUR | 9,352,000 | 12,173,111     |
| Republic of France, 4.75%, 2012          | EUR | 1,219,000 | 1,643,687      |
| Republic of France, 6%, 2025             | EUR | 814,000   | 1,284,861      |
| Republic of Ireland, 4.25%, 2007         | EUR | 9,448,000 | 12,249,490     |
| Republic of Ireland, 4.6%, 2016          | EUR | 2,507,000 | 3,374,033      |
| United Kingdom Treasury, 5.75%, 2009     | GBP | 3,138,000 | 6,060,100      |
| United Kingdom Treasury, 5%, 2012        | GBP | 3,055,000 | 5,807,331      |
| United Kingdom Treasury, 8%, 2015        | GBP | 1,584,000 | 3,723,273      |
|  |     |           | \$ 108,285,748 |

### Machinery & Tools - 0.5%

|  |    |           |              |
|--|----|-----------|--------------|
| Case New Holland, Inc., 6%, 2009         | \$ | 1,415,000 | \$ 1,390,237 |
| Case New Holland, Inc., 9.25%, 2011      |    | 160,000   | 170,000      |
| Case New Holland, Inc., 7.125%, 2014 (a) |    | 380,000   | 368,600      |
| Manitowoc Co., Inc., 10.5%, 2012         |    | 331,000   | 360,790      |
| Terex Corp., 9.25%, 2011                 |    | 265,000   | 280,237      |
|  |    |           | \$ 2,569,864 |

### Medical & Health Technology & Services - 1.6%

|   |    |           |              |
|---|----|-----------|--------------|
| AmerisourceBergen Corp., 5.875%, 2015 (a)           | \$ | 2,465,000 | \$ 2,374,330 |
| DaVita, Inc., 6.625%, 2013                          |    | 170,000   | 163,412      |
| DaVita, Inc., 7.25%, 2015                           |    | 400,000   | 390,000      |
| Fisher Scientific International, Inc., 6.125%, 2015 |    | 1,500,000 | 1,458,750    |
| HCA, Inc., 8.75%, 2010                              |    | 960,000   | 1,026,611    |
| HCA, Inc., 6.375%, 2015                             |    | 740,000   | 701,023      |
| Omnicare, Inc., 6.875%, 2015                        |    | 760,000   | 737,200      |
| Owens & Minor, Inc., 6.35%, 2016                    |    | 970,000   | 951,120      |
| Triad Hospitals, Inc., 7%, 2013                     |    | 315,000   | 305,156      |
|   |    |           | \$ 8,107,602 |

### Metals & Mining - 0.9%

|   |    |           |            |
|---|----|-----------|------------|
| Codelco, Inc., 5.625%, 2035 (a)         | \$ | 552,000   | \$ 494,255 |
| Foundation PA Coal Co., 7.25%, 2014     |    | 900,000   | 904,500    |
| Ispat Inland ULC, 9.75%, 2014           |    | 1,200,000 | 1,342,500  |
| Massey Energy Co., 6.875%, 2013 (a)     |    | 785,000   | 753,600    |
| Peabody Energy Corp., 5.875%, 2016      |    | 425,000   | 398,437    |
| Peabody Energy Corp., "B", 6.875%, 2013 |    | 355,000   | 355,000    |

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|  |            |               |
|--|------------|---------------|
| U.S. Steel Corp., 9.75%, 2010                            | 413,000    | 443,975       |
|  |            | \$ 4,692,267  |
| <hr/>  |            |               |
| Mortgage Backed - 13.6%                                  |            |               |
|  |            | \$ 70,678,463 |
| <hr/>  |            |               |
| Fannie Mae, 4.845%, 2013                                 | \$ 251,917 | \$ 240,810    |
| Fannie Mae, 4.1%, 2013                                   | 942,224    | 866,397       |
| Fannie Mae, 4.19%, 2013                                  | 796,800    | 734,699       |
| Fannie Mae, 3.81%, 2013                                  | 584,655    | 529,037       |
| Fannie Mae, 4.6%, 2014                                   | 759,991    | 713,664       |
| Fannie Mae, 4.667%, 2014                                 | 1,343,004  | 1,264,911     |
| Fannie Mae, 4.519%, 2014                                 | 906,209    | 845,736       |
| Fannie Mae, 4.77%, 2014                                  | 593,248    | 560,844       |
| Fannie Mae, 4.56%, 2015                                  | 318,496    | 296,222       |
| Fannie Mae, 4.665%, 2015                                 | 257,927    | 241,549       |
| Fannie Mae, 4.7%, 2015                                   | 246,095    | 230,995       |
| Fannie Mae, 4.89%, 2015                                  | 173,356    | 164,737       |
| Fannie Mae, 4.74%, 2015                                  | 600,000    | 563,731       |
| Fannie Mae, 4.87%, 2015                                  | 519,609    | 492,712       |
| Fannie Mae, 4.925%, 2015                                 | 1,935,921  | 1,842,324     |
| Fannie Mae, 4.815%, 2015                                 | 600,000    | 565,872       |
| Fannie Mae, 6%, 2016 - 2034                              | 6,566,849  | 6,564,636     |
| Fannie Mae, 5.5%, 2019 - 2035                            | 41,275,166 | 39,994,371    |
| Fannie Mae, 4.88%, 2020                                  | 573,170    | 555,613       |
| Fannie Mae, 6.5%, 2032 - 2033                            | 3,410,269  | 3,449,800     |
| Freddie Mac, 6%, 2034                                    | 2,259,396  | 2,240,264     |
| Freddie Mac, 5.5%, 2034                                  | 7,978,615  | 7,719,539     |
|  |            | \$ 70,678,463 |
| <hr/>  |            |               |
| Natural Gas - Distribution - 0.1%                        |            |               |
|  |            | \$ 626,687    |
| <hr/>  |            |               |
| Natural Gas - Pipeline - 1.2%                            |            |               |
|  |            | \$ 6,149,513  |
| <hr/>  |            |               |
| Atlas Pipeline Partners LP, 8.125%, 2015 (a)             | \$ 375,000 | \$ 382,500    |
| CenterPoint Energy Resources Corp., 7.875%, 2013         | 1,600,000  | 1,757,762     |
| Colorado Interstate Gas Co., 5.95%, 2015                 | 170,000    | 158,788       |
| Kinder Morgan Energy Partners, 7.125%, 2012              | 2,000,000  | 2,074,200     |
| Magellan Midstream Partners LP, 5.65%, 2016              | 311,000    | 298,039       |
| Southern Natural Gas Co., Inc., 8.875%, 2010             | 550,000    | 582,224       |
| Williams Cos., Inc., 8.75%, 2032                         | 800,000    | 896,000       |
|  |            | \$ 6,149,513  |
| <hr/>  |            |               |
| Network & Telecom - 1.7%                                 |            |               |
|  |            | \$ 2,594,424  |
| <hr/>  |            |               |
| Citizens Communications Co., 9.25%, 2011                 | \$ 815,000 | \$ 885,294    |
| Citizens Communications Co., 9%, 2031                    | 405,000    | 425,250       |
| Deutsche Telekom International Finance B.V., 8.25%, 2030 | 1,500,000  | 1,733,769     |
| Nordic Telephone Co. Holdings, 8.875%, 2016 (a)          | 180,000    | 185,850       |
| Qwest Corp., 7.875%, 2011                                | 860,000    | 884,725       |
| Qwest Corp., 8.875%, 2012                                | 450,000    | 482,625       |
| Telecom Italia Capital, 6%, 2034                         | 1,000,000  | 866,322       |
| Telefonica Europe B.V., 7.75%, 2010                      | 1,000,000  | 1,066,892     |
| Verizon New York, Inc., 6.875%, 2012                     | 2,542,000  | 2,594,424     |
|  |            | \$ 2,594,424  |

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|  |    |           |              |
|--|----|-----------|--------------|
|  |    | \$        | 9,125,151    |
| -----  |    |           |              |
| Oil Services - 0.1%                              |    |           |              |
| -----  |    |           |              |
| Basic Energy Services, Inc., 7.125%, 2016 (a)    | \$ | 130,000   | \$ 126,100   |
| GulfMark Offshore, Inc., 7.75%, 2014             |    | 435,000   | 429,562      |
|  |    |           | -----        |
|  |    | \$        | 555,662      |
| -----  |    |           |              |
| Oils - 0.7%                                      |    |           |              |
| -----  |    |           |              |
| Premcor Refining Group, Inc., 7.5%, 2015         | \$ | 3,550,000 | \$ 3,677,335 |
| -----  |    |           |              |
| Printing & Publishing - 0.5%                     |    |           |              |
| -----  |    |           |              |
| Dex Media East LLC, 9.875%, 2009                 | \$ | 565,000   | \$ 598,900   |
| Dex Media West LLC, 9.875%, 2013                 |    | 1,527,000 | 1,664,430    |
| MediaNews Group, Inc., 6.875%, 2013              |    | 515,000   | 484,100      |
|  |    |           | -----        |
|  |    | \$        | 2,747,430    |
| -----  |    |           |              |
| Railroad & Shipping - 0.6%                       |    |           |              |
| -----  |    |           |              |
| TFM S.A. de C.V., 9.375%, 2012                   | \$ | 2,809,000 | \$ 2,991,585 |
| -----  |    |           |              |
| Real Estate - 0.5%                               |    |           |              |
| -----  |    |           |              |
| EOP Operating LP, 4.75%, 2014                    | \$ | 1,500,000 | \$ 1,369,932 |
| HRPT Properties Trust, 6.25%, 2016               |    | 1,324,000 | 1,317,483    |
|  |    |           | -----        |
|  |    | \$        | 2,687,415    |
| -----  |    |           |              |
| Restaurants - 0.3%                               |    |           |              |
| -----  |    |           |              |
| YUM! Brands, Inc., 8.875%, 2011                  | \$ | 1,500,000 | \$ 1,678,657 |
| -----  |    |           |              |
| Retailers - 0.7%                                 |    |           |              |
| -----  |    |           |              |
| Couche-Tard, Inc., 7.5%, 2013                    | \$ | 420,000   | \$ 423,150   |
| Dollar General Corp., 8.625%, 2010               |    | 315,000   | 335,475      |
| Gap, Inc., 9.55%, 2008                           |    | 940,000   | 1,015,644    |
| GSC Holdings Corp., 8%, 2012 (a)                 |    | 250,000   | 248,750      |
| Limited Brands, Inc., 5.25%, 2014                |    | 1,100,000 | 1,015,304    |
| Rite Aid Corp., 8.125%, 2010                     |    | 365,000   | 367,737      |
| Steinway Musical Instruments, Inc., 7%, 2014 (a) |    | 305,000   | 299,663      |
|  |    |           | -----        |
|  |    | \$        | 3,705,723    |
| -----  |    |           |              |
| Steel - 0.1%                                     |    |           |              |
| -----  |    |           |              |
| Chaparral Steel Co., 10%, 2013                   | \$ | 515,000   | \$ 572,937   |
| -----  |    |           |              |
| Supranational - 0.3%                             |    |           |              |
| -----  |    |           |              |
| Central American Bank, 4.875%, 2012 (a)          | \$ | 1,426,000 | \$ 1,332,249 |
| -----  |    |           |              |
| Telecommunications - Wireless - 1.2%             |    |           |              |
| -----  |    |           |              |
| AT&T Wireless Services, Inc., 8.75%, 2031        | \$ | 1,500,000 | \$ 1,841,125 |
| Centennial Communications Corp., 10.125%, 2013   |    | 240,000   | 258,600      |
| Cingular Wireless LLC, 6.5%, 2011                |    | 1,700,000 | 1,756,204    |
| Excelcomindo Finance Co., 7.125%, 2013 (a)       |    | 100,000   | 97,500       |



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|   |              |               |
|---|--------------|---------------|
| Nextel Communications, Inc., 5.95%, 2014                | 1,315,000    | 1,277,859     |
| Rogers Wireless, Inc., 6.375%, 2014                     | 550,000      | 523,875       |
| Rogers Wireless, Inc., 7.5%, 2015                       | 450,000      | 457,875       |
|   |              | \$ 6,213,038  |
| <hr style="border-top: 1px dashed black;"/>             |              |               |
| Tobacco - 0.4%  |              |               |
| R.J. Reynolds Tobacco Holdings, Inc., 7.25%, 2012       | \$ 818,000   | \$ 811,865    |
| R.J. Reynolds Tobacco Holdings, Inc., 7.3%, 2015        | 1,300,000    | 1,270,750     |
|   |              | \$ 2,082,615  |
| <hr style="border-top: 1px dashed black;"/>             |              |               |
| Transportation - Services - 0.2%                        |              |               |
| Hertz Corp., 8.875%, 2014 (a)                           | \$ 315,000   | \$ 327,600    |
| Stena AB, 7%, 2016                                      | 375,000      | 349,688       |
| Westinghouse Air Brake Technologies Corp., 6.875%, 2013 | 370,000      | 364,450       |
|   |              | \$ 1,041,738  |
| <hr style="border-top: 1px dashed black;"/>             |              |               |
| U.S. Government Agencies - 2.8%                         |              |               |
| Small Business Administration, 4.34%, 2024              | \$ 7,277,666 | \$ 6,671,555  |
| Small Business Administration, 4.77%, 2024              | 5,582,028    | 5,268,469     |
| Small Business Administration, 5.11%, 2025              | 2,526,531    | 2,427,355     |
|   |              | \$ 14,367,379 |
| <hr style="border-top: 1px dashed black;"/>             |              |               |
| U.S. Treasury Obligations - 9.8%                        |              |               |
| U.S. Treasury Bonds, 12%, 2013                          | \$ 7,500,000 | \$ 8,581,057  |
| U.S. Treasury Bonds, 10.625%, 2015                      | 3,350,000    | 4,685,290     |
| U.S. Treasury Bonds, 6.25%, 2023 (f)                    | 8,000,000    | 8,789,376     |
| U.S. Treasury Bonds, 5.375%, 2031                       | 635,000      | 642,243       |
| U.S. Treasury Notes, 4.25%, 2014                        | 2,500,000    | 2,352,930     |
| U.S. Treasury Notes, 4.125%, 2015                       | 1,285,000    | 1,193,694     |
| U.S. Treasury Notes, 9.875%, 2015                       | 5,025,000    | 6,783,162     |
| U.S. Treasury Notes, 4.5%, 2016                         | 4,128,000    | 3,928,857     |
| U.S. Treasury Notes, TIPS, 2%, 2014                     | 10,982,119   | 10,664,241    |
| U.S. Treasury Notes, TIPS, 1.625%, 2015                 | 3,772,561    | 3,539,575     |
|   |              | \$ 51,160,425 |
| <hr style="border-top: 1px dashed black;"/>             |              |               |
| Utilities - Electric Power - 3.9%                       |              |               |
| Allegheny Energy Supply Co. LLC, 8.25%, 2012 (a)        | \$ 370,000   | \$ 396,825    |
| DPL, Inc., 6.875%, 2011                                 | 634,000      | 657,624       |
| Duke Capital Corp., 8%, 2019                            | 1,350,000    | 1,544,075     |
| Edison Mission Energy, 7.75%, 2016 (a)                  | 385,000      | 381,150       |
| Empresa Nacional de Electricidad S.A., 8.35%, 2013      | 1,269,000    | 1,381,428     |
| Enersis S.A., 7.375%, 2014                              | 1,273,000    | 1,311,615     |
| FirstEnergy Corp., 6.45%, 2011                          | 4,199,000    | 4,288,985     |
| HQI Transelec Chile S.A., 7.875%, 2011                  | 1,500,000    | 1,592,160     |
| Midwest Generation LLC, 8.75%, 2034                     | 315,000      | 337,050       |
| Mirant North America LLC, 7.375%, 2013 (a)              | 555,000      | 548,063       |
| MSW Energy Holdings LLC, 7.375%, 2010                   | 545,000      | 547,725       |
| Nevada Power Co., 5.875%, 2015                          | 900,000      | 862,419       |
| NorthWestern Corp., 5.875%, 2014                        | 1,435,000    | 1,403,330     |
| NRG Energy, Inc., 7.375%, 2016                          | 1,110,000    | 1,111,388     |
| Reliant Resources, Inc., 9.5%, 2013                     | 235,000      | 237,350       |
| System Energy Resources, Inc., 5.129%, 2014 (a)         | 2,255,683    | 2,174,208     |

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|   |         |                 |                   |                |
|---|---------|-----------------|-------------------|----------------|
| TXU Corp., 5.55%, 2014  |         | 570,000         |                   | 523,564        |
| TXU Energy Co., 7%, 2013  |         | 1,220,000       |                   | 1,260,597      |
|   |         |                 |                   | \$ 20,559,556  |
| TOTAL BONDS (IDENTIFIED COST, \$524,311,410)  |         |                 |                   | \$ 514,584,787 |
| Common Stocks - 0.0%  |         |                 |                   |                |
| Printing & Publishing - 0.0%  |         |                 |                   |                |
| Golden Books Family Entertainment, Inc. (n)   |         | 3,683           | \$                | 0              |
| Specialty Chemicals - 0.0%  |         |                 |                   |                |
| Sterling Chemicals, Inc. (n)  |         | 1               | \$                | 13             |
| TOTAL COMMON STOCKS (IDENTIFIED COST, \$0)  |         |                 | \$                | 13             |
| Convertible Preferred Stocks - 0.1%   |         |                 |                   |                |
| Automotive - 0.1%   |         |                 |                   |                |
| General Motors Corp., "B", 5.25% (Identified Cost, \$263,915)                               |         | 17,225          | \$                | 302,643        |
| Warrants - 0.0%   |         |                 |                   |                |
|   |         | STRIKE<br>PRICE | FIRST<br>EXERCISE |                |
| Business Services - 0.0%  |         |                 |                   |                |
| Loral Space & Communications Ltd. (n)   | \$ 0.14 | 1/28/97         | 1,625             | \$ 0           |
| Loral Space & Communications Ltd. (n)   | 0.14    | 1/28/97         | 750               | 0              |
| Specialty Chemicals - 0.0%  |         |                 |                   |                |
| Sterling Chemicals, Inc. (n)  | 52.00   | 12/31/02        | 1                 | \$ 0           |
| TOTAL WARRANTS (IDENTIFIED COST, \$29,434)  |         |                 | \$                | 0              |
| Short-Term Obligations - 1.7%   |         |                 |                   |                |
| Edison Asset Securitization LLC, 5.06%, due 6/01/06,<br>at Amortized Cost and Value (t) (y) |         |                 | \$ 8,650,000      | \$ 8,650,000   |
| TOTAL INVESTMENTS (IDENTIFIED COST, \$533,254,759) (k)                                      |         |                 | \$                | 523,537,443    |
| Other Assets, Less Liabilities - (0.4)%   |         |                 |                   | (1,924,166)    |
| NET ASSETS - 100.0%   |         |                 | \$                | 521,613,277    |

(a) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$54,303,047, representing 10.4% of net assets.

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

(i) Interest only security for which the trust receives interest on notional principal (Par amount). Par amount shown is the notional principal and does not reflect the cost of the security.

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- (k) As of May 31, 2006, the trust held securities fair valued in accordance with the policies adopted by the Board of Trustees, aggregating \$502,587,160 and 96.00% of market value, of which 96.00% of market value was provided by an independent pricing service using an evaluated bid.
- (n) Non-income producing security.
- (t) Security exempt from registration with the U.S. Securities and Exchange Commission under Section 4(2) of the Securities Act of 1933.
- (y) The rate shown represents an annualized yield at time of purchase.

The following abbreviations are used in the Portfolio of Investments and are defined:

FRN Floating Rate Note. The interest rate is the rate in effect as of period end. TIPS Treasury Inflation Protected Security

Abbreviations have been used throughout this report to indicate amounts shown in currencies other than the U.S. dollar. All amounts are stated in U.S. dollars unless otherwise indicated. A list of abbreviations is shown below:

|                           |                        |
|---------------------------|------------------------|
| AUD Australian Dollar     | GBP British Pound      |
| CLP Chilean Peso          | JPY Japanese Yen       |
| CNY Chinese Yuan Renminbi | NZD New Zealand Dollar |
| EUR Euro                  | TRY Turkish Lira       |

### FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

Sales and Purchases in the table below are reported by currency.

|                  | CONTRACTS TO DELIVER/RECEIVE | SETTLEMENT DATE | IN EXCHANGE FOR | CONTRACTS AT VALUE | NET UNREALIZED APPRECIATION (DEPRECIATION) |
|------------------|------------------------------|-----------------|-----------------|--------------------|--|
| <b>SALES</b>     |                              |                 |                 |                    |  |
| AUD              | 6,837,378                    | 6/08/06-6/19/06 | \$ 5,223,251    | \$5,141,794        | \$   |
| EUR              | 79,291,220                   | 6/08/06-7/17/06 | 96,892,572      | 101,638,469        | (4,7)                                      |
| GBP              | 19,182,069                   | 6/05/06-8/02/06 | 34,624,192      | 35,861,054         | (1,2)                                      |
| NZD              | 22,360,296                   | 6/06/06-6/26/06 | 13,728,272      | 14,184,713         | (4)  |
|                  |                              |                 | \$150,468,287   | \$156,826,030      | \$ (6,3)                                   |
| <b>PURCHASES</b> |                              |                 |                 |                    |  |
| AUD              | 5,150,171                    | 6/08/06-6/19/06 | \$ 3,931,598    | \$3,873,122        | \$ (                                       |
| CLP              | 1,360,389,921                | 6/30/06         | 2,589,246       | 2,550,651          | (  |
| CNY              | 42,072,400                   | 6/06/06         | 5,280,171       | 5,246,328          | (  |
| EUR              | 857,718                      | 6/13/06         | 1,098,817       | 1,099,389          | (  |
| GBP              | 10,728,550                   | 6/05/06         | 20,015,535      | 20,048,848         | (  |
| JPY              | 298,100,968                  | 6/08/06         | 2,635,613       | 2,648,221          | (  |
| NZD              | 12,175,332                   | 6/06/06-6/19/06 | 7,666,017       | 7,722,143          | (  |
| TRY              | 2,033,507                    | 6/26/06         | 1,294,815       | 1,283,762          | (  |
|                  |                              |                 | \$ 44,511,812   | \$44,472,464       | \$ (                                       |

At May 31, 2006, forward foreign currency purchases and sales under master netting agreements except above amounted to a net payable of \$101,815 with Merrill Lynch International.

FUTURES CONTRACTS OUTSTANDING AT MAY 31, 2006:

EXPIRATION

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| DESCRIPTION                        | CONTRACTS | VALUE       | DATE   |
|------------------------------------|-----------|-------------|--------|
| U.S. Treasury Bond (Long)          | 50        | \$5,310,938 | Sep-06 |
| U.S. Treasury Note 10 year (Short) | 88        | 9,233,125   | Sep-06 |

CREDIT DEFAULT SWAPS

| EXPIRATION | NOTIONAL PRINCIPAL AMOUNT OF CONTRACT | DESCRIPTION   | UN APP (DEP |
|------------|---------------------------------------|---|-------------|
| 3/20/11    | \$1,270,000                           | Agreement between the trust and Citibank, N.A. to exchange the credit risk of AutoZone, Inc. As a buyer of protection, the trust agrees to pay Citibank N.A. quarterly at a fixed annual rate of 0.65% of the notional amount of \$1,270,000 until maturity on March 20, 2011. If AutoZone, Inc. experiences one of the following credit events: bankruptcy, failure to pay, or a restructuring, the trust would then purchase \$1,270,000 par of AutoZone bonds at the post credit event market price, and then deliver those bonds to Citibank N.A., who in turn would deliver \$1,270,000 in cash to the trust.                              |             |
| 3/20/11    | \$2,700,000                           | Agreement between the trust and Merrill Lynch Capital Services to exchange the credit risk of Kohls Corp. As a buyer of protection, the trust agrees to pay Merrill Lynch quarterly at a fixed annual rate of 0.42% of the notional amount of \$2,700,000 until maturity on March 20, 2011. If Kohls Corp. experiences one of the following credit events: bankruptcy, failure to pay, or a restructuring, the trust would then purchase \$2,700,000 par of Kohls bonds at the post credit event market price, and then deliver those bonds to Merrill Lynch, who in turn would deliver \$2,700,000 in cash to the trust.                       |             |
| 3/20/11    | \$2,500,000                           | Agreement between the trust and Merrill Lynch Capital Services to exchange the credit risk of New York Times Co. As a buyer of protection, the trust agrees to pay Merrill Lynch quarterly at a fixed annual rate of 0.43% of the notional amount of \$2,500,000 until maturity on March 20, 2011. If New York Times Co. experiences one of the following credit events: bankruptcy, failure to pay, or a restructuring, the trust would then purchase \$2,500,000 par of New York Times bonds at the post credit event market price, and then deliver those bonds to Merrill Lynch who in turn would deliver \$2,500,000 in cash to the trust. |             |

At May 31, 2006 the trust had sufficient cash and/or securities to cover any commitments under the

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SEE NOTES TO FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS Statement of Assets and Liabilities (unaudited)

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

AT 5/31/06

#### ASSETS

|   |               |  |
|---|---------------|--|
| Investments, at value (identified cost, \$533,254,759)          | \$523,537,443 |  |
| Cash  | 223,025       |  |
| Foreign currency, at value (identified cost, \$29,042)          | 28,891        |  |
| Receivable for forward foreign currency exchange contracts      | 327,445       |  |
| Receivable for daily variation margin on open futures contracts | 10,500        |  |
| Interest receivable   | 8,101,296     |  |
| Other assets  | 12,717        |  |

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|              |  |          |
|--------------|--|----------|
| Total assets |  | \$532,24 |
|--------------|--|----------|

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#### LIABILITIES

|  |  |           |
|--|--|-----------|
| Distributions payable  |  | \$191,721 |
| Payable for forward foreign currency exchange contracts                                      |  | 6,724,536 |
| Payable for forward foreign currency exchange contracts subject to master netting agreements |  | 101,815   |
| Payable for investments purchased  |  | 3,119,165 |
| Payable for treasury shares reacquired   |  | 159,167   |
| Unrealized depreciation on credit default swaps  |  | 35,654    |
| Payable to affiliates  |  |           |
| Management fee   |  | 20,920    |
| Transfer agent and dividend disbursing costs   |  | 8,908     |
| Administrative services fee  |  | 269       |
| Payable for independent trustees' compensation   |  | 178,409   |
| Accrued expenses and other liabilities   |  | 87,476    |

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|                   |  |         |
|-------------------|--|---------|
| Total liabilities |  | \$10,62 |
|-------------------|--|---------|

---

|            |  |          |
|------------|--|----------|
| Net assets |  | \$521,61 |
|------------|--|----------|

---

#### NET ASSETS CONSIST OF:

|   |  |               |
|---|--|---------------|
| Paid-in capital   |  | \$588,262,477 |
| Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies |  | (16,086,671)  |
| Accumulated net realized gain (loss) on investments and foreign currency transactions                                 |  | (54,022,668)  |
| Undistributed net investment income   |  | 3,460,139     |

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|            |  |          |
|------------|--|----------|
| Net assets |  | \$521,61 |
|------------|--|----------|

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|   |  |       |
|---|--|-------|
| Shares of beneficial interest outstanding (60,240,083 issued, less 4,601,344 treasury shares) |  | 55,63 |
|---|--|-------|

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Net asset value per share (net assets of \$521,613,277 / 55,638,739)

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shares of beneficial interest outstanding)

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SEE NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS Statement of Operations (unaudited)

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

SIX MONTHS ENDED 5/31/06

NET INVESTMENT INCOME

|  |              |        |
|--|--------------|--------|
| Income                                       |              |        |
| Interest                                     | \$14,131,401 |        |
| Dividends                                    | 16,734       |        |
| -----  |              |        |
| Total investment income                      |              | \$14,1 |
| -----  |              |        |
| Expenses                                     |              |        |
| Management fee                               | \$1,570,119  |        |
| Transfer agent and dividend disbursing costs | 55,086       |        |
| Administrative services fee                  | 38,563       |        |
| Independent trustees' compensation           | 40,669       |        |
| Custodian fee                                | 115,978      |        |
| Shareholder communications                   | 82,195       |        |
| Auditing fees                                | 29,415       |        |
| Legal fees                                   | 4,832        |        |
| Miscellaneous                                | 117,251      |        |
| -----  |              |        |
| Total expenses                               |              | \$2,0  |
| -----  |              |        |
| Fees paid indirectly                         | (40,991)     |        |
| Reduction of expenses by investment adviser  | (1,842)      |        |
| -----  |              |        |
| Net expenses                                 |              | \$2,0  |
| -----  |              |        |
| Net investment income                        |              | \$12,1 |

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

|  |                |         |
|--|----------------|---------|
| Realized gain (loss) (identified cost basis)                                 |                |         |
| Investment transactions  | \$ (967,626)   |         |
| Futures contracts  | 434,334        |         |
| Swap transactions  | (2,079)        |         |
| Foreign currency transactions  | (1,046,344)    |         |
| -----  |                |         |
| Net realized gain (loss) on investments and foreign<br>currency transactions |                | \$ (1,5 |
| -----  |                |         |
| Change in unrealized appreciation (depreciation)                             |                |         |
| Investments  | \$ (2,981,889) |         |
| Futures contracts  | (12,286)       |         |
| Swap transactions  | (35,654)       |         |
| Translation of assets and liabilities in foreign currencies                  | (5,731,261)    |         |
| -----  |                |         |

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|  |         |
|--|---------|
| Net unrealized gain (loss) on investments and foreign<br>currency translation  | \$(8,7  |
| <hr style="border-top: 1px dashed black;"/>                                    |         |
| Net realized and unrealized gain (loss) on investments and<br>foreign currency | \$(10,3 |
| <hr style="border-top: 1px dashed black;"/>                                    |         |
| Change in net assets from operations   | \$1,7   |

SEE NOTES TO FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS                      Statements of Changes in Net Assets

This statement describes the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

|  | SIX MONTHS ENDED<br>5/31/06<br>(UNAUDITED) | YEAR<br>11/ |
|--|--|-------------|
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| CHANGE IN NET ASSETS   |  |             |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| FROM OPERATIONS  |  |             |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| Net investment income  | \$12,136,860                               | \$25,60     |
| Net realized gain (loss) on investments and foreign<br>currency transactions                                     | (1,581,715)                                | 20,00       |
| Net unrealized gain (loss) on investments and foreign<br>currency translation                                    | (8,761,090)                                | (24,95      |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| Change in net assets from operations   | \$1,794,055                                | \$20,66     |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| DISTRIBUTIONS DECLARED TO SHAREHOLDERS   |  |             |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| From net investment income   | \$(14,117,181)                             | \$(29,04    |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| TRUST SHARE (PRINCIPAL) TRANSACTIONS   |  |             |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| Cost of shares reacquired  | \$(5,554,548)                              | \$(10,56    |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| Total change in net assets   | \$(17,877,674)                             | \$(18,94    |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| NET ASSETS   |  |             |
| <hr style="border-top: 1px dashed black;"/>  |  |             |
| At beginning of period   | 539,490,951                                | 558,44      |
| At end of period (including undistributed net investment<br>income of \$3,460,139 and \$5,440,460, respectively) | \$521,613,277                              | \$539,49    |

SEE NOTES TO FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS      Financial Highlights

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

|   | SIX MONTHS<br>ENDED<br>5/31/06<br>(UNAUDITED) | 2005      | 2004      | YEARS ENDED 11/30/03 |
|---|---|-----------|-----------|----------------------|
| Net asset value, beginning of period  | \$9.58  | \$9.71    | \$9.58    | \$9.00               |
| <b>INCOME (LOSS) FROM INVESTMENT OPERATIONS (x)</b>                         |   |           |           |                      |
| Net investment income (d)   | \$0.22  | \$0.45    | \$0.49    | \$0.40               |
| Net realized and unrealized gain (loss) on investments and foreign currency | (0.18)  | (0.09)    | 0.17      | 0.50                 |
| Total from investment operations  | \$0.04  | \$0.36    | \$0.66    | \$1.00               |
| <b>LESS DISTRIBUTIONS DECLARED TO SHAREHOLDERS</b>                          |   |           |           |                      |
| From net investment income  | \$(0.25)                                      | \$(0.51)  | \$(0.55)  | \$(0.50)             |
| From paid-in capital  | --  | --        | --        | --                   |
| Total distributions declared to shareholders                                | \$(0.25)                                      | \$(0.51)  | \$(0.55)  | \$(0.50)             |
| Net increase from repurchase of capital shares                              | \$0.01  | \$0.02    | \$0.02    | \$0.00               |
| Net asset value, end of period  | \$9.38  | \$9.58    | \$9.71    | \$9.50               |
| Per share market value, end of period                                       | \$8.30  | \$8.43    | \$8.71    | \$8.70               |
| Total return at market value (%) (r) (s)                                    | 1.41 (n)                                      | 2.57      | 5.52      | 13.00                |
| <b>RATIOS (%) (TO AVERAGE NET ASSETS) AND SUPPLEMENTAL DATA:</b>            |   |           |           |                      |
| Expenses before expense reductions (f)                                      | 0.78 (a)                                      | 0.79      | 0.80      | 0.80                 |
| Expenses after expense reductions (f)                                       | 0.78 (a)                                      | 0.79      | 0.80      | 0.80                 |
| Net investment income (x)   | 4.56 (a)                                      | 4.64      | 5.11      | 5.20                 |
| Portfolio turnover  | 28  | 73        | 70        | 12                   |
| Net assets at end of period (000 Omitted)                                   | \$521,613                                     | \$539,491 | \$558,440 | \$561,900            |

(a) Annualized.

(d) Per share data are based on average shares outstanding.

(f) Ratios do not reflect reductions from fees paid indirectly.

(n) Not annualized.

(r) Certain expenses have been reduced without which performance would have been lower.

(s) From time to time the trust may receive proceeds from litigation settlements, without which performance would have been lower.

(w) Per share amount was less than \$0.01.

(x) Effective December 31, 2001, the trust adopted the provisions of the AICPA Audit and Accounting Principles for Investment Companies and began amortizing and accreting all premiums and discounts on debt securities. Periods prior to November 30, 2002 have not been restated to reflect this change.



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SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS (unaudited)

### (1) BUSINESS AND ORGANIZATION

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

### (2) SIGNIFICANT ACCOUNTING POLICIES

GENERAL - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The trust can invest in foreign securities, including securities of emerging market issuers. Investments in foreign securities are vulnerable to the effects of changes in the relative values of the local currency and the U.S. dollar and to the effects of changes in each country's legal, political, and economic environment. The markets of emerging markets countries are generally more volatile than the markets of developed countries with more mature economies. All of the risks of investing in foreign securities previously described are heightened when investing in emerging markets countries.

INVESTMENT VALUATIONS - Debt instruments (other than short-term instruments), including restricted debt instruments, are generally valued at an evaluated or composite bid as reported by an independent pricing service. Values of debt instruments obtained from pricing services can utilize both dealer-supplied valuations and electronic data processing techniques, which take into account factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data. Equity securities, including restricted equity securities, are generally valued at the last sale or official closing price as reported by an independent pricing service on the market or exchange on which they are primarily traded. For securities for which there were no sales reported that day, equity securities are generally valued at the last quoted daily bid quotation as reported by an independent pricing service on the market or exchange on which they are primarily traded. Short-term instruments with a maturity at issuance of 397 days or less are generally valued at amortized cost, which approximates market value. Futures contracts are generally valued at last posted settlement price as reported by an independent pricing service on the market on which they are primarily traded. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation as reported by an independent pricing service on the market on which they are primarily traded. Forward foreign currency contracts are generally valued at the mean of bid and asked prices for the time period interpolated from rates reported by an independent pricing service for proximate time periods. Swaps are generally valued at a broker-dealer bid quotation. Securities and other assets generally valued on the basis of information from an independent pricing service may also be valued at a broker-dealer bid quotation. 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 reported by an independent pricing service. The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the trust'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

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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 trust's valuation policies and procedures, market quotations are not considered to be readily available for many types of debt instruments. These investments are generally valued at fair value based on information from independent pricing services. The adviser may rely on independent 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 trust's net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of investments used to determine the trust's net asset value may differ from quoted or published prices for the same investments.

**REPURCHASE AGREEMENTS** - The trust may enter into repurchase agreements with institutions that the trust's investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. The trust requires that the securities collateral in a repurchase transaction be transferred to the custodian in a manner sufficient to enable the trust to obtain those securities in the event of a default under the repurchase agreement. The trust monitors, on a daily basis, the value of the collateral to ensure that its value, including accrued interest, is greater than amounts owed to the trust under each such repurchase agreement. The trust, along with other affiliated entities of Massachusetts Financial Services Company (MFS), may utilize a joint trading account for the purpose of entering into one or more repurchase agreements.

**INFLATION-ADJUSTED DEBT SECURITIES** - The trust invests in inflation-adjusted debt securities issued by the U.S. Treasury. The trust may also invest in inflation-adjusted debt securities issued by U.S. Government agencies and instrumentalities other than the U.S. Treasury and by other entities such as U.S. and foreign corporations and foreign governments. The principal value of these debt securities is adjusted by references to changes in the Consumer Price Index or another general price or wage index. These debt securities typically pay a fixed rate of interest, but this fixed rate is applied to the inflation-adjusted principal amount. The principal paid at maturity of the 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. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on 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.

**DERIVATIVE RISK** - The trust may invest in derivatives for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the trust uses derivatives as an investment to gain market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative's original cost. Derivative instruments include forward foreign currency exchange contracts, swap agreements, and futures contracts.

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FUTURES CONTRACTS - The trust may enter into futures contracts for the delayed delivery of securities or currency, or contracts based on financial indices at a fixed price on a future date. In entering such contracts, the trust is required to deposit with the broker either in cash or securities an amount equal to a certain percentage of the contract amount. Subsequent payments are made or received by the trust each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses by the trust. Upon entering into such contracts, the trust bears the risk of interest or exchange rates or securities prices moving unexpectedly, in which case, the trust may not achieve the anticipated benefits of the futures contracts and may realize a loss.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS - The trust may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of the contract. The trust may enter into forward foreign currency exchange contracts for hedging purposes as well as for non-hedging purposes. For hedging purposes, the trust may enter into contracts to deliver or receive foreign currency it will receive from or require for its normal investment activities. The trust may also use contracts in a manner intended to protect foreign currency denominated securities from declines in value due to unfavorable exchange rate movements. For non-hedging purposes, the trust may enter into contracts with the intent of changing the relative exposure of the trust's portfolio of securities to different currencies to take advantage of anticipated changes. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until the contract settlement date. On contract settlement date, the gains or losses are recorded as realized gains or losses on foreign currency transactions.

SWAP AGREEMENTS - The trust may enter into swap agreements. A swap is an exchange of cash payments between the trust and another party. Net cash payments are exchanged at specified intervals and are recorded as a realized gain or loss in the Statement of Operations. The value of the swap is adjusted daily and the change in value is recorded as unrealized appreciation or depreciation in the Statement of Operations. Risks may arise upon entering into these agreements from the potential inability of counterparties to meet the terms of their contract and from unanticipated changes in the value of the financial index on which the swap agreement is based.

CREDIT DEFAULT SWAPS - The trust may enter into credit default swaps to limit or to reduce risk exposure of the trust to credit events such as bankruptcy, failure to pay, or a restructuring of corporate and sovereign issuers. The trust may also use credit default swaps to create direct or synthetic short or long exposure to domestic or foreign corporate debt securities or certain sovereign debt securities to which the trust is not otherwise exposed. In a credit default swap, one party makes a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, such as a corporate issuer or foreign issuer on its obligation.

SECURITY LOANS - State Street Bank and Trust Company ("State Street"), as lending agent, may loan the securities of the trust to certain qualified institutions (the "Borrowers") approved by the trust. The loans are collateralized at all times by cash and/or U.S. Treasury securities in an amount at least equal to the market value of the securities loaned. State Street provides the trust with indemnification against Borrower default. The trust bears the risk of loss with respect to the investment of cash collateral. On loans collateralized by cash, the cash collateral is invested in a money market fund or short-term securities. A portion of the income generated upon investment of the collateral is remitted to the Borrowers, and the remainder is allocated

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between the trust and the lending agent. On loans collateralized by U.S. Treasury securities, a fee is received from the Borrower, and is allocated between the trust and the lending agent. Income from securities lending is included in interest income on the Statement of Operations. The dividend and interest income earned on the securities loaned is accounted for in the same manner as other dividend and interest income. At May 31, 2006, there were no securities on loan.

**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. All discount is accreted for tax reporting purposes as required by federal income tax regulations. Dividends received in cash are recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded when the trust is informed of the dividend if such information is obtained subsequent to the ex-dividend date. Dividend and interest payments received in additional securities are recorded on the ex-dividend or ex-interest date in an amount equal to the value of the security on such date. The trust may receive proceeds from litigation settlements involving its portfolio holdings. Any proceeds received are reflected in realized gain/loss in the Statement of Operations, or in unrealized gain/loss if the security is still held by the trust.

**FEES PAID INDIRECTLY** - The trust's custody fee is reduced according to an arrangement that measures the value of cash deposited with the custodian by the trust. This amount, for the six months ended May 31, 2006, is shown as a reduction of total expenses on the Statement of Operations.

**TAX MATTERS AND DISTRIBUTIONS** - The trust intends to continue 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. Accordingly, no provision for federal income tax is required in the financial statements. Foreign taxes, if any, have been accrued by the trust in the accompanying financial statements.

Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences which arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions in excess of net investment income or net realized gains are temporary overdistributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

Book/tax differences primarily relate to amortization and accretion of debt securities, defaulted bonds, wash sale loss deferrals, straddle loss deferrals, foreign currency transactions, and derivative transactions.

The tax character of distributions made during the current period will be determined at fiscal year end.

The tax character of distributions declared to shareholders is as follows:

|  | NOVEMBER 30, 2005 | NOVEMBER 30, 2004 |
|--|-------------------|-------------------|
| Ordinary income (including any short-term capital gains) | \$29,042,810      | \$31,836,028      |

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

|  |                |
|--|----------------|
| AS OF MAY 31, 2006                         |                |
| Cost of investments                        | \$541,116,892  |
| -----                                      |                |
| Gross appreciation                         | \$4,824,317    |
| Gross depreciation                         | (22,403,766)   |
| -----                                      |                |
| Net unrealized appreciation (depreciation) | \$(17,579,449) |
|  |                |
| AS OF NOVEMBER 30, 2005                    |                |
| Undistributed ordinary income              | 6,866,994      |
| Capital loss carryforwards                 | (45,279,622)   |
| Other temporary differences                | (1,990,248)    |
| Net unrealized appreciation (depreciation) | (13,923,198)   |

The aggregate cost above includes prior fiscal year end tax adjustments.

As of May 31, 2006, the trust had available capital loss carryforwards to offset future realized gains. Such losses expire as follows:

|                   |                |
|-------------------|----------------|
| November 30, 2009 | \$(21,374,410) |
| November 30, 2010 | (23,905,212)   |
| -----             |                |
|                   | \$(45,279,622) |

### (3) TRANSACTIONS WITH AFFILIATES

**INVESTMENT ADVISER** - The trust has an investment advisory agreement with MFS to provide overall investment advisory and administrative services, and general office facilities.

The management fee is computed daily and paid monthly at an annual rate of 0.32% of the trust's average daily net assets and 4.57% of gross investment income. The management fee, from net assets and gross investment income, incurred for the six months ended May 31, 2006 was equivalent to an annual effective rate of 0.59% of the trust's average daily net assets.

**TRANSFER AGENT** - The trust pays a portion of transfer agent and dividend-disbursing costs to MFS Service Center, Inc. (MFSC), a wholly-owned subsidiary of MFS. MFSC receives a fee from the trust, for its services as registrar and dividend-disbursing agent. The agreement provides that the trust will pay MFSC an account maintenance fee of no more than \$9.00 and a dividend services fee of \$0.75 per reinvestment. For the six months ended May 31, 2006, these fees amounted to \$37,200. MFSC also receives payment from the trust for out-of-pocket expenses paid by MFSC on behalf of the trust. For the six months ended May 31, 2006, these costs amounted to \$11,868.

**ADMINISTRATOR** - MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to certain funds for which MFS acts as investment adviser. Under an administrative services agreement, the funds may partially reimburse MFS the costs incurred to provide these services, subject to review and approval by the Board of Trustees. Each fund is charged a fixed amount plus a fee based on calendar year average net assets. From July 1, 2005 through March 31, 2006, the trust's annual fixed amount was \$10,000. Effective April 1, 2006, the trust's annual fixed amount is \$17,500.

The administrative services fee incurred for the six months ended May 31, 2006 was equivalent to an annual effective rate of 0.0145% of the trust's average daily net assets.

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TRUSTEES' AND OFFICERS' COMPENSATION - The trust pays compensation to Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The trust does not pay compensation directly to Trustees or to officers of the trust who are also officers of the investment adviser, all of whom receive remuneration for their services to the trust from MFS. Certain officers and Trustees of the trust are officers or directors of MFS and MFSC. The trust has an unfunded, defined benefit plan for certain retired Independent Trustees which resulted in a pension expense of \$2,496. The trust also has an unfunded retirement benefit deferral plan for certain Independent Trustees which resulted in an expense of \$1,017. Both amounts are included in Independent trustees' compensation for the six months ended May 31, 2006. The deferred liability for retirement benefits payable to certain Trustees under both plans amounted to \$155,871 at May 31, 2006, and is included in payable for independent trustees' compensation.

DEFERRED TRUSTEE COMPENSATION - Under a Deferred Compensation Plan (the Plan) Independent Trustees previously were allowed to elect to defer receipt of all or a portion of their annual compensation. Trustees are no longer allowed to defer compensation under the Plan. Amounts previously deferred are treated as though equivalent dollar amounts had been invested in shares of the trust or other MFS funds selected by the Trustee. Deferred amounts represent an unsecured obligation of the trust until distributed in accordance with the Plan. Included in other assets and payable for independent trustees' compensation is \$12,717 of Deferred Trustees' Compensation.

OTHER - This trust and certain other MFS funds (the funds) have entered into a services agreement (the Agreement) which provides for payment of fees by the funds to Tarantino LLC in return for the provision of services of an Independent Chief Compliance Officer (ICCO) for the funds. The ICCO is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the Agreement with Tarantino LLC at any time under the terms of the Agreement. For the six months ended May 31, 2006, the fee paid to Tarantino LLC was \$2,195. MFS has agreed to reimburse the trust for a portion of the payments made by the funds to Tarantino LLC in the amount of \$1,842, which is shown as a reduction of total expenses in the Statement of Operations. Additionally, MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ICCO.

#### (4) PORTFOLIO SECURITIES

Purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows:

|  | PURCHASES     | SALES         |
|--|---------------|---------------|
| U.S. government securities                   | \$7,938,390   | \$6,294,306   |
| Investments (non-U.S. government securities) | \$142,060,697 | \$139,263,957 |

#### (5) SHARES OF BENEFICIAL INTEREST

The trust's Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest. The Trustees have authorized the repurchase by the trust of up to 10% annually of its own shares of beneficial interest. The trust repurchased and retired 655,100 shares of beneficial interest during the six months ended May 31, 2006 at an average price per share of \$8.35 and a weighted average discount of 10.84% per share. The trust repurchased and retired 1,219,000 shares of beneficial interest during the year ended November 30, 2005 at an average price per share of \$8.67 and a weighted average discount of 10.39% per share. Transactions in trust shares were

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as follows:

|                            | SIX MONTHS ENDED |               | YEAR ENDED        |                |
|----------------------------|------------------|---------------|-------------------|----------------|
|                            | MAY 31, 2006     |               | NOVEMBER 30, 2005 |                |
|                            | SHARES           | AMOUNT        | SHARES            | AMOUNT         |
| Treasury shares reacquired | (655,100)        | \$(5,554,548) | (1,219,100)       | \$(10,569,915) |

### (6) LINE OF CREDIT

The trust and other affiliated funds participate in a \$1 billion unsecured committed line of credit provided by a syndication of banks under a credit agreement. In addition, the trust and other affiliated funds have established uncommitted borrowing arrangements with certain banks. Borrowings may be made for temporary financing needs. Interest is charged to each fund, based on its borrowings, at a rate equal to the Federal Reserve funds rate plus 0.35%. In addition, a commitment fee, based on the average daily, unused portion of the committed line of credit, is allocated among the participating funds at the end of each calendar quarter. The commitment fee allocated to the trust for the six months ended May 31, 2006 was \$2,681 and is included in miscellaneous expense on the Statement of Operations. The trust had no significant borrowings during the six months ended May 31, 2006.

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees and Shareholders of the MFS Charter Income Trust:

We have reviewed the accompanying statement of assets and liabilities of the MFS Charter Income Trust (the Trust), including the portfolio of investments, as of May 31, 2006, and the related statements of operations, changes in net assets, and financial highlights for the six-month period ended May 31, 2006. These interim financial statements are the responsibility of the Trust's management.

We conducted our review in accordance with the standards of the Public Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of changes in net assets for the year ended November 30, 2005, and financial highlights for each of the five years in the period ended November 30, 2005, and in our report dated January 10, 2006, we expressed an unqualified opinion on such statement of changes in net assets and financial highlights.

ERNST & YOUNG LLP

Boston, Massachusetts  
July 14, 2006

### BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

A discussion regarding the Board's most recent review and renewal of the Fund's investment advisory agreement is available by clicking on the fund's name under

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"Select a fund" on the MFS Web site (mfs.com).

### PROXY VOTING POLICIES AND INFORMATION

A general description of the MFS funds' proxy voting policies and procedures is available without charge, upon request, by calling 1-800-225-2606, by visiting the Proxy Voting section of mfs.com or by visiting the SEC's Web site at <http://www.sec.gov>.

Information regarding how the fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available without charge by visiting the Proxy Voting section of mfs.com or by visiting the SEC's Web site at <http://www.sec.gov>.

### QUARTERLY PORTFOLIO DISCLOSURE

The trust will file a complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission) for the first and third quarters of each fiscal year on Form N-Q. The trust's Form N-Q may be reviewed and copied at the:

Public Reference Room  
Securities and Exchange Commission  
100 F Street, NE, Room 1580  
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-202-551-5850. The trust's Form N-Q is available on the EDGAR database on the Commission's Internet Web site at <http://www.sec.gov>, and copies of this information may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing the Public Reference Section at the above address.

A shareholder can also obtain the quarterly portfolio holdings report at [mfs.com](http://mfs.com).

### CONTACT INFORMATION AND NUMBER OF SHAREHOLDERS

#### INVESTOR INFORMATION

Transfer Agent, Registrar and Dividend Disbursing Agent

Call 1-800-637-2304 any business day from 8 a.m. to 8 p.m. Eastern time

Write to: MFS Service Center, Inc.  
P.O. Box 55024  
Boston, MA 02205-5024

#### NUMBER OF SHAREHOLDERS

As of May 31, 2006, our records indicate that there are 3,811 registered shareholders and approximately 32,596 shareholders owning trust shares in "street" name, such as through brokers, banks, and other financial intermediaries.

If you are a "street" name shareholder and wish to directly receive our reports, which contain important information about the trust, please write or call:

MFS Service Center, Inc.  
P.O. Box 55024 Boston, MA 02205-5024  
1-800-637-2304



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M F S (SM)  
INVESTMENT MANAGEMENT (R)

(C)2006 MFS Investment Management (R)  
500 Boylston Street,  
Boston, MA 02116.

MCR-SEM-07/06 43M

ITEM 2. CODE OF ETHICS.

The Registrant has not amended any provision in its Code of Ethics (the "Code") that relates to any element of the Code's definition enumerated in paragraph (b) of Item 2 of this Form N-CSR.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable for semi-annual reports.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable for semi-annual reports.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable for semi-annual reports.

ITEM 6. SCHEDULE OF INVESTMENTS

A schedule of investments for each series of the Registrant is included as part of the report to shareholders of such series under Item 1 of this Form N-CSR.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable for semi-annual reports.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable because the portfolio manager(s) of the Registrant did not change from those set forth in the Registrant's most recent annual Form N-CSR.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

| =====                    |  |   |   |   |
|--------------------------|--|---|---|---|
| MFS CHARTER INCOME TRUST |  |   |   |   |
| -----                    |  |   |   |   |
| PERIOD                   | (A)<br>TOTAL NUMBER OF<br>SHARES PURCHASED | (B)<br>AVERAGE<br>PRICE PAID<br>PER SHARE | (C)<br>TOTAL NUMBER OF<br>SHARES PURCHASED AS<br>PART OF PUBLICLY<br>ANNOUNCED PLANS OR<br>PROGRAMS | (D)<br>MAXIMUM<br>(OR APPROXIMATE)<br>DOLLAR VALUE<br>OF SHARES THAT<br>MAY BE PURCHASED<br>UNDER THE PLANS |
| -----                    |  |   |   |   |
| 12/1/05 - 12/31/05       | 103,600                                    | \$8.46                                    | 103,600   | 4,620,000   |
| -----                    |  |   |   |   |

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|                  |         |        |         |      |
|------------------|---------|--------|---------|------|
| 1/1/06 - 1/31/06 | 100,400 | \$8.67 | 100,400 | 4,52 |
| 2/1/06 - 2/28/06 | 84,300  | \$8.60 | 84,300  | 4,44 |
| 3/1/06 - 3/31/06 | 161,800 | \$8.47 | 161,800 | 5,43 |
| 4/1/06 - 4/30/06 | 73,100  | \$8.32 | 73,100  | 5,36 |
| 5/1/06 - 5/31/06 | 131,900 | \$8.37 | 131,900 | 5,23 |
| Total            | 655,100 | \$8.48 | 665,100 |      |

Note: The Board of Trustees approves procedures to repurchase Fund shares annually. The notification to shareholders of the program is included in the semi-annual and annual reports sent to shareholders. These annual programs begin on March 1st of each year. The programs conform to the conditions of Rule 10b-18 of the Securities Exchange Act of 1934 and limit the aggregate number of Fund shares that may be repurchased in each annual period (March 1 through the following February 28) to 10% of the Registrant's outstanding shares as of the first day of the plan year (March 1). The aggregate number of Fund shares available for repurchase for the March 1, 2006 plan year are 5,600,554.

### ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no material changes to the procedures by which shareholders may send recommendations to the Board for nominees to the Registrant's Board since the Registrant last provided disclosure as to such procedures in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A or this Item.

### ITEM 11. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as conducted within 90 days of the filing date of this Form N-CSR, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by the report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 12. EXHIBITS.

- (a) File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.
- (1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit.
  - (2) A separate certification for each principal executive officer and

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principal financial officer of the registrant as required by Rule 30a-2 under the Act (17 CFR 270.30a-2): Attached hereto.

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the Act (17 CFR 270.30a-2(b)), Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for the purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference: Attached hereto.

NOTICE

A copy of the Amended and Restated Declaration of Trust of the Registrant is on file with the Secretary of State of the Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) MFS CHARTER INCOME TRUST

By (Signature and Title)\* MARIA F. DWYER

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Maria F. Dwyer, President

Date: July 21, 2006  
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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\* MARIA F. DWYER

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Maria F. Dwyer, President (Principal Executive Officer)

Date: July 21, 2006  
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By (Signature and Title)\* TRACY ATKINSON

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Tracy Atkinson, Treasurer (Principal Financial Officer and Accounting Officer)

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Date: July 21, 2006  
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\* Print name and title of each signing officer under his or her signature.