ENTERPRISE FINANCIAL SERVICES CORP
Form 10-K
March 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

[X]	Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 For the fiscal year ended December 31, 2009
[ ]	Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 For the transition period from to
	Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

Incorporated in the State of Delaware
I.R.S. Employer Identification # 43-1706259
Address: 150 North Meramec
Clayton, MO 63105
Telephone: (314) 725-5500

Securities registered pursuant to Section 12(b) of the Act:

(Title of class)	(Name of each exchange on which registered)
Common Stock, par value $.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-7 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: [ ] Accelerated filer: [X] Non-accelerated filer: [ ] Smaller Reporting Company: [ ]

(Other than a smaller reporting company)

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act Yes [ ] No [X]

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $123,481,194 based on the closing price of the common stock of $9.01 on March 1, 2010, as reported by the NASDAQ Global Select Market.

As of March 1, 2010, the Registrant had 14,851,609 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant's Proxy Statement for the 2010 Annual Meeting of Shareholders, which will be filed within 120 days of December 31, 2009.

ENTERPRISE FINANCIAL SERVICES CORP

2009 ANNUAL REPORT ON FORM 10-K

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995
Readers should note that in addition to the historical information contained herein, some of the information in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements typically are identified with use of terms such as "may," "will," "expect," "anticipate," "estimate," "potential," "could" and similar words, although some forward-looking statemen expressed differently. You should be aware that the Company's actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including: burdens imposed by federal and state regulation, changes in accounting regulations or standards of banks; credit risk; exposure to general and local economic conditions; risks associated with rapid increase or decrease in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel; or technological developments; and other risks discussed in more detail in Item 1A: "Risk Factors", all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

Our acquisitions could cause results to differ from expected results due to costs and expenses that are greater, or benefits that are less, than we currently anticipate, or the assumption of unanticipated liabilities.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (the "SEC") which are available on our website at www.enterprisebank.com.

PART I

ITEM 1: BUSINESS

General
Enterprise Financial Services Corp ("we" or "the Company" or "EFSC"), a Delaware corporation, is a financial holding company headquartered in St. Louis, Missouri. The Company provides a full range of banking and wealth management services to individuals and business customers located in the St. Louis, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust ("Enterprise" or "the Bank"). Our executive offices are located at 150 North Meramec, Clayton, Missouri 63105 and our telephone number is (314) 725-5500.

On December 11, 2009, Enterprise entered into a loss sharing agreement with the Federal Deposit Insurance Corporation ("FDIC") and acquired certain assets and assumed certain liabilities of Valley Capital Bank, a full service community bank that was headquartered in Mesa, Arizona. Under the terms of the agreement, we acquired tangible assets with an estimated fair value of approximately $42.4 million and assumed liabilities with an estimated fair value of approximately $43.4 million. Under the loss sharing agreement, Enterprise will share in the losses on assets covered under the agreement ("Covered Assets"). The FDIC has agreed to reimburse Enterprise for 80 percent of the losses on Covered Assets up to $11,000,000 and 95 percent of the losses on Covered Assets exceeding $11,000,000. Reimbursement for losses on single family one-to-four residential mortgage loans are made quarterly until December 31, 2019 and reimbursement for losses on non-single family one-to-four residential mortgage loans are made quarterly until December 31, 2014. The reimbursable losses from the FDIC are based on the book value of the acquired loans and foreclosed assets as determined by the FDIC as of the date of the acquisition, December 11, 2009.

On January 20, 2010, we sold our life insurance subsidiary, Millennium Brokerage Group, LLC ("Millennium"), for $4.0 million in cash. Enterprise acquired 60% of Millennium in October 2005 and acquired the remaining 40% in December 2007. As a result of the sale, Millennium is reported as a discontinued operation for all periods presented herein.

On January 25, 2010, the Company completed the sale of 1,931,610 shares, or $15.0 million of its common stock in a private placement offering. We intend to use the net proceeds of the offering for general corporate purposes, which may include, without limitation, providing capital to support the growth of our subsidiaries and other strategic business opportunities in our market areas, including FDIC-assisted transactions. We may also seek the approval of our regulators to utilize the proceeds of this offering and other cash available to us to repurchase all or a portion of the securities that we issued to the United States Department of the Treasury (the "U.S. Treasury").

On December 19, 2008, pursuant to the Capital Purchase Program ("CPP" or the "Capital Purchase Program") established by the U. S. Treasury, EFSC issued and sold to the Treasury for an aggregate purchase price of $35.0 million in cash (i) 35,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $.01 per share, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"), and (ii) a ten-year warrant to purchase up to 324,074 shares of common stock, par value $.01 per share, of EFSC, at an initial exercise price of $16.20 per share, subject to certain anti-dilution and other adjustments (the "Warrant").

Available Information

Our website is www.enterprisebank.com. Various reports provided to the SEC including our annual reports, quarterly reports, current reports and proxy statements are available free of charge on our website. These reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC. Our filings with the SEC are also available on the SEC's website at http://www.sec.gov.

Business Strategy

Our stated mission is "to guide our clients to a lifetime of financial success." We have established an accompanying corporate vision "to build an exceptional company that clients value, shareholders prize and where our associates flourish." These tenets are fundamental to our business strategies and operations.

Our general business strategy is to generate superior shareholder returns by providing comprehensive financial services through banking and wealth management lines of business primarily to private businesses, their owner families and other success-minded individuals.

Our commercial banking line of business offers a broad range of business and personal banking services. Lending services include commercial, commercial real estate, financial and industrial development, real estate construction and development, residential real estate, and consumer loans. A wide variety of deposit products and a complete suite of treasury management and international trade services complement our lending capabilities.

The wealth management line of business includes the Company's trust operations and Missouri state tax credit brokerage activities. Enterprise Trust, a division of Enterprise ("Enterprise Trust" or "Trust") provides financial planning, advisory, investment management and trust services to our target markets. Business financial services are focused in the areas of retirement plans, management compensation and management succession planning. Personal advisory services include estate planning, financial planning, business succession planning and retirement planning services. Investment management and fiduciary services are provided to individuals, businesses, institutions and nonprofit organizations. State tax credit brokerage activities consist of the acquisition of Missouri state tax credit assets and sale of these tax credits to clients.

Key success factors in pursuing our strategy include a focused and relationship-oriented distribution and sales approach, emphasis on growing wealth management revenues, aggressive credit and interest rate risk management, advanced technology and tightly managed expense growth.

Building long-term client relationships – Our historical growth strategy has been largely client relationship driven. We continuously seek to add clients who fit our target market of business owners and associated families. Those relationships are maintained, cultivated and expanded over time. This strategy enables us to attract clients with significant and growing borrowing needs, and maintain those relationships as they grow. Our banking officers are typically highly experienced. As a result of our long-term relationship orientation, we are able to fund loan growth primarily with core deposits from our business and professional clients. This is supplemented by borrowing from the Federal Home Loan Bank of Des Moines (the "FHLB"), the Federal Reserve, and by issuing brokered certificates of deposits, priced at or below alternative cost of funds.

Growing Wealth Management business – Enterprise Trust offers both fiduciary and financial advisory services. We employ a full complement of attorneys, certified financial planners, estate planning professionals, as well as other investment professionals who offer a broad range of services for business owners and high net worth individuals. Employing an intensive, personalized methodology, Enterprise Trust representatives assist clients in defining lifetime goals and designing plans to achieve them. Consistent with the Company's long-term relationship strategy, Trust representatives maintain close contact with clients ensuring follow up, discipline, and appropriate adjustments as circumstances change.

Capitalizing on technology – We view our technological capabilities to be a competitive advantage. Our systems provide Internet banking, expanded treasury management products, check and document imaging, as well as a 24-hour voice response system. Other services currently offered by Enterprise include controlled disbursements, repurchase agreements and sweep investment accounts. Our treasury management suite of products blends advanced technology and personal service, often creating a competitive advantage over larger, nationwide banks. Technology is also utilized extensively in internal systems, operational support functions to improve customer service, and management reporting and analysis.

Maintaining asset quality – Senior management and the head of credit administration monitor our asset quality through regular reviews of loans. In addition, the Bank's loan portfolio is subject to ongoing monitoring by a loan review function that reports directly to the audit committee of our board of directors.

Expense management – The Company is focused on leveraging its current expense base and measures the "efficiency ratio" as a benchmark for improvement. The efficiency ratio is equal to noninterest expense divided by total revenue (net interest income plus noninterest income). Continued improvement is targeted to increase earnings per share and generate higher returns on equity.

Market Areas and Approach to Geographic Expansion

Enterprise operates in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company, as part of its expansion effort, plans to continue its strategy of operating relatively fewer offices with a larger asset base per office, emphasizing commercial banking and wealth management and employing experienced staff who are compensated on the basis of performance and customer service.

St. Louis

The Company has four Enterprise banking facilities in the St. Louis metropolitan area. The St. Louis region enjoys a stable, diverse economic base and is ranked the 19th largest metropolitan statistical area in the United States. It is an attractive market for us with nearly 70,000 privately held businesses and over 50,000 households with investible assets of $1.0 million or more. We are the largest publicly-held, locally headquartered bank in this market.

Kansas City

At December 31, 2009, the Company had seven banking facilities in the Kansas City Market. Kansas City is also an attractive private company market with over 50,000 privately held businesses and over 35,000 households with investible assets of $1.0 million or more. To more efficiently deploy our resources, on February 28, 2008, we sold the Enterprise branch in Liberty, Missouri and on July 31, 2008, we sold the Kansas state bank charter of Great American along with the DeSoto, Kansas branch. See Item 8, Note 3 – Acquisitions and Divestitures for more information.

Phoenix

On December 11, 2009, Enterprise acquired certain assets and assumed certain liabilities of Valley Capital Bank in Mesa, Arizona in an FDIC-assisted transaction. The single location opened on December 14, 2009 as an Enterprise branch. After receiving regulatory approval, Enterprise opened a new branch in the western suburbs of Phoenix on February 16, 2010. See Note 3 – Acquisitions and Divestitures for more information.

Despite the market downturn in residential real estate, we believe the Phoenix market offers substantial long-term growth opportunities for Enterprise. The demographic and geographic factors that propelled Phoenix into one of the fastest growing and most dynamic markets in the country still exist, and we believe these factors should drive continued growth in that market long after the current real estate slump is over. Today, Phoenix has more than 86,000 privately held businesses and 72,000 households with investible assets over $1.0 million each.

Competition

The Company and its subsidiaries operate in highly competitive markets. Our geographic markets are served by a number of large multi-bank holding companies with substantial capital resources and lending capacity. Many of the larger banks have established specialized units, which target private businesses and high net worth individuals. Also, the St. Louis, Kansas City and Phoenix markets have numerous small community banks. In addition to other financial holding companies and commercial banks, we compete with credit unions, thrifts, investment managers, brokerage firms, and other providers of financial services and products.

Supervision and Regulation

Financial Holding Company
The Company is a financial holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). As a financial holding company, the Company is subject to regulation and examination by the Federal Reserve Board, and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. In order to remain a financial holding company, the Company must continue to be considered well managed and well capitalized by the Federal Reserve and have at least a "satisfactory" rating under the Community Reinvestment Act. See "Liquidity and Capital Resources" in the Management Discussion and Analysis for more information on our capital adequacy and "Bank Subsidiary – Community Reinvestment Act" below for more information on Community Reinvestment.

Acquisitions: With certain limited exceptions, the BHCA requires every financial holding company or bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company. The BHCA also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking. Federal legislation permits bank holding companies to acquire control of banks throughout the United States.

United States Department of the Treasury Capital Purchase Program: On December 19, 2008, the Company received an investment of approximately $35.0 million from the U.S. Treasury under the Capital Purchase Program. In exchange for the investment, the Company issued to the U.S. Treasury (i) 35,000 shares of EFSC Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 324,074 shares of EFSC common stock, par value $0.01 per share (the "Common Stock") at a price of $16.20 per share. The Series A Preferred Stock qualifies as Tier 1 capital and pays cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter.

Pursuant to the terms of the purchase agreement with the U.S. Treasury, our ability to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of junior stock and parity stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($0.0525) declared on the common stock prior to December 19, 2008. The redemption, purchase or other acquisition of trust preferred securities of EFSC or our affiliates is also restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Series A Preferred Stock and (b) the date on which the Series A Preferred Stock has been redeemed in whole or U.S. Treasury has transferred all of the Series A Preferred Stock to third parties.

In addition, the ability of EFSC to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its other classes of stock is subject to restrictions in the event that EFSC fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series A Preferred Stock.

We are also subject to restrictions on the amount and type of compensation that we can pay our employees and are required to provide monthly reports to the U.S. Treasury regarding our lending activity during the time that the U.S. Treasury owns shares of the Series A Preferred Stock.

Dividend Restrictions: In addition to the restrictions imposed by the CPP on our ability to pay dividends to holders of our common stock, under Federal Reserve Board policies, bank holding companies may pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition and if the organization is not in danger of not meeting its minimum regulatory capital requirements. Federal Reserve Board policy also provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Bank Subsidiary

At December 31, 2009, Enterprise was our only bank subsidiary. Enterprise is a Missouri trust company with banking powers and is subject to supervision and regulation by the Missouri Division of Finance. In addition, as a Federal Reserve non-member bank, it is subject to supervision and regulation by the FDIC. Enterprise is a member of the FHLB of Des Moines.

Enterprise is subject to extensive federal and state regulatory oversight. The various regulatory authorities regulate or monitor all areas of the banking operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. Enterprise must maintain certain capital ratios and is subject to limitations on aggregate investments in real estate, bank premises, and furniture and fixtures. Enterprise is subject to periodic examination by the FDIC and Missouri Division of Finance.

Dividends by the Bank Subsidiary: Under Missouri law, Enterprise may pay dividends to the Company only from a portion of its undivided profits and may not pay dividends if its capital is impaired.

Transactions with Affiliates and Insiders: Enterprise is subject to the provisions of Regulation W promulgated by the Federal Reserve, which encompasses Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount of loans or extensions of credit to, investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Regulation W also prohibits, among other things, an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Community Reinvestment Act: The Community Reinvestment Act (“CRA”) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The Company has a satisfactory rating under CRA.

USA Patriot Act: The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) implement certain due diligence policies, procedures and controls with regard to correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Limitations on Loans and Transactions: The Federal Reserve Act generally imposes certain limitations on extensions of credit and other transactions by and between banks that are members of the Federal Reserve and other affiliates (which includes any holding company of which a bank is a subsidiary and any other non-bank subsidiary of such holding company). Banks that are not members of the Federal Reserve are also subject to these limitations. Further, federal law prohibits a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or the furnishing of services.

Deposit Insurance Fund: The FDIC establishes rates for the payment of premiums by federally insured banks for deposit insurance. The Deposit Insurance Fund (“DIF”) is maintained for commercial banks, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. The FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits.

To fund this program, pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC adopted a new risk-based deposit insurance premium system that provides for quarterly assessments. Beginning in 2007, institutions were grouped into one of four categories based on their FDIC ratings and capital ratios.

To restore its reserve ratio, the FDIC raised the base annual assessment rate for all institutions in 2009. As a result of this increase, institutions pay an assessment of between 12 and 77.5 basis points depending on the institution's risk classification. Under the new assessment structure, Enterprise's average annual assessment during 2009 was 15.43 basis points (excluding the special assessment described below). An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Institutions assigned to higher-risk classifications pay assessments at higher rates than institutions that pose a lower risk. Each institution's assessment rate is further adjusted based on the institution's reliance on brokered deposits and/or other secured liabilities and the amount of unsecured debt.

On February 27, 2009, the FDIC imposed a one-time special assessment equal to $995,000 which was paid in the third quarter of 2009. In addition, on November 12, 2009, the FDIC adopted a final rule imposing a 13-quarter prepayment of FDIC premiums. As a result, Enterprise prepaid $11.5 million in December 2009. The prepayment will be expensed over the subsequent three years.

Employees

At December 31, 2009, we had approximately 308 full-time equivalent employees. None of the Company's employees are covered by a collective bargaining agreement. Management believes that its relationship with its employees is good.

ITEM 1A: RISK FACTORS

An investment in our common shares is subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and verification processes in place, additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also materially and adversely impair our business operations. The value of our common shares could decline due to any of these risks, and you could lose all or part of your investment.

Risks Related To Our Business

Various factors may cause our allowance for loan losses to increase.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is sufficient to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's loan loss allowance increased during the 2008 fiscal year and through 2009 due to changes in economic conditions affecting borrowers, new information regarding existing loans, and identification of additional problem loans. We continue to monitor the adequacy of our loan loss allowance and may need to increase it if economic conditions continue to deteriorate. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan losses (i.e., if the loan allowance is inadequate), we will need additional loan loss provisions to increase the allowance for loan losses. Additional provisions to increase the allowance for loan losses, should they become necessary, would result in a decrease in net income or an increase in net loss and a reduction in capital, and may have a material adverse effect on our financial condition and results of operations.

Our loan portfolio is concentrated in certain markets which could result in increased credit risk.

Substantially all of our loans are to businesses and individuals in the St. Louis, Kansas City, and Phoenix metropolitan areas. The regional economic conditions in areas where we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources.

Our loan portfolio mix, which has a concentration of loans secured by real estate, could result in increased credit risk.

A significant portion of our portfolio is secured by real estate and thus we have a high degree of risk from a downturn in our real estate markets. If real estate values continue to decline further in our markets, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans where the primary reliance for repayment is on the real estate collateral by foreclosing and selling that real estate would then be diminished and we would be more likely to suffer losses on defaulted loans.

Additionally, because Kansas is a judicial foreclosure state, all foreclosures must be processed through the Kansas state courts. Until the court confirms that the nonperforming loan is in default, we can take no action against the borrower or the property. Due to this process, it takes approximately one year for us to foreclose on real estate collateral located in the State of Kansas. Our ability to recover on defaulted loans in our Kansas market may be delayed and we would be more likely to suffer losses on defaulted loans in this market.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.
Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downtown, our failure to remain well capitalized, or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole as the recent turmoil faced by banking organizations in the domestic and worldwide credit markets deteriorates.

We believe the level of liquid assets at Enterprise is sufficient to meet our current and anticipated funding needs. In addition to amounts currently borrowed at December 31, 2009, we could borrow an additional $118.5 million from the Federal Home Loan Bank of Des Moines under blanket loan pledges and an additional $279.7 million from the Federal Reserve Bank under pledged loan agreements. We also have access to $30.0 million in overnight federal funds lines from various correspondent banks. Of our $282.5 million investment portfolio available for sale, approximately $211.6 million is available for pledging or can be sold to enhance liquidity, if necessary. In addition, we believe our current level of cash at the holding company will be sufficient to meet all projected cash needs in 2010. See “Liquidity and Capital Resources” for more information.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.
A substantial portion of our income is derived from the differential or “spread” between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Significant fluctuations in market interest rates could materially and adversely affect not only our net interest spread, but also our asset quality and loan origination volume.

If our businesses do not perform well, we may be required to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.
Deferred income taxes represent the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. If based on available information, it is more likely than not that the deferred income tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. As of December 31, 2009, the Company did not carry a valuation allowance against its deferred tax asset balance of $18.3 million. Future facts and circumstances may require a valuation allowance. Charges to establish a valuation allowance could have a material adverse effect on our results of operations and financial position.

If the Bank continues to incur losses that erode its capital, it may become subject to enhanced regulation or supervisory action.
Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, the Missouri Division of Finance and the Federal Reserve, and separately the FDIC as insurer of the Bank’s deposits, have authority to compel or restrict certain actions if the Bank’s capital should fall below adequate capital standards as a result of future operating losses, or if its bank regulators determine that it has insufficient capital. Among other matters, the corrective actions include but are not limited to requiring affirmative action to correct any conditions resulting from any violation or practice; directing an increase in capital and the maintenance of specific minimum capital ratios; restricting the Bank’s operations; limiting the rate of interest it may pay on brokered deposits; restricting the amount of distributions and dividends and payment of interest on its trust preferred securities; requiring the Bank to enter into informal or formal enforcement orders, including memoranda of understanding, written agreements and consent or cease and desist orders to take corrective action and enjoin unsafe and unsound practices; removing officers and directors and assessing civil monetary penalties; and taking possession and closing and liquidating the Bank. See “Supervision and Regulation”.

Changes in government regulation and supervision may increase our costs.
Our operations are subject to extensive regulations by federal, state and local governmental authorities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not stockholders. We are now also subject to supervisions, regulation and investigation by the U.S. Treasury and the Office of the Special Inspector General for the Troubled Asset Relief Program ("TARP") by virtue of our participation in the Capital Purchase Program. Changes to statutes, regulations or regulatory policies; changes in the interpretation or implementation of statutes, regulations or policies could subject us to additional costs, limit the types of financial services and products that we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

Any future increases in FDIC insurance premiums will adversely impact our earnings.
In 2009, the FDIC charged a "special assessment" equal to five basis point special assessment on each insured depository institution's assets minus Tier 1 capital. Our special assessment amounted to $995,000 and was paid on September 30, 2009. The FDIC also raised our annual assessment rate by 9.11 basis points to an average of 15.43 basis points. It is possible that the FDIC may impose additional special assessments in the future or further increase our annual assessment, which could adversely affect our earnings.

We may be adversely affected by the soundness of other financial institutions.
Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different institutions and counterparties, and execute transactions with various counterparties in the financial industry, including federal home loan banks, commercial banks, brokers and dealers, investment banks and other institutional clients. Recent defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, have led to market wide liquidity problems and could lead to losses or defaults by us or by other institutions. Any such losses could materially and adversely affect our results of operations.

We have engaged in and may continue to engage in further expansion through acquisitions, including FDIC-assisted transactions, which could negatively affect our business and earnings.
Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book value, and, therefore, some dilution of our tangible book value per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. Finally, to the extent that we issue capital stock in connection with transactions, such transactions and related stock issuances may have a dilutive effect on earnings per share of our common stock and share ownership of our stockholders.

We operate in a highly competitive industry and market areas.
We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and super-regional banks as well as smaller community banks within the markets in which we operate. However, we also face competition from many other types of financial institutions, including, without limitation, credit unions, mortgage banking companies, mutual funds, insurance companies, investment management firms, and other local, regional and national financial services firms. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation.

Loss of our key employees could adversely affect our business.
Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense and we may not be able to hire or retain the people we want and/or need. Although we maintain employment agreements with certain key employees, and have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse impact on our business because of the loss of the employee's skills, knowledge of our market, business relationships and the difficulty of promptly finding qualified replacement personnel.

Pursuant to our participation in the CPP, we adopted certain standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds the equity issued pursuant to our participation in the CPP. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, although certain restrictions apply to as many as twenty-five (25) of our most highly compensated employees. The restrictions severely limit the amount and types of compensation we can pay our executive officers and key employees, including a complete prohibition on any severance or other compensation upon termination of employment, significant caps on bonuses and retention payments. Such restrictions may impede our ability to attract and retain skilled people in our top management ranks.

We may need to raise additional capital in the future, which may not be available to us or may only be available on unfavorable terms.
We may need to raise additional capital in the future in order to support any additional provisions for loan losses and loan charge-offs, to maintain our capital ratios or for a number of other reasons. The condition of the financial markets may be such that we may not be able to obtain additional capital or the additional capital may only be available on terms that are not attractive to us.

Our controls and procedures may fail or be circumvented.
Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

During the third quarter of 2009, we determined that the Company did not have a formal process of reviewing existing contracts with continuing accounting significance and as a result did not detect an error in the accounting for loan participations executed subject to its standard participation agreement. This resulted in the restatement of our financial results at December 31, 2007, December 31, 2008, each quarter in 2008 and the first and second quarters of 2009. Except for labeling affected prior period financial statements as “Restated,” no further changes are being made to our above described corrected financial statements and no further restatement of our financial statements is anticipated. As previously disclosed, as a result of the amendment of the loan participation agreements, the overall effect of these adjustments from the original period of correction to December 31, 2009 was neutral to the Company’s financial results.

After identifying the error, we concluded that a material weakness in our internal controls over financial reporting existed during the periods affected by the error. Management concluded that the material weakness was the Company’s lack of a formal process to periodically review existing contracts and agreements with continuing accounting significance.

During the fourth quarter of 2009, management implemented a formal process to review all contracts and agreements with continuing accounting significance on an annual basis. As a result of the review conducted in the fourth quarter, management did not identify any other errors in its previous accounting for such contracts or agreements. We believe that these steps remediated the above described material weakness. Although we believe that this material weakness has been remediated, there can be no assurance that similar weaknesses will not occur in the future which could adversely affect our future results of operations or our stock price. See Item 8, Note 2 – Loan Participation Restatement and Item 9A for more information.

Our information systems may experience an interruption or breach in security.
We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Risks Associated With Our Shares

Our share price can be volatile.
The trading price of our common stock has fluctuated significantly and may do so in the future. These fluctuations may result from a number of factors, many of which are outside of our control. The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility recently. In addition, the trading volume in our common stock is lower than for many other publicly traded companies. As a result of these factors, the market price of our common stock may be volatile.

An investment in our common stock is not an insured deposit.
An investment in our common stock is not a savings account, deposit or other obligation of our bank subsidiary, any non-bank subsidiary or any other bank, and are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common shares, you may lose some or all of your investment.

Our ability to pay dividends is limited by various statutes and regulations and depends primarily on the Bank’s ability to distribute funds to us, which is also limited by various statutes and regulations.
Enterprise Financial Services Corp depends on payments from the Bank, including dividends and payments under tax sharing agreements, for substantially all of its revenue. Federal and state regulations limit the amount of dividends and the amount of payments that the Bank may make to Enterprise Financial Services Corp under tax sharing agreements. In certain circumstances, the Missouri Division of Finance, FDIC or Federal Reserve could restrict or prohibit the Bank from distributing dividends or making other payments to us. In the event that the Bank was restricted from paying dividends to Enterprise Financial Services Corp or make payments under the tax sharing agreement, Enterprise Financial Services Corp may not be able to service its debt, pay its other obligations or pay dividends on our Series A Preferred Stock or pay dividends on its common stock. If we are unable or determine not to pay dividends on our common stock, the market price of the common stock could be materially adversely affected.

The terms of our outstanding preferred stock limit our ability to pay dividends on and repurchase our common stock.
The terms of our Series A Preferred Stock provide that prior to the earlier of (i) December 19, 2011 and (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by us or transferred by the U.S. Treasury to third parties, we may not, without the consent of the U.S. Treasury, (a) increase the cash dividend on our common stock above $0.0525 per share per quarter or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than shares of our Series A Preferred Stock. These restrictions could have a negative effect on the value of our common stock.

Our outstanding preferred stock impacts net income available to our common stockholders and earnings per common share.
The dividends declared and the accretion of discount on our outstanding Series A Preferred Stock reduce the net income available to common stockholders and our earnings per common share. Our outstanding Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of the Company.

Holders of the Series A Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.
In the event that we fail to pay dividends on the Series A Preferred Stock for an aggregate of six or more quarters (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series A Preferred Stock, together with the holders of any outstanding parity stock with like voting rights voting as a single class, will be entitled to elect the two additional directors at the next annual meeting (or at a special meeting called for the purpose of electing the preferred stock directors prior to the next annual meeting) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Holders of the Series A Preferred Stock have voting rights in certain circumstances.
Except as otherwise required by law and in connection with the rights to elect directors as described above, holders of the Series A Preferred Stock have voting rights in certain circumstances. So long as shares of the Series A Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our amended and restated charter, the vote or consent of holders owning at least 66 2/3% of the shares of Series A Preferred Stock outstanding is required for (1) any authorization or issuance of shares ranking senior to the Series A Preferred Stock; (2) any amendment to the rights of the Series A Preferred Stock so as to adversely affect the rights, preferences, privileges or voting power of the Series A Preferred Stock; or (3) consummation of any merger, share exchange or similar transaction unless the shares of Series A Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of Series A Preferred Stock remaining outstanding or such preference securities have such rights, preferences, privileges and voting power as are not materially less favorable to the holders than the rights, preferences, privileges and voting power of the shares of Series A Preferred Stock.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.
We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. EFSC’s board of directors has broad discretion regarding the type and price of such securities.

The market price of our common stock could decline as a result of sales of a large number of shares of common stock or preferred stock or similar securities in the market, or the perception that such sales could occur. Holders of our common stock do not have anti-dilution or preemptive rights under the Delaware General Corporation Law, as amended (“DGCL”), EFSC’s certificate of incorporation (as amended and together with all certificates of designations) or by-laws. Shares of our common stock are not redeemable and have no subscription or conversion rights.

Additionally, the ownership interest of holders of our common stock could be diluted to the extent the CPP Warrant is exercised for up to 324,074 shares of our common stock. Although the U.S. Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the CPP Warrant, a transferee of any portion of the CPP Warrant or of any shares of common stock acquired upon exercise of the CPP Warrant is not bound by this restriction. In addition, to the extent options to purchase common stock under our employee stock option plans are exercised, holders of our common stock could incur additional dilution. Further, if we sell additional equity or convertible debt securities, such sales could result in increased dilution to our stockholders.

The terms of the CPP Warrant include an anti-dilution adjustment, which provides that, if we issue common stock or securities convertible into or exercisable, or exchangeable for, common stock at a price that is less than ninety percent (90%) of the market price of such shares on the last trading day preceding the date we agree to sell such shares, the number of shares of our common stock to be issued would increase and the per share price of the common stock to be purchased pursuant to the warrant would decrease.

We have outstanding subordinated debentures issued to statutory trust subsidiaries, which have issued and sold preferred securities to investors.
If we are unable to make payments on any of our subordinated debentures for more than twenty (20) consecutive quarters, we would be in default under the governing agreements for such securities and the amounts due under such agreements would be immediately due and payable. Additionally, if for any interest payment period we do not pay interest in respect of the subordinated debentures (which will be used to make distributions on the trust preferred securities), or if for any interest payment period we do not pay interest in respect of the subordinated debentures, or if any other event of default occurs, then we generally will be prohibited from declaring or paying any dividends or other distributions, or redeeming, purchasing or acquiring, any of our capital securities, including the common stock, during the next succeeding interest payment period applicable to any of the subordinated debentures, or next succeeding interest payment period, as the case may be.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that our existing or future financing agreements restrict our ability to pay dividends in cash on the common stock, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements. In addition, if we are unable or determine not to pay interest on our subordinated debentures, the market price of our common stock could be materially adversely affected.

Anti-takeover provisions could negatively impact our stockholders.
Provisions of Delaware law and of our certificate of incorporation, as amended, and bylaws as well as various provisions of federal and Missouri state law applicable to bank and bank holding companies could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We are subject to Section 203 of the DGCL, which would make it more difficult for another party to acquire us without the approval of our board of directors. Additionally, our certificate of incorporation, as amended, authorizes our board of directors to issue preferred stock and preferred stock could be issued as a defensive measure in response to a takeover proposal. In the event of a proposed merger, tender offer or other attempt to gain control of the Company, our board of directors would have the ability to readily issue available shares of preferred stock as a method of discouraging, delaying or preventing a change in control of the Company. Such issuance could occur whether or not our stockholders favorably view the merger, tender offer or other attempt to gain control of the Company. These and other provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders. Although we have no present intention to issue any additional shares of its authorized preferred stock, there can be no assurance that the Company will not do so in the future.

ITEM 1B: UNRESOLVED SEC COMMENTS

Not applicable.

ITEM 2: PROPERTIES

Banking facilities
Our executive offices are located at 150 North Meramec, Clayton, Missouri, 63105. As of December 31, 2009, we had four banking locations and a support center in the St. Louis metropolitan area, seven banking locations in the Kansas City metropolitan area, one banking location in Mesa, Arizona and a loan production officer in central Phoenix. We own four of the facilities and lease the remainder. Most of the leases expire between 2010 and 2017 and include one or more renewal options of 5 years. One lease expires in 2026. All the leases are classified as operating leases. We believe all our properties are in good condition.

Wealth management facilities
In February 2008, we purchased approximately 11,000 square feet of commercial condominium space in Clayton Missouri located approximately two blocks from our executive offices. We relocated the St. Louis-based Trust Advisory operations to this location in the fourth quarter of 2008. Enterprise Trust also has offices in Kansas City. Expenses related to the space used by Enterprise Trust are allocated to the Wealth Management segment.

ITEM 3: LEGAL PROCEEDINGS

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes that there are no such proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

ITEM 4: SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5: MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Common Stock Market Prices

The Company's common stock trades on the NASDAQ Global Select Market under the symbol "EFSC". Below are the dividends declared by quarter along with what the Company believes are the high and low closing sales prices for the common stock. There may have been other transactions at prices not known to the Company. As of March 1, 2010, the Company had 662 common stock shareholders of record and a market price of $9.01 per share. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in "street name" for the benefit of individual owners who have the right to vote shares.

	2009				2008			
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Closing Price	$ 7.71	$ 9.25	$ 9.09	$ 9.76	$ 15.24	$ 22.56	$ 18.85	$ 25.00
High	9.25	12.24	11.46	14.81	22.49	23.04	25.25	25.00
Low	7.25	8.96	7.88	7.52	11.49	15.95	18.60	18.19
Cash dividends paid on common shares	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525	0.0525

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2009, regarding securities issued and to be issued under our equity compensation plans that were in effect during the year ended December 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the Company's shareholders	803,735	$16.77	915,063
Equity compensation plans not approved by the Company's shareholders	--	--	--
Total	803,735 (1)	$16.77	915,063 (2)

(1) Includes the following:

- 29,090 shares of common stock to be issued upon exercise of outstanding stock options under the 1996 Stock Incentive Plan (Plan III);
- 185,535 shares of common stock to be issued upon exercise of outstanding stock options under the 1999 Stock Incentive Plan (Plan IV);
- 196,670 shares of common stock to be issued upon exercise of outstanding stock options under the 2002 Stock Incentive Plan (Plan V);
- 389,940 shares of common stock used as the base for grants of stock settled stock appreciation rights under the 2002 Stock Incentive Plan (Plan V);
- 2,500 shares of common stock to be issued upon exercise of outstanding stock options under the 1998 Nonqualified Plan.

(2) Includes the following:

- 849,723 shares of common stock available for issuance under the 2002 Stock Incentive Plan (Plan V);
- 65,340 shares of common stock available for issuance under the Non-management Director Stock Plan.

Dividends

The holders of shares of common stock of the Company are entitled to receive dividends when declared by the Company's Board of Directors out of funds legally available for the purpose of paying dividends. Holders of our Series A Preferred Stock originally issued to the U.S. Treasury on December 19, 2008, are entitled to cumulative dividends of 5% per annum. Dividends on the Series A Preferred Stock are currently payable at the rate of $1.8 million per annum. Dividends on the Series A Preferred Stock are prior to and in preference to any dividends payable on our common stock. Pursuant to the terms of the purchase agreement with the U.S. Treasury under the Capital Purchase Program, prior to December 19, 2011 our ability to declare or pay dividends on junior securities is subject to restrictions, including a restriction against increasing the dividend rate on our common stock from the last quarterly cash dividend per share ($0.0525) declared on our common stock prior to December 19, 2008. The amount of dividends, if any, that may be declared by the Company also depends on many other factors, including future earnings, bank regulatory capital requirements and business conditions as they affect the Company and its subsidiaries. As a result, no assurance can be given that dividends will be paid in the future with respect to the Company's common stock. In addition, the Company currently plans to retain most of its earnings to strengthen our balance sheet given the weak economic environment.

Performance Graph

The following Stock Performance Graph and related information should not be deemed "soliciting material" or to be "filed" with the SEC nor shall such performance be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The following graph* compares the cumulative total shareholder return on the Company's common stock from December 31, 2004 through December 31, 2009. The graph compares the Company's common stock with the NASDAQ Composite and the SNL $1B-$5B Bank Index. The graph assumes an investment of $100.00 in the Company's common stock and each index on December 31, 2004 and reinvestment of all quarterly dividends. The investment is measured as of each subsequent fiscal year end. There is no assurance that the Company's common stock performance will continue in the future with the same or similar results as shown in the graph.

	Period Ending					
Index	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Enterprise Financial Services Corp	100.00	123.41	178.43	131.52	85.18	44.08
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL Bank $1B-$5B	100.00	98.29	113.74	82.85	68.72	49.26

*Source: SNL Financial L.C. Used with permission. All rights reserved.

ITEM 6: SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from the Company's audited financial statements as of and for the five years ended December 31, 2009. This information should be read in connection with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report. See "Loan Participations" in Item 7, Management's Discussion and Analysis and Item 8, Note 2 – Loan Participation Restatement for more information on the Restated columns.

	Year ended December 31,				
		Restated	Restated	Restated	Restated
(in thousands, except per share data)	2009	2008	2007	2006	2005
EARNINGS SUMMARY:					
Interest income	$ 118,486	$ 127,021	$ 130,249	$ 98,545	$ 71,648
Interest expense	48,845	60,338	69,242	47,308	27,087
Net interest income	69,641	66,683	61,007	51,236	44,561
Provision for loan losses	40,412	26,510	5,120	2,273	1,523
Noninterest income	19,877	20,341	12,852	9,897	8,187
Noninterest expense	98,427	48,776	44,695	37,754	33,667
(Loss) income from continuing operations	(49,321)	11,738	24,044	21,107	17,558
Income tax (benefit) expense from continuing operations	(2,650)	3,672	8,098	7,357	6,300
Net (loss) income from continuing operations	(46,671)	8,066	15,946	13,750	11,258
Net (loss) income	$ (47,955)	$ 1,848	$ 17,255	$ 15,379	$ 11,275
PER SHARE DATA:					
Basic (loss) earnings per common share:					
From continuing operations	$ (3.82)	$ 0.63	$ 1.30	$ 1.25	$ 1.12
Total	(3.92)	0.14	1.41	1.40	1.12
Diluted (loss) earnings per common share:					
From continuing operations	(3.82)	0.63	1.27	1.21	1.05
Total	(3.92)	0.14	1.37	1.35	1.05
Cash dividends paid on common shares	0.21	0.21	0.21	0.18	0.14
Book value per common share	10.25	14.33	13.91	11.50	8.83
Tangible book value per common share	10.05	10.27	8.81	8.40	7.25
BALANCE SHEET DATA:					
Ending balances:					
Loans	1,833,260	2,201,457	1,784,278	1,376,452	1,048,302
Allowance for loan losses	42,995	33,808	22,585	17,475	13,332
Goodwill	953	48,512	57,177	29,983	12,042
Intangibles, net	1,643	3,504	6,053	5,789	4,548
Assets	2,365,655	2,493,767	2,141,329	1,600,004	1,332,673
Deposits	1,941,416	1,792,784	1,585,013	1,315,508	1,116,244
Subordinated debentures	85,081	85,081	56,807	35,054	30,930
Borrowings	167,438	392,926	312,427	105,481	82,854
Shareholders' equity	163,912	214,572	172,515	132,683	92,386
Average balances:					
Loans	2,098,275	2,001,073	1,599,596	1,214,436	1,014,697
Earning assets	2,334,700	2,125,581	1,723,214	1,355,704	1,150,997
Assets	2,462,237	2,298,882	1,856,466	1,440,685	1,198,795
Interest-bearing liabilities	2,025,339	1,883,904	1,469,258	1,110,845	910,348
Shareholders' equity	177,374	182,175	160,783	112,633	81,191
SELECTED RATIOS:					
Return on average common equity	(34.51) %	0.98 %	10.73 %	13.65 %	13.89 %
Return on average assets	(2.05)	0.08	0.93	1.07	0.94
Efficiency ratio	109.95	56.05	60.51	61.76	63.83

Average common equity to average assets	5.92	7.89	8.65	7.78	6.77
Yield on average interest-earning assets	5.15	6.04	7.63	7.34	6.28
Cost of interest-bearing liabilities	2.41	3.20	4.71	4.26	2.98
Net interest rate spread	2.74	2.84	2.92	3.08	3.31
Net interest rate margin	3.06	3.20	3.61	3.85	3.93
Nonperforming loans to total loans	2.10	1.61	0.71	0.47	0.14
Nonperforming assets to total assets	2.74	1.98	0.73	0.50	0.11
Net chargeoffs to average loans	1.42	0.76	0.13	0.10	0.02
Allowance for loan losses to total loans	2.35	1.54	1.27	1.27	1.27
Dividend payout ratio - basic	(5.62)	144.02	15.29	12.85	12.60

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION
The objective of this section is to provide an overview of the results of operations and financial condition of the Company for the three years ended December 31, 2009. It should be read in conjunction with the Consolidated Financial Statements, Notes and other financial data presented elsewhere in this report, particularly the information regarding the Company’s business operations described in Item 1.

EXECUTIVE SUMMARY
This overview of management’s discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources and critical accounting estimates, you should carefully read this entire document.

We accomplished a number of objectives in 2009 and early 2010 as we position our Company for continued growth when the credit cycle rebounds. In addition to bolstering our allowance for loan losses, we took significant steps to fortify our balance sheet and position the Company for economic recovery. In 2009, we strengthened our liquidity by growing core deposits more than 23% over 2008 and tightly controlled our operating expenses. In addition, on December 11, 2009, we completed an FDIC-assisted acquisition of Valley Capital Bank in Mesa, Arizona. This strategic acquisition positioned us to begin operating full-service branches in the Phoenix market. On January 20, 2010, we sold Millennium, a non-strategic subsidiary. And lastly, over the past fourteen months, we have added $75.0 million in new regulatory capital, including $15.0 million from a January 2010 private bottom"> 140,000 CDW LLC/CDW Finance Corp., 5%, 9/01/2025 395,000 385,125 Fair Isaac Corp., 5.25%, 5/15/2026 (n) 1,065,000 1,050,356 JDA Software Group, Inc., 7.375%, 10/15/2024 (n) 605,000 613,319 Sabre GLBL, Inc., 5.375%, 4/15/2023 (n) 1,550,000 1,542,250

$4,218,669 Conglomerates - 2.4% Amsted Industries Co., 5%, 3/15/2022 (n) $1,935,000 $1,901,137 BWX Technologies, Inc., 5.375%, 7/15/2026 (n) 1,300,000 1,261,000 EnerSys, 5%, 4/30/2023 (n) 1,535,000 1,496,625 Entegris, Inc., 4.625%, 2/10/2026 (n) 1,650,000 1,526,894 Gates Global LLC, 6%, 7/15/2022 (n) 436,000 433,820

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Conglomerates - continued		
Roper Technologies, Inc., 4.2%, 9/15/2028	$ 152,000	$ 148,284
Smiths Group PLC, 2%, 2/23/2027	EUR 200,000	222,691
Stevens Holding Co., Inc., 6.125%, 10/01/2026 (n)	$ 1,040,000	1,027,000
TriMas Corp., 4.875%, 10/15/2025 (n)	1,195,000	1,120,313
United Technologies Corp., 4.625%, 11/16/2048	190,000	182,774
Wabtec Corp., 4.7%, 9/15/2028	140,000	132,460
		$ 9,452,998
Construction - 0.7%		
Empresas ICA S.A.B. de C.V., 8.9%, 2/04/2021 (a)(d)	$ 450,000	$ 73,215
Empresas ICA S.A.B. de C.V., 8.875%, 5/29/2024 (a)(d)(n)	853,000	139,679
Mattamy Group Corp., 6.5%, 10/01/2025 (n)	1,370,000	1,286,087
Toll Brothers Finance Corp., 4.875%, 11/15/2025	335,000	318,250
Toll Brothers Finance Corp., 4.35%, 2/15/2028	1,280,000	1,123,200
		$ 2,940,431
Consumer Products - 1.0%		
Coty, Inc., 4.75%, 4/15/2026 (n)	EUR 200,000	$ 200,642
Coty, Inc., 6.5%, 4/15/2026 (n)	$ 470,000	413,600
Energizer Gamma Acquisition, Inc., 6.375%, 7/15/2026 (n)	710,000	667,400
JAB Holdings B.V., 2%, 5/18/2028	EUR 300,000	333,599
JAB Holdings B.V., 2.5%, 6/25/2029	200,000	228,206
Prestige Brands, Inc., 6.375%, 3/01/2024 (n)	$ 241,000	238,891
Reckitt Benckiser Treasury Services PLC, 3.625%, 9/21/2023 (n)	250,000	248,664
Reckitt Benckiser Treasury Services PLC, 3%, 6/26/2027 (n)	272,000	249,971
Spectrum Brands, Inc., 6.125%, 12/15/2024	150,000	144,750
Spectrum Brands, Inc., 5.75%, 7/15/2025	1,120,000	1,059,800
		$ 3,785,523
Consumer Services - 1.3%		
Cimpress N.V., 7%, 6/15/2026 (n)	$ 770,000	$ 748,825
Frontdoor, Inc., 6.75%, 8/15/2026 (n)	765,000	738,225
G4S International Finance PLC, 1.5%, 1/09/2023	EUR 200,000	226,232
ManpowerGroup, 1.75%, 6/22/2026	150,000	169,542
Matthews International Corp., 5.25%, 12/01/2025 (n)	$ 845,000	785,850
NVA Holdings, Inc., 6.875%, 4/01/2026 (n)	650,000	619,938
Priceline Group, Inc., 1.8%, 3/03/2027	EUR 200,000	226,905
Priceline Group, Inc., 3.55%, 3/15/2028	$ 141,000	130,572
ServiceMaster Co. LLC, 5.125%, 11/15/2024 (n)	1,055,000	1,015,437
Visa, Inc., 4.15%, 12/14/2035	234,000	235,330
Visa, Inc., 4.3%, 12/14/2045	150,000	150,070
		$ 5,046,926

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Containers - 2.6%		
ARD Finance S.A., 6.625%, 9/15/2023	EUR 250,000	$ 275,242
ARD Finance S.A., 7.125%, 9/15/2023	$ 650,000	598,000
ARD Securities Finance, 8.75%, (8.75% cash or 8.75% PIK) 1/31/2023 (p)(z)	405,000	331,031
Berry Global Group, Inc., 5.5%, 5/15/2022	1,025,000	1,025,000
Crown American LLC, 4.5%, 1/15/2023	875,000	861,000
Crown Americas LLC/Crown Americas Capital Corp., 4.75%, 2/01/2026 (n)	815,000	785,497
Crown Americas LLC/Crown Americas Capital Corp. V, 4.25%, 9/30/2026	520,000	483,600
Flex Acquisition Co., Inc., 6.875%, 1/15/2025 (n)	805,000	743,619
Multi-Color Corp., 6.125%, 12/01/2022 (n)	1,321,000	1,324,302
Reynolds Group, 5.75%, 10/15/2020	494,245	493,627
Reynolds Group, 5.125%, 7/15/2023 (n)	450,000	439,313
San Miguel Industrias PET S.A., 4.5%, 9/18/2022 (n)	337,000	324,278
Sealed Air Corp., 4.875%, 12/01/2022 (n)	1,110,000	1,105,838
Sealed Air Corp., 5.5%, 9/15/2025 (n)	170,000	167,875
Silgan Holdings, Inc., 4.75%, 3/15/2025	855,000	803,700
W/S Packaging Group, Inc., 9%, 4/15/2023 (n)	695,000	705,425
		$ 10,467,347
Electrical Equipment - 0.5%		
Arrow Electronics, Inc., 3.5%, 4/01/2022	$ 173,000	$ 169,041
CommScope Technologies LLC, 5%, 3/15/2027 (n)	2,305,000	1,898,744
		$ 2,067,785
Electronics - 0.9%		
ASML Holding N.V., 1.375%, 7/07/2026	EUR 250,000	$ 285,464
Broadcom Corp./Broadcom Cayman Finance Ltd., 3.875%, 1/15/2027	$ 240,000	215,953
Qorvo, Inc., 5.5%, 7/15/2026 (n)	1,145,000	1,110,650
Sensata Technologies B.V., 5.625%, 11/01/2024 (n)	520,000	521,300
Sensata Technologies B.V., 5%, 10/01/2025 (n)	1,555,000	1,496,687
		$ 3,630,054
Emerging Market Quasi-Sovereign - 4.1%		
Abu Dhabi Crude Oil Pipeline, 4.6%, 11/02/2047 (n)	$ 400,000	$ 373,532
Aeropuerto Internacional de Tocumen S.A., 6%, 11/18/2048 (n)	987,000	959,858
Empresa Nacional del Petroleo, 3.75%, 8/05/2026	568,000	519,669
Empresa Nacional del Petroleo, 5.25%, 11/06/2029 (n)	767,000	760,467
EQUATE Petrochemical B.V., 4.25%, 11/03/2026	1,022,000	970,900
Eskom Holding SOC Ltd., 6.35%, 8/10/2028	1,024,000	969,216
KazMunayGas National Co., 5.375%, 4/24/2030 (n)	500,000	476,604

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Portfolio of Investments continued

Issuer		Shares/Par		Value ($)
Bonds - continued				
Emerging Market Quasi-Sovereign - continued				
NTPC Ltd., 4.25%, 2/26/2026	$	442,000	$	418,640
Office Cherifien des Phosphates, 6.875%, 4/25/2044 (n)		351,000		355,103
Petrobras Global Finance B.V., 5.299%, 1/27/2025		1,548,000		1,460,383
Petrobras Global Finance B.V., 5.75%, 2/01/2029		1,307,000		1,196,558
Petroleos del Peru S.A., 4.75%, 6/19/2032 (n)		1,062,000		990,315
Petroleos del Peru S.A., 4.75%, 6/19/2032		475,000		442,938
Petroleos Mexicanos, 6.5%, 1/23/2029 (n)		1,532,000		1,407,602
PT Indonesia Asahan Aluminium (Persero), 6.53%, 11/15/2028 (n)		450,000		463,320
PT Indonesia Asahan Aluminium (Persero), 6.757%, 11/15/2048 (n)		944,000		931,305
PT Perusahaan Listrik Negara, 2.875%, 10/25/2025 (n)	EUR	200,000		223,973
PT Perusahaan Listrik Negara, 5.375%, 1/25/2029 (n)	$	597,000		586,697
REC Ltd., 5.25%, 11/13/2023 (n)		1,510,000		1,532,046
Southern Gas Corridor CJSC, 6.875%, 3/24/2026		1,315,000		1,375,148
			$	16,414,274
Emerging Market Sovereign - 6.3%				
Arab Republic of Egypt, 8.5%, 1/31/2047	$	1,025,000	$	933,847
Dominican Republic, 5.95%, 1/25/2027		842,000		826,212
Dominican Republic, 6%, 7/19/2028 (n)		550,000		538,313
Dominican Republic, 6.5%, 2/15/2048 (n)		150,000		138,000
Federal Republic of Nigeria, 7.625%, 11/21/2025 (n)		593,000		571,023
Federal Republic of Nigeria, 8.747%, 1/21/2031 (n)		1,398,000		1,349,294
Federative Republic of Brazil, 5%, 1/27/2045		550,000		459,250
Government of Ukraine, 8.994%, 2/01/2024 (n)		593,000		559,009
Government of Ukraine, 7.75%, 9/01/2024		1,047,000		932,353
Government of Ukraine, 9.75%, 11/01/2028 (n)		1,213,000		1,142,100
Oriental Republic of Uruguay, 4.975%, 4/20/2055		563,000		514,582
Republic of Angola, 9.375%, 5/08/2048		954,000		922,919
Republic of Argentina, 6.875%, 4/22/2021		344,000		324,564
Republic of Argentina, 4.625%, 1/11/2023		1,700,000		1,418,650
Republic of Argentina, 7.5%, 4/22/2026		1,170,000		993,342
Republic of Argentina, 6.875%, 1/26/2027		1,210,000		974,667
Republic of Cote d Ivoire, 5.25%, 3/22/2030	EUR	929,000		931,560
Republic of Hungary, 5.75%, 11/22/2023	$	486,000		516,987
Republic of Hungary, 7.625%, 3/29/2041		470,000		628,713
Republic of Indonesia, 2.875%, 7/08/2021 (n)	EUR	175,000		207,909
Republic of Indonesia, 4.125%, 1/15/2025	$	831,000		805,384
Republic of Indonesia, 4.125%, 1/15/2025 (n)		342,000		331,458
Republic of Indonesia, 8.25%, 5/15/2029	IDR	21,298,000,000		1,525,699
Republic of Paraguay, 6.1%, 8/11/2044 (n)	$	550,000		548,625
Republic of South Africa, 5.875%, 6/22/2030		817,000		772,114

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Emerging Market Sovereign - continued		
Republic of Sri Lanka, 6.125%, 6/03/2025	$ 643,000	$ 555,231
Republic of Turkey, 7.25%, 12/23/2023	1,655,000	1,642,587
Republic of Turkey, 7.375%, 2/05/2025	550,000	542,509
Republic of Turkey, 5.2%, 2/16/2026	EUR 994,000	1,101,676
Republic of Turkey, 4.875%, 10/09/2026	$ 1,432,000	1,205,544
Russian Federation, 4.75%, 5/27/2026	800,000	778,744
United Mexican States, 4.6%, 2/10/2048	326,000	280,852
		$ 24,973,717
Energy - Independent - 3.2%		
Afren PLC, 10.25%, 4/08/2019 (a)(d)(z)	$ 451,812	$ 163
Alta Mesa Holdings LP/Alta Mesa Finance Services Corp., 7.875%, 12/15/2024	1,160,000	826,500
Callon Petroleum Co., 6.375%, 7/01/2026	925,000	890,312
CrownRock LP/CrownRock Finance, Inc., 5.625%, 10/15/2025 (n)	1,340,000	1,252,900
Diamondback Energy, Inc., 5.375%, 5/31/2025	1,405,000	1,389,194
Gulfport Energy Corp., 6%, 10/15/2024	465,000	425,475
Gulfport Energy Corp., 6.375%, 5/15/2025	615,000	558,113
Indigo Natural Resources LLC, 6.875%, 2/15/2026 (n)	805,000	748,650
Magnolia Oil & Gas Operating LLC/Magnolia Oil & Gas Finance Corp., 6%, 8/01/2026 (n)	885,000	856,237
Oasis Petroleum, Inc., 6.25%, 5/01/2026 (n)	825,000	761,062
Parsley Energy LLC/Parsley Finance Corp., 5.25%, 8/15/2025 (n)	245,000	231,525
Parsley Energy LLC/Parsley Finance Corp., 5.625%, 10/15/2027 (n)	1,785,000	1,695,750
QEP Resources, Inc., 5.25%, 5/01/2023	855,000	816,525
Sanchez Energy Corp., 6.125%, 1/15/2023	680,000	170,000
SM Energy Co., 6.75%, 9/15/2026	1,195,000	1,147,200
Tengizchevroil Finance Co. International Ltd., 4%, 8/15/2026	987,000	899,252
		$ 12,668,858
Energy - Integrated - 0.0%		
Eni S.p.A., 4%, 9/12/2023 (n)	$ 200,000	$ 194,857
Entertainment - 0.8%		
Live Nation Entertainment, Inc., 5.625%, 3/15/2026 (n)	$ 975,000	$ 969,823
Six Flags Entertainment Corp., 4.875%, 7/31/2024 (n)	2,345,000	2,245,337
		$ 3,215,160
Financial Institutions - 0.9%		
AerCap Ireland Capital Ltd., 3.65%, 7/21/2027	$ 379,000	$ 329,405
Avolon Holdings Funding Ltd., 5.125%, 10/01/2023	490,000	488,162

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Financial Institutions - continued		
EXOR N.V., 1.75%, 1/18/2028	EUR 200,000	$ 213,616
Park Aerospace Holdings Ltd., 5.5%, 2/15/2024 (n)	$ 1,940,000	1,951,892
Wand Merger Corp., 8.125%, 7/15/2023 (n)	425,000	429,250
		$ 3,412,325
Food & Beverages - 2.7%		
Anheuser-Busch InBev N.V., 1.5%, 4/18/2030	EUR 250,000	$ 263,540
Anheuser-Busch InBev Worldwide, Inc., 4.375%, 4/15/2038	$ 80,000	71,804
Aramark Services, Inc., 4.75%, 6/01/2026	1,225,000	1,166,812
Aramark Services, Inc., 5%, 2/01/2028 (n)	760,000	722,000
Constellation Brands, Inc., 4.4%, 11/15/2025	227,000	226,043
Cott Holdings, Inc., 5.5%, 4/01/2025 (n)	1,510,000	1,457,150
Danone S.A., 2.077%, 11/02/2021 (n)	236,000	225,758
Danone S.A., 2.589%, 11/02/2023 (n)	553,000	520,538
JBS USA LLC/JBS USA Finance, Inc., 6.75%, 2/15/2028 (n)	215,000	208,550
JBS USA Lux S.A./JBS USA Finance, Inc., 5.875%, 7/15/2024 (n)	1,560,000	1,532,700
Kraft Heinz Foods Co., 5.2%, 7/15/2045	31,000	28,163
Kraft Heinz Foods Co., 4.375%, 6/01/2046	130,000	106,176
Lamb Weston Holdings, Inc., 4.625%, 11/01/2024 (n)	705,000	680,325
Lamb Weston Holdings, Inc., 4.875%, 11/01/2026 (n)	420,000	409,080
Pilgrim s Pride Corp., 5.875%, 9/30/2027 (n)	1,410,000	1,335,975
U.S. Foods Holding Corp., 5.875%, 6/15/2024 (n)	1,590,000	1,578,075
Wm. Wrigley Jr. Co., 3.375%, 10/21/2020 (n)	300,000	299,588
		$ 10,832,277
Gaming & Lodging - 2.1%		
CCM Merger, Inc., 6%, 3/15/2022 (n)	$ 715,000	$ 723,937
GLP Capital LP/GLP Financing II, Inc., 5.25%, 6/01/2025	760,000	755,060
GLP Capital LP/GLP Financing II, Inc., 5.375%, 4/15/2026	145,000	143,811
Hilton Domestic Operating Co., Inc., 5.125%, 5/01/2026 (n)	950,000	928,625
Hilton Worldwide Finance LLC, 4.625%, 4/01/2025	1,260,000	1,215,900
Marriot Ownership Resorts, Inc., 5.625%, 4/15/2023 (z)	870,000	863,475
MGM Resorts International, 6.625%, 12/15/2021	445,000	466,138
MGM Resorts International, 6%, 3/15/2023	460,000	467,475
MGM Resorts International, 5.75%, 6/15/2025	875,000	860,781
Ryman Hospitality Properties, Inc., REIT, 5%, 4/15/2021	495,000	490,050
Ryman Hospitality Properties, Inc., REIT, 5%, 4/15/2023	670,000	661,625
Wyndham Hotels Group, LLC, 5.375%, 4/15/2026 (n)	850,000	818,125
		$ 8,395,002
Industrial - 0.7%		
Cleaver Brooks, Inc., 7.875%, 3/01/2023 (n)	$ 845,000	$ 836,550
Grainger PLC, 3.375%, 4/24/2028	GBP 120,000	150,413

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Industrial - continued		
Investor AB, 1.5%, 9/12/2030	EUR 200,000	$ 226,953
KAR Auction Services, Inc., 5.125%, 6/01/2025 (n)	$ 1,615,000	1,510,025
		$ 2,723,941
Insurance - 0.4%		
American International Group, Inc., 1.875%, 6/21/2027	EUR 110,000	$ 117,324
Argentum Zurich Insurance, 3.5%, 10/01/2046	200,000	233,240
AssuredPartners Inc., 7%, 8/15/2025 (n)	$ 875,000	825,781
NN Group N.V., 4.625%, 4/08/2044	EUR 200,000	237,803
		$ 1,414,148
Insurance - Health - 0.6%		
Aetna, Inc., 2.8%, 6/15/2023	$ 317,000	$ 299,731
Centene Corp., 6.125%, 2/15/2024	590,000	613,541
Centene Corp., 5.375%, 6/01/2026 (n)	1,095,000	1,101,844
Halfmoon Parent, Inc., 4.125%, 11/15/2025 (n)	201,000	198,443
		$ 2,213,559
Insurance - Property & Casualty - 0.7%		
Berkshire Hathaway, Inc., 2.75%, 3/15/2023	$ 234,000	$ 226,695
Chubb INA Holdings, Inc., 2.3%, 11/03/2020	95,000	93,128
Chubb INA Holdings, Inc., 2.875%, 11/03/2022	221,000	216,216
Chubb INA Holdings, Inc., 2.5%, 3/15/2038	EUR 126,000	136,903
Hiscox Ltd., 6.125%, 11/24/2045	GBP 100,000	130,510
Hub International Ltd., 7%, 5/01/2026 (n)	$ 830,000	790,575
Liberty Mutual Group, Inc., 4.25%, 6/15/2023	365,000	367,478
Marsh & McLennan Cos., Inc., 3.5%, 6/03/2024	159,000	154,678
Marsh & McLennan Cos., Inc., 4.35%, 1/30/2047	131,000	119,409
QBE Capital Funding III Ltd., 7.5%, 5/24/2041	GBP 200,000	271,291
XLIT Ltd., 3.25% to 6/29/2027, FLR (EURIBOR - 3mo. + 2.9%) to 6/29/2047	EUR 230,000	252,519
		$ 2,759,402
International Market Quasi-Sovereign - 0.1%		
Bank of Iceland, 1.75%, 9/07/2020	EUR 200,000	$ 230,722
Landsbanki Islands HF, 1.125% to 1/19/2023, FLR (EUR Swap Rate - 1yr. + 0.75%) to 1/19/2024	$ 150,000	165,772
		$ 396,494
International Market Sovereign - 14.6%		
Bundesrepublik Deutschland, 0.25%, 2/15/2027	EUR 1,078,000	$ 1,233,276
Bundesrepublik Deutschland, 0.25%, 8/15/2028	4,893,000	5,508,994
Commonwealth of Australia, 2.75%, 11/21/2028	AUD 2,260,000	1,673,292
Federal Republic of Germany, 2.5%, 7/04/2044	EUR 995,000	1,533,458

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
International Market Sovereign - continued			
Government of Bermuda, 4.75%, 2/15/2029 (n)	$	487,000	$ 485,783
Government of Canada, 1.5%, 6/01/2023	CAD	5,572,000	4,067,080
Government of Canada, 1.5%, 6/01/2026		5,733,000	4,091,567
Government of Canada, 5.75%, 6/01/2033		2,334,000	2,489,114
Government of Japan, 2.4%, 3/20/2037	JPY	479,300,000	5,597,611
Government of Japan, 0.5%, 6/20/2038		432,600,000	3,748,793
Government of Norway, 2%, 4/26/2028	NOK	19,725,000	2,331,469
Kingdom of Spain, 5.15%, 10/31/2028	EUR	665,000	1,004,883
Republic of Italy, 5.5%, 9/01/2022		925,000	1,178,341
Republic of Italy, 2.5%, 12/01/2024		6,093,000	6,862,597
Republic of Italy, 2%, 2/01/2028		3,734,000	3,888,464
Republic of Italy, 1.65%, 3/01/2032		297,000	275,952
Republic of Portugal, 2.875%, 10/15/2025		2,108,000	2,634,899
Republic of Portugal, 2.125%, 10/17/2028		3,525,000	4,096,805
Republic of Portugal, 4.1%, 4/15/2037		355,000	485,338
United Kingdom Treasury, 3.25%, 1/22/2044	GBP	2,083,000	3,266,849
United Kingdom Treasury, 3.75%, 7/22/2052		730,000	1,319,865
			$ 57,774,430
Local Authorities - 0.1%			
Province of Alberta, 4.5%, 12/01/2040	CAD	255,000	$ 226,263
Province of British Columbia, 2.3%, 6/18/2026		370,000	268,617
			$ 494,880
Major Banks - 2.3%			
Bank of America Corp., 2.625%, 4/19/2021	$	370,000	$ 362,270
Bank of America Corp., 3.004%, 12/20/2023		399,000	382,873
Bank of America Corp., 3.5%, 4/19/2026		400,000	379,228
Bank of America Corp., 3.248%, 10/21/2027		462,000	424,306
Bank of New York Mellon Corp., 2.95%, 1/29/2023		414,000	402,713
Bankia S.A., 6%, 7/18/2065	EUR	400,000	433,857
Barclays Bank PLC, 6%, 1/14/2021		250,000	305,772
Credit Agricole S.A., 7.375%, 12/18/2023	GBP	100,000	156,361
Credit Suisse Group AG, 6.5%, 8/08/2023 (n)	$	200,000	209,489
Credit Suisse Group AG, 1.25% to 7/17/2024, FLR (EUR Swap Rate - 1yr. + 0.75%) to 7/17/2025	EUR	150,000	165,977
Goldman Sachs Group, Inc., 2.625%, 4/25/2021	$	360,000	350,152
Goldman Sachs Group, Inc., 5.75%, 1/24/2022		500,000	523,963
Goldman Sachs Group, Inc., 3.85%, 1/26/2027		314,000	295,946
HSBC Holdings PLC, 4.375%, 11/23/2026		269,000	257,851
JPMorgan Chase & Co., 2.95%, 10/01/2026		601,000	546,471
JPMorgan Chase & Co., 3.54% to 5/01/2027, FLR (LIBOR - 3mo. + 1.38%) to 5/01/2028		291,000	274,279

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Portfolio of Investments continued

Issuer		Shares/Par		Value ($)
Bonds - continued				
Major Banks - continued				
JPMorgan Chase & Co., 4.26% to 2/22/2047, FLR (LIBOR - 3mo. + 1.58%) to 2/22/2048	$	153,000	$	139,121
Morgan Stanley, 3.125%, 7/27/2026		426,000		389,356
Morgan Stanley, 2.625%, 3/09/2027	GBP	200,000		250,265
Sumitomo Mitsui Financial Group, Inc., 3.544%, 1/17/2028	$	439,000		420,140
UBS Group AG, 6.875% to 8/07/2025, FLR (Swap Rate - 5yr. + 4.59%) to 12/29/2049		1,420,000		1,375,540
UBS Group Funding (Jersey) Ltd., 1.5%, 11/30/2024	EUR	300,000		341,203
UBS Group Funding (Switzerland) AG, 2.859% to 8/15/2022, FLR (LIBOR-3mo. + 0.954%) to 8/15/2023 (n)	$	750,000		716,256
			$	9,103,389
Medical & Health Technology & Services - 3.4%				
Avantor, Inc., 9%, 10/01/2025 (n)	$	660,000	$	669,075
Becton, Dickinson and Co., 1.401%, 5/24/2023	EUR	250,000		284,824
Becton, Dickinson and Co., 3.734%, 12/15/2024	$	239,000		230,641
DaVita, Inc., 5%, 5/01/2025		585,000		548,438
Encompass Health Corp., 5.75%, 9/15/2025		350,000		347,813
HCA, Inc., 7.5%, 2/15/2022		1,085,000		1,171,800
HCA, Inc., 5%, 3/15/2024		890,000		892,225
HCA, Inc., 5.375%, 2/01/2025		1,150,000		1,157,187
HCA, Inc., 5.875%, 2/15/2026		855,000		880,650
HealthSouth Corp., 5.125%, 3/15/2023		1,425,000		1,423,219
HealthSouth Corp., 5.75%, 11/01/2024		30,000		29,850
Heartland Dental, LLC, 8.5%, 5/01/2026 (n)		675,000		626,062
Laboratory Corp. of America Holdings, 3.2%, 2/01/2022		200,000		196,794
Laboratory Corp. of America Holdings, 4.7%, 2/01/2045		310,000		284,163
Northwell Healthcare, Inc., 3.979%, 11/01/2046		40,000		35,095
Northwell Healthcare, Inc., 4.26%, 11/01/2047		307,000		280,565
Polaris, 8.5%, (8.5% cash or 8.5% PIK) 12/01/2022 (n)(p)		455,000		452,725
Quintiles IMS Holdings, Inc., 5%, 10/15/2026 (n)		725,000		701,437
Regional Care/LifePoint Health, Inc., 9.75%, 12/01/2026 (z)		450,000		448,313
Tenet Healthcare Corp., 6.75%, 6/15/2023		685,000		676,437
Thermo Fisher Scientific, Inc., 3.2%, 8/15/2027		476,000		435,333
Universal Health Services, Inc., 7.625%, 8/15/2020		1,115,000		1,115,000
West Street Merger Sub, Inc., 6.375%, 9/01/2025 (n)		800,000		750,160
			$	13,637,806
Medical Equipment - 0.7%				
Abbott Laboratories, 4.9%, 11/30/2046	$	300,000	$	310,596
Stryker Corp., 2.125%, 11/30/2027	EUR	100,000		114,555
Teleflex, Inc., 5.25%, 6/15/2024		960,000		964,800
Teleflex, Inc., 4.875%, 6/01/2026		610,000		590,761

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Medical Equipment - continued		
Teleflex, Inc., 4.625%, 11/15/2027	$ 790,000	$ 742,600
		$ 2,723,312
Metals & Mining - 2.6%		
Baffinland Iron Mines Corp./Baffinland Iron Mines LP,		
8.75%, 7/15/2026 (n)	$ 465,000	$ 456,862
Cameco Corp., 5.67%, 9/02/2019	CAD 262,000	201,087
First Quantum Minerals Ltd., 7.25%, 4/01/2023 (n)	$ 870,000	804,750
Freeport-McMoRan Copper & Gold, Inc., 5.4%, 11/14/2034	1,125,000	945,000
Freeport-McMoRan, Inc., 6.875%, 2/15/2023	1,975,000	2,056,469
Kaiser Aluminum Corp., 5.875%, 5/15/2024	1,735,000	1,726,325
Northwest Acquisitions ULC/Dominion Finco, Inc., 7.125%, 11/01/2022 (n)	1,135,000	1,123,650
Novelis Corp., 5.875%, 9/30/2026 (n)	1,730,000	1,613,225
Petra Diamonds U.S. Treasury PLC, 7.25%, 5/01/2022 (n)	705,000	651,244
TMS International Corp., 7.25%, 8/15/2025 (n)	655,000	641,900
		$ 10,220,512
Midstream - 3.8%		
AI Candelaria Spain SLU, 7.5%, 12/15/2028 (n)	$ 1,232,000	$ 1,191,960
APT Pipelines Ltd., 5%, 3/23/2035 (n)	280,000	275,712
Blue Racer Midstream LLC/Blue Racer Finance Corp., 6.125%, 11/15/2022 (n)	565,000	559,350
Blue Racer Midstream LLC/Blue Racer Finance Corp., 6.625%, 7/15/2026 (n)	890,000	876,650
Cheniere Energy, Inc., 5.875%, 3/31/2025	905,000	932,150
DCP Midstream Operating LP, 4.95%, 4/01/2022	651,000	649,372
DCP Midstream Operating LP, 3.875%, 3/15/2023	770,000	737,275
DCP Midstream Operating LP, 5.375%, 7/15/2025 (n)	700,000	700,875
DCP Midstream Operating LP, 5.6%, 4/01/2044	615,000	545,813
EnLink Midstream Partners LP, 4.4%, 4/01/2024	1,140,000	1,087,566
MPLX LP, 4.5%, 4/15/2038	170,000	146,488
ONEOK, Inc., 4.95%, 7/13/2047	474,000	423,740
Sabine Pass Liquefaction LLC, 4.2%, 3/15/2028	333,000	312,884
Tallgrass Energy LP, 5.5%, 1/15/2028 (n)	2,510,000	2,466,075
Targa Resources Partners LP/Targa Resources Finance Corp., 5.25%, 5/01/2023	860,000	857,850
Targa Resources Partners LP/Targa Resources Finance		
Corp., 5.125%, 2/01/2025 (n)	775,000	747,875
Targa Resources Partners LP/Targa Resources Finance		
Corp., 5.375%, 2/01/2027	2,485,000	2,385,600
		$ 14,897,235

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Mortgage-Backed - 5.1%		
Fannie Mae, 5.5%, 9/01/2019 - 7/01/2035	$ 173,501	$ 184,344
Fannie Mae, 2.641%, 4/25/2020	475,581	475,190
Fannie Mae, 6.5%, 4/01/2032 - 1/01/2033	38,074	41,504
Fannie Mae, 6%, 8/01/2034 - 2/01/2037	71,288	77,864
Freddie Mac, 3.064%, 8/25/2024	1,141,916	1,125,649
Freddie Mac, 2.811%, 1/25/2025	11,000,000	10,655,833
Freddie Mac, 0.24%, 2/25/2025 (i)	38,000,000	353,746
Freddie Mac, 3.243%, 4/25/2027	991,000	966,586
Freddie Mac, 3.117%, 6/25/2027	298,465	288,273
Freddie Mac, 3.194%, 7/25/2027	1,073,000	1,040,784
Freddie Mac, 3.244%, 8/25/2027	1,160,000	1,128,270
Freddie Mac, 3.187%, 9/25/2027	492,000	476,546
Freddie Mac, 3.286%, 11/25/2027	591,000	575,625
Freddie Mac, 3.35%, 1/25/2028	830,000	813,981
Freddie Mac, 0.261%, 2/25/2028 (i)	36,576,000	498,469
Freddie Mac, 0.427%, 2/25/2028 (i)	15,572,000	414,240
Freddie Mac, 0.249%, 4/25/2028 (i)	15,983,000	201,165
Freddie Mac, 3.9%, 8/25/2028	1,000,000	1,017,557
Freddie Mac, 6%, 8/01/2034	52,996	58,217
		$ 20,393,843
Municipals - 0.2%		
Commonwealth of Puerto Rico, Public Improvement, C-7 , 6%, 7/01/2027	$ 20,000	$ 20,653
Oklahoma Development Finance Authority, Health System Rev. (OU Medicine Project), C , 5.45%, 8/15/2028	346,000	362,238
Oklahoma Development Finance Authority, Health System Rev. (OU Medicine Project), C , AGM, 4.65%, 8/15/2030	221,000	229,254
Puerto Rico Electric Power Authority Rev., PP , 5%, 7/01/2022	95,000	95,586
		$ 707,731
Natural Gas - Distribution - 0.2%		
Boston Gas Co., 3.15%, 8/01/2027 (n)	$ 248,000	$ 231,118
GNL Quintero S.A., 4.634%, 7/31/2029 (n)	323,000	309,273
Infraestructura Energética Nova S.A.B. de C.V, 4.875%, 1/14/2048 (n)	500,000	370,625
		$ 911,016
Natural Gas - Pipeline - 0.4%		
Peru LNG, 5.375%, 3/22/2030	$ 1,558,000	$ 1,507,365

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Network & Telecom - 0.8%		
C&W Senior Financing Designated Activity, 7.5%, 10/15/2026 (n)	$ 388,000	$ 375,149
Deutsche Telekom International Finance B.V., 1.5%, 4/03/2028	EUR 200,000	223,762
Telefonica Celular del Paraguay S.A., 6.75%, 12/13/2022	$ 517,000	522,113
Zayo Group LLC/Zayo Capital, Inc., 6.375%, 5/15/2025	815,000	799,719
Zayo Group LLC/Zayo Capital, Inc., 5.75%, 1/15/2027 (n)	1,285,000	1,227,175
		$ 3,147,918
Oil Services - 0.7%		
Apergy Corp., 6.375%, 5/01/2026 (n)	$ 990,000	$ 980,100
Diamond Offshore Drill Co., 7.875%, 8/15/2025	440,000	392,700
Diamond Offshore Drill Co., 5.7%, 10/15/2039	945,000	604,800
Schlumberger Ltd., 2.65%, 11/20/2022 (n)	310,000	297,968
Shelf Drill Holdings Ltd., 8.25%, 2/15/2025	376,000	352,500
		$ 2,628,068
Oils - 1.0%		
Marathon Petroleum Corp., 4.75%, 9/15/2044	$ 200,000	$ 177,818
Neste Oyj, 1.5%, 6/07/2024	EUR 200,000	229,296
Parkland Fuel Corp., 6%, 4/01/2026 (n)	$ 1,880,000	1,823,600
Phillips 66, 4.875%, 11/15/2044	150,000	141,996
Thaioil Treasury Center Co. Ltd., 5.375%, 11/20/2048 (n)	1,514,000	1,460,333
		$ 3,833,043
Other Banks & Diversified Financials - 0.9%		
Bangkok Bank (Hong Kong), 4.05%, 3/19/2024 (n)	$ 720,000	$ 717,496
Belfius Bank S.A., 3.125%, 5/11/2026	EUR 200,000	230,978
BPCE S.A., 0.625%, 9/26/2023	100,000	112,641
BPCE S.A., 5.25%, 4/16/2029	GBP 100,000	141,935
Citizens Bank N.A., 2.55%, 5/13/2021	$ 250,000	243,050
Deutsche Bank AG, 1.875%, 2/28/2020	GBP 200,000	250,401
Intesa Sanpaolo S.p.A., 5.25%, 1/28/2022	100,000	132,852
Intesa Sanpaolo S.p.A., 2.125%, 8/30/2023	EUR 200,000	223,259
JSC Kazkommertsbank, 5.5%, 12/21/2022	$ 1,139,000	1,128,749
KBC Group N.V., 0.875%, 6/27/2023	EUR 100,000	112,832
Macquarie Group Ltd., 1.25% to 3/05/2024, FLR (EURIBOR - 3mo. + 0.83%) to 3/05/2025	100,000	109,059
		$ 3,403,252
Pharmaceuticals - 0.8%		
Allergan Funding SCS, 2.625%, 11/15/2028	EUR 130,000	$ 147,174
Bayer Capital Corp. B.V., 1.5%, 6/26/2026	200,000	222,056
Endo Finance LLC/Endo Finco, Inc., 5.375%, 1/15/2023 (z)	225,000	185,063

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
Pharmaceuticals - continued			
Mallinckrodt International Finance S.A., 5.75%, 8/01/2022 (n)	$	710,000	$ 647,165
Takeda Pharmaceutical Co. Ltd., 1.125%, 11/21/2022 (z)	EUR	160,000	181,925
Takeda Pharmaceutical Co. Ltd., 2.25%, 11/21/2026 (z)		100,000	114,085
Valeant Pharmaceuticals International, Inc., 5.5%, 3/01/2023 (n)	$	890,000	859,962
Valeant Pharmaceuticals International, Inc., 6.125%, 4/15/2025 (n)		705,000	661,784
			$ 3,019,214
Pollution Control - 0.1%			
Republic Services, Inc., 3.95%, 5/15/2028	$	242,000	$ 238,339
Precious Metals & Minerals - 0.3%			
Teck Resources Ltd., 6%, 8/15/2040	$	130,000	$ 125,450
Teck Resources Ltd., 6.25%, 7/15/2041		930,000	917,213
			$ 1,042,663
Printing & Publishing - 0.2%			
Nielsen Co. Lux S.A.R.L., 5%, 2/01/2025 (n)	$	95,000	$ 92,625
Nielsen Finance LLC, 5%, 4/15/2022 (n)		734,000	717,779
			$ 810,404
Real Estate - Apartment - 0.1%			
Grand City Properties S.A., 1.375%, 8/03/2026	EUR	300,000	$ 315,905
Real Estate - Healthcare - 0.7%			
MPT Operating Partnership LP/MPT Financial Co., REIT, 5.25%, 8/01/2026	$	1,470,000	$ 1,429,575
MPT Operating Partnership LP/MPT Financial Co., REIT, 5%, 10/15/2027		1,460,000	1,387,000
			$ 2,816,575
Real Estate - Office - 0.1%			
Boston Properties, Inc., REIT, 3.125%, 9/01/2023	$	250,000	$ 240,024
Merlin Properties SOCIMI S.A., REIT, 2.225%, 4/25/2023	EUR	150,000	175,460
Merlin Properties SOCIMI S.A., REIT, 1.875%, 11/02/2026		150,000	162,890
			$ 578,374
Restaurants - 0.4%			
Golden Nugget, Inc., 6.75%, 10/15/2024 (n)	$	465,000	$ 456,863
KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, 5.25%, 6/01/2026 (n)		1,125,000	1,103,197
			$ 1,560,060

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
Retailers - 0.7%			
Best Buy Co., Inc., 5.5%, 3/15/2021	$	347,000	$ 360,280
DriveTime Automotive Group, Inc./DT Acceptance Corp., 8%, 6/01/2021 (n)		485,000	489,850
Hanesbrands, Inc., 4.625%, 5/15/2024 (n)		300,000	288,750
Hanesbrands, Inc., 4.875%, 5/15/2026 (n)		1,525,000	1,433,500
Home Depot, Inc., 3%, 4/01/2026		310,000	294,361
			$ 2,866,741
Specialty Stores - 0.2%			
Penske Automotive Group Co., 5.375%, 12/01/2024	$	185,000	$ 175,519
Penske Automotive Group Co., 5.5%, 5/15/2026		515,000	476,375
Richemont International S.A., 1.5%, 3/26/2030	EUR	100,000	111,868
			$ 763,762
Supermarkets - 0.7%			
Albertsons Cos. LLC/Safeway Co., 6.625%, 6/15/2024	$	960,000	$ 925,200
Esselunga S.p.A., 0.875%, 10/25/2023	EUR	150,000	167,665
Eurotorg LLC Via Bonitron DAC, 8.75%, 10/30/2022	$	1,553,000	1,529,954
Loblaw Cos. Ltd., 4.86%, 9/12/2023	CAD	262,000	205,995
			$ 2,828,814
Supranational - 0.1%			
International Bank for Reconstruction and Development, 2.8%, 1/13/2021	AUD	170,000	$ 125,378
International Bank for Reconstruction and Development, 4.25%, 6/24/2025		210,000	166,423
International Finance Corp., 3.25%, 7/22/2019		305,000	224,428
			$ 516,229
Telecommunications - Wireless - 3.5%			
Altice France S.A., 6.25%, 5/15/2024 (n)	$	385,000	$ 372,488
Altice France S.A., 8.125%, 2/01/2027 (n)		675,000	661,500
Altice Luxembourg S.A., 7.75%, 5/15/2022 (n)		665,000	633,413
Altice Luxembourg S.A., 7.625%, 2/15/2025 (n)		635,000	514,350
American Tower Corp., REIT, 3.5%, 1/31/2023		465,000	453,100
American Tower Corp., REIT, 1.95%, 5/22/2026	EUR	120,000	136,232
Crown Castle International Corp., 3.7%, 6/15/2026	$	157,000	148,126
Digicel Group Ltd., 6.75%, 3/01/2023 (n)		1,150,000	925,750
Millicom International Cellular S.A., 5.125%, 1/15/2028		1,554,000	1,371,405
SBA Communications Corp., 4%, 10/01/2022		1,190,000	1,148,350
SBA Communications Corp., 4.875%, 9/01/2024		770,000	747,015
SBA Tower Trust, 2.898%, 10/15/2044 (n)		220,000	219,128
SFR Group S.A., 7.375%, 5/01/2026 (n)		340,000	326,400
Sprint Corp., 7.875%, 9/15/2023		1,065,000	1,120,593

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Portfolio of Investments   continued

Issuer		Shares/Par	Value ($)
Bonds - continued			
Telecommunications - Wireless - continued			
Sprint Corp., 7.125%, 6/15/2024	$	1,240,000	$ 1,258,600
Sprint Nextel Corp., 6%, 11/15/2022		975,000	974,610
T-Mobile USA, Inc., 6.5%, 1/15/2024		615,000	633,450
T-Mobile USA, Inc., 5.125%, 4/15/2025		815,000	808,887
T-Mobile USA, Inc., 6.5%, 1/15/2026		700,000	726,250
T-Mobile USA, Inc., 5.375%, 4/15/2027		695,000	675,888
			$ 13,855,535
Telephone Services - 0.4%			
Level 3 Financing, Inc., 5.375%, 1/15/2024	$	390,000	$ 382,781
Level 3 Financing, Inc., 5.375%, 5/01/2025		1,215,000	1,183,106
TELUS Corp., 5.05%, 7/23/2020	CAD	265,000	206,033
			$ 1,771,920
Tobacco - 0.0%			
Imperial Brands Finance PLC, 1.375%, 1/27/2025	EUR	150,000	$ 163,055
Transportation - Services - 0.8%			
Autostrade per l Italia S.p.A., 6.25%, 6/09/2022	GBP	100,000	$ 133,816
Compagnie Financial et Indus Unternehmensanleihe, 0.75%, 9/09/2028	EUR	200,000	211,953
ERAC USA Finance LLC, 7%, 10/15/2037 (n)	$	250,000	306,918
Heathrow Funding Ltd., 1.875%, 7/12/2032	EUR	150,000	163,830
Heathrow Funding Ltd., 4.625%, 10/31/2046	GBP	100,000	145,572
Navios South American Logistics, Inc./Navios Logistics Finance (U.S.), Inc., 7.25%, 5/01/2022	$	1,790,000	1,633,375
Syncreon Group BV/Syncre, 8.625%, 11/01/2021 (n)		470,000	399,500
Transurban Finance Co., 1.75%, 3/29/2028	EUR	200,000	221,601
			$ 3,216,565
U.S. Treasury Obligations - 19.1%			
U.S. Treasury Bonds, 3.5%, 2/15/2039	$	462,000	$ 482,591
U.S. Treasury Bonds, 3.125%, 2/15/2043 (f)		1,345,200	1,304,266
U.S. Treasury Bonds, 3.625%, 2/15/2044		305,000	321,346
U.S. Treasury Bonds, 3%, 5/15/2047		16,328,000	15,380,211
U.S. Treasury Notes, 2.75%, 9/30/2020		1,900,000	1,897,477
U.S. Treasury Notes, 2.625%, 11/15/2020		14,000,000	13,946,406
U.S. Treasury Notes, 2.625%, 7/15/2021		11,981,000	11,918,755
U.S. Treasury Notes, 2.375%, 8/15/2024		1,041,900	1,013,166
U.S. Treasury Notes, 2.125%, 9/30/2024		2,114,000	2,026,550
U.S. Treasury Notes, 2.25%, 11/15/2025		1,560,000	1,492,847
U.S. Treasury Notes, 2%, 11/15/2026		13,120,000	12,222,100
U.S. Treasury Notes, 2.75%, 2/15/2028		10,548,000	10,329,624

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
U.S. Treasury Obligations - continued		
U.S. Treasury Notes, 2.875%, 5/15/2028	$ 3,300,000	$ 3,262,488
		$ 75,597,827
Utilities - Electric Power - 2.5%		
Clearway Energy Operating LLC, 5.75%, 10/15/2025 (n)	$ 1,280,000	$ 1,232,000
Covanta Holding Corp., 5.875%, 3/01/2024	995,000	958,931
Covanta Holding Corp., 5.875%, 7/01/2025	715,000	672,994
Covanta Holding Corp., 6%, 1/01/2027	1,010,000	939,300
Drax Finco PLC, 6.625%, 11/01/2025 (n)	750,000	736,875
Duke Energy Florida LLC, 3.2%, 1/15/2027	310,000	295,012
EDP Finance B.V., 5.25%, 1/14/2021 (n)	200,000	204,104
Emera U.S. Finance LP, 2.7%, 6/15/2021	98,000	94,933
Emera U.S. Finance LP, 3.55%, 6/15/2026	112,000	104,631
Enel Finance International N.V., 1.125%, 9/16/2026	EUR 200,000	210,710
Enel Finance International N.V., 3.5%, 4/06/2028 (z)	$ 200,000	167,288
Exelon Corp., 3.497%, 6/01/2022	151,000	146,411
Greenko Dutch B.V., 5.25%, 7/24/2024	877,000	783,775
Innogy Finance B.V., 1.625%, 5/30/2026	EUR 170,000	195,923
Innogy Finance B.V., 4.75%, 1/31/2034	GBP 100,000	144,450
NextEra Energy Capital Holdings, Inc., 3.55%, 5/01/2027	$ 377,000	355,522
NextEra Energy Operating Co., 4.25%, 9/15/2024 (n)	1,110,000	1,046,175
Pattern Energy Group, Inc., 5.875%, 2/01/2024 (n)	33,000	32,092
PPL WEM Holdings PLC, 5.375%, 5/01/2021 (n)	250,000	257,612
Star Energy Geothermal (Wayang Windu) Ltd., 6.75%, 4/24/2033 (n)	888,632	794,965
Virginia Electric & Power Co., 3.5%, 3/15/2027	475,000	458,014
		$ 9,831,717
Total Bonds (Identified Cost, $496,661,194)		**$ 478,109,278**
Common Stocks - 0.2%		
Energy - Independent - 0.1%		
Frontera Energy Corp. (a)	16,354	$ 159,723
Oil Services - 0.1%		
LTRI Holdings LP (a)(u)	615	$ 546,993
Total Common Stocks (Identified Cost, $1,645,971)		**$ 706,716**
Floating Rate Loans (r) - 0.2%		
Consumer Products - 0.0%		
Spectrum Brands, Inc., Term Loan B, 4.425%, 6/23/2022	$ 127,929	$ 126,356

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Portfolio of Investments continued

Issuer	Strike Price	First Exercise	Shares/Par	Value ($)
Floating Rate Loans (r) - continued				
Medical & Health Technology & Services - 0.2%				
DaVita, Inc., Term Loan B, 5.094%, 6/24/2021			$ 550,224	$ 548,259
Total Floating Rate Loans (Identified Cost, $677,207)				**$ 674,615**
Warrants - 0.0%				
Forest & Paper Products - 0.0%				
Appvion Holdings Corp. - Tranche A (1 share for 1 warrant) (a)	$ 27.17	8/24/18	274	$ 2,466
Appvion Holdings Corp. - Tranche B (1 share for 1 warrant) (a)	31.25	8/24/18	274	2,055
Total Warrants (Identified Cost, $0)				**$ 4,521**
Investment Companies (h) - 2.9%				
Money Market Funds - 2.9%				
MFS Institutional Money Market Portfolio, 2.31% (v) (Identified Cost, $11,622,801)			11,623,832	$ 11,623,832
Other Assets, Less Liabilities - (23.9)%				(94,667,660)
Net Assets - 100.0%				**$ 396,451,302**

(a) Non-income producing security.
(d) In default.
(f) All or a portion of the security has been segregated as collateral for open futures contracts.
(h) An affiliated issuer, which may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. At period end, the aggregate values of the fund s investments in affiliated issuers and in unaffiliated issuers were $11,623,832 and $479,495,130, respectively.
(i) Interest only security for which the fund receives interest on notional principal (Par amount). Par amount shown is the notional principal and does not reflect the cost of the security.
(n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was $164,492,512, representing 41.5% of net assets.
(p) Payment-in-kind (PIK) security for which interest income may be received in additional securities and/or cash.
(r) The remaining maturities of floating rate loans may be less than the stated maturities shown as a result of contractual or optional prepayments by the borrower. Such prepayments cannot be predicted with certainty. These loans may be subject to restrictions on resale. The interest rate shown represents the weighted average of the floating interest rates on settled contracts within the loan facility at period end, unless otherwise indicated. The floating interest rates on settled contracts are determined periodically by reference to a base lending rate and a spread.
(u) The security was valued using significant unobservable inputs and is considered level 3 under the fair value hierarchy. For further information about the fund s level 3 holdings, please see Note 2 in the Notes to Financial Statements.

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Portfolio of Investments continued

(v) Affiliated issuer that is available only to investment companies managed by MFS. The rate quoted for the MFS Institutional Money Market Portfolio is the annualized seven-day yield of the fund at period end.
(z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

Restricted Securities	Acquisition Date	Cost	Value
Afren PLC, 10.25%, 4/08/2019	3/01/12-4/02/13	$478,722	$163
ARD Securities Finance, 8.75%, (8.75% cash or 8.75% PIK) 1/31/2023	9/20/18-9/25/18	401,195	331,031
Bayview Financial Revolving Mortgage Loan Trust, FLR, 3.936% (LIBOR - 1mo. + 1.6%), 12/28/2040	3/01/06	362,844	335,025
CSC Holdings LLC, 5.5%, 5/15/2026	1/13/17-7/19/17	729,090	682,748
CSC Holdings LLC, 7.5%, 4/01/2028	6/07/18-6/13/18	510,993	515,600
Dryden Senior Loan Fund, 2013-26A, AR , CLO, FLR, 3.336% (LIBOR - 3mo. + 0.9%), 4/15/2029	4/09/18	592,000	587,769
Endo Finance LLC/Endo Finco, Inc., 5.375%, 1/15/2023	11/28/18-11/29/18	185,899	185,063
Enel Finance International N.V., 3.5%, 4/06/2028	10/02/18	175,792	167,288
HarbourView CLO VII Ltd., 7RA, B , FLR, 4.145% (LIBOR - 3mo. + 1.7%), 7/18/2031	5/17/18	940,000	930,408
Kref Ltd., 2018-FL1, A , 3.402% (LIBOR - 1mo. + 1.1%), 6/15/2036	11/07/18	385,000	384,980
Marriot Ownership Resorts, Inc., 5.625%, 4/15/2023	8/30/18	875,591	863,475
Regional Care/LifePoint Health, Inc., 9.75%, 12/01/2026	11/14/18	450,000	448,313
Takeda Pharmaceutical Co. Ltd., 1.125%, 11/21/2022	11/15/18	180,637	181,925
Takeda Pharmaceutical Co. Ltd., 2.25%, 11/21/2026	11/15/18	113,179	114,085
Total Restricted Securities			$5,727,873
% of Net assets			1.4%

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

AGM	Assured Guaranty Municipal
CDO	Collateralized Debt Obligation
CJSC	Closed Joint Stock Company
CLO	Collateralized Loan Obligation
EURIBOR	Euro Interbank Offered Rate
FLR	Floating Rate. Interest rate resets periodically based on the parenthetically disclosed reference rate plus a spread (if any). The period-end rate reported may not be the current rate. All reference rates are USD unless otherwise noted.
JSC	Joint Stock Company
LIBOR	London Interbank Offered Rate
PLC	Public Limited Company
REIT	Real Estate Investment Trust

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Portfolio of Investments continued

Abbreviations 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
CAD	Canadian Dollar
CHF	Swiss Franc
DKK	Danish Krone
EUR	Euro
GBP	British Pound
HKD	Hong Kong Dollar
IDR	Indonesian Rupiah
JPY	Japanese Yen
KRW	South Korean Won
MXN	Mexican Peso
NOK	Norwegian Krone
NZD	New Zealand Dollar
PHP	Philippine Peso
SEK	Swedish Krona
SGD	Singapore Dollar
TRY	Turkish Lira
ZAR	South African Rand

Derivative Contracts at 11/30/18

Forward Foreign Currency Exchange Contracts

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
Asset Derivatives						
AUD	2,207,685	USD	1,606,849	Citibank N.A.	1/11/2019	$7,804
AUD	3,149,313	USD	2,295,049	Deutsche Bank AG	1/11/2019	8,289
AUD	1,193,298	USD	850,866	JPMorgan Chase Bank N.A.	1/11/2019	21,886
AUD	2,822,294	USD	2,036,081	UBS AG	1/11/2019	28,083
EUR	2,720,000	USD	3,087,780	Goldman Sachs International	1/11/2019	3,354
EUR	408,747	USD	464,111	JPMorgan Chase Bank N.A.	1/11/2019	408
HKD	7,441,000	USD	951,643	Brown Brothers Harriman	1/11/2019	433
HKD	7,973,000	USD	1,018,803	Citibank N.A.	1/11/2019	1,342
KRW	18,240,500	USD	16,135	JPMorgan Chase Bank N.A.	1/15/2019	162
NZD	1,523,000	USD	1,000,830	Goldman Sachs International	1/11/2019	46,725
NZD	166,430	USD	108,981	NatWest Markets PLC	1/11/2019	5,494
PHP	105,000,000	USD	1,989,767	JPMorgan Chase Bank N.A.	1/22/2019	6,712
SGD	2,142	USD	1,559	JPMorgan Chase Bank N.A.	1/11/2019	3
TRY	9,715,000	USD	1,593,198	BNP Paribas S.A.	1/11/2019	229,483
TRY	2,300,000	USD	390,247	UBS AG	1/11/2019	41,267
ZAR	6,175,988	USD	438,351	Goldman Sachs International	1/11/2019	5,266
ZAR	27,655,960	USD	1,968,536	JPMorgan Chase Bank N.A.	1/11/2019	17,973
USD	1,664,627	AUD	2,273,004	Goldman Sachs International	1/11/2019	2,202
USD	126,434	CAD	164,000	Citibank N.A.	1/11/2019	2,866
USD	717,919	CAD	934,779	Citibank N.A.	1/14/2019	13,554
USD	997,801	CAD	1,314,000	Deutsche Bank AG	1/11/2019	7,746
USD	2,092,552	CAD	2,757,339	JPMorgan Chase Bank N.A.	1/11/2019	14,992

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Portfolio of Investments continued

Forward Foreign Currency Exchange Contracts - continued

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
Asset Derivatives continued						
USD	9,586,342	CAD	12,471,352	Merrill Lynch International	1/11/2019	$189,603
USD	2,288,718	CAD	3,015,114	UBS AG	1/11/2019	16,933
USD	116,872	EUR	101,939	Brown Brothers Harriman	1/11/2019	1,024
USD	523,368	EUR	457,357	Citibank N.A.	1/11/2019	3,605
USD	2,845,283	EUR	2,472,820	Deutsche Bank AG	1/11/2019	35,056
USD	52,148,120	EUR	44,636,678	Goldman Sachs International	1/11/2019	1,420,945
USD	2,758,896	EUR	2,374,851	Goldman Sachs International	1/14/2019	59,337
USD	3,948,275	EUR	3,416,281	JPMorgan Chase Bank N.A.	1/11/2019	65,857
USD	1,671,886	EUR	1,445,426	UBS AG	1/11/2019	29,238
USD	606,040	GBP	462,490	Citibank N.A.	1/11/2019	15,327
USD	11,467,346	GBP	8,676,504	Deutsche Bank AG	1/11/2019	385,347
USD	39,809	JPY	4,461,000	Goldman Sachs International	1/11/2019	357
USD	9,744,972	JPY	1,083,850,442	JPMorgan Chase Bank N.A.	1/11/2019	159,835
USD	21,466	MXN	408,735	Goldman Sachs International	1/11/2019	1,500
USD	4,209,964	NOK	35,336,078	Goldman Sachs International	1/11/2019	90,858
						$2,940,866
Liability Derivatives						
AUD	2,900,000	USD	2,121,784	Merrill Lynch International	1/11/2019	$(788)
CAD	524,000	USD	400,599	Brown Brothers Harriman	1/11/2019	(5,783)
CAD	2,090,364	USD	1,609,359	JPMorgan Chase Bank N.A.	1/11/2019	(34,341)
CHF	11,082	USD	11,343	Goldman Sachs International	1/11/2019	(201)
DKK	31,438	USD	4,926	Citibank N.A.	1/11/2019	(138)
EUR	4,048,258	USD	4,663,942	Brown Brothers Harriman	1/11/2019	(63,315)
EUR	903,578	USD	1,040,115	Citibank N.A.	1/11/2019	(13,248)
EUR	306,606	USD	357,187	Deutsche Bank AG	1/11/2019	(8,746)
EUR	1,013,000	USD	1,163,375	JPMorgan Chase Bank N.A.	1/11/2019	(12,156)
EUR	1,127,320	USD	1,300,592	UBS AG	1/11/2019	(19,453)
GBP	255,149	USD	337,100	Brown Brothers Harriman	1/11/2019	(11,213)
GBP	1,111,000	USD	1,433,801	Citibank N.A.	1/11/2019	(14,784)
GBP	990,000	USD	1,288,250	Goldman Sachs International	1/11/2019	(23,780)
GBP	539,000	USD	701,338	UBS AG	1/11/2019	(12,904)
JPY	222,212,000	USD	1,985,431	Merrill Lynch International	1/11/2019	(20,277)
JPY	186,544,602	USD	1,674,546	UBS AG	1/11/2019	(24,821)
NOK	842,000	USD	99,391	Brown Brothers Harriman	1/11/2019	(1,240)
NOK	49,585,912	USD	6,091,263	Goldman Sachs International	1/11/2019	(311,061)
SEK	9,048,000	USD	998,257	Deutsche Bank AG	1/11/2019	(372)
SEK	17,869,000	USD	2,012,053	Merrill Lynch International	1/11/2019	(41,318)
USD	7,340,412	AUD	10,272,489	Deutsche Bank AG	1/11/2019	(172,662)
USD	59,218	AUD	83,000	Goldman Sachs International	1/11/2019	(1,486)
USD	1,907,505	AUD	2,675,160	JPMorgan Chase Bank N.A.	1/11/2019	(49,049)
USD	1,979,753	CAD	2,631,000	Merrill Lynch International	1/11/2019	(2,616)

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Portfolio of Investments — continued

Forward Foreign Currency Exchange Contracts - continued

Currency Purchased		Currency Sold		Counterparty	Settlement Date	Unrealized Appreciation (Depreciation)
Liability Derivatives — continued						
USD	471,328	CAD	625,979	UBS AG	1/11/2019	$(326)
USD	392,230	EUR	346,000	Citibank N.A.	1/11/2019	(981)
USD	107,570	EUR	94,945	Goldman Sachs International	1/11/2019	(330)
USD	1,952,859	HKD	15,267,000	UBS AG	1/11/2019	(553)
USD	435,543	JPY	49,273,956	Citibank N.A.	1/11/2019	(216)
USD	2,170,581	NOK	18,641,093	JPMorgan Chase Bank N.A.	1/11/2019	(2,400)
USD	1,131,785	NZD	1,650,000	Citibank N.A.	1/11/2019	(3,124)
USD	1,467,486	NZD	2,157,000	Goldman Sachs International	1/11/2019	(16,150)
USD	980,380	SEK	8,900,000	Citibank N.A.	1/11/2019	(1,182)
USD	779,260	ZAR	11,382,266	Deutsche Bank AG	1/11/2019	(38,321)
USD	1,476,315	ZAR	21,757,000	JPMorgan Chase Bank N.A.	1/11/2019	(86,475)
						$(995,810)

Futures Contracts

Description	Long/ Short	Currency	Contracts	Notional Amount	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
Asset Derivatives						
Interest Rate Futures						
German Euro-Buxl 30 yr	Long	EUR	2	$404,386	December - 2018	$4,614
U.S. Treasury Note 2 yr	Long	USD	37	7,806,422	March - 2019	3,698
U.S. Treasury Note 5 yr	Long	USD	7	790,727	March - 2019	1,452
U.S. Treasury Ultra Bond	Long	USD	32	4,877,000	March - 2019	6,131
						$15,895
Liability Derivatives						
Interest Rate Futures						
German Euro-Bobl 5 yr	Short	EUR	160	$23,904,523	December - 2018	$(196,253)
German Euro-Bund 10 yr	Short	EUR	56	10,241,251	December - 2018	(146,748)
Long Gilt 10 yr	Short	GBP	3	468,822	March - 2019	(1,692)
U.S. Treasury Note 10 yr	Short	USD	487	58,173,672	March - 2019	(222,370)
U.S. Treasury Ultra Note 10 yr	Short	USD	47	5,945,500	March - 2019	(28,444)
U.S. Treasury Ultra Bond 30 yr	Short	USD	1	139,906	March - 2019	(689)
						$(596,196)

At November 30, 2018, the fund had liquid securities with an aggregate value of $926,909 to cover any collateral or margin obligations for certain derivative contracts.

See Notes to Financial Statements

Financial Statements

STATEMENT OF ASSETS AND LIABILITIES

At 11/30/18

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

Assets	
Investments in unaffiliated issuers, at value (identified cost, $498,984,372)	$479,495,130
Investments in affiliated issuers, at value (identified cost, $11,622,801)	11,623,832
Cash	2,466
Foreign currency, at value (identified cost, $773,610)	762,965
Receivables for	
Forward foreign currency exchange contracts	2,940,866
Investments sold	3,199,300
Interest	5,312,663
Other assets	3,751
Total assets	$503,340,973
Liabilities	
Notes payable	$100,000,000
Payables for	
Distributions	172,687
Forward foreign currency exchange contracts	995,810
Daily variation margin on open futures contracts	78,556
Investments purchased	5,028,022
Capital shares reacquired	215,009
Payable to affiliates	
Investment adviser	12,654
Transfer agent and dividend disbursing costs	1,329
Payable for independent Trustees compensation	10,206
Accrued interest expense	231,437
Accrued expenses and other liabilities	143,961
Total liabilities	$106,889,671
Net assets	$396,451,302
Net assets consist of	
Paid-in capital	$437,935,660
Total distributable earnings (loss)	(41,484,358)
Net assets	$396,451,302
Shares of beneficial interest outstanding (47,166,834 shares authorized less 176,928 capital shares to be retired)	46,989,906
Net asset value per share (net assets of $396,451,302 / 46,989,906 shares of beneficial interest outstanding)	$8.44

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Financial Statements

STATEMENT OF OPERATIONS

Year ended 11/30/18

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

Net investment income (loss)	
Income	
Interest	$22,269,023
Dividends from affiliated issuers	159,777
Other	39,261
Foreign taxes withheld	(8,335)
Total investment income	$22,459,726
Expenses	
Management fee	$2,359,724
Transfer agent and dividend disbursing costs	58,303
Administrative services fee	71,692
Independent Trustees compensation	60,447
Stock exchange fee	48,055
Custodian fee	55,958
Shareholder communications	166,457
Audit and tax fees	81,748
Legal fees	17,468
Interest expense and fees	2,414,463
Miscellaneous	63,743
Total expenses	$5,398,058
Net investment income (loss)	$17,061,668
Realized and unrealized gain (loss)	
Realized gain (loss) (identified cost basis)	
Unaffiliated issuers	$(5,175,869)
Affiliated issuers	1,125
Futures contracts	2,010,026
Forward foreign currency exchange contracts	3,510,203
Foreign currency	27,949
Net realized gain (loss)	$373,434
Change in unrealized appreciation or depreciation	
Unaffiliated issuers	$(25,501,352)
Affiliated issuers	1,169
Futures contracts	(959,586)
Forward foreign currency exchange contracts	1,717,144
Translation of assets and liabilities in foreign currencies	(27,359)
Net unrealized gain (loss)	$(24,769,984)
Net realized and unrealized gain (loss)	$(24,396,550)
Change in net assets from operations	$(7,334,882)

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STATEMENTS OF CHANGES IN NET ASSETS

These statements describe the increases and/or decreases in net assets resulting from operations, any distributions, and any shareholder transactions.

	Year ended	
	11/30/18	**11/30/17**
Change in net assets		
From operations		
Net investment income (loss)	$17,061,668	$19,512,041
Net realized gain (loss)	373,434	3,230,744
Net unrealized gain (loss)	(24,769,984)	13,229,301
Change in net assets from operations	$(7,334,882)	$35,972,086
Distributions to shareholders (a)	$(21,051,651)	$(16,248,537)
Tax return of capital distributions to shareholders	$(13,356,181)	$(21,298,942)
Change in net assets from fund share transactions	$(18,396,721)	$(18,955,628)
Total change in net assets	$(60,139,435)	$(20,531,021)
Net assets		
At beginning of period	456,590,737	477,121,758
At end of period (b)	$396,451,302	$456,590,737

(a) Distributions from net investment income and from net realized gain are no longer required to be separately disclosed. See Note 2. For the year ended November 30, 2017, distributions from net investment income were $16,248,537.

(b) Parenthetical disclosure of accumulated distributions in excess of net investment income is no longer required. See Note 2. For the year ended November 30, 2017, end of period net assets included accumulated distributions in excess of net investment income of $2,325,135.

See Notes to Financial Statements

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Financial Statements

STATEMENT OF CASH FLOWS

Year ended 11/30/18

This statement provides a summary of cash flows from investment activity for the fund.

Cash flows from operating activities:	
Change in net assets from operations	$(7,334,882)
Adjustments to reconcile change in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(523,207,989)
Proceeds from disposition of investment securities	559,347,635
Purchases of short-term investments, net	(5,818,603)
Realized gain/loss on investments	5,175,869
Unrealized appreciation/depreciation on investments	25,500,183
Unrealized appreciation/depreciation on foreign currency contracts	(1,717,144)
Net amortization/accretion of income	1,059,592
Decrease in interest receivable	579,925
Decrease in accrued expenses and other liabilities	(23,422)
Decrease in receivable for daily variation margin on open futures contracts	215,223
Increase in payable for daily variation margin on open futures contracts	78,556
Decrease in other assets	176
Increase in interest payable	80,323
Net cash provided by operating activities	$53,935,442
Cash flows from financing activities:	
Distributions paid in cash	(34,430,360)
Repurchase of shares of beneficial interest	(19,580,756)
Net cash used by financing activities	$(54,011,116)
Net decrease in cash	$(75,674)
Cash:	
Beginning of period (including foreign currency of $5,356)	$841,105
End of period (including foreign currency of $762,965)	$765,431
Supplemental disclosure of cash flow information:	

Cash paid during the year ended November 30, 2018 for interest was $2,334,140.

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Financial Statements

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the fund s financial performance for the past 5 years. Certain information reflects financial results for a single fund share. The total returns in the table represent the rate that an investor would have earned (or lost) on an investment in the fund share class (assuming reinvestment of all distributions) held for the entire period.

			Year ended		
	11/30/18	**11/30/17**	**11/30/16**	**11/30/15**	**11/30/14**
Net asset value, beginning of period	$9.26	$9.26	$9.20	$10.17	$10.17
Income (loss) from investment operations					
Net investment income (loss) (d)	$0.35	$0.39	$0.46(c)	$0.49	$0.52
Net realized and unrealized gain (loss)	(0.50)	0.33	0.32	(0.68)	0.04
Total from investment operations	$(0.15)	$0.72	$0.78	$(0.19)	$0.56
Less distributions declared to shareholders					
From net investment income	$(0.43)	$(0.32)	$(0.50)	$(0.81)	$(0.58)
From tax return of capital	(0.28)	(0.43)	(0.24)		
Total distributions declared to shareholders	$(0.71)	$(0.75)	$(0.74)	$(0.81)	$(0.58)
Net increase from repurchase of capital shares	$0.04	$0.03	$0.02	$0.03	$0.02
Net asset value, end of period (x)	$8.44	$9.26	$9.26	$9.20	$10.17
Market value, end of period	$7.41	$8.40	$8.35	$7.92	$8.81
Total return at market value (%)	(3.56)	9.67	15.19	(1.28)	4.68
Total return at net asset value (%) (j)(r)(s)(x)	(0.36)	9.02	9.97(c)	(0.66)	6.58
Ratios (%) (to average net assets) **and Supplemental data:**					
Expenses before expense reductions (f)	1.26	1.05	0.99(c)	0.90	0.87
Expenses after expense reductions (f)	N/A	N/A	N/A	N/A	0.87
Net investment income (loss)	4.00	4.16	5.01(c)	5.01	5.09
Portfolio turnover	96	52	43	37	44
Net assets at end of period (000 omitted)	$396,451	$456,591	$477,122	$484,037	$548,530
Supplemental Ratios (%):					
Ratios of expenses to average net assets after expense reductions and excluding interest expense and fees (f)	0.70	0.71	0.73(c)	0.73	0.72
Senior Securities:					
Total notes payable outstanding (000 omitted)	$100,000	$100,000	$100,000	$100,000	$100,000
Asset coverage per $1,000 of indebtedness (k)	$4,965	$5,566	$5,771	$5,840	$6,485

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Financial Highlights continued

(c) Amount reflects a one-time reimbursement of expenses by the custodian (or former custodian) without which net investment income and performance would be lower and expenses would be higher.
(d) Per share data is based on average shares outstanding.
(f) Ratios do not reflect reductions from fees paid indirectly, if applicable.
(j) Total return at net asset value is calculated using the net asset value of the fund, not the publicly traded price and therefore may be different than the total return at market value.
(k) Calculated by subtracting the fund s total liabilities (not including notes payable) from the fund s total assets and dividing this number by the notes payable outstanding and then multiplying by 1,000.
(r) Certain expenses have been reduced without which performance would have been lower.
(s) From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.
(x) The net asset values and total returns at net asset value have been calculated on net assets which include adjustments made in accordance with U.S. generally accepted accounting principles required at period end for financial reporting purposes.

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NOTES TO FINANCIAL STATEMENTS

(1) Business and Organization

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

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

(2) Significant Accounting Policies

General The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates. In the preparation of these financial statements, management has evaluated subsequent events occurring after the date of the fund s Statement of Assets and Liabilities through the date that the financial statements were issued. The fund invests in high-yield securities rated below investment grade. Investments in below investment grade quality securities can involve a substantially greater risk of default or can already be in default, and their values can decline significantly. Below investment grade quality securities tend to be more sensitive to adverse news about the issuer, or the market or economy in general, than higher quality debt instruments. The fund invests 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 market, economic, industrial, political, regulatory, geopolitical, and other conditions. Investments in emerging markets can involve additional and greater risks than the risks associated with investments in developed foreign markets. Emerging markets can have less developed markets, greater custody and operational risk, less developed legal, regulatory, and accounting systems, and greater political, social, and economic instability than developed markets.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash (ASU 2016-18). For entities that have restricted cash and are required to present a statement of cash flows, ASU 2016-18 changes the cash flow presentation for restricted cash. Management has evaluated the potential impacts of ASU 2016-18 and expects that the effects of the fund s adoption will be limited to the reclassification of restricted cash on the fund s Statement of Cash Flows and the addition of disclosures regarding the nature of the restrictions on restricted cash. ASU 2016-18 will be effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods.

In March 2017, the FASB issued Accounting Standards Update 2017-08, Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08). For entities that hold callable debt securities at a premium, ASU 2017-08 requires that the premium be amortized to

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the earliest call date. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management has evaluated the potential impacts of ASU 2017-08 and believes that adoption of ASU 2017-08 will not have a material effect on the fund s overall financial position or its overall results of operations.

In August 2018, the FASB issued Accounting Standards Update 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13) which introduces new fair value disclosure requirements as well as eliminates and modifies certain existing fair value disclosure requirements. ASU 2018-13 would be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years; however, management has elected to early adopt ASU 2018-13 effective with the current reporting period. The impact of the fund s adoption was limited to changes in the fund s financial statement disclosures regarding fair value, primarily those disclosures related to transfers between levels of the fair value hierarchy.

In August 2018, the Securities and Exchange Commission (SEC) released its Final Rule on Disclosure Update and Simplification (the Final Rule) which is intended to simplify an issuer s disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the fund adopted the Final Rule with the impacts being that the fund is no longer required to present the components of distributable earnings on the Statement of Assets and Liabilities or the sources of distributions to shareholders and the amount of undistributed net investment income on the Statements of Changes in Net Assets.

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

Investment Valuations Equity securities, including restricted equity securities, are generally valued at the last sale or official closing price on their primary market or exchange as provided by a third-party pricing service. Equity securities, for which there were no sales reported that day, are generally valued at the last quoted daily bid quotation on their primary market or exchange as provided by a third-party pricing service. Debt instruments and floating rate loans, including restricted debt instruments, are generally valued at an evaluated or composite bid as provided by a third-party pricing service. Short-term instruments with a maturity at issuance of 60 days or less may be valued at amortized cost, which approximates market value. Exchange-traded options are generally valued at the last sale or official closing price on their primary exchange as provided by a third-party pricing service. Exchange-traded options for

Notes to Financial Statements continued

which there were no sales reported that day are generally valued at the last daily bid quotation on their primary exchange as provided by a third-party pricing service. Options not traded on an exchange are generally valued at a broker/dealer bid quotation. Foreign currency options are generally valued at valuations provided by a third-party pricing service. Futures contracts are generally valued at last posted settlement price on their primary exchange as provided by a third-party pricing service. Futures contracts for which there were no trades that day for a particular position are generally valued at the closing bid quotation on their primary exchange as provided by a third-party pricing service. Forward foreign currency exchange contracts are generally valued at the mean of bid and asked prices for the time period interpolated from rates provided by a third-party pricing service for proximate time periods. Open-end investment companies are generally valued at net asset value per share. Securities and other assets generally valued on the basis of information from a third-party pricing service may also be valued at a broker/dealer bid quotation. In determining values, third-party pricing services can utilize both transaction data and market information such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, and other market data. The values of foreign securities and other assets and liabilities expressed in foreign currencies are converted to U.S. dollars using the mean of bid and asked prices for rates provided by a third-party pricing service.

The Board of Trustees has delegated primary responsibility for determining or causing to be determined the value of the fund s investments (including any fair valuation) to the adviser pursuant to valuation policies and procedures approved by the Board. If the adviser determines that reliable market quotations are not readily available, investments are valued at fair value as determined in good faith by the adviser in accordance with such procedures under the oversight of the Board of Trustees. Under the fund s valuation policies and procedures, market quotations are not considered to be readily available for most types of debt instruments and floating rate loans and many types of derivatives. These investments are generally valued at fair value based on information from third-party pricing services. In addition, investments may be valued at fair value if the adviser determines that an investment s value has been materially affected by events occurring after the close of the exchange or market on which the investment is principally traded (such as foreign exchange or market) and prior to the determination of the fund s net asset value, or after the halting of trading of a specific security where trading does not resume prior to the close of the exchange or market on which the security is principally traded. The adviser generally relies on third-party pricing services or other information (such as the correlation with price movements of similar securities in the same or other markets; the type, cost and investment characteristics of the security; the business and financial condition of the issuer; and trading and other market data) to assist in determining whether to fair value and at what value to fair value an investment. The value of an investment for purposes of calculating the fund s net asset value can differ depending on the source and method used to determine value. When fair valuation is used, the value of an investment used to determine the fund s net asset value may differ from quoted or published prices for the same investment. There can be no assurance that the fund could obtain the fair value assigned to an investment if it were to sell the investment at the same time at which the fund determines its net asset value per share.

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Various inputs are used in determining the value of the fund s assets or liabilities. These inputs are categorized into three broad levels. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fund s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser s own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments, such as futures contracts and forward foreign currency exchange contracts. The following is a summary of the levels used as of November 30, 2018 in valuing the fund s assets or liabilities:

Financial Instruments	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity Securities:				
United States	$	$4,521	$546,993	$551,514
Columbia	159,723			159,723
U.S. Treasury Bonds & U.S. Government Agency & Equivalents		75,597,827		75,597,827
Non-U.S. Sovereign Debt		100,075,144		100,075,144
Municipal Bonds		707,731		707,731
U.S. Corporate Bonds		198,667,189		198,667,189
Residential Mortgage-Backed Securities		20,393,843		20,393,843
Commercial Mortgage-Backed Securities		1,904,429		1,904,429
Asset-Backed Securities (including CDOs)		9,006,753		9,006,753
Foreign Bonds		71,756,362		71,756,362
Floating Rate Loans		674,615		674,615
Mutual Funds	11,623,832			11,623,832
Total	$11,783,555	$478,788,414	$546,993	$491,118,962
Other Financial Instruments				
Futures Contracts Assets	$15,895	$	$	$15,895
Futures Contracts Liabilities	(596,196)			(596,196)
Forward Foreign Currency Exchange Contracts Assets		2,940,866		2,940,866
Forward Foreign Currency Exchange Contracts Liabilities		(995,810)		(995,810)

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

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Notes to Financial Statements continued

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value. The table presents the activity of level 3 securities held at the beginning and the end of the period.

	Equity Securities
Balance as of 11/30/17	$546,993
Change in unrealized appreciation or depreciation	0
Balance as of 11/30/18	$546,993

The net change in unrealized appreciation or depreciation from investments held as level 3 at November 30, 2018 is $0. At November 30, 2018, the fund held one level 3 security.

Foreign Currency Translation Purchases and sales of foreign investments, income, and expenses are converted into U.S. dollars based upon currency exchange rates prevailing on the respective dates of such transactions or on the reporting date for foreign denominated receivables and payables. Gains and losses attributable to foreign currency exchange rates on sales of securities are recorded for financial statement purposes as net realized gains and losses on investments. Gains and losses attributable to foreign exchange rate movements on receivables, payables, income and expenses are recorded for financial statement purposes as foreign currency transaction gains and losses. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

Derivatives The fund uses derivatives primarily to increase or decrease exposure to a particular market or segment of the market, or security, to increase or decrease interest rate or currency exposure, or as alternatives to direct investments. Derivatives are used for hedging or non-hedging purposes. While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. When the fund uses derivatives as an investment to increase market exposure, or for hedging purposes, gains and losses from derivative instruments may be substantially greater than the derivative s original cost.

The derivative instruments used by the fund during the period were purchased options, futures contracts, and forward foreign currency exchange contracts. Depending on the type of derivative, the fund may exit a derivative position by entering into an offsetting transaction with a counterparty or exchange, negotiating an agreement with the derivative counterparty, or novating the position to a third party. The fund may be unable to promptly close out a futures position in instances where the daily fluctuation in the price for that type of future exceeds the daily limit set by the exchange. The fund s period end derivatives, as presented in the Portfolio of Investments and the associated Derivative Contract tables, generally are indicative of the volume of its derivative activity during the period.

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The following table presents, by major type of derivative contract, the fair value, on a gross basis, of the asset and liability components of derivatives held by the fund at November 30, 2018 as reported in the Statement of Assets and Liabilities:

		Fair Value (a)	
Risk	**Derivative Contracts**	**Asset Derivatives**	**Liability Derivatives**
Interest Rate	Interest Rate Futures	$15,895	$(596,196)
Foreign Exchange	Forward Foreign Currency Exchange Contracts	2,940,866	(995,810)
Total		$2,956,761	$(1,592,006)

(a) Values presented in this table for futures contracts correspond to the values reported in the fund s Portfolio of Investments. Only the current day net variation margin for futures contracts is separately reported within the fund s Statement of Assets and Liabilities.

The following table presents, by major type of derivative contract, the realized gain (loss) on derivatives held by the fund for the year ended November 30, 2018 as reported in the Statement of Operations:

Risk	**Futures Contracts**	**Forward Foreign Currency Exchange Contracts**	**Unaffiliated Issuers (Purchased Options)**
Interest Rate	$2,010,026	$	$(24,250)
Foreign Exchange		3,510,203	
Total	$2,010,026	$3,510,203	$(24,250)

The following table presents, by major type of derivative contract, the change in unrealized appreciation or depreciation on derivatives held by the fund for the year ended November 30, 2018 as reported in the Statement of Operations:

Risk	**Futures Contracts**	**Forward Foreign Currency Exchange Contracts**
Interest Rate	$(959,586)	$
Foreign Exchange		1,717,144
Total	$(959,586)	$1,717,144

Derivative counterparty credit risk is managed through formal evaluation of the creditworthiness of all potential counterparties. On certain, but not all, uncleared derivatives, the fund attempts to reduce its exposure to counterparty credit risk whenever possible by entering into an ISDA Master Agreement on a bilateral basis. The ISDA Master Agreement gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a specified deterioration in the credit quality of the other party. Upon an event of default or a termination of the ISDA Master Agreement, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each agreement to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the ISDA Master Agreement could result in a

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reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

Collateral and margin requirements differ by type of derivative. For cleared derivatives (e.g., futures contracts, cleared swaps, and exchange-traded options), margin requirements are set by the clearing broker and the clearing house and collateral, in the form of cash or securities, is posted by the fund directly with the clearing broker. Collateral terms are counterparty agreement specific for uncleared derivatives (e.g., forward foreign currency exchange contracts, uncleared swap agreements, and uncleared options) and collateral, in the form of cash and securities, is held in segregated accounts with the fund s custodian in connection with these agreements. For derivatives traded under an ISDA Master Agreement, which contains a collateral support annex, the collateral requirements are netted across all transactions traded under such counterparty-specific agreement and one amount is posted from one party to the other to collateralize such obligations. Cash that has been segregated or delivered to cover the fund s collateral or margin obligations under derivative contracts, if any, will be reported separately in the Statement of Assets and Liabilities as restricted cash for uncleared derivatives and/or deposits with brokers for cleared derivatives. Securities pledged as collateral or margin for the same purpose, if any, are noted in the Portfolio of Investments. The fund may be required to make payments of interest on uncovered collateral or margin obligations with the broker. Any such payments are included in Interest expense and fees in the Statement of Operations.

Purchased Options The fund purchased put options for a premium. Purchased put options entitle the holder to sell a specified number of shares or units of a particular security, currency or index at a specified price at a specified date or within a specified period of time. Purchasing put options may hedge against an anticipated decline in the value of portfolio securities or currency or decrease the fund s exposure to an underlying instrument.

The premium paid is initially recorded as an investment in the Statement of Assets and Liabilities. That investment is subsequently marked-to-market daily with the difference between the premium paid and the market value of the purchased option being recorded as unrealized appreciation or depreciation. Premiums paid for purchased put options which have expired are treated as realized losses on investments in the Statement of Operations. Upon the exercise or closing of a purchased put option, the premium paid is offset against the proceeds on the sale of the underlying security or financial instrument in order to determine the realized gain or loss on investments.

Whether or not the option is exercised, the fund s maximum risk of loss from purchasing an option is the amount of premium paid. All option contracts involve credit risk if the counterparty to the option contract fails to perform. For uncleared options, this risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund s exposure to the counterparty under such ISDA Master Agreement.

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

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exposure, or to manage duration. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the fund is required to deposit with the broker, either in cash or securities, an initial margin in an amount equal to a specified percentage of the notional amount of the contract. Subsequent payments (variation margin) are made or received by the fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gain or loss by the fund until the contract is closed or expires at which point the gain or loss on futures contracts is realized.

The fund bears the risk of interest rates, exchange rates or securities prices moving unexpectedly, in which case, the fund may not achieve the anticipated benefits of the futures contracts and may realize a loss. While futures contracts may present less counterparty risk to the fund since the contracts are exchange traded and the exchange s clearinghouse guarantees payments to the broker, there is still counterparty credit risk due to the insolvency of the broker. The fund s maximum risk of loss due to counterparty credit risk is equal to the margin posted by the fund to the broker plus any gains or minus any losses on the outstanding futures contracts.

Forward Foreign Currency Exchange Contracts The fund entered into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. These contracts may be used to hedge the fund s currency risk or for non-hedging purposes. For hedging purposes, the fund may enter into contracts to deliver or receive foreign currency that the fund will receive from or use in its normal investment activities. The fund may also use contracts to hedge against declines in the value of foreign currency denominated securities due to unfavorable exchange rate movements. For non-hedging purposes, the fund may enter into contracts with the intent of changing the relative exposure of the fund s portfolio of securities to different currencies to take advantage of anticipated exchange rate changes.

Forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any unrealized gains or losses are recorded as a receivable or payable for forward foreign currency exchange contracts until the contract settlement date. On contract settlement date, any gain or loss on the contract is recorded as realized gains or losses on forward foreign currency exchange contracts.

Risks may arise upon entering into these contracts from unanticipated movements in the value of the contract and from the potential inability of counterparties to meet the terms of their contracts. Generally, the fund s maximum risk due to counterparty credit risk is the unrealized gain on the contract due to the use of Continuous Linked Settlement, a multicurrency cash settlement system for the centralized settlement of foreign transactions. This risk is mitigated in cases where there is an ISDA Master Agreement between the fund and the counterparty providing for netting as described above and, where applicable, by the posting of collateral by the counterparty to the fund to cover the fund s exposure to the counterparty under such ISDA Master Agreement.

Loans and Other Direct Debt Instruments The fund invests in loans and loan participations or other receivables. These investments may include standby financing

Notes to Financial Statements continued

commitments, including revolving credit facilities, which contractually obligate the fund to supply additional cash to the borrower on demand. The fund generally provides this financial support in order to preserve its existing investment or to obtain a more senior secured interest in the assets of the borrower. Loan participations involve a risk of insolvency of the lending bank or other financial intermediary.

Statement of Cash Flows Information on financial transactions which have been settled through the receipt or disbursement of cash is presented in the Statement of Cash Flows. The cash amount shown in the Statement of Cash Flows is the amount included within the fund s Statement of Assets and Liabilities and includes cash on hand at its custodian bank and does not include any short-term investments.

Indemnifications Under the fund s organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the fund. Additionally, in the normal course of business, the fund enters into agreements with service providers that may contain indemnification clauses. The fund s maximum exposure under these agreements is unknown as this would involve future claims that may be made against the fund that have not yet occurred.

Investment Transactions and Income Investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis. All premium and discount is amortized or accreted for financial statement purposes in accordance with U.S. generally accepted accounting principles. The fund earns certain fees in connection with its floating rate loan purchasing activities. These fees are in addition to interest payments earned and may include amendment fees, commitment fees, facility fees, consent fees, and prepayment fees. Commitment fees are recorded on an accrual basis as income in the accompanying financial statements. Dividends received in cash are recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded when the fund 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. Debt obligations may be placed on non-accrual status or set to accrue at a rate of interest less than the contractual coupon when the collection of all or a portion of interest has become doubtful. Interest income for those debt obligations may be further reduced by the write-off of the related interest receivables when deemed uncollectible.

The fund may receive proceeds from litigation settlements. Any proceeds received from litigation involving portfolio holdings are reflected in the Statement of Operations in realized gain/loss if the security has been disposed of by the fund or in unrealized gain/loss if the security is still held by the fund. Any other proceeds from litigation not related to portfolio holdings are reflected as other income in the Statement of Operations.

The fund invests a significant portion of its assets in asset-backed and/or mortgage-backed securities. For these securities, the value of the debt instrument also depends on the credit quality and adequacy of the underlying assets or collateral as well as whether there is a security interest in the underlying assets or collateral. Enforcing rights, if any, against the underlying assets or collateral may be difficult.

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U.S. Government securities not supported as to the payment of principal or interest by the U.S. Treasury, such as those issued by Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, are subject to greater credit risk than are U.S. Government securities supported by the U.S. Treasury, such as those issued by Ginnie Mae.

The fund purchased or sold debt securities on a when-issued or delayed delivery basis, or in a To Be Announced (TBA) or forward commitment transaction with delivery or payment to occur at a later date beyond the normal settlement period. At the time a fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the security acquired is reflected in the fund s net asset value. The price of such security and the date that the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. No interest accrues to the fund until payment takes place. At the time that a fund enters into this type of transaction, the fund is required to have sufficient cash and/or liquid securities to cover its commitments. Losses may arise due to changes in the value of the underlying securities or if the counterparty does not perform under the contract s terms, or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to declines in the value of the securities prior to settlement date.

To mitigate this risk of loss on TBA securities and other types of forward settling mortgage-backed securities, the fund whenever possible enters into a Master Securities Forward Transaction Agreement (MSFTA) on a bilateral basis with each of the counterparties with whom it undertakes a significant volume of transactions. The MSFTA gives each party to the agreement the right to terminate all transactions traded under such agreement if there is a specified deterioration in the credit quality of the other party. Upon an event of default or a termination of the MSFTA, the non-defaulting party has the right to close out all transactions traded under such agreement and to net amounts owed under each transaction to one net amount payable by one party to the other. This right to close out and net payments across all transactions traded under the MSFTA could result in a reduction of the fund s credit risk to such counterparty equal to any amounts payable by the fund under the applicable transactions, if any.

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

Tax Matters and Distributions The fund intends to qualify as a regulated investment company, as defined under Subchapter M of the Internal Revenue Code, and to distribute all of its taxable income, including realized capital gains. As a result, no provision for federal income tax is required. The fund s federal tax returns, when filed, will remain subject to examination by the Internal Revenue Service for a three year period. Management has analyzed the fund s tax positions taken on federal and state tax returns for all open tax years and does not believe that there are any uncertain

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tax positions that require recognition of a tax liability. Foreign taxes, if any, have been accrued by the fund in the accompanying financial statements in accordance with the applicable foreign tax law. Foreign income taxes may be withheld by certain countries in which the fund invests. Additionally, capital gains realized by the fund on securities issued in or by certain foreign countries may be subject to capital gains tax imposed by those countries.

Distributions to shareholders are recorded on the ex-dividend date. The fund seeks to pay monthly distributions based on an annual rate of 8.00% of the fund s average monthly net asset value. As a result, distributions may exceed actual earnings which may result in a tax return of capital or, to the extent the fund has long-term gains and a capital loss carryforward, distributions of current year long-term gains may be recharacterized as ordinary income. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments 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.

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

The tax character of distributions declared to shareholders for the last two fiscal years is as follows:

	Year ended 11/30/18	**Year ended 11/30/17**
Ordinary income (including any short-term capital gains)	$21,051,651	$16,248,537
Tax return of capital (b)	13,356,181	21,298,942
Total distributions	$34,407,832	$37,547,479

(b) Distributions in excess of tax basis earnings and profits are reported in the financial statements as a tax return of capital.

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

As of 11/30/18	
Cost of investments	$516,119,781
Gross appreciation	1,558,993
Gross depreciation	(25,195,057)
Net unrealized appreciation (depreciation)	$(23,636,064)
Capital loss carryforwards	(17,660,306)
Other temporary differences	(187,988)

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As of November 30, 2018, the fund had capital loss carryforwards available to offset future realized gains. These net capital losses may be carried forward indefinitely and their character is retained as short-term and/or long-term losses. Such losses are characterized as follows:

Short-Term	$(5,165,645)
Long-Term	(12,494,661)
Total	$(17,660,306)

(3) Transactions with Affiliates

Investment Adviser The fund has an investment advisory agreement with MFS to provide overall investment management and related administrative services and facilities to the fund. The management fee is computed daily and paid monthly at an annual rate of 0.32% of the fund s average daily net assets and 4.57% of gross income less interest expense from leveraging. Gross income is calculated based on tax elections that generally include the accretion of discount and exclude the amortization of premium, which may differ from investment income reported in the Statement of Operations. The management fee, from net assets and gross income, incurred for the year ended November 30, 2018 was equivalent to an annual effective rate of 0.55% of the fund s average daily net assets.

Transfer Agent The fund engages Computershare Trust Company, N.A. (Computershare) as the sole transfer agent for the fund. MFS Service Center, Inc. (MFSC) monitors and supervises the activities of Computershare for an agreed upon fee approved by the Board of Trustees. For the year ended November 30, 2018, these fees paid to MFSC amounted to $15,650.

Administrator MFS provides certain financial, legal, shareholder communications, compliance, and other administrative services to the fund. Under an administrative services agreement, the fund reimburses MFS the costs incurred to provide these services. The fund is charged an annual fixed amount of $17,500 plus a fee based on average daily net assets. The administrative services fee incurred for the year ended November 30, 2018 was equivalent to an annual effective rate of 0.0168% of the fund s average daily net assets.

Trustees and Officers Compensation The fund pays compensation to independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The fund does not pay compensation directly to Trustees or officers of the fund who are also officers of the investment adviser, all of whom receive remuneration for their services to the fund from MFS. Certain officers and Trustees of the fund are officers or directors of MFS and MFSC.

Prior to December 31, 2001, the fund had an unfunded defined benefit plan (DB plan) for independent Trustees. As of December 31, 2001, the Board took action to terminate the DB plan with respect to then-current and any future independent Trustees, such that the DB plan covers only certain of those former independent Trustees who retired on or before December 31, 2001. The DB plan resulted in a pension expense of $3,368 and is included in Independent Trustees compensation in the Statement of Operations for the year ended November 30, 2018. The liability for deferred retirement benefits payable to those former independent Trustees under the

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DB plan amounted to $10,193 at November 30, 2018, and is included in Payable for independent Trustees compensation in the Statement of Assets and Liabilities.

Other This fund and certain other funds managed by MFS (the funds) have entered into a service agreement (the ISO Agreement) which provides for payment of fees solely by the funds to Tarantino LLC in return for the provision of services of an Independent Senior Officer (ISO) for the funds. Frank L. Tarantino serves as the ISO and is an officer of the funds and the sole member of Tarantino LLC. The funds can terminate the ISO Agreement with Tarantino LLC at any time under the terms of the ISO Agreement. For the year ended November 30, 2018, the fee paid by the fund under this agreement was $686 and is included in Miscellaneous expense in the Statement of Operations. MFS has agreed to bear all expenses associated with office space, other administrative support, and supplies provided to the ISO.

The fund invests in the MFS Institutional Money Market Portfolio which is managed by MFS and seeks current income consistent with preservation of capital and liquidity. This money market fund does not pay a management fee to MFS.

(4) Portfolio Securities

For the year ended November 30, 2018, purchases and sales of investments, other than purchased option transactions and short-term obligations, were as follows:

	Purchases	Sales
U.S. Government securities	$157,638,785	$134,563,380
Non-U.S. Government securities	$336,153,828	$385,414,832

(5) Shares of Beneficial Interest

The fund 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 fund of up to 10% annually of its own shares of beneficial interest. The fund repurchased 2,302,529 shares of beneficial interest during the year ended November 30, 2018 at an average price per share of $7.99 and a weighted average discount of 9.69% per share. The fund repurchased 2,208,712 shares of beneficial interest during the year ended November 30, 2017 at an average price per share of $8.58 and a weighted average discount of 8.21% per share. Transactions in fund shares were as follows:

	Year ended 11/30/18		Year ended 11/30/17	
	Shares	Amount	Shares	Amount
Capital shares reacquired	(2,302,529)	$(18,396,721)	(2,208,712)	$(18,955,628)

(6) Loan Agreement

The fund has a credit agreement with a bank for a revolving secured line of credit that can be drawn upon up to $100,000,000. At November 31, 2018, the fund had outstanding borrowings under this agreement in the amount of $100,000,000, which are secured by a lien on the fund s assets. The loan s carrying value in the fund s Statement of Assets and Liabilities approximates its fair value. The loan value as of the reporting date is considered level 2 under the fair value hierarchy. The credit agreement matures on August 19, 2019. Borrowings under the agreement can be made for liquidity or leverage purposes. Interest is charged at a rate per annum equal to LIBOR

Notes to Financial Statements continued

plus an agreed upon spread with the option to choose LIBOR periods of overnight, 1, 2, 3, or 6 months, or at the option of the borrower an alternate base rate plus an agreed upon spread. The fund incurred interest expense of $2,411,143 during the period, which is included in Interest expense and fees in the Statement of Operations. The fund may also be charged a commitment fee based on the average daily unused portion of the revolving secured line of credit. The fund did not incur a commitment fee during the period. For the year ended November 30, 2018, the average loan balance was $100,000,000 at a weighted average annual interest rate of 2.41%. The fund is subject to certain covenants including, but not limited to, requirements with respect to asset coverage, portfolio diversification and liquidity.

(7) Investments in Affiliated Issuers

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be affiliated issuers:

Affiliated Issuers	Beginning Shares/Par Amount	Acquisitions Shares/Par Amount	Dispositions Shares/Par Amount	Ending Shares/Par Amount
MFS Institutional Money Market Portfolio	5,804,640	229,426,701	(223,607,509)	11,623,832

Affiliated Issuers	Realized Gain (Loss)	Change in Unrealized Appreciation/ Depreciation	Capital Gain Distributions	Dividend Income	Ending Value
MFS Institutional Money Market Portfolio	$1,125	$1,169	$	$159,777	$11,623,832

(8) Legal Proceedings

In May 2015, the Motors Liquidation Company Avoidance Action Trust (hereafter, AAT) served upon the fund a complaint in an adversary proceeding in the U.S. Bankruptcy Court for the Southern District of New York, captioned *Motors Liquidation Company Avoidance Action Trust v. JPMorgan Chase Bank, N.A., et al.* (No. 09-00504 (REG)). The complaint, which was originally filed in 2009 but not served on the fund until 2015, names as defendants over 500 entities (including the fund) that held an interest in a $1.5 billion General Motors (GM) term loan in 2009, when GM filed for bankruptcy. The AAT alleges that the fund and the other term loan lenders were improperly treated as secured lenders with respect to the term loan shortly before and immediately after GM s bankruptcy, receiving full principal and interest payments under the loan. The AAT alleges that the fund and other term loan lenders should have been treated as unsecured (or partially unsecured) creditors because the main lien securing the collateral was allegedly not perfected at the time of GM s bankruptcy due to an erroneous filing in October 2008 that terminated the financing statement perfecting the lien. The AAT seeks to claw back payments made to the fund and the other term loan lenders after, and during the 90 days before, GM s June 2009 bankruptcy petition. During that time period, the fund received term loan payments of approximately $1,280,000. The fund cannot predict the outcome of this proceeding. Among other things, it is unclear whether the AAT s claims will succeed; what the fund

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Notes to Financial Statements continued

would be entitled to as an unsecured (or partially unsecured) creditor, given the existence of other collateral not impacted by the erroneous October 2008 filing; whether third parties responsible for the erroneous October 2008 filing would bear some or all of any liability; and the degree to which the fund may be entitled to indemnification from a third party for any amount required to be disgorged. The fund has and will continue to incur legal expenses associated with the defense of this action and in related claims against third parties.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of MFS Charter Income Trust (the Fund), including the portfolio of investments, as of November 30, 2018, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at November 30, 2018, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Fund s management. Our responsibility is to express an opinion on the Fund s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund s internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2018, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. Our audits also included

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Report of Independent Registered Public Accounting Firm continued

evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the auditor of one or more MFS investment companies since 1993.

Boston, Massachusetts

January 15, 2019

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RESULTS OF SHAREHOLDER MEETING

(unaudited)

At the annual meeting of shareholders of MFS Charter Income Trust, which was held on October 4, 2018, the following action was taken:

Item 1: To elect the following individuals as Trustees:

	Number of Shares	
Nominee	**For**	**Withheld Authority**
John A. Caroselli	37,701,781.307	4,770,480.560
Clarence Otis, Jr.	37,328,028.307	4,744,233.560
Robin A. Stelmach	37,348,803.307	4,723,458.560

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TRUSTEES AND OFFICERS   IDENTIFICATION AND BACKGROUND

The Trustees and Officers of the Trust, as of January 1, 2019, are listed below, together with their principal occupations during the past five years. (Their titles may have varied during that period.) The address of each Trustee and Officer is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

Name, Age	Position(s) Held with Fund	Trustee/ Officer Since [h]	Term Expiring	Number of MFS Funds overseen by the Trustee	Principal Occupations During the Past Five Years	Other Directorships During the Past Five Years [j]
INTERESTED TRUSTEES						
Robert J. Manning [k] (age 55)	Trustee	February 2004	2019	135	Massachusetts Financial Services Company, Executive Chairman (since January 2017); Director; Chairman of the Board; Chief Executive Officer (until 2015); Co-Chief Executive Officer (2015-2016)	N/A
Robin A. Stelmach [k] (age 57)	Trustee	January 2014	2021	135	Massachusetts Financial Services Company, Vice Chair (since January 2017); Chief Operating Officer and Executive Vice President (until January 2017)	N/A
INDEPENDENT TRUSTEES						
John P. Kavanaugh (age 64)	Trustee and Chair of Trustees	January 2009	2020	135	Private investor	N/A
Steven E. Buller (age 67)	Trustee	February 2014	2020	135	Financial Accounting Standards Advisory Council, Chairman (2014-2015); Public Company Accounting Oversight Board, Standing Advisory Group, Member (until 2014); BlackRock, Inc. (investment management), Managing Director (until 2014), BlackRock Finco UK (investment management), Director (until 2014)	N/A

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Trustees and Officers continued

Name, Age	Position(s) Held with Fund	Trustee/ Officer Since [h]	Term Expiring	Number of MFS Funds overseen by the Trustee	Principal Occupations During the Past Five Years	Other Directorships During the Past Five Years [j]
John A. Caroselli (age 64)	Trustee	March 2017	2021	135	JC Global Advisors, LLC (management consulting), President (since 2015); First Capital Corporation (commercial finance), Executive Vice President (until 2015)	N/A
Maureen R. Goldfarb (age 63)	Trustee	January 2009	2019	135	Private investor	N/A
Michael Hegarty (age 74)	Trustee	December 2004	2020	135	Private investor	Rouse Properties Inc., Director (until 2016); Capmark Financial Group Inc., Director (until 2015)
Peter D. Jones (age 63)	Trustee	January 2019	2020	135	Franklin Templeton Distributors, Inc. (investment management), President (until 2015); Franklin Templeton Institutional, LLC (investment management), Chairman (until 2015)	N/A
James W. Kilman, Jr. (age 57)	Trustee	January 2019	2021	135	KielStrand Capital LLC (family office and merchant bank), Chief Executive Officer (since 2016); Morgan Stanley & Co. (financial services), Vice Chairman of Investment Banking, Co-Head of Diversified Financials Coverage Financial Institutions Investment Banking Group (until 2016)	alpha-En Corporation, Director (since 2016)

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Trustees and Officers continued

Name, Age	Position(s) Held with Fund	Trustee/ Officer Since (h)	Term Expiring	Number of MFS Funds overseen by the Trustee	Principal Occupations During the Past Five Years	Other Directorships During the Past Five Years (j)
Clarence Otis, Jr. (age 62)	Trustee	March 2017	2021	135	Darden Restaurants, Inc., Chief Executive Officer (until 2014)	VF Corporation, Director; Verizon Communications, Inc., Director; The Travelers Companies, Director; Federal Reserve Bank of Atlanta, Director (until 2015)
Maryanne L. Roepke (age 62)	Trustee	May 2014	2019	135	American Century Investments (investment management), Senior Vice President and Chief Compliance Officer (until 2014)	N/A
Laurie J. Thomsen (age 61)	Trustee	March 2005	2019	135	Private investor	The Travelers Companies, Director; Dycom Industries, Inc., Director (since 2015)

Name, Age	Position(s) Held with Fund	Trustee/Officer Since (h)	Term Expiring	Number of MFS Funds for which the Person is an Officer	Principal Occupations During the Past Five Years
OFFICERS					
Christopher R. Bohane (k) (age 44)	Assistant Secretary and Assistant Clerk	July 2005	N/A	135	Massachusetts Financial Services Company, Vice President and Assistant General Counsel
Kino Clark (k) (age 50)	Assistant Treasurer	January 2012	N/A	135	Massachusetts Financial Services Company, Vice President
John W. Clark, Jr. (k) (age 51)	Assistant Treasurer	April 2017	N/A	135	Massachusetts Financial Services Company, Vice President (since March 2017); Deutsche Bank (financial services), Department Head Treasurer s Office (until February 2017)

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Trustees and Officers continued

Name, Age	Position(s) Held with Fund	Trustee/Officer Since [h]	Term Expiring	Number of MFS Funds for which the Person is an Officer	Principal Occupations During the Past Five Years
Thomas H. Connors [k] (age 59)	Assistant Secretary and Assistant Clerk	September 2012	N/A	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Ethan D. Corey [k] (age 55)	Assistant Secretary and Assistant Clerk	July 2005	N/A	135	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel
David L. DiLorenzo [k] (age 50)	President	July 2005	N/A	135	Massachusetts Financial Services Company, Senior Vice President
Heidi W. Hardin [k] (age 51)	Secretary and Clerk	April 2017	N/A	135	Massachusetts Financial Services Company, Executive Vice President and General Counsel (since March 2017); Harris Associates (investment management), General Counsel (from September 2015 to January 2017); Janus Capital Management LLC (investment management), Senior Vice President and General Counsel (until September 2015)
Brian E. Langenfeld [k] (age 45)	Assistant Secretary and Assistant Clerk	June 2006	N/A	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Amanda S. Mooradian [k] (age 39)	Assistant Secretary and Assistant Clerk	September 2018	N/A	135	Massachusetts Financial Services Company, Assistant Vice President and Counsel
Susan A. Pereira [k] (age 48)	Assistant Secretary and Assistant Clerk	July 2005	N/A	135	Massachusetts Financial Services Company, Vice President and Senior Counsel
Kasey L. Phillips [k] (age 48)	Assistant Treasurer	September 2012	N/A	135	Massachusetts Financial Services Company, Vice President

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Trustees and Officers continued

Name, Age	Position(s) Held with Fund	Trustee/Officer Since (h)	Term Expiring	Number of MFS Funds for which the Person is an Officer	Principal Occupations During the Past Five Years
Matthew A. Stowe (k) (age 44)	Assistant Secretary and Assistant Clerk	October 2014	N/A	135	Massachusetts Financial Services Company, Vice President and Assistant General Counsel
Frank L. Tarantino (age 74)	Independent Senior Officer	June 2004	N/A	135	Tarantino LLC (provider of compliance services), Principal
Richard S. Weitzel (k) (age 48)	Assistant Secretary and Assistant Clerk	October 2007	N/A	135	Massachusetts Financial Services Company, Senior Vice President and Associate General Counsel
Martin J. Wolin (k) (age 51)	Chief Compliance Officer	July 2015	N/A	135	Massachusetts Financial Services Company, Senior Vice President and Chief Compliance Officer (since July 2015); Mercer (financial service provider), Chief Risk and Compliance Officer, North America and Latin America (until June 2015)
James O. Yost (k) (age 58)	Treasurer	September 1990	N/A	135	Massachusetts Financial Services Company, Senior Vice President

(h) Date first appointed to serve as Trustee/officer of an MFS Fund. Each Trustee has served continuously since appointment unless indicated otherwise. For the period from December 15, 2004 until February 22, 2005, Mr. Manning served as Advisory Trustee. From January 2012 through December 2016, Messrs. DiLorenzo and Yost served as Treasurer and Deputy Treasurer of the Funds, respectively.

(j) Directorships or trusteeships of companies required to report to the Securities and Exchange Commission (i.e., public companies).

(k) Interested person of the Trust within the meaning of the Investment Company Act of 1940 (referred to as the 1940 Act), which is the principal federal law governing investment companies like the fund, as a result of a position with MFS. The address of MFS is 111 Huntington Avenue, Boston, Massachusetts 02199-7618.

The Trust holds annual shareholder meetings for the purpose of electing Trustees, and Trustees are elected for fixed terms. The Board of Trustees is currently divided into three classes, each having a term of three years which term expires on the date of the third annual meeting following the election to office of the Trustee s class. Each year the term of one class expires. Each Trustee and officer will serve until next elected or his or her earlier death, resignation, retirement or removal. Under the terms of the

Trustees and Officers continued

Board s retirement policy, an Independent Trustee shall retire at the end of the calendar year in which he or she reaches the earlier of 75 years of age or 15 years of service on the Board (or, in the case of any Independent Trustee who joined the Board prior to 2015, 20 years of service on the Board).

Messrs. Buller, Hegarty, Kilman and Otis and Ms. Roepke are members of the Trust s Audit Committee.

Each of the Interested Trustees and certain Officers hold comparable officer positions with certain affiliates of MFS.

Investment Adviser
Massachusetts Financial Services Company
111 Huntington Avenue
Boston, MA 02199-7618

Portfolio Manager(s)
Robert Spector
Ward Brown
David Cole
Pilar Gomez-Bravo
Joshua Marston
Robert Persons
Matt Ryan
Michael Skatrud
Erik Weisman

Custodian
State Street Bank and Trust Company
1 Lincoln Street
Boston, MA 02111-2900

Independent Registered Public Accounting Firm
Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

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BOARD REVIEW OF INVESTMENT ADVISORY AGREEMENT

The Investment Company Act of 1940 requires that both the full Board of Trustees and a majority of the non-interested (independent) Trustees, voting separately, annually approve the continuation of the Fund s investment advisory agreement with MFS. The Trustees consider matters bearing on the Fund and its advisory arrangements at their meetings throughout the year, including a review of performance data at each regular meeting. In addition, the independent Trustees met several times over the course of three months beginning in May and ending in July, 2018 (contract review meetings) for the specific purpose of considering whether to approve the continuation of the investment advisory agreement for the Fund and the other investment companies that the Board oversees (the MFS Funds). The independent Trustees were assisted in their evaluation of the Fund s investment advisory agreement by independent legal counsel, from whom they received separate legal advice and with whom they met separately from MFS during various contract review meetings. The independent Trustees were also assisted in this process by the MFS Funds Independent Senior Officer, a senior officer appointed by and reporting to the independent Trustees.

In connection with their deliberations regarding the continuation of the investment advisory agreement, the Trustees, including the independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. The investment advisory agreement for the Fund was considered separately, although the Trustees also took into account the common interests of all MFS Funds in their review. As described below, the Trustees considered the nature, quality, and extent of the various investment advisory, administrative, and shareholder services performed by MFS under the existing investment advisory agreement and other arrangements with the Fund.

In connection with their contract review meetings, the Trustees received and relied upon materials that included, among other items: (i) information provided by Broadridge Financial Solutions, Inc. (Broadridge), an independent third party, on the investment performance (based on net asset value) of the Fund for various time periods ended December 31, 2017 and the investment performance (based on net asset value) of a group of funds with substantially similar investment classifications/objectives (the Broadridge performance universe), (ii) information provided by Broadridge on the Fund s advisory fees and other expenses and the advisory fees and other expenses of comparable funds identified by Broadridge (the Broadridge expense group), (iii) information provided by MFS on the advisory fees of portfolios of other clients of MFS, including institutional separate accounts and other clients, (iv) information as to whether and to what extent applicable expense waivers, reimbursements or fee breakpoints are observed for the Fund, (v) information regarding MFS financial results and financial condition, including MFS and certain of its affiliates estimated profitability from services performed for the Fund and the MFS Funds as a whole, and compared to MFS institutional business, (vi) MFS views regarding the outlook for the mutual fund industry and the strategic business plans of MFS, (vii) descriptions of various functions performed by MFS for the Funds, such as compliance monitoring and portfolio trading practices, and (viii) information regarding the overall organization of MFS, including information about MFS senior management and other personnel

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Board Review of Investment Advisory Agreement continued

providing investment advisory, administrative and other services to the Fund and the other MFS Funds. The comparative performance, fee and expense information prepared and provided by Broadridge was not independently verified and the independent Trustees did not independently verify any information provided to them by MFS.

The Trustees conclusion as to the continuation of the investment advisory agreement was based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the fee arrangements for the Fund and other MFS Funds are the result of years of review and discussion between the independent Trustees and MFS, that certain aspects of such arrangements may receive greater scrutiny in some years than in others, and that the Trustees conclusions may be based, in part, on their consideration of these same arrangements during the course of the year and in prior years.

Based on information provided by Broadridge and MFS, the Trustees reviewed the Fund s total return investment performance as well as the Broadridge performance universe over various time periods. The Trustees placed particular emphasis on the total return performance of the Fund s common shares in comparison to the performance of funds in its Broadridge performance universe over the three-year period ended December 31, 2017, which the Trustees believed was a long enough period to reflect differing market conditions. The total return performance of the Fund s common shares ranked 16th out of a total of 25 funds in the Broadridge performance universe for this three-year period (a ranking of first place out of the total number of funds in the performance universe indicating the best performer and a ranking of last place out of the total number of funds in the performance universe indicating the worst performer). The total return performance of the Fund s common shares ranked 22nd out of a total of 30 funds for the one-year period and 14th out of a total of 21 funds for the five-year period ended December 31, 2017. Given the size of the Broadridge performance universe and information previously provided by MFS regarding differences between the Fund and the other funds in its Broadridge performance universe, the Trustees also reviewed the Fund s performance in comparison to a custom benchmark developed by MFS. The Fund outperformed its custom benchmark for each of the one-, three- and five-year periods ended December 31, 2017 (one-year: 7.4% total return for the Fund versus 5.7% total return for the benchmark; three-year: 6.3% total return for the Fund versus 4.7% total return for the benchmark; five-year: 5.6% total return for the Fund versus 4.2% total return for the benchmark). Because of the passage of time, these performance results may differ from the performance results for more recent periods, including those shown elsewhere in this report.

In the course of their deliberations, the Trustees took into account information provided by MFS in connection with the contract review meetings, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding the Fund s performance. After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that they were satisfied with MFS responses and efforts relating to investment performance.

In assessing the reasonableness of the Fund s advisory fee, the Trustees considered, among other information, the Fund s advisory fee and the total expense ratio of the Fund s common shares as a percentage of average daily net assets and the advisory fee and total expense ratios of peer groups of funds based on information provided by Broadridge. The Trustees considered that, according to the data provided by Broadridge (which takes into account any fee reductions or expense limitations that were in effect during the Fund s last fiscal year), the Fund s effective advisory fee rate and total expense ratio were each lower than the Broadridge expense group median.

The Trustees also considered the advisory fees charged by MFS to any institutional separate accounts advised by MFS (separate accounts) and unaffiliated investment companies for which MFS serves as subadviser (subadvised funds) that have comparable investment strategies to the Fund, if any. In comparing these fees, the Trustees considered information provided by MFS as to the generally broader scope of services provided by MFS to the Fund, as well as the more extensive regulatory burdens imposed on MFS in managing the Fund, in comparison to separate accounts and subadvised funds.

The Trustees considered that, as a closed-end fund, the Fund is unlikely to experience meaningful asset growth. As a result, the Trustees did not view the potential for realization of economies of scale as the Fund s assets grow to be a material factor in their deliberations. The Trustees noted that they would consider economies of scale in the future in the event the Fund experiences significant asset growth, such as through an offering of preferred shares (which is not currently contemplated) or a material increase in the market value of the Fund s portfolio securities.

The Trustees also considered information prepared by MFS relating to MFS costs and profits with respect to the Fund, the MFS Funds considered as a group, and other investment companies and accounts advised by MFS, as well as MFS methodologies used to determine and allocate its costs to the MFS Funds, the Fund and other accounts and products for purposes of estimating profitability.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the investment advisory agreement, that the advisory fees charged to the Fund represent reasonable compensation in light of the services being provided by MFS to the Fund.

In addition, the Trustees considered MFS resources and related efforts to continue to retain, attract and motivate capable personnel to serve the Fund. The Trustees also considered current and developing conditions in the financial services industry, including the presence of large and well-capitalized companies which are spending, and appear to be prepared to continue to spend, substantial sums to engage personnel and to provide services to competing investment companies. In this regard, the Trustees also considered the financial resources of MFS and its ultimate parent, Sun Life Financial Inc. The Trustees also considered the advantages and possible disadvantages to the Fund of having an adviser that also serves other investment companies as well as other accounts.

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Board Review of Investment Advisory Agreement continued

The Trustees also considered the nature, quality, cost, and extent of administrative services provided to the Fund by MFS under agreements other than the investment advisory agreement. The Trustees also considered the nature, extent and quality of certain other services MFS performs or arranges for on the Fund s behalf, which may include securities lending programs, directed expense payment programs, class action recovery programs, and MFS interaction with third-party service providers, principally custodians and sub-custodians. The Trustees concluded that the various non-advisory services provided by MFS and its affiliates on behalf of the Fund were satisfactory.

The Trustees considered so-called fall-out benefits to MFS such as reputational value derived from serving as investment manager to the MFS Funds. The Trustees also considered that, effective January 3, 2018, MFS had discontinued its historic practice of obtaining investment research from portfolio brokerage commissions paid by certain MFS Funds and would thereafter voluntarily reimburse a Fund, if applicable, for the costs of external research acquired through the use of the Fund s portfolio brokerage commissions.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board of Trustees, including the independent Trustees, concluded that the Fund s investment advisory agreement with MFS should be continued for an additional one-year period, commencing August 1, 2018.

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PROXY VOTING POLICIES AND INFORMATION

MFS votes proxies on behalf of the fund pursuant to proxy voting policies and

procedures that are available without charge, upon request, by calling 1-800-225-2606, by visiting *mfs.com/proxyvoting*, 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 by August 31 of each year without charge by visiting *mfs.com/proxyvoting*, or by visiting the SEC s Web site at *http://www.sec.gov*.

QUARTERLY PORTFOLIO DISCLOSURE

The fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund s Form N-Q is available on the SEC s website at *http://www.sec.gov*. A shareholder can obtain the portfolio holdings report for the first and third quarters of the fund s fiscal year at *mfs.com/closedendfunds* by choosing the fund s name and then selecting the Resources tab and clicking on Prospectus and Reports .

FURTHER INFORMATION

From time to time, MFS may post important information about the fund or the MFS funds on the MFS web site (*mfs.com*). This information is available at *https://www.mfs.com/en-us/what-we-do/announcements.html* or at *mfs.com/closedendfunds* by choosing the fund s name.

Additional information about the fund (e.g. performance, dividends and the fund s price history) is also available by clicking on the fund s name under Closed-End Funds in the Products section of *mfs.com*.

INFORMATION ABOUT FUND CONTRACTS AND LEGAL CLAIMS

The fund has entered into contractual arrangements with an investment adviser, administrator, transfer agent, and custodian who each provide services to the fund. Unless expressly stated otherwise, shareholders are not parties to, or intended beneficiaries of these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the fund.

Under the Trust s By-Laws and Declaration of Trust, any claims asserted against or on behalf of the MFS Funds, including claims against Trustees and Officers, must be brought in state and federal courts located within the Commonwealth of Massachusetts.

FEDERAL TAX INFORMATION (unaudited)

The fund will notify shareholders of amounts for use in preparing 2018 income tax forms in January 2019.

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FACTS	**WHAT DOES MFS DO WITH YOUR PERSONAL INFORMATION?**
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: Social Security number and account balances Account transactions and transaction history Checking account information and wire transfer instructions When you are *no longer* our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share customers personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers personal information; the reasons MFS chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does MFS share?	Can you limit this sharing?
For our everyday business purposes such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes to offer our products and services to you	No	We don t share
For joint marketing with other **financial companies**	No	We don t share
For our affiliates everyday business purposes information about your transactions and experiences	No	We don t share
For our affiliates everyday business purposes	No	We don t share

information about your creditworthiness		
For nonaffiliates to market to you	No	We don t share

Questions?	Call **800-225-2606** or go to **mfs.com**.

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Who we are	
Who is providing this notice?	MFS Funds, MFS Investment Management, MFS Institutional Advisors, Inc., and MFS Heritage Trust Company.

What we do	
How does MFS protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include procedural, electronic, and physical safeguards for the protection of the personal information we collect about you.
How does MFS collect my personal information?	We collect your personal information, for example, when you open an account or provide account information direct us to buy securities or direct us to sell your securities make a wire transfer We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
Why can t I limit all sharing?	Federal law gives you the right to limit only sharing for affiliates everyday business purposes information about your creditworthiness affiliates from using your information to market to you sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

Definitions	
Affiliates	Companies related by common ownership or control. They can be financial and nonfinancial companies. *MFS does not share personal information with affiliates, except for everyday business purposes as described on page one of this notice.*

Nonaffiliates	Companies not related by common ownership or control. They can be financial and nonfinancial companies. *MFS does not share with nonaffiliates so they can market to you.*
Joint marketing	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. *MFS doesn t jointly market.*

Other important information

If you own an MFS product or receive an MFS service in the name of a third party such as a bank or broker-dealer, their privacy policy may apply to you instead of ours.

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CONTACT US

TRANSFER AGENT, REGISTRAR, AND

DIVIDEND DISBURSING AGENT

CALL

1-800-637-2304

9 a.m. to 5 p.m. Eastern time

WRITE

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

New York Stock Exchange Symbol: **MCR**

ITEM 2. CODE OF ETHICS.

The Registrant has adopted a Code of Ethics (the Code) pursuant to Section 406 of the Sarbanes-Oxley Act and as defined in Form N-CSR that applies to the Registrant s principal executive officer and principal financial and accounting officer. During the period covered by this report, the Registrant has not amended any provision in the Code that relates to an element of the Code s definition enumerated in paragraph (b) of Item 2 of this Form N-CSR. During the period covered by this report, the Registrant did not grant a waiver, including an implicit waiver, from any provision of the Code.

A copy of the Code is filed as an exhibit to this Form N-CSR.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Messrs. Steven E. Buller and Clarence Otis, Jr. and Ms. Maryanne L. Roepke, members of the Audit Committee, have been determined by the Board of Trustees in their reasonable business judgment to meet the definition of audit committee financial expert as such term is defined in Form N-CSR. In addition, Messrs. Buller and Otis and Ms. Roepke are independent members of the Audit Committee (as such term has been defined by the Securities and Exchange Commission in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002). The Securities and Exchange Commission has stated that the designation of a person as an audit committee financial expert pursuant to this Item 3 on the Form N-CSR does not impose on such a person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and the Board of Trustees in the absence of such designation or identification.

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ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.
Items 4(a) through 4(d) and 4(g):

The Board of Trustees has appointed Ernst & Young LLP (E&Y) to serve as independent accountants to the Registrant (hereinafter the Registrant or the Fund). The tables below set forth the audit fees billed to the Fund as well as fees for non-audit services provided to the Fund and/or to the Fund s investment adviser, Massachusetts Financial Services Company (MFS), and to various entities either controlling, controlled by, or under common control with MFS that provide ongoing services to the Fund (MFS Related Entities).

For the fiscal years ended November 30, 2018 and 2017, audit fees billed to the Fund by E&Y were as follows:

	Audit Fees	
	2018	2017
Fees billed by E&Y:		
MFS Charter Income Trust	57,913	56,683

For the fiscal years ended November 30, 2018 and 2017, fees billed by E&Y for audit-related, tax and other services provided to the Fund and for audit-related, tax and other services provided to MFS and MFS Related Entities were as follows:

	Audit-Related Fees[1]		Tax Fees[2]		All Other Fees[3]	
	2018	2017	2018	2017	2018	2017
Fees billed by E&Y:						
To MFS Charter Income Trust	11,608	11,358	10,676	10,452	1,139	1,160

	Audit-Related Fees[1]		Tax Fees[2]		All Other Fees[3]	
	2018	2017	2018	2017	2018	2017
Fees billed by E&Y:						
To MFS and MFS Related Entities of MFS Charter Income Trust*	1,728,076	1,603,983	0	0	103,950	101,450

	Aggregate Fees for Non-audit Services	
	2018	2017
Fees Billed by E&Y:		
To MFS Charter Income Trust, MFS and MFS Related Entities#	2,135,349	1,860,403

* This amount reflects the fees billed to MFS and MFS Related Entities for non-audit services relating directly to the operations and financial reporting of the Fund (portions of which services also related to the operations and financial reporting of other funds within the MFS Funds complex).

\# This amount reflects the aggregate fees billed by E&Y for non-audit services rendered to the Fund and for non-audit services rendered to MFS and the MFS Related Entities.

1 The fees included under Audit-Related Fees are fees related to assurance and related services that are reasonably related to the performance of the audit or review of financial statements, but not reported under Audit Fees, including accounting consultations, agreed-upon procedure reports, attestation reports, comfort letters and internal control reviews.

2 The fees included under Tax Fees are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews and tax distribution and analysis.

3 The fees included under All Other Fees are fees for products and services provided by E&Y other than those reported under Audit Fees, Audit-Related Fees and Tax Fees, including fees for services related to review of internal controls and review of Rule 38a-1 compliance program.

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Item 4(e)(1):

Set forth below are the policies and procedures established by the Audit Committee of the Board of Trustees relating to the pre-approval of audit and non-audit related services:

To the extent required by applicable law, pre-approval by the Audit Committee of the Board is needed for all audit and permissible non-audit services rendered to the Fund and all permissible non-audit services rendered to MFS or MFS Related Entities if the services relate directly to the operations and financial reporting of the Registrant. Pre-approval is currently on an engagement-by-engagement basis. In the event pre-approval of such services is necessary between regular meetings of the Audit Committee and it is not practical to wait to seek pre-approval at the next regular meeting of the Audit Committee, pre-approval of such services may be referred to the Chair of the Audit Committee for approval; provided that the Chair may not pre-approve any individual engagement for such services exceeding $50,000 or multiple engagements for such services in the aggregate exceeding $100,000 between such regular meetings of the Audit Committee. Any engagement pre-approved by the Chair between regular meetings of the Audit Committee shall be presented for ratification by the entire Audit Committee at its next regularly scheduled meeting.

Item 4(e)(2):

None, or 0%, of the services relating to the Audit-Related Fees, Tax Fees and All Other Fees paid by the Fund and MFS and MFS Related Entities relating directly to the operations and financial reporting of the Registrant disclosed above were approved by the audit committee pursuant to paragraphs (c)(7)(i)(C) of Rule 2-01 of Regulation S-X (which permits audit committee approval after the start of the engagement with respect to services other than audit, review or attest services, if certain conditions are satisfied).

Item 4(f):

Not applicable.

Item 4(h):

The Registrant s Audit Committee has considered whether the provision by a Registrant s independent registered public accounting firm of non-audit services to MFS and MFS Related Entities that were not pre-approved by the Committee (because such services were provided prior to the effectiveness of SEC rules requiring pre-approval or because such services did not relate directly to the operations and financial reporting of the Registrant) was compatible with maintaining the independence of the independent registered public accounting firm as the Registrant s principal auditors.

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ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The Registrant has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Effective January 1, 2019, the members of the Audit Committee are Messrs. Steven E. Buller, Clarence Otis, Jr., James W. Kilman, Jr., and Michael Hegarty and Ms. Maryanne L. Roepke.

ITEM 6. SCHEDULE OF INVESTMENTS

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

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

A copy of the proxy voting policies and procedures are attached hereto as EX-99.PROXYPOL.

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

Portfolio Manager(s)

Information regarding the portfolio manager(s) of the MFS Charter Income Trust (the Fund) is set forth below. Each portfolio manager is primarily responsible for the day-to-day management of the Fund.

Effective March 1, 2018, Michael Skatrud became a portfolio manager of the Fund. Effective June 30, 2018, Richard Hawkins is no longer a portfolio manager of the Fund. Effective September 1, 2018, William Adams is no longer a portfolio manager of the Fund.

Portfolio Manager	Primary Role	Since	Title and Five Year History
Robert Spector	Lead and Debt Instruments Portfolio Manager	2015	Investment Office of MFS; employed in the investment area of MFS since 2011.
Ward Brown	Emerging Markets Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2005.
David Cole	Below Investment Grade Debt Instruments Portfolio Manager	2006	Investment Officer of MFS; employed in the investment area of MFS since 2004.
Pilar Gomez-Bravo	Debt Instruments Portfolio Manager	2013	Investment Officer of MFS; employed in the investment area of MFS since 2013.
Joshua Marston	Structured Securities Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 1999.
Robert Persons	Investment Grade Debt Instruments Portfolio Manager	2013	Investment Officer of MFS; employed in the investment area of MFS since 2000.
Matt Ryan	Emerging Markets Debt Instruments Portfolio Manager	2004	Investment Officer of MFS; employed in the investment area of MFS since 1997.
Michael Skatrud	Below Investment Grade Debt Instruments Portfolio Manager	March 2018	Investment Officer of MFS; employed in the investment area of MFS since 2013
Erik Weisman	Sovereign Debt Instruments Portfolio Manager	2012	Investment Officer of MFS; Employed in the investment area of MFS since 2002.

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Compensation

MFS philosophy is to align portfolio manager compensation with the goal to provide shareholders with long-term value through a collaborative investment process. Therefore, MFS uses long-term investment performance as well as contribution to the overall investment process and collaborative culture as key factors in determining portfolio manager compensation. In addition, MFS seeks to maintain total compensation programs that are competitive in the asset management industry in each geographic market where it has employees. MFS uses competitive compensation data to ensure that compensation practices are aligned with its goals of attracting, retaining, and motivating the highest-quality professionals.

MFS reviews portfolio manager compensation annually. In determining portfolio manager compensation, MFS uses quantitative means and qualitative means to help ensure a sustainable investment process. As of December 31, 2017, portfolio manager total cash compensation is a combination of base salary and performance bonus:

Base Salary Base salary generally represents a smaller percentage of portfolio manager total cash compensation than performance bonus.

Performance Bonus Generally, the performance bonus represents more than a majority of portfolio manager total cash compensation.

The performance bonus is based on a combination of quantitative and qualitative factors, generally with more weight given to the former and less weight given to the latter.

The quantitative portion is primarily based on the pre-tax performance of accounts managed by the portfolio manager over a range of fixed-length time periods, intended to provide the ability to assess performance over time periods consistent with a full market cycle and a strategy s investment horizon. The fixed-length time periods include the portfolio manager s full tenure on each fund and, when available, ten-, five-, and three-year periods. For portfolio managers who have served for less than three years, shorter-term periods, including the one-year period, will also be considered, as will performance in previous roles, if any, held at the firm. Emphasis is generally placed on longer performance periods when multiple performance periods are available. Performance is evaluated across the full set of strategies and portfolios managed by a given portfolio manager, relative to appropriate peer group universes and/or representative indices (benchmarks). As of December 31, 2017, the following benchmarks were used to measure the following portfolio manager s performance for the Fund:

Fund	Portfolio Manager	Benchmark(s)
	Ward Brown	JPMorgan Emerging Markets Bond Index Global
	David Cole	Bloomberg Barclays U.S. High-Yield Corporate Bond 2% Issuer Capped Index
	Pilar Gomez-Bravo	Citigroup World Government Bond Non-Dollar Hedged Index JPMorgan Emerging Markets Bond Index Global
		Bloomberg Barclay s U.S. High-Yield Corporate Bond 2% Issuer Capped Index
		Bloomberg Barclays U.S. Credit Bond Index
		Bloomberg Barclays U.S. Government/Mortgage Bond Index
	Joshua Marston	Bloomberg Barclays U.S. Government/Mortgage Bond Index
	Robert Persons	Bloomberg Barclays Global Aggregate Credit Bond Index
	Matt Ryan	JPMorgan Emerging Markets Bond Index Global
	Michael Skatrud[1]	Bloomberg Barclays U.S. High-Yield Corporate Bond 2% Issuer Capped Index

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Robert Spector	Citigroup World Government Bond Non-Dollar Hedged Index JPMorgan Emerging Markets Bond Index Global Bloomberg Barclays U.S. High-Yield Corporate Bond 2% Issuer Capped Index Bloomberg Barclays U.S. Credit Bond Index Bloomberg Barclays U.S. Government/Mortgage Bond Index
Erik Weisman	Citigroup World Government Bond Non-Dollar Hedged Index

[1] Information is as of March 1, 2018.
Benchmarks may include versions and components of indices, custom indices, and linked indices that combine performance of different indices for different portions of the time period, where appropriate.

The qualitative portion is based on the results of an annual internal peer review process (where portfolio managers are evaluated by other portfolio managers, analysts, and traders) and management s assessment of overall portfolio manager contribution to the MFS investment process and the client experience (distinct from fund and other account performance).

The performance bonus is generally a combination of cash and a deferred cash award. A deferred cash award is issued for a cash value and becomes payable over a three-year vesting period if the portfolio manager remains in the continuous employ of MFS or its affiliates. During the vesting period, the value of the unfunded deferred cash award will fluctuate as though the portfolio manager had invested the cash value of the award in an MFS Fund(s) selected by the portfolio manager.

MFS Equity Plan Portfolio managers also typically benefit from the opportunity to participate in the MFS Equity Plan. Equity interests are awarded by management, on a discretionary basis, taking into account tenure at MFS, contribution to the investment process, and other factors.

Finally, portfolio managers also participate in benefit plans (including a defined contribution plan and health and other insurance plans) and programs available generally to other employees of MFS. The percentage such benefits represent of any portfolio manager s compensation depends upon the length of the individual s tenure at MFS and salary level, as well as other factors.

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Ownership of Fund Shares

The following table shows the dollar range of equity securities of the Fund beneficially owned by the Fund s portfolio manager(s) as of the Fund s fiscal year ended November 30, 2018. The following dollar ranges apply:

N. None

A. $1 $10,000

B. $10,001 $50,000

C. $50,001 $100,000

D. $100,001 $500,000

E. $500,001 $1,000,000

F. Over $1,000,000

Name of Portfolio Manager	Dollar Range of Equity Securities in Fund
Ward Brown	N
David Cole	N
Pilar Gomez-Bravo	N
Joshua Marston	N
Robert Persons	N
Matt Ryan	N
Michael Skatrud[1]	N
Robert Spector	N
Erik Weisman	N

[1] Mr. Skatrud became a Portfolio Manager of the Fund on March 1, 2018.

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Other Accounts

In addition to the Fund, each portfolio manager of the Fund is named as a portfolio manager of certain other accounts managed or sub-advised by MFS or an affiliate. The number and assets of these accounts were as follows as of the Fund s fiscal year ended November 30, 2018:

	Registered Investment Companies*		Other Pooled Investment Vehicles		Other Accounts	
Name	Number of Accounts	Total Assets	Number of Accounts	Total Assets	Number of Accounts	Total Assets
Ward Brown	7	$ 10.5 billion	5	$ 2.9 billion	3	$ 1.2 billion
David Cole	12	$ 7.6 billion	4	$ 1.4 billion	1	$ 42.3 million
Pilar Bravo-Gomez	5	$ 4.2 billion	4	$ 2.7 billion	3	$ 743 million
Joshua Marston	10	$ 20.3 billion	8	$ 1.1 billion	13	$ 218.5 million
Robert Persons	17	$ 28.5 billion	9	$ 3.8 billion	7	$ 974.2 million
Matt Ryan	9	$ 10.9 billion	6	$ 3.4 billion	3	$ 1.2 billion
Michael Skatrud (Became a Portfolio Manager of the Fund on March 1, 2018)	11	$ 7.6 billion	5	$ 723 million	1	$ 42.3 million
Robert Spector	5	$ 4.2 billion	9	$ 4.5 billion	47	$ 2.3 billion
Erik Weisman	7	$ 5.3 billion	4	$ 2.7 billion	2	$ 718.5 million

* Includes the Fund.

Advisory fees are not based upon performance of any of the accounts identified in the table above.

Potential Conflicts of Interest

MFS seeks to identify potential conflicts of interest resulting from a portfolio manager s management of both the Fund and other accounts, and has adopted policies and procedures designed to address such potential conflicts.

The management of multiple funds and accounts (including proprietary accounts) gives rise to conflicts of interest if the funds and accounts have different objectives and strategies, benchmarks, time horizons and fees as a portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. In certain instances, there are securities which are suitable for the Fund s portfolio as well as for accounts of MFS or its subsidiaries with similar investment objectives. MFS trade allocation policies may give rise to conflicts of interest if the Fund s orders do not get fully executed or are delayed in getting executed due to being aggregated with those of other accounts of MFS or its subsidiaries. A portfolio manager may execute transactions for another fund or account that may adversely affect the value of the Fund s investments. Investments selected for funds or accounts other than the Fund may outperform investments selected for the Fund.

When two or more clients are simultaneously engaged in the purchase or sale of the same security, the securities are allocated among clients in a manner believed by MFS to be fair and equitable to each. Allocations may be based on many factors and may not always be pro rata based on assets managed. The allocation methodology could have a detrimental effect on the price or volume of the security as far as the Fund is concerned.

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MFS and/or a portfolio manager may have a financial incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor accounts other than the Fund, for instance, those that pay a higher advisory fee and/or have a performance adjustment and/or include an investment by the portfolio manager.

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

MFS Charter Income Trust

Period	(a) Total number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs
12/01/17-12/31/17	172,240	8.54	172,240	4,424,916
1/01/18-1/31/18	256,249	8.40	256,249	4,168,667
2/01/18-2/28/18	304,409	8.19	304,409	3,864,258
3/01/18-3/31/18	106,825	8.16	106,825	3,757,433
4/01/18-4/30/18	144,344	8.14	144,344	3,613,089
5/01/18-5/31/18	130,403	8.02	130,403	3,482,686
6/01/18-6/30/18	49,751	7.92	49,751	3,432,935
7/01/18-7/31/18	197,989	7.87	197,989	3,234,946
8/01/18-8/31/18	355,219	7.95	355,219	2,879,727
9/01/18-9/30/18	76,210	7.84	76,210	2,803,517
10/1/18-10/31/18	288,238	7.57	288,238	4,461,641
11/1/18-11/30/18	220,652	7.38	220,652	4,240,989
Total	***2,302,529***	***7.99***	***2,302,529***	

Note: The Board approved procedures to repurchase shares and reviews the results periodically. The notification to shareholders of the program is part of the semi-annual and annual reports sent to shareholders. These annual programs begin on October 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 shares that may be purchased in each annual period (October 1 through the following September 30) to 10% of the Registrant s outstanding shares as of the first day of the plan year (October 1). The aggregate number of shares available for purchase for the October 1, 2018 plan year is 4,749,879.

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 407 (c)(2)(iv) of Regulation S-K or this Item.

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ITEM 11. CONTROLS AND PROCEDURES.

(a) Based upon their evaluation 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 covered by the report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

ITEM 12. DISCLOSURE OF SECURITIES LENDING ACTIVITIES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

During the fiscal year ended November 30, 2018, there were no fees or income related to securities lending activities of the Registrant.

ITEM 13. EXHIBITS.

(a) (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: Attached hereto as EX-99.COE.

(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto as EX-99.302CERT.

(3) Any written solicitation to purchase securities under Rule 23c-1 under the Act (17 CFR 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. Not applicable.

(4) Change in the registrant s independent public accountant. Not applicable.

(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 as EX-99.906CERT.

(c) Proxy Voting Policies and Procedures pursuant to Item 7 of Form N-CSR. Attached hereto as EX-99.PROXYPOL.

(d) Notices to Trust s common shareholders in accordance with Investment Company Act Section 19(a) and Rule 19a-1. Attached hereto as EX-99.19a-1.

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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.

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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)* DAVID L. DILORENZO
David L. DiLorenzo, President

Date: January 15, 2019

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)* DAVID L. DILORENZO
David L. DiLorenzo, President
(Principal Executive Officer)

Date: January 15, 2019

By (Signature and Title)* JAMES O. YOST
James O. Yost, Treasurer
(Principal Financial Officer
and Accounting Officer)

Date: January 15, 2019

* Print name and title of each signing officer under his or her signature.