BlackRock Enhanced Government Fund, Inc.
Form N-CSRS
September 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21793

Name of Fund: BlackRock Enhanced Government Fund, Inc. (EGF)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock Enhanced Government Fund, Inc., 55 East 52nd Street, New York, NY 10055

Registrant s telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 12/31/2016

Date of reporting period: 06/30/2016

Item 1 Report to Stockholders

JUNE 30, 2016

SEMI-ANNUAL REPORT (UNAUDITED)

BlackRock Enhanced Government Fund, Inc. (EGF)

Not FDIC Insured May Lose Value No Bank Guarantee

Section 19(a) Notice

BlackRock Enhanced Government Fund, Inc. s (EGF) (the Fund) amounts and sources of distributions reported are estimates and are being provided to you pursuant to regulatory requirements and are not being provided for tax reporting purposes. The actual amounts and sources for tax reporting purposes will depend upon the Fund s investment experience during the remainder of the fiscal year and may be subject to changes based on the tax regulations. The Fund will provide a Form 1099-DIV each calendar year that will tell you how to report these distributions for federal income tax purposes.

June 30, 2016

	Total Cumulative Distributions for the Fiscal Year-to-Date				% Breakdown of the Total Cumulative Distributions for the Fiscal Year-to-Date			
	Net Investment Income	**Net Realized Capital Gains**	**Return of Capital**	**Total Per Common Share**	**Net Investment Income**	**Net Realized Capital Gains**	**Return of Capital**	**Total Per Common Share**
EGF	$ 0.172292		$ 0.072708	$ 0.245000	70%	0%	30%	100%

The Fund estimates that it has distributed more than the amount of earned income and net realized gains; therefore, a portion of the distribution may be a return of capital. A return of capital may occur, for example, when some or all of the shareholder s investment in the Fund is returned to the shareholder. A return of capital does not necessarily reflect the Fund s investment performance and should not be confused with yield or income. When distributions exceed total return performance, the difference will reduce the Fund s net asset value per share.

Section 19(a) notices for the Fund, as applicable, are available on the BlackRock website at http://www.blackrock.com.

Section 19(b) Disclosure

The Fund, acting pursuant to a U.S. Securities and Exchange Commission (SEC) exemptive order and with the approval of the Fund s Board of Directors (the Board), has adopted a plan, consistent with its investment objectives and policies to support a level distribution of income, capital gains and/or return of capital (the Plan). In accordance with the plan, the Fund distributed $0.049 per share on a monthly basis through June 30, 2016.

The fixed amounts distributed per share are subject to change at the discretion of the Fund s Board. Under its Plan, the Fund will distribute all available investment income to its shareholders, consistent with its primary investment objectives and as required by the Internal Revenue Code of 1986, as amended (the Code). If sufficient investment income is not available on a monthly basis, the Fund will distribute long-term capital gains and/or return of capital to shareholders in order to maintain a level distribution. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential distribution rate increases or decreases to enable the Fund to comply with the distribution requirements imposed by the Code.

Shareholders should not draw any conclusions about the Fund s investment performance from the amount of these distributions or from the terms of the Plan. The Fund s total return performance on net asset value is presented in its financial highlights table.

The Board may amend, suspend or terminate the Fund s Plan at any time without prior notice to the Fund s shareholders if it deems such actions to be in the best interests of the Fund or its shareholders. The suspension or termination of the Plan could have the effect of creating a trading discount (if the Fund s stock is trading at or above net asset value) or widening an existing trading discount. The Fund is subject to risks that could have an adverse impact on its ability to maintain a level distribution. Examples of potential risks include, but are not limited to, economic downturns impacting the markets, decreased market volatility, companies suspending or decreasing corporate dividend distributions and changes in the Code. Please refer to the Fund s prospectus for a more complete description of its risks.

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The Markets in Review

Dear Shareholder,

Uneven economic outlooks and divergence of monetary policies across regions have been the overarching themes driving financial markets over the past couple of years. In the latter half of 2015, as U.S. growth outpaced other developed markets, investors were focused largely on the timing of the Federal Reserve s (the Fed) decision to end its near-zero interest rate policy. The Fed ultimately hiked rates in December, whereas the European Central Bank and the Bank of Japan took additional steps to stimulate growth, even introducing negative interest rates. The U.S. dollar had strengthened considerably ahead of these developments, causing profit challenges for U.S. companies that generate revenues overseas, and pressuring emerging market currencies and commodities prices.

Also during this time period, oil prices collapsed due to excess global supply. China, one of the world s largest consumers of oil, was another notable source of stress for financial markets as the country showed signs of slowing economic growth and took measures to devalue its currency. Declining confidence in the country s policymakers stoked investors worries about the potential impact of China s weakness on the global economy. Global market volatility increased and risk assets (such as equities and high yield bonds) suffered in this environment.

The elevated market volatility spilled over into 2016, but as the first quarter wore on, fears of a global recession began to fade, allowing markets to calm and risk assets to rebound. Central bank stimulus in Europe and Japan, combined with a more tempered outlook for rate hikes in the United States, helped bolster financial markets. A softening in U.S. dollar strength brought relief to U.S. exporters and emerging market economies. Oil prices rebounded as the world s largest producers agreed to reduce supply.

Volatility spiked again in late June when the United Kingdom shocked investors with its vote to leave the European Union. Uncertainty around how the British exit might affect the global economy and political landscape long term drove investors to high quality assets, pushing already-low global yields to even lower levels.

At BlackRock, we believe investors need to think globally, extend their scope across a broad array of asset classes and be prepared to adjust accordingly as market conditions change over time. We encourage you to talk with your financial advisor and visit blackrock.com for further insight about investing in today s markets.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of June 30, 2016

	6-month	12-month
U.S. large cap equities (S&P 500® Index)	3.84%	3.99%
U.S. small cap equities (Russell 2000® Index)	2.22	(6.73)
International equities (MSCI Europe, Australasia, Far East Index)	(4.42)	(10.16)
Emerging market equities (MSCI Emerging	6.41	(12.05)

Markets Index)		
3-month Treasury bills (BofA Merrill Lynch 3-Month U.S. Treasury Bill Index)	0.15	0.19
U.S. Treasury securities (BofA Merrill Lynch 10-Year U.S. Treasury Index)	7.95	9.49
U.S. investment grade bonds (Barclays U.S. Aggregate Bond Index)	5.31	6.00
Tax-exempt municipal bonds (S&P Municipal Bond Index)	4.35	7.80
U.S. high yield bonds (Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	9.06	1.65

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Option Over-Writing

In general, the goal of the Fund is to provide shareholders with current income and gains. The Fund seeks to pursue this goal primarily by investing in a portfolio of U.S. Government and U.S. Government Agency securities and utilizing an option over-writing strategy in an effort to enhance the Fund s distribution rate and total return performance. However, these objectives cannot be achieved in all market conditions.

The Fund writes call options on individual U.S. Government and U.S. Government Agency securities or on baskets of such securities or on interest rate swaps (swaptions), and may write call options on other debt securities. When writing (selling) a call option, the Fund grants the counterparty the right to buy an underlying reference security or enter into a defined transaction (e.g., a swap contract, in the case of the swaption) at an agreed-upon price (strike price) within an agreed upon time period. The Fund receives cash premiums from the counterparties upon writing (selling) the option or swaption, which along with net investment income and net realized gains, if any, are generally available to support current or future distributions paid by the Fund. During the option term, the counterparty may elect to exercise the option if the market value of the underlying reference security or underlying contract rises above the strike price, and the Fund is obligated to sell the security or contract to the counterparty at the strike price, realizing a gain or loss. If the option remains unexercised upon its expiration, the Fund realizes gains equal to the premiums received.

Writing call options and swaptions entails certain risks, which include but are not limited to, the following: an increase in the value of the underlying security above the strike price can result in the exercise of a written option (sale by the Fund to the counterparty) when the Fund might not otherwise have sold the security; exercise of the option by the counterparty may result in a sale below the current market value and in a gain or loss realized by the Fund; writing call options and swaptions limits the potential appreciation on the underlying interest rate swap or security and the yield on the Fund could decline; if current market interest rates fall below the strike price, the counterparty could exercise a written swaption when the Fund might not otherwise have entered into an interest rate swap; the Fund is bound by the terms of the underlying interest rate swap agreement upon exercise of the option by the counterparty which can result in a loss to the Fund in excess of the premium received. As such, an option over-writing strategy may outperform the general fixed income market in rising or flat interest rate environments (when bond prices are steady or falling) but underperform in a falling interest rate environment (when bond prices are rising).

The Fund employs a plan to support a level distribution of income, capital gains and/or return of capital. The goal of the plan is to provide shareholders with consistent and predictable cash flows by setting distribution rates based on expected long-term returns of the Fund. Such distributions, under certain circumstances, may exceed the Fund s total return performance. When total distributions exceed total return performance for the period, the difference reduces the Fund s total assets and net asset value per share (NAV) and, therefore, could have the effect of increasing the Fund s expense ratio and/or reducing the amount of assets the Fund has available for long-term investment. In order to make these distributions, the Fund may have to sell portfolio securities at less than opportune times.

The final tax characterization of distributions is determined after the fiscal year and is reported in the Fund s annual report to shareholders. Distributions can be characterized as ordinary income, capital gains and/or return of capital. The Fund s taxable net investment income or net realized capital gains (taxable income) may not be sufficient to support the level of distributions paid. To the extent that distributions exceed the Fund s current and accumulated earnings and profits, the excess may be treated as a non-taxable return of capital. Distributions that exceed the Fund s taxable income but do not exceed the Fund s current and accumulated earnings and profits may be classified as ordinary income, which is taxable to shareholders.

A return of capital distribution does not necessarily reflect the Fund s investment performance and should not be confused with yield or income. A return of capital is a return of a portion of an investor s original investment. A return of capital is not taxable, but it reduces a shareholder s tax basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent disposition by the shareholder of his or her shares. It is possible that a substantial portion of the distributions paid during a calendar year may ultimately be classified as return of capital for income tax purposes when the final determination of the source and character of the distributions is made.

The Fund intends to write call options and swaptions to varying degrees depending upon market conditions. Please refer to the Schedule of Investments and the Notes to Financial Statements for details of written call options and swaptions.

Fund Summary as of June 30, 2016

Fund Overview

BlackRock Enhanced Government Fund, Inc. s (EGF) (the Fund) investment objective is to provide shareholders with current income and gains. The Fund seeks to achieve its investment objective by investing primarily in a portfolio of U.S. Government securities and U.S. Government Agency securities, including U.S. Government mortgage-backed securities that pay interest in an attempt to generate current income, and by employing a strategy of writing (selling) call options on individual or baskets of U.S. Government securities, U.S. Government Agency securities or other debt securities held by the Fund in an attempt to generate gains from option premiums.

No assurance can be given that the Fund s investment objective will be achieved.

Performance and Portfolio Management Commentary

Returns for the six months ended June 30, 2016 were as follows:

	Returns Based On	
	Market Price	**NAV**
EGF[1,2]	2.25%	2.58%
BofA Merrill Lynch 1-3 Year US Treasury Index	N/A	1.43%
Citigroup Government/Mortgage Index	N/A	4.34%

1 All returns reflect reinvestment of dividends and/or distributions.

2 The Fund s discount to NAV, which widened during the period, accounts for the difference between performance based on price and performance based on NAV.

N/A Not applicable as the index does not have a market price.

The following discussion relates to the Fund s absolute performance based on NAV:

What factors influenced performance?

Performance is reviewed on an absolute basis due to the Fund s unique strategy, which entails writing call options on individual or baskets of U.S. government securities or interest rates. The index returns listed above are for reference purposes only, as these indices do not reflect an option writing strategy.

The Fund s allocation to agency mortgage-backed securities, including 30-year and 15-year pass-throughs, contributed to performance. Positions in agency interest-only securities, agency collateralized mortgage obligations and commercial mortgage-backed securities (CMBS) also had a positive impact on results.

The Fund s duration strategy was the primary detractor from performance as U.S. Treasury yields declined sharply during the first half of the year. The Fund utilizes interest rate swaps as a means to manage duration, spreads and yield curve positioning.

The use of swaptions (an option to enter into an interest-rate swap) detracted, as the spread between the yields on 10- and 30-year U.S. government issues narrowed. Swaptions continue to be an efficient interest rate management tool, and they should be viewed in the context of their overall contribution to risk reduction and performance.

Describe recent portfolio activity.

The investment advisor maintained the view that financial-market volatility would be elevated in 2016, especially as the June 23 referendum on the United Kingdom s membership in the European Union approached. The Fund therefore maintained a low level of risk in the early part of the period. As higher-risk assets sold off in January and February, the Fund increased its weighting in government securities, mainly U.S. Treasuries, while reducing its position in agency mortgages. Additionally, the investment advisor slightly increased the Fund s leverage as the market began to price in lower expectations of an interest rate hike by the U.S. Federal Reserve. Higher leverage also helped the Fund generate additional yield. As the reporting period progressed, the investment advisor continued to increase the Fund s allocation to U.S. Treasuries ahead of the U.K. referendum. In addition, the Fund reduced its allocation to agency mortgage-backed securities (both 15-year and 30-year pass-throughs). Together, these decisions had a positive impact on Fund performance.

Describe portfolio positioning at period end.

The Fund continued to write one-month swaptions as a way to generate incremental yield. The Fund was overweight in agency mortgage-backed securities (with an emphasis on 15-year pass-throughs), CMBS, non-agency adjustable-rate mortgages and collateralized mortgage obligations. It also held a small allocation to corporate credits (both investment grade and high yield). The Fund remained underweight in U.S. Treasuries despite the additions it made in this area during the course of the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Fund Information

Symbol on New York Stock Exchange (NYSE)	EGF
Initial Offering Date	October 31, 2005
Current Distribution Rate on Closing Market Price as of June 30, 2016 ($13.71)[1]	4.29%
Current Monthly Distribution per Common Share[2]	$0.049
Current Annualized Distribution per Common Share[2]	$0.588
Economic Leverage as of June 30, 2016[3]	24%

1 Current Distribution Rate on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. The current distribution rate consists of income, net realized gains and/or a return of capital. See the Section 19(a) Notice on page 2 for the estimated actual sources and character of distributions. Past performance does not guarantee future results.

2 The monthly distribution per Common Share, declared on July 1, 2016, was decreased to $0.0410 per share. The current distribution rate on closing market price, current monthly distribution per Common Share and current annualized distribution per Common Share do not reflect the new distribution rate. The new distribution rate is not constant and is subject to change in the future. A portion of the distribution may be deemed a return of capital or net realized gain.

3 Represents reverse repurchase agreements as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to reverse repurchase agreements, minus the sum of liabilities (other than borrowings representing financial leverage). For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 9.

Market Price and Net Asset Value Per Share Summary

	6/30/16	12/31/15	Change	High	Low
Market Price	$ 13.71	$ 13.65	0.44%	$ 14.09	$ 13.26
Net Asset Value	$ 14.40	$ 14.29	0.77%	$ 14.43	$ 14.18

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments

Portfolio Composition	**6/30/16**	**12/31/15**
U.S. Government Sponsored Agency Securities	54%	62%
U.S. Treasury Obligations	43	33
Preferred Securities	4	3
Asset-Backed Securities	1	2
Non-Agency Mortgage-Backed Securities	1	1
Short-Term Securities	[1]	5
Other[2]		
TBA Sale Commitments	(3)	(6)

[1] Includes a less than 1% holding in Short-Term Securities.

[2] Includes a less than 1% holding in each of the following investment types: Options Purchased and Options Written.

Credit Quality Allocation[3,4]	**6/30/16**	**12/31/15**
AAA/Aaa[5]	98%	96%
BBB/Baa	1	2
BB/Ba	1	2

[3] For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either Standard & Poor s (S&P) or Moody s Investors Service (Moody s) if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

[4] Excludes Preferred Securities, Short-Term Securities, Options Purchased and Options Written.

[5] The investment adviser evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors, individual investments and/or issuer. Using this approach, the investment adviser has deemed U.S. Government Sponsored Agency Securities and U.S. Treasury Obligations as AAA/Aaa.

The Benefits and Risks of Leveraging

The Fund may utilize leverage to seek to enhance the distribution rate on, and net asset value (NAV) of, it s common shares (Common Shares). However, these objectives cannot be achieved in all interest rate environments.

In general, the concept of leveraging is based on the premise that the financing cost of leverage, which is based on short-term interest rates, is normally lower than the income earned by the Fund on its longer-term portfolio investments purchased with the proceeds from leverage. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund s shareholders benefit from the incremental net income. The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV.

To illustrate these concepts, assume the Fund s capitalization is $100 million and it utilizes leverage for an additional $30 million, creating a total value of $130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, the Fund s financing costs on the $30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by the Fund with the proceeds from leverage earn income based on longer-term interest rates. In this case, the Fund s financing cost of leverage is significantly lower than the income earned on the Fund s longer-term investments acquired from such leverage proceeds, and therefore the holders of Common Shares (Common Shareholders) are the beneficiaries of the incremental net income.

However, in order to benefit shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Fund s return on assets purchased with leverage proceeds, income to shareholders is lower than if the Fund had not used leverage. Furthermore, the value of the Fund s portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the

value of the Fund s obligations under its respective leverage arrangement generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Fund s NAVs positively or negatively. Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Fund s intended leveraging strategy will be successful.

The use of leverage also generally causes greater changes in the Fund s NAV, market prices and dividend rates than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the NAV and market price of a Fund s shares than if the Fund were not leveraged. In addition, the Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Fund to incur losses. The use of leverage may limit the Fund s ability to invest in certain types of securities or use certain types of hedging strategies. The Fund incurs expenses in connection with the use of leverage, all of which are borne by shareholders and may reduce income to the shareholders. Moreover, to the extent the calculation of the Fund s investment advisory fees includes assets purchased with the proceeds of leverage, the investment advisory fees payable to the Fund s investment adviser will be higher than if the Fund did not use leverage.

The Fund may utilize leverage through reverse repurchase agreements as described in the Notes to Financial Statements.

Under the Investment Company Act of 1940, as amended (the 1940 Act), the Fund is permitted to issue debt up to 33 1/3% of their total managed assets. The Fund may voluntarily elect to limit its leverage to less than the maximum amount permitted under the 1940 Act.

If the Fund segregates or designates on its books and records cash or liquid assets having values not less than the value of the Fund s obligations under the reverse repurchase agreement (including accrued interest), then such transaction is not considered a senior security and is not subject to the foregoing limitations and requirements under the 1940 Act.

Derivative Financial Instruments

The Fund may invest in various derivative financial instruments. These instruments are used to obtain exposure to a security, commodity, index, market, and/or other asset without owning or taking physical custody of securities commodities and/or other referenced assets or to manage market, equity, credit, interest rate, foreign currency exchange rate, commodity and/or other risks. Derivative financial instruments may give rise to a form of economic leverage and involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the

counterparty to the transaction or illiquidity of the instrument. The Fund s successful use of a derivative financial instrument depends on the investment adviser s ability to predict pertinent market movements accurately, which cannot be assured. The use of these instruments may result in losses greater than if they had not been used, may limit the amount of appreciation the Fund can realize on an investment and/or may result in lower distributions paid to shareholders. The Fund s investments in these instruments, if any, are discussed in detail in the Notes to Financial Statements.

Schedule of Investments June 30, 2016 (Unaudited)

(Percentages shown based on Net Assets)

Asset-Backed Securities	Par (000)	Value
Securitized Asset Backed Receivables LLC Trust (a):		
Series 2005-OP1, Class M2, 1.13%, 1/25/35	$ 1,037	$ 942,131
Series 2005-OP2, Class M1, 0.88%, 10/25/35	1,025	924,985
Total Asset-Backed Securities 1.8%		1,867,116

Non-Agency Mortgage-Backed Securities		
Collateralized Mortgage Obligations 1.0%		
Bank of America Mortgage Securities, Inc., Series 2003-J, Class 2A1, 3.04%, 11/25/33 (a)	114	113,305
Bear Stearns Alt-A Trust, Series 2004-13, Class A1, 1.19%, 11/25/34 (a)	154	150,013
Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.72%, 10/25/35 (a)	867	793,866
		1,057,184
Interest Only Collateralized Mortgage Obligations 0.1%		
CitiMortgage Alternative Loan Trust, Series 2007-A5, Class 1A7, 6.00%, 5/25/37	238	64,170
Total Non-Agency Mortgage-Backed Securities 1.1%		1,121,354

Preferred Securities		
Capital Trusts 2.1%		
Diversified Financial Services 0.5%		
ZFS Finance (USA) Trust V, 6.50%, 5/09/37 (a)(b)	504	504,000
Electric Utilities 1.6%		
PPL Capital Funding, Inc., Series A, 6.70%, 3/30/67 (a)	2,000	1,678,000
		2,182,000
Trust Preferred 1.9%	**Shares**	
Capital Markets 1.9%		
Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67	80,000	2,006,367
Total Preferred Securities 4.0%		4,188,367

U.S. Government Sponsored Agency Securities	Par (000)	
Agency Obligations 3.8%		
Federal Farm Credit Bank, 4.55%, 6/08/20	3,500	3,969,861
Collateralized Mortgage Obligations 6.1%		
Fannie Mae Mortgage-Backed Securities, Series 2014-28, Class BD, 3.50%, 8/25/43	1,497	1,613,217
Ginnie Mae Mortgage-Backed Securities, Series 2006-3, Class C, 5.24%, 4/16/39 (a)	4,649	4,713,534
		6,326,751

U.S. Government Sponsored Agency Securities	Par (000)	Value
Interest Only Collateralized Mortgage Obligations 1.7%		
Fannie Mae Mortgage-Backed Securities:		
Series 2012-M9, Class X1, 4.20%, 12/25/17 (a)	$ 3,557	$ 119,601
Series 2012-47, Class NI, 4.50%, 4/25/42	1,609	233,094
Series 2012-96, Class DI, 4.00%, 2/25/27	1,644	122,237
Ginnie Mae Mortgage-Backed Securities (a):		

Series 2006-30, Class IO, 2.16%, 5/16/46	403	28,126
Series 2009-78, Class SD, 5.75%, 9/20/32	1,599	316,662
Series 2009-116, Class KS, 6.03%, 12/16/39	521	84,007
Series 2011-52, Class NS, 6.23%, 4/16/41	4,313	881,712
		1,785,439
Mortgage-Backed Securities 57.1%		
Fannie Mae Mortgage-Backed Securities:		
2.50%, 4/01/28	6,097	6,344,401
3.00%, 6/01/42 - 4/01/43	7,121	7,450,021
3.50%, 8/01/26 - 8/01/44	13,336	14,194,576
4.00%, 4/01/24 - 2/01/41	11,694	12,573,425
4.50%, 4/01/39 - 8/01/40	7,769	8,545,276
5.00%, 11/01/33 - 2/01/40	4,420	4,949,619
5.50%, 10/01/23 - 9/01/36	3,780	4,284,616
6.00%, 2/01/36 - 3/01/38	694	795,037
Freddie Mac Mortgage-Backed Securities, 4.50%, 5/01/34	160	174,330
Ginnie Mae Mortgage-Backed Securities, 5.00%, 11/15/35	5	5,718
		59,317,019
Total U.S. Government Sponsored Agency Securities 68.7%		71,399,070
U.S. Treasury Obligations		
U.S. Treasury Bonds, 4.38%, 5/15/41 (c)	6,000	8,567,346
U.S. Treasury Notes:		
0.75%, 4/30/18	6,000	6,017,346
1.38%, 4/30/20 (c)	17,000	17,320,076
1.50%, 5/31/20	1,300	1,330,265
3.13%, 5/15/21	6,500	7,151,268
2.00%, 11/30/22 (c)	4,500	4,709,709
2.00%, 2/15/25 (c)	6,000	6,277,500
2.25%, 11/15/25	2,800	2,987,250
1.63%, 2/15/26	2,800	2,831,500
Total U.S. Treasury Obligations 55.0%		57,192,260
Total Long-Term Investments (Cost $129,386,625) 130.6%		135,768,167

Portfolio Abbreviations

AUD	Australian Dollar	**IO**	Interest Only	**NZD**	New Zealand Dollar
CAD	Canadian Dollar	**ISDA**	International Swaps and Derivatives Association, Inc.	**OTC**	Over-the-Counter
CHF	Swiss Franc	**JPY**	Japanese Yen	**SEK**	Swedish Krona
EUR	Euro	**LIBOR**	London Interbank Offered Rate	**USD**	U.S. Dollar
GBP	British Pound	**NOK**	Norwegian Krone		

See Notes to Financial Statements.

Schedule of Investments (continued)

Short-Term Securities 0.1%	Shares	Value
BlackRock Liquidity Funds, TempFund, Institutional Class, 0.40% (d)(e)	155,381	$ 155,381
Total Short-Term Securities (Cost $155,381) 0.1%		155,381
Options Purchased (Cost $125,828) 0.1%		79,780
Total Investments Before TBA Sale Commitments and Options Written (Cost $129,667,834) 130.8%		136,003,328

TBA Sale Commitments (3.8)%		Par (000)	Value
Fannie Mae Mortgage-Backed Securities, 5.50%, 7/01/46 (f)	USD	3,560	$ (4,001,663)
Total TBA Sale Commitments (Proceeds $3,986,516) (3.8)%			(4,001,663)
Options Written (Premiums Received $522,677) (0.4)%			(406,918)
Total Investments, Net of TBA Sale Commitments and Options Written (Cost $125,158,641) 126.6%			131,594,747
Liabilities in Excess of Other Assets (26.6)%			(27,657,268)
Net Assets 100.0%			$ 103,937,479

Notes to Schedule of Investments

(a) Variable rate security. Rate as of period end.

(b) Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration to qualified institutional investors.

(c) All or a portion of security has been pledged as collateral in connection with outstanding reverse repurchase agreements.

(d) Current yield as of period end.

(e) During the six months ended June 30, 2016, investments in issuers considered to be affiliates of the Fund for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

Affiliate	Shares Held at December 31, 2015	Net Activity	Shares Held at June 30, 2016	Value at June 30, 2016	Income
BlackRock Liquidity Funds, TempFund, Institutional Class	2,705,612	(2,550,231)	155,381	$ 155,381	$ 8,106

(f) Represents or includes a TBA transaction. As of period end, unsettled TBA transactions were as follows:

Counterparty	Value	Unrealized Depreciation

Barclays Capital, Inc.	$ (1,416,319)	$ (5,709)
BNP Paribas Securities Corp.	(1,011,656)	(3,656)
Credit Suisse Securities (USA) LLC	(1,011,656)	(3,516)
Goldman Sachs & Co.	(562,032)	(2,266)

Reverse Repurchase Agreements

Counterparty	Interest Rate	Trade Date	Maturity Date[1]	Face Value	Face Value Including Accrued Interest	Type of Underlying Collateral	Remaining Contractual Maturity of the Agreements[1]
Deutsche Bank Securities, Inc.	0.70%	6/19/15	Open	$ 3,925,000	$ 3,936,401	U.S. Treasury Obligations	Open/Demand
Deutsche Bank Securities, Inc.	0.26%	8/25/15	Open	1,985,000	1,989,459	U.S. Treasury Obligations	Open/Demand
Credit Suisse Securities (USA) LLC	0.45%	1/15/16	Open				