

Edgar Filing: BlackRock Enhanced Government Fund, Inc. - Form N-Q

BlackRock Enhanced Government Fund, Inc.
Form N-Q
November 25, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY**

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: 12/31/2013

Date of reporting period: 09/30/2013

Item 1 – Schedule of Investments

Schedule of Investments September 30, 2013 (Unaudited) **BlackRock Enhanced Government Fund, Inc. (EGF)**
(Percentages shown are based on Net Assets)

| Asset-Backed Securities | Par (000) | Value |
|--|--------------|------------------|
| First Franklin Mortgage Loan Asset-Backed Certificates Series 2005-FF2, Class M2, 0.84%, \$1,670 3/25/35 (a) | | \$ 1,661,484 |
| Motor PLC, Series 12A, Class A1C, 1.29%, 2/25/20 (b) | 252 | 251,953 |
| Securitized Asset Backed Receivables LLC Trust (a): | | |
| Series 2005-OP1, Class M2, 0.85%, 1/25/35 | 1,830 | 1,619,908 |
| Series 2005-OP2, Class M1, 0.61%, 10/25/35 | 1,025 | 863,565 |
| Total Asset-Backed Securities — 2.9% | | 4,396,910 |

| | | |
|---|-------|------------------|
| Corporate Bonds | | |
| Diversified Telecommunication Services — 2.0% | | |
| Verizon Communications, Inc., 2.50%, 9/15/16 | 3,000 | 3,092,058 |
| Energy Equipment & Services — 0.3% | | |
| Transocean, Inc.: | | |
| 4.95%, 11/15/15 | 295 | 316,476 |
| 5.05%, 12/15/16 | 50 | 54,794 |
| 6.00%, 3/15/18 | 60 | 67,606 |
| | | 438,876 |
| Total Corporate Bonds — 2.3% | | 3,530,934 |

| | | |
|---|-------|-----------|
| Non-Agency Mortgage-Backed Securities | | |
| Collateralized Mortgage Obligations — 1.0% | | |
| Banc of America Mortgage Securities, Inc., Series 2003-J, Class 2A1, 3.18%, 11/25/33 (a) | 189 | 189,761 |
| Bear Stearns Alt-A Trust Series 2004-13, Class A1, 0.92%, 11/25/34 (a) | 273 | 267,133 |
| Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.45%, 10/25/35 (a) | 1,315 | 1,110,523 |
| | | 1,567,417 |
| Commercial Mortgage-Backed Securities — 0.3% | | |
| Commercial Mortgage Pass-Through Certificates Series 2007-C9, Class A2, 5.80%, 12/10/49 (a) | 156 | 155,563 |

| Non-Agency Mortgage-Backed Securities | Par (000) | Value |
|--|--------------|------------|
| Commercial Mortgage-Backed Securities (concluded) | | |
| Credit Suisse Mortgage Capital Certificates, Series 2007-C5, Class A2, 5.59%, 9/15/40 | \$289 | \$ 287,969 |
| | | 443,532 |

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| | | |
|---|-----|------------------|
| Interest Only Collateralized Mortgage Obligations — 0.1% | | |
| CitiMortgage Alternative Loan Trust, Series 2007-A5 Class 1A7, 6.00%, 5/25/37 | 372 | 91,742 |
| Total Non-Agency Mortgage-Backed Securities — 1.4% | | 2,102,691 |

Preferred Securities

Capital Trusts

Diversified Financial Services — 0.3%

| | | |
|--|-----|---------|
| ZFS Finance (USA) Trust V, 6.50%, 5/09/37 (a)(b) | 504 | 527,940 |
|--|-----|---------|

Electric Utilities — 1.3%

| | | |
|---|-------|------------------|
| PPL Capital Funding, Inc., 6.70%, 3/30/67 (a) | 2,000 | 2,040,000 |
| Total Capital Trusts — 1.6% | | 2,567,940 |

Trust Preferreds Shares

Capital Markets — 1.3%

| | | |
|---|--------|-----------|
| Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67 | 80,000 | 1,933,567 |
|---|--------|-----------|

Total Preferred Securities – 2.9% 4,501,507

US Government Sponsored Agency Securities Par (000)

Agency Obligations — 2.6%

| | | |
|--|---------|-----------|
| Federal Farm Credit Bank, 4.55%, 6/08/20 | \$3,500 | 3,975,377 |
|--|---------|-----------|

Collateralized Mortgage Obligations — 10.0%

Ginnie Mae Mortgage-Backed Securities, Class

C (a):

| | | |
|--------------------------------|--------|------------|
| Series 2005-87, 5.01%, 9/16/34 | 4,276 | 4,426,986 |
| Series 2006-3, 5.24%, 4/16/39 | 10,000 | 10,781,650 |
| | | 15,208,636 |

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Schedule of Investments (continued) **BlackRock Enhanced Government Fund, Inc. (EGF)**
(Percentages shown are based on Net Assets)

| | Par (000) | Value |
|--|--------------|-------------------|
| US Government Sponsored Agency Securities | | |
| Interest Only Collateralized Mortgage Obligations — 2.5% | | |
| Fannie Mae Mortgage-Backed Securities: | | |
| Series 2012-47, Class NI, 4.50%, 4/25/42 | \$2,470 | \$ 483,965 |
| Series 2012-96, Class DI, 4.00%, 2/25/27 | 3,273 | 398,669 |
| Series 2012-M9, Class X1, 4.07%, 12/25/17 (a) | 5,827 | 813,616 |
| Ginnie Mae Mortgage-Backed Securities (a): | | |
| Series 2006-30, Class IO, 0.34%, 5/16/46 | 2,837 | 89,617 |
| Series 2009-78, Class SD, 6.03%, 9/20/32 | 2,709 | 404,884 |
| Series 2009-116, Class KS, 6.29%, 12/16/39 | 1,341 | 193,935 |
| Series 2011-52, Class NS, 6.49%, 4/16/41 | 7,349 | 1,372,928 |
| | | 3,757,614 |
| Mortgage-Backed Securities — 61.5% | | |
| Fannie Mae Mortgage-Backed Securities: | | |
| 2.50%, 4/01/28 | 8,746 | 8,803,290 |
| 3.00%, 6/01/42 - 4/01/43 | 8,702 | 8,508,924 |
| 3.50%, 8/01/26 - 6/01/42 | 14,509 | 15,124,842 |
| 4.00%, 4/01/24 - 2/01/41 | 19,231 | 20,244,821 |
| 4.50%, 4/01/39 - 8/01/40 | 13,281 | 14,264,753 |
| 5.00%, 11/01/33 - 2/01/40 | 8,309 | 9,048,791 |
| 5.50%, 10/01/23 - 10/15/43 (c)(d) | 14,034 | 15,314,834 |
| 6.00%, 2/01/36 - 3/01/38 | 1,793 | 1,956,506 |
| Freddie Mac Mortgage-Backed Securities, 4.50%, 5/01/34 | 282 | 300,196 |
| Ginnie Mae Mortgage-Backed Securities, 5.00%, 11/15/35 | 15 | 15,987 |
| | | 93,582,944 |
| Total US Government Sponsored Agency Securities — 76.6% | | 16,524,571 |

US Treasury Obligations

US Treasury Bonds:

| | | |
|--------------------|--------|------------|
| 6.63%, 2/15/27 | 2,000 | 2,802,188 |
| 5.38%, 2/15/31 | 2,000 | 2,550,624 |
| 3.88%, 8/15/40 (e) | 12,000 | 12,504,372 |
| 4.38%, 5/15/41 | 10,000 | 11,306,250 |
| 3.75%, 8/15/41 (e) | 10,000 | 10,165,620 |

US Treasury Notes:

| | | |
|----------------|-----|---------|
| 0.25%, 1/31/14 | 300 | 300,211 |
|----------------|-----|---------|

US Treasury Obligations

US Treasury Notes (concluded)

| | Par (000) | Value |
|---------------------|--------------|--------------|
| 0.38%, 11/15/15 (e) | \$5,900 | \$ 5,900,460 |
| 0.75%, 6/30/17 (e) | 4,000 | 3,967,812 |

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| | | |
|--|--------|-------------|
| 1.38%, 6/30/18 | 3,000 | 3,007,734 |
| 3.13%, 5/15/21 (e) | 10,000 | 10,687,500 |
| 1.75%, 5/15/22 (e) | 2,000 | 1,894,218 |
| Total US Treasury Obligations — 42.8% | | 65,086,989 |
| Total Long-Term Investments | | 196,143,602 |
| (Cost — \$194,122,220) — 128.9% | | |

| | | |
|--|-----------|-------------|
| Short-Term Securities | Shares | |
| BlackRock Liquidity Funds, TempFund, Institutional Class, 0.02% (f)(g) | 6,182,143 | 6,182,143 |
| Total Short-Term Securities | | 6,182,143 |
| (Cost — \$6,182,143) — 4.1% | | |
| Total Investments Before TBA Sale Commitments and Options Written | | 202,325,745 |
| (Cost — \$200,304,363*) — 133.0% | | |

| | | |
|---|--------------|--------------|
| TBA Sale Commitments (d) | Par (000) | |
| Fannie Mae Mortgage-Backed Securities, 5.50%, 10/01/23 - 10/15/43 | \$12,200 | (13,288,469) |
| Total TBA Sale Commitments | | (13,288,469) |
| (Proceeds — \$13,252,250) — (8.8)% | | |

| | | |
|--|--|----------------|
| Options Written | | (817,422) |
| (Premiums Received — \$662,000) — (0.5)% | | |
| Total Investments, Net of TBA Sale Commitments and Options Written — 123.7% | | 188,219,854 |
| Liabilities in Excess of Other Assets — (23.7)% | | (36,074,249) |
| Net Assets — 100.0% | | \$ 152,145,605 |

As of September 30, 2013, gross unrealized appreciation and gross *unrealized depreciation based on cost for federal income tax purposes were as follows:

| | |
|------------------------------------|---------------------|
| Tax cost | \$ 200,304,363 |
| Gross unrealized appreciation | \$ 4,978,047 |
| Gross unrealized depreciation | (2,956,665) |
| Net unrealized appreciation | \$ 2,021,382 |

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Schedule of Investments (continued) **BlackRock Enhanced Government Fund, Inc. (EGF)**

Notes to Schedule of Investments

- (a) Variable rate security. Rate shown is as of report date.
- (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 swaps.
- (d) Represents or includes a TBA transaction. Unsettled TBA transactions as of September 30, 2013 were as follows:

| Counterparty | Value | Unrealized Depreciation |
|----------------------------|---------------|----------------------------|
| J.P. Morgan Securities LLC | \$(6,639,469) | \$(39,793) |

(e) All or a portion of securities with an aggregate market value of \$45,119,982 have been pledged as collateral for open reverse repurchase

agreements.

(f) Investments in issuers considered to be an affiliate of the Fund during the period ended September 30, 2013, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

| Affiliate | Shares Held at December 31, 2012 | Net Activity | Shares Held at September 30, 2013 | Income |
|--|---|-----------------|---|---------|
| BlackRock Liquidity Funds, TempFund, Institutional Class | 10,928,321 | (4,746,178) | 6,182,143 | \$3,155 |

(g) Represents the current yield as of report date.

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

LIBOR London Interbank Offered Rate
TBA To Be Announced

- Reverse repurchase agreements outstanding as of September 30, 2013 were as follows:

| Counterparty | Face Value |
|--------------|------------|
|--------------|------------|

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| | Interest Rate | Trade Date | Maturity Date ¹ | Face Value | Face Value Including Accrued Interest |
|---|---------------|------------|----------------------------|--------------|---------------------------------------|
| Deutsche Bank Securities, Inc. | 0.21% | 4/02/13 | Open | \$4,030,000 | \$4,032,141 |
| Merrill Lynch, Pierce, Fenner & Smith, Inc. | 0.14% | 4/25/13 | Open | 11,500,000 | 11,502,111 |
| Merrill Lynch, Pierce, Fenner & Smith, Inc. | 0.14% | 4/25/13 | Open | 2,047,500 | 2,048,766 |
| Credit Suisse Securities (USA) LLC | 0.08% | 9/17/13 | Open | 12,150,000 | 12,150,351 |
| Credit Suisse Securities (USA) LLC | 0.08% | 9/17/13 | Open | 9,875,000 | 9,875,285 |
| Merrill Lynch, Pierce, Fenner & Smith, Inc. | 0.07% | 9/18/13 | Open | 5,892,625 | 5,892,774 |
| Total | | | | \$45,495,125 | \$45,501,428 |

¹ Certain agreements have no stated maturity and can be terminated by either party at any time.

Schedule of Investments (continued) **BlackRock Enhanced Government Fund, Inc. (EGF)**

•Financial futures contracts as of September 30, 2013 were as follows:

| Contracts Purchased | Issue | Exchange | Expiration | Notional Value | Unrealized Appreciation |
|---------------------|--------------------------|------------------------|---------------|----------------|-------------------------|
| 2 | 10-Year US Treasury Note | Chicago Board of Trade | December 2013 | \$252,781 | \$4,044 |

•Over-the-counter interest rate swaptions written as of September 30, 2013 were as follows:

| Description | Counterparty | Put/ Exercise Call Rate | Pay/Receive Exercise Rate | Floating Rate Index | Expiration Date | Notional Amount (000) | Market Value |
|----------------------------|------------------|-------------------------|---------------------------|---------------------|-----------------|-----------------------|--------------------|
| 2-Year Interest Rate Swap | Deutsche Bank AG | Call 0.48% | Pays | 6-Month LIBOR | 10/28/13 | \$50,000 | \$(26,130) |
| 5-Year Interest Rate Swap | Deutsche Bank AG | Call 1.58% | Pays | 3-Month LIBOR | 10/28/13 | \$ 50,000 | (217,756) |
| 10-Year Interest Rate Swap | Deutsche Bank AG | Call 2.80% | Pays | 3-Month LIBOR | 10/28/13 | \$ 30,000 | (290,799) |
| 30-Year Interest Rate Swap | Deutsche Bank AG | Call 3.67% | Pays | 3-Month LIBOR | 10/28/13 | \$ 15,000 | (282,737) |
| Total | | | | | | | \$(817,422) |

•Centrally cleared interest rate swaps outstanding as of September 30, 2013 were as follows:

| Fixed Rate | Floating Rate | Clearinghouse | Expiration Date | Notional Amount (000) | Unrealized Appreciation (Depreciation) |
|--------------------|---------------|-----------------------------|-----------------|-----------------------|--|
| 2.29% ¹ | 3-Month LIBOR | Chicago Mercantile Exchange | 5/30/23 | \$880 | \$33,606 |

• Over-the counter interest rate swaps outstanding as of September 30, 2013 were as follows:

| Fixed Rate | Floating Rate | Counterparty | Expiration Date | Notional Amount (000) | Market Value | Premium Paid (Received) | Unrealized Appreciation (Depreciation) |
|--------------------|---------------|------------------|-----------------|-----------------------|---------------|-------------------------|--|
| 5.96% ¹ | 3-Month LIBOR | Deutsche Bank AG | 12/27/37 | \$23,900 | \$(9,482,641) | — | \$(9,482,641) |

¹ Fund pays the fixed rate and receives the floating rate.

Schedule of Investments (continued) **BlackRock Enhanced Government Fund, Inc. (EGF)**

Fair Value Measurements - Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial reporting purposes as follows:

Level 1 — unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

Level 2 — other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 — unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund's own assumptions used in determining the fair value of investments and derivative financial instruments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund's policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Fund's policy regarding valuation of investments and derivative financial instruments, please refer to the Fund's most recent financial statements as contained in its semi-annual report.

The following tables summarize the Fund's investments and derivative financial instruments categorized in the disclosure hierarchy as of September 30, 2013:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|---------|--------------|---------|-------------|
| Assets: | | | | |
| Investments: | | | | |
| Long-Term Investments: | | | | |
| Asset-Backed Securities | — | \$ 4,396,910 | — | \$4,396,910 |
| Corporate Bonds | — | 3,530,934 | — | 3,530,934 |
| Non-Agency Mortgage-Backed Securities | — | 2,102,691 | — | 2,102,691 |

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| | | | | |
|---|--------------|----------------|---|----------------|
| Preferred Securities | — | 4,501,507 | — | 4,501,507 |
| US Government Sponsored Agency Securities | — | 116,524,571 | — | 116,524,571 |
| US Treasury Obligations | — | 65,086,989 | — | 65,086,989 |
| Short-Term Securities | \$ 6,182,143 | — | — | 6,182,143 |
| Liabilities: | | | | |
| Investments: | | | | |
| TBA Sale Commitments | — | (13,288,469) | — | (13,288,469) |
| Total | \$ 6,182,143 | \$ 182,855,133 | — | \$ 189,037,276 |

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Schedule of Investments (concluded) **BlackRock Enhanced Government Fund, Inc. (EGF)**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|----------------|---------|----------------|
| Derivative Financial Instruments ¹ | | | | |
| Assets: | | | | |
| Interest rate contracts | \$4,044 | \$33,606 | — | \$37,650 |
| Liabilities: | | | | |
| Interest rate contracts | — | (10,300,063) | — | (10,300,063) |
| Total | \$4,044 | \$(10,266,457) | — | \$(10,262,413) |

Derivative financial instruments are swaps, financial futures contracts and options written. Swaps and financial futures contracts are valued at the unrealized appreciation/depreciation on the instrument and options written are shown at value.

Certain of the Fund's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial reporting purposes. As of September 30, 2013, such assets and liabilities are categorized within the disclosure hierarchy as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|----------------|---------|----------------|
| Assets: | | | | |
| Foreign currency at value | \$773 | — | — | \$773 |
| Cash pledged for centrally cleared swaps | 40,000 | — | — | 40,000 |
| Cash pledged as collateral for over-the-counter swaps | 10,390,000 | — | — | 10,390,000 |
| Cash pledged as collateral for reverse repurchase agreements | 1,075,000 | — | — | 1,075,000 |
| Cash pledged for financial futures contracts | 14,000 | — | — | 14,000 |
| Liabilities: | | | | |
| Bank overdraft | — | \$(28,004) | — | (28,004) |
| Reverse repurchase agreements | — | (45,501,428) | — | (45,501,428) |
| Total | \$11,519,773 | \$(45,529,432) | — | \$(33,009,659) |

As of December 31, 2012, the Fund valued certain equity securities using unadjusted price quotations from an exchange. As of September 30, 2013, the Fund used other observable inputs in determining the value of the same securities. As a result, investments with a beginning of period value of \$1,963,608 transferred from Level 1 to Level 2 in the disclosure hierarchy.

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Item 2 – Controls and Procedures

2(a) – The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.

2(b) – There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3 – Exhibits

Certifications – Attached hereto

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.

BlackRock Enhanced Government Fund, Inc.

By: /s/ John M. Perlowski

John M. Perlowski

Chief Executive Officer (principal executive officer) of

BlackRock Enhanced Government Fund, Inc.

Date: November 25, 2013

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: /s/ John M. Perlowski

John M. Perlowski

Chief Executive Officer (principal executive officer) of

BlackRock Enhanced Government Fund, Inc.

Date: November 25, 2013

By: /s/ Neal J. Andrews

Neal J. Andrews

Chief Financial Officer (principal financial officer) of

BlackRock Enhanced Government Fund, Inc.

Date: November 25, 2013