

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

BlackRock Enhanced Government Fund, Inc.
Form N-Q
May 24, 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: 03/31/2013

Item 1 – Schedule of Investments

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments March 31, 2013 (Unaudited)

(Percentages shown are based on Net Assets)

| | Par (000) | Value |
|---|--------------|-------------|
| Asset-Backed Securities | | |
| First Franklin Mortgage Loan Asset-Backed Certificates, Series 2005-FF2, Class M2, 0.64%, 3/25/35 (a) | \$2,233 | \$2,184,251 |
| Motor Plc, 1.29%, 2/25/20 (b) | 252 | 252,780 |
| Securitized Asset-Backed Receivables LLC Trust (a): | | |
| Series 2005-0P1, Class M2, 0.65%, 1/25/35 | 2,000 | 1,785,000 |
| Series 2005-0P2, Class M1, 0.63%, 10/25/35 | 1,025 | 864,081 |
| Total Asset-Backed Securities – 3.2% | | 5,086,112 |
| Corporate Bonds | | |
| Energy Equipment & Services — 0.3% | | |
| Transocean, Inc.: | | |
| 4.95%, 11/15/15 | 295 | 319,186 |
| 5.05%, 12/15/16 | 50 | 55,555 |
| 6.00%, 3/15/18 | 60 | 67,956 |
| | | 442,697 |
| Total Corporate Bonds – 0.3% | | 442,697 |
| Municipal Bonds | | |
| State of California, GO, Various Purpose 3, Mandatory Put Bonds, 5.65%, 4/01/39 | 1,220 | 1,224,465 |
| Total Municipal Bonds – 0.8% | | 1,224,465 |
| Non-Agency Mortgage-Backed Securities | | |
| Collateralized Mortgage Obligations — 1.0% | | |
| Bank of America Mortgage Securities, Inc., Series 2003-J, Class 2A1, 3.19%, 11/25/33 (a) | 218 | 217,797 |
| Bear Stearns Alt-A Trust, Series 2004-13, Class A1, 0.94%, 11/25/34 (a)(b) | 306 | 301,971 |
| Homebanc Mortgage Trust, Series 2005-4, Class A1, 0.47%, 10/25/35 (a) | 1,376 | 1,155,047 |
| | | 1,674,815 |
| Commercial Mortgage-Backed Securities — 0.5% | | |
| Commercial Mortgage Pass-Through Certificates, Series 2007-C9, Class A2, 5.80%, 12/10/49 (a) | 272 | 271,301 |
| | Par (000) | Value |
| Non-Agency Mortgage-Backed Securities | | |
| Commercial Mortgage-Backed Securities (concluded) | | |
| Credit Suisse Mortgage Capital Certificates, Series 2007-C5, Class A2, 5.59%, 9/15/40 | \$520 | \$519,318 |
| | | 790,619 |
| Interest Only Collateralized Mortgage Obligations — 0.1% | | |
| CitiMortgage Alternative Loan Trust, Series 2007-A5, Class 1A7, 6.00%, 5/25/37 | 409 | 101,875 |
| Total Non-Agency Mortgage-Backed Securities – 1.6% | | 2,567,309 |

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| | | |
|---|--------------|-----------|
| Preferred Securities | | |
| Capital Trusts | | |
| Diversified Financial Services — 0.3% | | |
| ZFS Finance (USA) Trust V, 6.50%, 5/09/67 (a)(b) | 504 | 539,280 |
| Electric Utilities — 1.4% | | |
| PPL Capital Funding, Inc., 6.70%, 3/30/67 (a) | 2,000 | 2,125,000 |
| Total Capital Trusts – 1.7% | | 2,664,280 |
| | | |
| | Shares | |
| Trust Preferreds | | |
| Capital Markets — 1.3% | | |
| Morgan Stanley Capital Trust VIII, 6.45%, 4/15/67 | 80,000 | 2,009,600 |
| Total Preferred Securities – 3.0% | | 4,673,880 |
| | | |
| | Par (000) | |
| US Government Sponsored Agency Securities | | |
| Agency Obligations — 2.6% | | |
| Federal Farm Credit Bank, 4.55%, 6/08/20 | \$3,500 | 4,145,551 |
| Collateralized Mortgage Obligations — 11.0% | | |
| Ginnie Mae Mortgage-Backed Securities, Class C (a): Series 2005-87, 4.99%, 9/16/34 | 6,021 | 6,287,284 |

BLACKROCK ENHANCED GOVERNMENT FUND, INC. MARCH 31, 2013 1

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments (continued)

(Percentages shown are based on Net Assets)

| | Par (000) | Value |
|---|--------------|---------------|
| US Government Sponsored Agency Securities | | |
| Collateralized Mortgage Obligations (concluded) | | |
| Ginnie Mae Mortgage-Backed Securities, Class C (a) (concluded): | | |
| Series 2006-3, 5.24%, 4/16/39 | \$ 10,000 | \$ 11,019,160 |
| | | 17,306,444 |
| Interest Only Collateralized Mortgage Obligations — 2.7% | | |
| Fannie Mae Mortgage-Backed Securities: | | |
| Series 2010-126, Class UI, 5.50%, 10/25/40 | 3,102 | 446,580 |
| Series 2012-47, Class NI, 4.50%, 4/25/42 | 2,682 | 410,252 |
| Series 2012-96, Class DI, 4.00%, 2/25/27 | 3,723 | 393,565 |
| Series 2012-M9, Class X1, 4.08%, 12/25/17 (a) | 5,858 | 930,412 |
| Ginnie Mae Mortgage-Backed Securities (a): | | |
| Series 2006-30, Class IO, 0.33%, 5/16/46 | 3,376 | 106,181 |
| Series 2009-78, Class SD, 6.00%, 9/20/32 | 3,107 | 576,686 |
| Series 2011-52, Class NS, 6.47%, 4/16/41 | 8,464 | 1,467,132 |
| | | 4,330,808 |
| Mortgage-Backed Securities — 61.4% | | |
| Fannie Mae Mortgage-Backed Securities: | | |
| 3.00%, 6/01/42 - 4/15/43 (d) | 12,483 | 12,866,162 |
| 3.50%, 8/01/26 - 6/01/42 | 16,409 | 17,495,250 |
| 4.00%, 4/01/24 - 2/01/41 | 22,362 | 23,922,403 |
| 4.50%, 4/01/39 - 8/01/40 | 15,329 | 16,931,079 |
| 5.00%, 11/01/33 - 2/01/40 | 10,306 | 11,284,620 |
| 5.50%, 10/01/23 - 9/01/36 (c) | 10,286 | 11,327,794 |
| 6.00%, 2/01/36 - 3/01/38 | 2,505 | 2,749,021 |
| Freddie Mac Mortgage-Backed Securities, 4.50%, 5/01/34 | 398 | 427,077 |
| Ginnie Mae Mortgage-Backed Securities, 5.00%, 11/15/35 | 17 | 18,167 |
| | | 97,021,573 |
| Total US Government Sponsored Agency Securities – 77.7% | | 122,804,376 |
| US Treasury Obligations | | |
| US Treasury Bonds: | | |
| 6.63%, 2/15/27 | 2,000 | 3,023,124 |
| 5.38%, 2/15/31 | 2,000 | 2,782,188 |
| 3.88%, 8/15/40 (e) | 12,000 | 13,880,628 |
| | Par (000) | Value |
| US Treasury Obligations | | |

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| | | |
|---|-----------|----------------|
| US Treasury Bonds (concluded): | | |
| 4.38%, 5/15/41 | \$ 10,000 | \$ 12,545,310 |
| 3.75%, 8/15/41 (e) | 10,000 | 11,309,380 |
| US Treasury Notes: | | |
| 0.25%, 1/31/14 | 300 | 300,246 |
| 0.38%, 11/15/15 | 10,000 | 10,015,620 |
| 0.75%, 6/30/17 (e) | 4,000 | 4,023,124 |
| 3.13%, 5/15/21 (e) | 10,000 | 11,260,160 |
| 1.75%, 5/15/22 (e) | 2,000 | 2,005,782 |
| Total US Treasury Obligations – 45.0% | | 71,145,562 |
| Total Long-Term Investments | | 207,944,401 |
| (Cost – \$198,157,165) – 131.6% | | |
| Short-Term Securities | | |
| BlackRock Liquidity Funds, TempFund, Institutional Class, 0.09% (f)(g) | Shares | |
| | 3,951,699 | 3,951,699 |
| Total Short-Term Securities | | 3,951,699 |
| (Cost – \$3,951,699) – 2.5% | | |
| Total Investments Before TBA Sale Commitments and Options Written | | 211,896,100 |
| (Cost – \$202,108,864*) – 134.1% | | |
| | Par | |
| | (000) | |
| TBA Sale Commitments (d) | | |
| Fannie Mae Mortgage-Backed Securities: | | |
| 3.00%, 4/15/43 | \$ 3,600 | (3,713,062) |
| 5.50%, 4/15/43 | 6,100 | (6,652,813) |
| Total TBA Sale Commitments | | (10,365,875) |
| (Proceeds – \$10,336,734) – (6.6)% | | |
| Options Written | | |
| (Premiums Received – \$480,000) – (0.3)% | | (492,053) |
| Total Investments, Net of TBA Sale Commitments and Options Written – 127.2% | | 201,038,172 |
| Liabilities in Excess of Other Assets – (27.2)% | | (43,004,256) |
| Net Assets – 100.0% | | \$ 158,033,916 |

BLACKROCK ENHANCED GOVERNMENT FUND, INC. MARCH 31, 2013 2

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments (continued)

As of March 31, 2013, gross unrealized appreciation and gross unrealized depreciation *based on cost for federal income tax purposes were as follows:

| | |
|-------------------------------|---------------|
| Tax cost | \$202,108,864 |
| Gross unrealized appreciation | \$10,859,466 |
| Gross unrealized depreciation | (1,072,230) |
| Net unrealized appreciation | \$9,787,236 |

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 March 31, 2013 were as follows:

| Counterparty | Value | Unrealized Appreciation (Depreciation) |
|----------------------|---------------|--|
| Deutsche Bank AG | \$7,312,859 | \$ (8,282) |
| JPMorgan Chase & Co. | \$(6,652,813) | \$ (16,203) |

- (e) All or a portion of security has been pledged as collateral in connection with open reverse repurchase agreements.
 (f) Investments in issuers considered to be an affiliate of the Fund during the period ended March 31, 2013, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, as amended, were as follows:

| Affiliate | Shares Held at March 31, 2013 | Shares Purchased | Shares Sold | Shares Held at March 31, 2013 | Value at March 31, 2013 | Income | Realized Gain/Loss |
|---|--|---------------------|----------------|--|-------------------------------|---------|-----------------------|
| BlackRock Liquidity Funds, TempFund, | 10,928,321 | (6,976,622) | — | 3,951,699 | \$3,951,699 | \$1,716 | \$— |

Institutional Class

(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:

GO General Obligation Bonds
LIBOR London Interbank Offered Rate
TBA To Be Announced

For Fund compliance purposes, the Fund's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by Fund management. These definitions may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. MARCH 31, 2013 3

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments (continued)

Reverse repurchase agreements outstanding as of March 31, 2013 were as follows:

| Counterparty | Interest Rate | Trade Date | Maturity Date ¹ | Face Value | Face Value Including Accrued Interest |
|------------------------------------|---------------|------------|----------------------------|---------------------|---------------------------------------|
| Credit Suisse Securities (USA) LLC | 0.16% | 8/22/12 | Open | \$ 14,580,000 | \$ 14,594,386 |
| Deutsche Bank AG | 0.16% | 12/11/12 | Open | 4,045,000 | 4,048,367 |
| Credit Suisse Securities (USA) LLC | 0.22% | 12/13/12 | Open | 11,962,500 | 11,970,468 |
| Bank of America Corp. | 0.22% | 12/10/12 | Open | 11,475,000 | 11,482,854 |
| Bank of America Corp. | 0.22% | 3/01/13 | Open | 2,015,000 | 2,015,382 |
| Total | | | | \$44,077,500 | \$44,111,457 |

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

Over-the-counter interest rate swaptions written as of March 31, 2013 were as follows:

| Description | Counterparty | Put/ Call | Exercise Rate | Pay/Receive Exercise Rate | Floating Index | Expiration Date | Notional Amount (000) | Market Value |
|----------------------------|----------------------------------|-----------|---------------|---------------------------|----------------|-----------------|-----------------------|--------------------|
| 2-Year Interest Rate Swap | Royal Bank of Scotland Group Plc | Call | 0.42% | Pays | 3-month LIBOR | 4/29/13 | \$ 50,000 | \$(24,167) |
| 5-Year Interest Rate Swap | Royal Bank of Scotland Group Plc | Call | 0.95% | Pays | 3-month LIBOR | 4/29/13 | \$ 50,000 | (97,757) |
| 10-Year Interest Rate Swap | Royal Bank of Scotland Group Plc | Call | 2.00% | Pays | 3-month LIBOR | 4/29/13 | \$ 30,000 | (176,567) |
| 30-Year Interest Rate Swap | Royal Bank of Scotland Group Plc | Call | 2.95% | Pays | 3-month LIBOR | 4/29/13 | \$ 15,000 | (193,562) |
| Total | | | | | | | | \$(492,053) |

Interest rate swaps outstanding as of March 31, 2013 were as follows:

Counterparty/Exchange

Unrealized Depreciation

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| Fixed Rate | Floating Rate | | Expiration Date | Notional Amount | |
|--------------------|---------------|------------------|-----------------|-----------------|----------------|
| 5.96% ¹ | 3-Month LIBOR | Deutsche Bank AG | 12/27/37 | \$23,900 | \$(13,263,803) |
| Total | | | | | |

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

BLACKROCK ENHANCED GOVERNMENT FUND, INC. MARCH 31, 2013 4

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments (continued)

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 and 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 level in the fair value hierarchy within which the fair value measurement falls in its entirety 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 and other significant accounting policies, please refer to the Fund's most recent financial statements as contained in its annual report.

The following tables summarize the Fund's investments and derivative financial instruments categorized in the disclosure hierarchy as of March 31, 2013:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|---------|-------------|---------|-------------|
| Assets: | | | | |
| Investments: | | | | |
| Long Term Investments: | | | | |
| Asset-Backed Securities | — | \$5,086,112 | — | \$5,086,112 |
| Corporate Bonds | — | 442,697 | — | 442,697 |
| Municipal Bonds | — | 1,224,465 | — | 1,224,465 |

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| | | | | |
|---|-------------|---------------|---|---------------|
| Non-Agency Mortgage-Backed Securities. | — | 2,567,309 | — | 2,567,309 |
| Preferred Securities | \$2,009,600 | 2,664,280 | — | 4,673,880 |
| US Government Sponsored Agency Securities | — | 122,804,376 | — | 122,804,376 |
| US Treasury Obligations | — | 71,145,562 | — | 71,145,562 |
| Short-Term Securities | 3,951,699 | — | — | 3,951,699 |
| Liabilities: | | | | |
| TBA Sale Commitments | — | (10,365,875) | — | (10,365,875) |
| Total | \$5,961,299 | \$195,568,926 | — | \$201,530,225 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|-----------------|---------|-----------------|
| Derivative Financial Instruments ¹ | | | | |
| Liabilities: | | | | |
| Interest rate contracts | — | \$(13,755,856) | — | \$(13,755,856) |

¹ Derivative financial instruments are swaps and options written. Swaps are valued at the unrealized appreciation/depreciation on the instrument and options written are shown at value.

BLACKROCK ENHANCED GOVERNMENT FUND, INC. MARCH 31, 2013 5

BlackRock Enhanced Government Fund, Inc. (EGF)

Schedule of Investments (concluded)

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 March 31, 2013, such assets and liabilities are categorized within the disclosure hierarchy as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------|----------------|------------|----------------|
| Assets: | | | | |
| Cash pledged as collateral for swaps | \$ 14,140,000 | — | — | \$ 14,140,000 |
| Foreign currency at value | 794 | — | — | 794 |
| Liabilities: | | | | |
| Reverse repurchase agreements | — | \$(44,077,500) | — | (44,077,500) |
| Total | \$ 14,140,794 | \$(44,077,500) | — | \$(29,936,706) |

There were no transfers between levels during the period ended March 31, 2013.

Item 2 -Controls and Procedures

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

2(a) – 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.

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: May 24, 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: May 24, 2013

By: /s/ Neal J. Andrews

Neal J. Andrews

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Chief Financial Officer (principal financial officer) of
BlackRock Enhanced Government Fund, Inc.

Date: May 24, 2013