

MFS CHARTER INCOME TRUST
Form N-CSRS
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5822

MFS CHARTER INCOME TRUST

(Exact name of registrant as specified in charter)

500 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

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500 Boylston Street

Boston, Massachusetts 02116

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: May 31, 2008

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ITEM 1. REPORTS TO STOCKHOLDERS.

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Semiannual report

MFS® Charter Income Trust

5/31/08

MCR-SEM

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MFS® Charter Income Trust

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New York Stock Exchange Symbol: MCR

NOT FDIC INSURED MAY LOSE VALUE

NO BANK OR CREDIT UNION GUARANTEE NOT A DEPOSIT

NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY OR

NCUA/NCUSIF

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LETTER FROM THE CEO

Dear Shareholders:

Negative headlines tend to resonate during difficult markets, and we certainly have had more than our share of tough news recently. As a result consumer, and particularly investor, sentiment are at all-time lows. That said, I do think it is helpful to remember there are always silver linings in the storm clouds if you look hard enough.

Through all of the challenges we have faced, there are some positive underlying trends. In the United States, for example, institutional traders and credit market followers are just now showing increasing signs of confidence and are beginning to take on more risk. At the corporate level, earnings continue to be relatively strong as companies have reduced labor costs, controlled inventories, and relied less on debt to finance expansion. More broadly, low interest rates and strong demand for consumer goods and industrial equipment are good signs for the global economy.

While I do not mean to minimize the risks inherent in today's markets, periods such as these allow the talented fund managers and research analysts we have at MFS® to test their convictions, reevaluate existing positions, and identify new investment ideas. Our investment process also includes a significant risk management component, with constant attention paid to monitoring market risk, so we can do our best to minimize any surprises to your portfolio.

For investors, this is a great time to check in with your advisor and make sure you have a sound investment plan in place—one that can keep your hard-earned money working over the long term through a strategy that involves asset allocation, diversification, and periodic portfolio rebalancing and reviews. A plan tailored to your distinct needs and goals continues to be the best approach to help you take advantage of the inevitable challenges and opportunities that present themselves over time.

Respectfully,

Robert J. Manning

Chief Executive Officer and Chief Investment Officer

MFS Investment Management®

July 15, 2008

The opinions expressed in this letter are subject to change, may not be relied upon for investment advice, and no forecasts can be guaranteed.

Table of Contents**PORTFOLIO COMPOSITION****Portfolio structure (i)****Fixed income sectors (i)**

Non U.S. Government Bonds	24.9%
High Yield Corporates	16.2%
High Grade Corporates	14.9%
Mortgage-Backed Securities	13.8%
Emerging Market Bonds	9.1%
U.S. Treasury Securities	9.0%
Commercial Mortgage-Backed Securities	3.7%
U.S. Government Agencies	1.4%
Asset-Backed Securities	1.3%
Floating Rate Loans	0.9%
Collateralized Debt Obligations	0.2%

Credit quality of bonds (r)

AAA	49.2%
AA	1.7%
A	13.0%
BBB	13.9%
BB	10.6%
B	8.9%
CCC	1.7%
CC	0.1%
Not Rated	0.9%

Portfolio facts

Average Duration (d)(i)	5.3
Average Life (i)(m)	8.0 yrs.
Average Maturity (i)(m)	12.2 yrs.
Average Credit Quality of Rated Securities (long-term) (a)	A
Average Credit Quality of Rated Securities (short-term) (a)	A-1

Country weightings (i)

United States	62.6%
Japan	7.1%
Germany	5.3%
Netherlands	3.3%
France	3.2%
United Kingdom	2.0%
Canada	1.7%
Spain	1.7%
Russia	1.6%
Other Countries	11.5%

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

- (d) Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value.

- (i) For purposes of this presentation, the bond component includes accrued interest amounts and may be positively or negatively impacted by the equivalent exposure from any derivative holdings, if applicable.

- (m) The average maturity shown is calculated using the final stated maturity on the portfolio's holdings without taking into account any holdings which have been pre-refunded or pre-paid to an earlier date or which have a mandatory put date prior to the stated maturity. The average life shown takes into account these earlier dates.

- (r) Each security is assigned a rating from Moody's Investors Service. If not rated by Moody's, the rating will be that assigned by Standard & Poor's. Likewise, if not assigned a rating by Standard & Poor's, it will be based on the rating assigned by Fitch, Inc. For those portfolios that hold a security which is not rated by any of the three agencies, the security is considered Not Rated. Holdings in U.S. Treasuries and government agency mortgage-backed securities, if any, are included in the AAA-rating category. Percentages are based on the total market value of investments as of 5/31/08.
Percentages are based on net assets as of 5/31/08, unless otherwise noted.

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

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PORTFOLIO MANAGERS PROFILES

Richard Hawkins	Investment Officer of MFS; employed in the investment area of MFS since 1988. Portfolio Manager of the fund since July 2004.
John Addeo	Investment Officer of MFS; employed in the investment area of MFS since 1998. Portfolio Manager of the fund since February 2005.
David Cole	Investment Officer of MFS; employed in the investment area of MFS since 2004. High Yield Analyst at Franklin Templeton Investment from 1999 to 2004. Portfolio Manager of the fund since October 2006.
Matthew Ryan	Investment Officer of MFS; employed in the investment area of MFS since 1997. Portfolio Manager of the fund since September 2004.

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The following chart represents the fund's historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares.

Price Summary

Six Months Ended 5/31/08

	Date	Price
Net Asset Value	5/31/08	\$9.32
	11/30/07	\$9.54
New York Stock Exchange Price	5/31/08	\$8.42
	1/29/08 (high) (t)	\$8.59
	3/17/08 (low) (t)	\$8.06
	11/30/07	\$8.30

Total Returns vs Benchmarks

Six Months Ended 5/31/08

New York Stock Exchange Price (r)	4.44%
Net Asset Value (r)	0.57%
Charter Income Trust Blended Index (f)(x)	1.27%
Citigroup World Government Bond Non-Dollar Hedged Index ex US (f)	0.17%
JPMorgan Emerging Markets Bond Index Global (f)	2.41%
Lehman Brothers U.S. Credit Bond Index (f)	0.20%
Lehman Brothers U.S. Government/Mortgage Bond Index (f)	2.02%
Lehman Brothers U.S. High-Yield Corporate Bond Index (f)	1.83%

(f) Source: FactSet Research Systems Inc.

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

(t) For the period December 1, 2007 through May 31, 2008.

(x) Charter Income Trust Blended Index consists of 16.67% Lehman Brothers U.S. Credit Bond Index, 16.67% Lehman Brothers U.S. High-Yield Corporate Bond Index, 8% JPMorgan Emerging Markets Bond Index Global, 25.33% Citigroup World Government Bond Non-Dollar Hedged Index ex US and 33.33% Lehman Brothers U.S. Government/Mortgage Bond Index.

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Performance Summary continued

Benchmark Definitions

Citigroup World Government Bond Non-Dollar Hedged Index ex US a market capitalization-weighted index that is designed to represent the currency-hedged performance of the international developed government bond markets, excluding the United States.

JPMorgan Emerging Markets Bond Index Global (EMBI Global) measures the performance of U.S.-dollar- denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.

Lehman Brothers U.S. Credit Bond Index a market capitalization-weighted index that measures the performance of publicly issued, SEC-registered, U.S. corporate and specified foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

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

Lehman Brothers U.S. High-Yield Corporate Bond Index a market capitalization-weighted index that measures the performance of non-investment grade, fixed rate debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded.

It is not possible to invest directly in an index.

Notes to Performance Summary

The fund's shares may trade at a discount or premium to net asset value. Shareholders do not have the right to cause the fund to repurchase their shares at net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund's liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different. The fund's monthly distributions may include a return of capital to shareholders. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholders basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. Returns of shareholder capital have the effect of reducing the fund's assets and increasing the fund's expense ratio.

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

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

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INVESTMENT OBJECTIVE, PRINCIPAL INVESTMENT STRATEGIES AND RISKS OF THE FUND

Investment Objective

The fund's investment objective is to seek high current income, but may also consider capital appreciation. The fund's objective may be changed without shareholder approval.

Principal Investment Strategies

MFS normally invests the fund's assets primarily in debt instruments.

MFS normally invests the fund's assets in U.S. Government securities, foreign government securities, mortgage-backed and other asset-backed securities of U.S. and/or foreign issuers, corporate bonds of U.S. and/or foreign issuers, and/or debt instruments of issuers located in emerging market countries. MFS allocates the fund's assets across these categories with a view toward broad diversification across and within these categories.

MFS may invest up to 100% of the fund's assets in lower quality debt instruments.

MFS may invest a relatively high percentage of the fund's assets in a single country, a small number of countries, or a particular geographic region.

MFS may invest the fund's assets in mortgage dollar rolls.

MFS may use derivatives for different purposes, including to earn income and enhance returns, to increase or decrease exposure to a particular market, to manage or adjust the risk profile of the fund, or as alternatives to direct investments.

MFS uses a bottom-up investment approach in buying and selling investments for the fund. Investments are selected primarily based on fundamental analysis of instruments and their issuers in light of current market, economic, political, and regulatory conditions. Factors considered may include the instrument's credit quality, collateral characteristics, and indenture provisions, and the issuer's management ability, capital structure, leverage, and ability to meet its current obligations. Quantitative analysis of the structure of the instrument and its features may also be considered.

The fund may use leverage by borrowing up to 33¹/₃% of the fund's assets, including borrowings for investment purposes, and investing the proceeds pursuant to its investment strategies.

In response to market, economic, political, or other conditions, MFS may depart from the fund's principal investment strategies by temporarily investing for defensive purposes.

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Investment Objective, Principal Investment Strategies and Risks of the Fund continued

Principal Risks

The portfolio's yield and share prices change daily based on the credit quality of its investments and changes in interest rates. In general, the value of debt securities will decline when interest rates rise and will increase when interest rates fall. Debt securities with longer maturity dates will generally be subject to greater price fluctuations than those with shorter maturities. Mortgage securities are subject to prepayment risk which can offer less potential for gains in a declining interest rate environment and greater potential for loss in a rising interest rate environment. The fund may invest a significant portion of its assets in mortgage-backed securities. The value of mortgage-backed securities may depend, in part, on the issuer's or borrower's credit quality or ability to pay principal and interest when due and may fall if an issuer or borrower defaults on its obligation to pay principal or interest or if the instrument's credit rating is downgraded by a credit rating agency. 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. Derivatives can be highly volatile and involve risks in addition to those of the underlying indicator's in whose value the derivative is based. Gains or losses from derivatives can be substantially greater than the derivatives' original cost. Lower quality debt securities involve substantially greater risk of default and their value can decline significantly over time. Foreign investments can be more volatile than U.S. investments. Changes in currency exchange rates can affect the U.S. dollar rate of foreign currency investments and investments denominated in foreign currency. Investing in emerging markets can involve risks in addition to those generally associated with investing in more developed foreign markets. To the extent that investments are purchased with the proceeds from the borrowings from a bank, the fund's net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. When you sell your shares, they may be worth more or less than the amount you paid for them. Please see the fund's registration statement for further information regarding these and other risk considerations. A copy of the fund's registration statement on Form N-2 is available on the EDGAR database on the Securities and Exchange Commission's Internet Web site at <http://sec.gov>.

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DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. The automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

To enroll in or withdraw from the Plan, or if you have any questions, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at www.computershare.com, by calling 1-800-637-2304 or by writing to P.O. Box 43078, Providence, RI 02940-3078 Please have available the name of the fund and your account and Social Security numbers. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of two ways: a check for the value of the full and fractional shares, or a certificate for the full shares and a check for the fractional shares.

The following changes in the Plan will take effect on November 1, 2008:

If shares are registered in your own name, new shareholders will automatically participate in the Plan unless you have indicated that you do not wish to participate.

You can buy shares of the fund through the Plan Agent on a quarterly basis in January, April, July and October. Contact the Plan Agent for further information.

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Dividend Reinvestment and Cash Purchase Plan continued

If you withdraw from the Plan you will have three options with regard to shares held in the Plan:

Your full non-certificated shares will be held by the Plan Agent in your account in book-entry form and a check will be issued for the value of any fractional shares, less any applicable fees and brokerage charges.

The Plan Agent will sell all full and fractional shares and send the proceeds via check to your address of record. A service fee and a brokerage charge will be deducted from the proceeds.

If you opt to sell your shares through an investment professional, you may request your investment professional to transfer shares electronically from your Plan account to your brokerage firm account.

The Plan may be amended or terminated on 30 days written notice to Plan participants.

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5/31/08 (unaudited)

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

Bonds - 96.8%		
Issuer	Shares/Par	Value (\$)
Aerospace - 0.3%		
Bombardier, Inc., 8%, 2014 (n)	\$ 851,000	\$ 893,550
Hawker Beechcraft Acquisition, 8.5%, 2015	400,000	411,000
TransDigm Group, Inc., 7.75%, 2014	245,000	250,513
		\$ 1,555,063
Asset Backed & Securitized - 5.2%		
Asset Securitization Corp., FRN, 8.335%, 2029	\$ 1,459,368	\$ 1,577,846
Bayview Financial Acquisition Trust, FRN, 5.483%, 2041	404,000	380,913
Bayview Financial Revolving Mortgage Loan Trust, FRN, 3.182%, 2040 (z)	1,160,000	876,821
Citigroup/Deutsche Bank Commercial Mortgage Trust, FRN, 5.366%, 2049	1,605,000	1,443,713
Commercial Mortgage Pass-Through Certificates, FRN, 5.986%, 2046	230,000	219,347
Countrywide Asset-Backed Certificates, FRN, 5.147%, 2035	2,000,000	1,854,493
Credit Suisse Mortgage Capital Certificate, 5.343%, 2039	1,080,744	984,935
Crest Ltd., CDO, 7%, 2040	2,000,000	1,038,500
DLJ Commercial Mortgage Corp., 6.04%, 2031 (z)	2,000,000	1,984,124
First Union-Lehman Brothers Bank of America, FRN, 0.398%, 2035 (i)	25,753,429	428,547
First Union-Lehman Brothers Commercial Mortgage Trust, 7%, 2029 (n)	662,151	696,440
JPMorgan Chase Commercial Mortgage Securities Corp., 5.372%, 2047	940,000	860,300
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.062%, 2051	185,000	139,961
Merrill Lynch Mortgage Trust, FRN, 5.829%, 2050	185,000	138,167
Morgan Stanley Capital I, Inc., 5.168%, 2042	1,532,020	1,505,090
Mortgage Capital Funding, Inc., FRN, 0.456%, 2031 (i)	4,943,185	7,544
Nationslink Funding Corp., 5%, 2031 (z)	1,568,000	1,548,263
New Century Home Equity Loan Trust, FRN, 4.532%, 2035	2,500,000	2,449,915
PNC Mortgage Acceptance Corp., FRN, 7.1%, 2032 (z)	2,510,000	2,472,718
Spirit Master Funding LLC, 5.05%, 2023 (z)	1,742,710	1,334,724
Structured Asset Securities Corp., FRN, 4.67%, 2035	1,380,056	1,324,839
Wachovia Bank Commercial Mortgage Trust, FRN, 5.383%, 2043	2,640,000	2,374,074
Wachovia Bank Commercial Mortgage Trust, FRN, 5.691%, 2047	1,503,155	1,109,314
		\$ 26,750,588

Table of Contents*Portfolio of Investments (unaudited) continued*

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Automotive - 0.3%		
Allison Transmission, Inc., 11%, 2015 (n)	\$ 375,000	\$ 353,437
DaimlerChrysler N.A. Holdings Corp., 8.5%, 2031	400,000	455,139
Ford Motor Credit Co. LLC, 12%, 2015	230,000	229,798
Ford Motor Credit Co. LLC, 8%, 2016	300,000	251,857
Ford Motor Credit Co. LLC, FRN, 4.283%, 2010	275,000	252,724
General Motors Acceptance Corp., 8.375%, 2033	404,000	276,740
		\$ 1,819,695
Broadcasting - 1.9%		
Allbritton Communications Co., 7.75%, 2012	\$ 855,000	\$ 857,137
CBS Corp., 6.625%, 2011	1,036,000	1,063,408
Clear Channel Communications, Inc., 6.25%, 2011	1,240,000	1,054,000
DIRECTV Holdings LLC, 7.625%, 2016 (z)	435,000	433,369
Grupo Televisa S.A., 6%, 2018 (z)	654,000	639,302
Grupo Televisa S.A., 8.5%, 2032	962,000	1,108,407
Lamar Media Corp., 7.25%, 2013	675,000	664,875
Lamar Media Corp., 6.625%, 2015	205,000	193,213
Lamar Media Corp., C, 6.625%, 2015	245,000	230,913
LIN TV Corp., 6.5%, 2013	550,000	521,813
Local TV Finance LLC, 9.25%, 2015 (n)(p)	400,000	322,000
News America, Inc., 7.7%, 2025	1,140,000	1,207,725
News America, Inc., 6.2%, 2034	542,000	505,410
Nexstar Broadcasting Group, Inc., 7%, 2014	395,000	349,575
Univision Communications, Inc., 9.75%, 2015 (n)(p)	660,000	498,300
		\$ 9,649,447
Brokerage & Asset Managers - 0.8%		
INVESCO PLC, 5.625%, 2012	\$ 1,440,000	\$ 1,369,992
Lehman Brothers Holdings, Inc., 6.5%, 2017	1,260,000	1,170,175
Morgan Stanley, 5.75%, 2016	662,000	625,744
Morgan Stanley Group, Inc., 6.625%, 2018	652,000	641,764
Nuveen Investments, Inc., 10.5%, 2015 (n)	330,000	310,200
		\$ 4,117,875
Building - 0.1%		
Associated Materials, Inc., 9.75%, 2012	\$ 275,000	\$ 273,625
Building Materials Corp. of America, 7.75%, 2014	295,000	253,700
Nortek Holdings, Inc., 10%, 2013 (z)	200,000	198,750
Nortek Holdings, Inc., 8.5%, 2014	55,000	38,500
		\$ 764,575

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value (\$)
Bonds - continued		
Business Services - 0.1%		
SunGard Data Systems, Inc., 10.25%, 2015	\$ 570,000	\$ 592,800
Cable TV - 0.7%		
CCH II Holdings LLC, 10.25%, 2010	\$ 700,000	\$ 696,500
CCO Holdings LLC, 8.75%, 2013	1,255,000	1,192,250
CSC Holdings, Inc., 8.5%, 2015 (z)	230,000	230,000
Mediacom LLC, 9.5%, 2013	50,000	