

Edgar Filing: Enhanced Government Fund - Form N-Q

Enhanced Government Fund
Form N-Q
May 26, 2006

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: Enhanced Government Fund, Inc.

Fund Address: P.O. Box 9011
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive
Officer, Enhanced Government Fund, Inc., 800 Scudders Mill Road,
Plainsboro, NJ, 08536. Mailing address: P.O. Box 9011, Princeton,
NJ, 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 12/31/2005

Date of reporting period: 01/01/06 - 03/31/06

Item 1 - Schedule of Investments

Enhanced Government Fund, Inc.

Schedule of Investments as of March 31, 2006

| Issue | Face Amount | Interest Rate | |
|---|--------------|---------------|---|
| Government & Agency Obligations - 27.5% | | | |
| Fannie Mae | \$ 5,000,000 | 2.375 % | 2 |
| | 3,500,000 | 5.25 | 4 |
| | 5,250,000 | 6.375 | 6 |
| | 2,000,000 | 6.625 | 9 |
| | 3,000,000 | 6.00 | 5 |
| Federal Farm Credit Bank | 3,500,000 | 4.55 | 6 |
| Federal Home Loan Bank System | 1,000,000 | 4.125 | 1 |
| Freddie Mac | 1,500,000 | 5.875 | 3 |
| | 1,500,000 | 5.00 | 7 |
| | 1,000,000 | 6.25 | 7 |
| U.S. Treasury Bonds | 789,000 | 8.125 | 8 |
| | 2,720,000 | 8.50 | 2 |
| | 2,500,000 | 6.25 | 5 |
| | 1,500,000 | 4.50 | 2 |

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| | | | |
|---|------------|-------|----------|
| U.S. Treasury Notes | 8,000,000 | 6.50 | 1 |
| | 11,500,000 | 3.625 | 6 |
| | 1,990,000 | 3.00 | 2 |
| | 1,445,000 | 3.50 | 2 |
| | 4,800,000 | 8.75 | 5 |
| Total Government & Agency Obligations (Cost - \$66,629,029) - 27.5% | | | |
| Government Agency Mortgage-Backed Obligations** - 65.4% | | | |
| Fannie Mae Guaranteed Pass-Through Certificates | 9,731,241 | 4.50 | 4/01/20 |
| | 1,974,901 | 4.66 | 7 |
| | 6,646,771 | 4.681 | 2 |
| | 6,314,000 | 5.14 | 1 |
| | 2,216,898 | 5.25 | 2 |
| | 9,440,362 | 5.324 | 10/ |
| | 22,838,997 | 5.50 | 11/01/20 |
| | 2,866,884 | 5.707 | 2 |
| | 2,658,424 | 6.00 | 1 |
| | 5,731,921 | 6.60 | 1 |
| Freddie Mac Mortgage Participation Certificates | 1,127,127 | 4.50 | 5 |
| | 7,601,161 | 5.00 | 5 |
| | 18,730,796 | 5.00 | 1 |
| | 4,814,820 | 5.01 | 10/ |
| | 715,231 | 5.50 | 1 |
| | 13,941,839 | 6.00 | 1 |
| | 6,140,520 | 6.50 | 9/01/20 |
| Freddie Mac Multiclass Certificates Series 2958 Class MD | 5,000,000 | 5.50 | 1 |
| Government Agency Mortgage-Backed Obligations | | | |
| Ginnie Mae MBS Certificates | 3,260,715 | 5.00 | 1 |
| | 3,679,797 | 5.50 | 1 |
| Ginnie Mae Trust Series 2005-87 Class C | 10,000,000 | 5.328 | 9/1 |
| Ginnie Mae Trust Series 2006-3 Class C | 10,000,000 | 5.235 | 4/1 |
| Ginnie Mae Trust Series 2006-5 Class A | 3,992,771 | 4.241 | 7 |
| Total Government Agency Mortgage-Backed Obligations (Cost - \$158,539,481) - 65.4% | | | |
| Non-Government Agency Mortgage-Backed Securities** - 6.4% | | | |
| JPMorgan Chase Commercial Mortgage Securities Co. Series 2006-CB14 Class A2 | 1,400,000 | 5.437 | 1 |
| JPMorgan Mortgage Trust Series 2005-A2 Class 4A1 | 4,423,347 | 5.211 | 4/2 |
| LB-UBS Commercial Mortgage Trust Series 2004-C6 Class A3 | 10,000,000 | 4.547 | 8 |
| Total Non-Government Agency Mortgage-Backed Securities (Cost - \$15,544,940) - 6.4% | | | |

Beneficial

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Interest

Short-Term Securities - 0.1%

\$ 333,541 Merrill Lynch Liquidity Series, LLC Cash Sweep Series I, 4.56% (a) (b)

Total Short-Term Securities (Cost - \$333,541) - 0.1%

Total Investments (Cost - \$241,046,991) - 99.4%

Number of
Contracts Options Written

Call Options Written - (0.0%)

| | |
|-------|---|
| 1,500 | FNMA, expiring April 2006 at USD 95.703, Broker Goldman Sachs |
| 1,200 | FNMA, expiring April 2006 at USD 96.125, Broker Lehman Brothers Special Finance |
| 1,450 | FNMA, expiring April 2006 at USD 97.875, Broker Goldman Sachs |
| 2,800 | FNMA, expiring April 2006 at USD 97.89, Broker Goldman Sachs |
| 2,300 | FNMA, expiring April 2006 at USD 100.09, Broker Goldman Sachs |
| 6 + | Pay fixed rate of 5.159% and receive a floating rate based on 3-month LIBOR, ex Broker JPMorgan Chase Bank (c) |
| 11 + | Pay fixed rate of 5.17% and receive a floating rate based on 3-month LIBOR, exp Broker Lehman Brothers Special Finance (c) |
| 6 + | Pay fixed rate of 5.179% and receive a floating rate based on 3-month LIBOR, ex Broker JPMorgan Chase Bank (c) |
| 2 + | Pay fixed rate of 5.24% and receive a floating rate based on 3-month LIBOR, exp Broker Lehman Brothers Special Finance (c) |

Call Options Written

| | |
|-----|--|
| 1 + | Pay fixed rate of 5.297% and receive a floating rate based on 3-month LIBOR, ex Broker, JPMorgan Chase Bank (c) |
|-----|--|

Total Options Written (Premiums Received - \$427,238) - (0.0%)

Total Investments, Net of Options Written (Cost - \$240,619,753*) - 99.4%

Other Assets Less Liabilities - 0.6%

Net Assets - 100.0%

* The cost and unrealized appreciation (depreciation) of investments, net of options written, as of March 31, 2006, as computed for federal income tax purposes, were as follows:

| | | |
|-------------------------------|----|-------------|
| Aggregate cost | \$ | 240,619,753 |
| | | ===== |
| Gross unrealized appreciation | \$ | 370,153 |
| Gross unrealized depreciation | | (3,561,887) |
| | | ----- |
| Net unrealized depreciation | \$ | (3,191,734) |
| | | ===== |

** Mortgage-Backed Securities are subject to principal paydowns. As a result of prepayments or refinancing of the underlying mortgage instruments, the average life may be substantially less than the original maturity.

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+ One contract represents a notional amount of \$1,000,000.

- (a) Floating rate note.
- (b) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

| Affiliate | Net Activity | Interest Income |
|--|-----------------|--------------------|
| Merrill Lynch Liquidity Series, LLC Cash Sweep Series I | \$ (1,586,709) | \$ 96,990 |
| Merrill Lynch Liquidity Series, LLC Money Market Series | \$ (36,383,750) | \$ 5,047 |

- (c) This European style swaption, which can be exercised only on the expiration date, represents a standby commitment whereby the writer of the option is obligated to enter into a predetermined interest rate swap contract upon exercise of swaption.
- o Financial futures contracts sold as of March 31, 2006 were as follows:

| Number of Contracts | Issue | Expiration Date | Face Value | Unrealized Appreciation |
|------------------------|---------------------------------|--------------------|---------------|----------------------------|
| 39 | Five-Year U.S. Treasury Note | June 2006 | \$ 4,092,473 | \$ 19,410 |

Item 2 - Controls and Procedures

- 2(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.
- 2(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the last fiscal quarter of the period covered by this report that has materially affected, or is 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.

Enhanced Government Fund, Inc.

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By: /s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
Chief Executive Officer
Enhanced Government Fund, Inc.

Date: May 22, 2006

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/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
Chief Executive Officer
Enhanced Government Fund, Inc.

Date: May 22, 2006

By: /s/ Donald C. Burke

Donald C. Burke
Chief Financial Officer
Enhanced Government Fund, Inc.

Date: May 22, 2006