

PUTNAM MASTER INTERMEDIATE INCOME TRUST

Form N-30D

May 15, 2002

Putnam  
Master  
Intermediate  
Income Trust

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

3-31-02

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

[GRAPHIC OMITTED: PHOTO OF JOHN A. HILL AND GEORGE PUTNAM III]

Dear Fellow Shareholder:

Given the dramatic events that aggravated an already troubled economic environment, it is encouraging to report that Putnam Master Intermediate Income Trust closed the first half of fiscal 2002 with a slight gain. On the following pages, your management team's report will provide a full discussion of the reasons behind these results.

The team's report will also afford you a good understanding of what has been driving your fund's performance as well as offer its view of the outlook for fiscal 2003. Since the economic recovery is likely to be gradual, we counsel patience as you view your fund's progress in the months ahead.

As you read this report, you may notice that we are now listing the team that manages your fund. We do this to reflect more accurately how your fund is managed as well as Putnam's firm belief in the value of team management. The individuals who comprise the management team are shown at the end of Management's discussion of performance.

We know that Putnam Investments values its relationship with you and its other shareholders and appreciates your loyalty during these times of restructuring of staff and products in the pursuit of superior investment performance for the future.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill  
Chairman of the Trustees  
May 8, 2002

George Putnam, III  
President of the Funds

REPORT FROM FUND MANAGEMENT

This fund is managed by the Putnam Core Fixed-Income Team

Thanks to positions in high-yield and emerging-market bonds, which benefited from increased optimism about economic recovery, Putnam Master Intermediate Income Trust generated a solid return at net asset value for the six months ended March 31, 2002, while its stronger return at market value reflected strong investor enthusiasm for fixed-income investments. Your fund outperformed its benchmark, the Lehman

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Intermediate Government Credit Index, as well as an additional comparative index, the Salomon Smith Barney Non-U.S. World Government Bond Index. However, your fund underperformed the CSFB High Yield Index, primarily because the fund does not invest solely in high-yield bonds (all based on performance at net asset value). The primary reason for the fund's generally strong relative performance was its high-yield and emerging-market emphasis.

Total return for 6 months ended 3/31/02

NAV	Market price
5.16%	5.74%

Past performance does not indicate future results. Performance based on market prices for the shares will vary from performance based on the portfolio's net asset value. Performance information for longer periods begins on page 6.

### \* INVESTORS FAVORED HIGHER-YIELDING BONDS AMID SIGNS OF RECOVERY

The fixed-income markets have been volatile in the past six months, due to changing economic expectations, equity market volatility, and geopolitical turmoil. As the fourth quarter of 2001 began, investors were still jittery in the wake of the terrorist attacks but a series of encouraging economic reports sparked a major shift in investor sentiment towards the end of the year. Overcoming their risk aversion, investors sold off investment-grade bonds and reallocated funds into riskier asset classes, such as equities and high-yield bonds. Meanwhile, emerging-market bonds performed well despite Argentina's default. As with the U.S., international bonds in developed markets lost steam toward the end of 2001, as positive economic data suggested that the fourth quarter of 2001 might represent the bottom of the current recession cycle, causing interest rates to begin moving upward in 2002.

[GRAPHIC OMITTED: horizontal bar chart TOP FIVE COUNTRY ALLOCATIONS (INTERNATIONAL SECTOR)]

### TOP FIVE COUNTRY ALLOCATIONS (INTERNATIONAL SECTOR)\*

Germany	5.2%
Russia	3.5%
Brazil	3.0%
Mexico	2.4%
Canada	2.2%

Footnote reads:

\*Based on net assets as of 3/31/02. Holdings will vary over time.

However, central banks remained cautious and continued to lower interest rates through the end of 2001. The Federal Reserve Board cut rates three times during the period, leaving the Fed funds rate at a 40-year low of 1.75%. As a result, the yield curve continued to steepen, as yields on short-term bonds declined as a result of the Fed's rate cuts.

Just as the overall market began to embrace the idea of an economic

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turnaround at the start of 2002, a new bout of investor risk aversion took hold in response to the bankruptcy of Enron. Questionable corporate accounting practices and credit concerns following the Enron collapse resulted in solid performance for the higher-quality bond sectors. However, increasingly robust economic data in January and February once again turned investors' attention toward the prospect of a strong economic rebound. In response, the investment-grade sector saw a sharp sell-off during March, with expectations that the Fed, having left interest rates unchanged at its January meeting, was positioning itself for a possible rate increase later this year. High-yield bonds, however, were buoyed by the improvement in investor sentiment and evidence of economic growth.

International bond markets, pressured by signs of a global economic recovery that could lead to higher interest rates, advanced only modestly. However, the improved economic outlook, rising oil prices, and attractive valuations of emerging-market bonds boosted returns in this sector. These events continue to underscore the value of diversifying across the different sectors of the fixed-income universe, as your fund has always been designed to do.

### \* HIGHER-QUALITY SECTORS LAGGED HIGH-YIELD POSITIONS

The fund's emphasis on high yield, the strongest-performing sector for the semiannual period, benefited its performance overall. Within the fund's investment-grade holdings, our exposure to U.S. government bonds dampened performance somewhat, while positions in mortgage-backed securities made a positive contribution. With the end of the Federal Reserve's easing cycle, higher-quality bonds have become much more sensitive to a potential increase in interest rates, which is typically the case after a long easing cycle. As reports on the economy through the first quarter of 2002 indicated that stronger growth was occurring, interest rates rose and prices for higher-quality bonds, were negatively affected. Your fund's focus on shorter-maturity issues was a positive for performance, as interest rates rose and these issues performed better than longer-term securities.

### Fund Profile

Putnam Master Intermediate Income Trust seeks high current income and relative stability by investing in the intermediate-maturity, investment-grade, and high-yield bond sectors, as well as in foreign bond markets. The fund's diversification among these markets and sectors is designed to provide more stable returns over time. The fund is designed for investors seeking high current income, asset class diversification, or both.

Strong performance from the fund's holdings of emerging-market bonds boosted performance. In particular, positions in Russia, Mexico, and Brazil and the avoidance of Argentina were positive for the fund's performance. Bonds in the international developed markets had a mixed impact on results. The U.S. dollar strengthened against most of the major foreign currencies, which was a negative factor for the international sector.

### \* A MODEST RECOVERY APPEARED UNDERWAY AT END OF PERIOD

The recession appears to have been much milder than both economists and investors thought it would be. A modest recovery is under way, due in large part to the deep tax and interest-rate cuts in 2001. Also, significant reductions in corporate inventories led to robust growth during the first quarter as companies restocked. However, we believe

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that growth in the second half of 2002 will be more moderate. Consumer spending should remain solid this year, although there is more uncertainty around business investments.

[GRAPHIC OMITTED: TOP THREE HOLDINGS PER SECTOR]

### TOP THREE HOLDINGS PER SECTOR

#### HIGH-YIELD BONDS

Allied Waste Industries, Inc.,  
company guaranty Series B, 10%, 2009

Hanvit Bank 144A  
sub. notes, 11.75%, 2010 (South Korea)

Echostar Broadband Corp.,  
Senior notes, 10.375%, 2007

#### FOREIGN BONDS

Germany (Federal Republic of)  
bonds, Series 95, 7.375%, 2005

Brazil (Federal Republic of)  
government guaranty, FRB, 3.25%, 2012

United Mexican States  
notes, Series A, 9.875%, 2010

#### U.S. INVESTMENT-GRADE SECURITIES

Federal National Mortgage Association,  
pass-through certificates, 7.25%,  
January 15, 2010

U.S. Treasury Notes,  
3.5%, November 15, 2006

Federal National Mortgage Association  
pass-through certificates, 6.5%, with  
due dates from August 1, 2010, to  
February 1, 2032.

#### Footnote reads:

These holdings represent 22.3% of the fund's net assets as of 3/31/02.  
Portfolio holdings will vary over time.

We are expecting that inflation will remain low, which should keep the Fed from raising interest rates at least until the end of summer. We will continue to monitor these developments closely, and, as always, focus on securities with positive fundamentals and attractive valuations.

We remain cautiously optimistic on the high-yield market, which appears poised for solid performance in a recovering economic environment. Other positive factors for high-yield bonds include strong demand and manageable supply, an emphasis by companies on reducing debt, and evidence that default rates are beginning to decline. In the short term, the market may be susceptible to any signs of economic weakness, so we

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will proceed with caution.

We also remain positive on the mortgage-backed sector, as it continues to offer attractive valuations relative to Treasuries.

Finally, we continue to find value in the international developed bond markets, while we are neutral toward emerging-market bonds. These securities remain attractive, as continued strong demand and evidence of a global economic recovery are offsetting the negative impact of specific countries.

The views expressed here are exclusively those of Putnam Management. They are not meant as investment advice. Although the described holdings were viewed favorably as of 3/31/02, there is no guarantee the fund will continue to hold these securities in the future. International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Lower-rated bonds may offer higher yields in return for more risk. Government securities guarantee principal and interest; mutual funds that invest in these securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

This fund is managed by the Putnam Core Fixed-Income Team. The members of this team are Kevin Cronin, Rob Bloemker, Andrea Burke, Joanne Driscoll, D. William Kohli, Krishna Memani, James Prusko, and David Waldman.

### PERFORMANCE SUMMARY

This section provides information about your fund's performance, which should always be considered in light of its investment strategy.

#### TOTAL RETURN FOR PERIODS ENDED 3/31/02

	NAV	Market price	Lehman Intermediate Govt. Credit Index	SSB Non-U.S. World Govt. Bond Index	CSFB High Yield Index	Consumer price index
6 months	5.16%	5.74%	-0.14%	-5.76%	8.30%	0.22%
1 year	3.50	1.55	5.16	-0.45	3.34	1.30
5 years	22.47	28.65	40.71	4.73	18.51	11.62
Annual average	4.14	5.17	7.07	0.93	3.46	2.22
10 years	91.66	83.22	94.61	64.90	101.51	28.21
Annual average	6.72	6.24	6.89	5.13	7.26	2.52
Life of fund (since 4/29/88)						
Annual average	7.43	6.32	7.72	5.34	8.58	3.08

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Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return, net asset value and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions.

### PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 3/31/02

Distributions from common shares		
Number	6	
Income	\$0.270	
Capital gains	--	
Total	\$0.270	
Share value:		
	NAV	Market price
9/30/01	\$6.54	\$6.050
3/31/02	6.59	6.130
Current return		
Current dividend rate 1	8.19%	8.81%

1 Based only on investment income, calculated using SEC guidelines.

### TERMS AND DEFINITIONS

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on the New York Stock Exchange.

### COMPARATIVE BENCHMARKS

Lehman Intermediate Government Credit Index\* is an unmanaged index of government bonds with maturities between 1 and 10 years.

Salomon Smith Barney Non-U.S. World Government Bond Index\* is an unmanaged index of government bonds from 10 countries.

Credit Suisse First Boston (CSFB) High Yield Index\* is an unmanaged index of high-yield debt securities.

Consumer price index (CPI) is a commonly used measure of inflation; it does not represent an investment return.

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Lipper Inc. is a third-party industry ranking entity that ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper.

\*Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

### A NOTE ABOUT DUPLICATE MAILINGS

In response to investors' requests, the SEC has modified mailing regulations for proxy statements, semiannual and annual reports, and prospectuses. Putnam is now able to send a single copy of these materials to customers who share the same address. This change will automatically apply to all shareholders except those who notify us. If you would prefer to receive your own copy, please call Putnam at 1-800-225-1581.

### A GUIDE TO THE FINANCIAL STATEMENTS

These sections of the report, as well as the accompanying Notes, constitute the fund's financial statements.

The fund's portfolio lists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share, which is calculated separately for each class of shares. (For funds with preferred shares, the amount subtracted from total assets includes the net assets allocated to remarketed preferred shares.)

Statement of operations shows the fund's net investment gain or loss. This is done by first adding up all the fund's earnings -- from dividends and interest income -- and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings -- as well as any unrealized gains or losses over the period -- is added to or subtracted from the net investment result to determine the fund's net gain or loss for the fiscal period.

Statement of changes in net assets shows how the fund's net assets were affected by distributions to shareholders and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned.

Financial highlights provide an overview of the fund's investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlight table also includes the current reporting period. For open-end funds, a separate table

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is provided for each share class.

### THE FUND'S PORTFOLIO

March 31, 2002 (Unaudited)

#### CORPORATE BONDS AND NOTES (49.7%) (a)

##### PRINCIPAL AMOUNT

##### Basic Materials (6.0%)

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\$	850,000	Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)
	900,000	AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007
	300,000	Airgas, Inc. sub. notes 9 1/8s, 2011
	450,000	AK Steel Corp. company guaranty 7 7/8s, 2009
	220,000	AK Steel Corp. sr. notes 9 1/8s, 2006
	120,400	Anker Coal Group, Inc. company guaranty Ser. B, 14 1/4s, 2007 (PIK)
	1,050,000	Appleton Papers, Inc. 144A sr. sub. notes 12 1/2s, 2008
	190,000	Applied Extrusion Technologies, Inc. company guaranty Ser. B, 10 3/4s, 2011
	1,000,000	Armco, Inc. sr. notes 9s, 2007
	360,000	Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)
	840,000	Better Minerals & Aggregates Co. company guaranty 13s, 2009
	250,000	Bowater Canada Finance company guaranty 7.95s, 2011 (Canada)
	530,000	Centaur Mining & Exploration company guaranty 11s, 2007 (Australia) (In default) (NON)
	530,000	Compass Minerals Group, Inc. 144A sr. sub. notes 10s, 2011
	900,000	Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005
	130,000	Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005
	300,000	Doe Run Resources Corp. company guaranty FRN Ser. B, 8.536s, 2003
	1,640,000	Equistar Chemicals LP/Equistar Funding Corp. sr. notes 10 1/8s, 2008
	260,000	Ferro Corp. sr. notes 9 1/8s, 2009
	210,000	Foamex-LP/Capital Corp. 144A sec. notes 10 3/4s, 2009
	810,000	Four M Corp. sr. notes Ser. B, 12s, 2006
	170,000	Georgia Gulf Corp. company guaranty 10 3/8s, 2007
	610,000	Georgia-Pacific Corp. notes 8 1/8s, 2011
	150,000	Georgia-Pacific Corp. notes 7 1/2s, 2006
	120,000	Haynes International, Inc. sr. notes 11 5/8s, 2004
	1,140,000	Hercules, Inc. company guaranty 11 1/8s, 2007
	1,000,000	Hughes Electronics bank term loan FRN Ser. L, 4.881s, 2002 (acquired 3/15/02, cost \$1,000,000) (RES)
	151,249	Huntsman Corp. bank term loan FRN Ser. B, 5.131s, 2004 (acquired 3/11/02, cost \$118,580) (RES)
	220,000	Huntsman Corp. bank term loan FRN Ser. C, 5.381s, 2005 (acquired 3/22/02, cost \$174,400) (RES)
	246,022	Huntsman Corp. bank term loan FRN Ser. L, 5.881s, 2002 (acquired 3/28/02, cost \$180,927) (RES)
	96,251	Huntsman Corp. bank term loan FRN Ser. L, 5.881s, 2002 (acquired 3/28/02, cost \$76,957) (RES)
	2,050,000	Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009
	340,000	Huntsman International, LLC sr. notes 9 7/8s, 2009
	360,000	IMC Global, Inc. sr. notes Ser. B, 11 1/4s, 2011
	810,000	IMC Global, Inc. sr. notes Ser. B, 10 7/8s, 2008
	1,500,000	ISP Chemco, Inc. sr. notes Ser. B, 10 1/4s, 2011
	60,000	Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s, 2006 (In default) (NON)
	1,685,000	Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003 (In default) (NON)
	1,200,000	LTV Corp. (The) company guaranty 11 3/4s, 2009 (In default) (NON)



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	20,000	LTV Corp. (The) 144A company guaranty 8.2s, 2007 (In default) (NON)
	320,000	Lyondell Chemical Co. 144A sec. notes 9 1/2s, 2008
	1,520,000	Lyondell Petrochemical Co. notes Ser. A, 9 5/8s, 2007
	440,000	Lyondell Petrochemical Co. sec. notes Ser. B, 9 7/8s, 2007
EUR	210,000	Messer Griesheim Holdings AG sr. notes 10 3/8s, 2011 (Germany)
\$	620,000	Millenium America, Inc. company guaranty 9 1/4s, 2008
	260,000	Norske Skog Canada, Ltd. 144A sr. notes 8 5/8s, 2011 (Canada)
	370,000	Noveon, Inc. company guaranty Ser. B, 11s, 2011
	690,000	OM Group, Inc. 144A sr. sub. notes 9 1/4s, 2011
	348,000	Oregon Steel Mills 1st mtge. 11s, 2003
	410,000	Owens-Illinois, Inc. deb. 7 1/2s, 2010
	90,000	Owens-Illinois, Inc. sr. notes 8.1s, 2007
	490,000	Owens-Illinois, Inc. sr. notes 7.15s, 2005
	347,000	P&L Coal Holdings Corp. company guaranty Ser. B, 9 5/8s, 2008
	920,000	Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)
	769,464	PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)
	256,488	Pioneer Companies, Inc. sec. sr. notes FRN 5.381s, 2006
	510,000	Polymer Group, Inc. company guaranty Ser. B, 8 3/4s, 2008
	870,000	Potlatch Corp. company guaranty 10s, 2011
	1,160,000	Premium Standard Farms, Inc. sr. notes 9 1/4s, 2011
	2,190,000	Riverwood International Corp. company guaranty 10 7/8s, 2008
	810,000	Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009
	460,000	Steel Dynamics, Inc. 144A sr. notes 9 1/2s, 2009
	325,000	Sterling Chemicals Holdings sr. disc. notes 13 1/2s, 2008 (In default) (NON)
	530,000	Sterling Chemicals, Inc. company guaranty Ser. B, 12 3/8s, 2006 (In default) (NON)
	515,089	Stone Container Corp. bank term loan FRN Ser. H, 5.438s, 2006 (acquired 7/17/00, cost \$515,088) (RES)
	930,000	Stone Container Corp. sr. notes 9 3/4s, 2011
	350,000	Stone Container Corp. sr. notes 9 1/4s, 2008
	310,000	Stone Container Corp. 144A company guaranty 11 1/2s, 2006 (Canada)
	1,070,000	Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010
	1,040,000	Tembec Industries, Inc. company guaranty 8 5/8s, 2009 (Canada)
	130,000	Tembec Industries, Inc. company guaranty 8 1/2s, 2011 (Canada)
	80,000	Tembec Industries, Inc. 144A sr. notes 7 3/4s, 2012 (Canada)
	50,000	Texas Petrochemical Corp. sr. sub. notes 11 1/8s, 2006
	200,000	Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006
	790,000	United States Steel, LLC 144A company guaranty 10 3/4s, 2008
	510,000	WCI Steel, Inc. sr. notes Ser. B, 10s, 2004
	70,000	Weirton Steel Corp 144A sr. notes 10 3/4s, 2005 (In default) (NON)
	780,000	Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007 (In default) (NON)
	410,000	WHX Corp. sr. notes 10 1/2s, 2005

Capital Goods (3.5%)

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	46,928	Allied Waste Industries, Inc. bank term loan 5.05s, 2007 (acquired 2/27/02, cost \$46,342) (RES)
	781,521	Allied Waste Industries, Inc. bank term loan 4.766s, 2006 (acquired 2/27/02, cost \$766,751) (RES)
	5,755,000	Allied Waste Industries, Inc. company guaranty Ser. B, 10s, 2009
	20,000	Allied Waste Industries, Inc. company guaranty Ser. B, 7 5/8s, 2006
	330,000	Allied Waste North America, Inc. Structured Notes (issued by Credit and Repackaged Securities) 8.2s, 2006 (Cayman Islands)
	270,000	Amkor Technologies, Inc. sr. notes 9 1/4s, 2006
	390,000	Amkor Technologies, Inc. Structured Note 12.58s, 2005 (issued by STEERS Credit Linked Trust 2000)
	200,000	Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007
	1,310,000	Argo-Tech Corp. 144A company guaranty 8 5/8s, 2007
	725,000	BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008

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810,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008  
 1,620,000 Blount, Inc. company guaranty 13s, 2009  
 380,000 Briggs & Stratton company guaranty 8 7/8s, 2011  
 1,000,000 Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008  
 194,174 Flowserve Corp. bank term loan FRN 5.382s, 2006  
 (acquired 10/24/01, cost \$194,296) (RES)  
 695,000 Flowserve Corp. company guaranty 12 1/4s, 2010  
 750,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009  
 530,000 High Voltage Engineering Corp. sr. notes 10 3/4s, 2004  
 460,000 Insilco Holding Co. sr. disc. notes stepped-coupon zero %  
 (14s, 8/15/03), 2008 (STP)  
 510,000 Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005  
 160,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007  
 190,000 Joy Global, Inc. 144A company guaranty 8 3/4s, 2012  
 330,000 L-3 Communications Corp. company guaranty Ser. B, 8s, 2008  
 1,150,000 L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008  
 140,000 L-3 Communications Corp. 144A Structured Notes (issued by  
 Credit and Repackaged Securities) 8 1/2s, 2006 (Cayman Islands)  
 410,000 Moog, Inc. sr. sub. notes Ser. B, 10s, 2006  
 950,000 Owens-Brockway Glass 144A sec. notes 8 7/8s, 2009  
 410,000 Pliant Corp. company guaranty 13s, 2010  
 660,000 Roller Bearing Company of America company guaranty Ser. B,  
 9 5/8s, 2007  
 1,550,000 Sequa Corp. sr. notes 9s, 2009  
 410,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008  
 160,000 Terex Corp. company guaranty 8 7/8s, 2008  
 330,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011  
 260,000 Terex Corp. company guaranty Ser. D, 8 7/8s, 2008  
 488,765 U.S. Can Corp. bank term loan FRN Ser. B, 6.14s, 2008  
 (acquired 10/17/01, cost \$451,803) (RES)  
 320,000 U.S. Can Corp. company guaranty Ser. B, 12 3/8s, 2010  
 247,225 United Defense Industries, Inc. bank term loan FRN 4.85s, 2009  
 (acquired 10/19/01, cost \$247,225) (RES)

### Communication Services (4.5%)

1,070,000 360Networks, Inc. sr. notes 13s, 2008 (Canada) (In default) (NON)  
 780,000 Airgate PCS, Inc. sr. sub. notes stepped-coupon zero %  
 (13 1/2s, 10/1/04), 2009 (STP)  
 640,000 Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011  
 280,000 Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011  
 90,000 Alamosa PCS Holdings, Inc. company guaranty stepped-coupon  
 zero % (12 7/8s, 2/15/05), 2010 (STP)  
 509,162 American Cellular Corp. bank term loan FRN 5.13s, 2009  
 (acquired 2/29/00, cost \$509,162) (RES)  
 1,090,000 American Cellular Corp. company guaranty 9 1/2s, 2009  
 2,370,000 American Tower Corp. sr. notes 9 3/8s, 2009  
 400,000 Arch Communications, Inc. sr. notes 13 3/4s, 2008 (In default) (NON)  
 290,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda)  
 460,000 Birch Telecommunications, Inc. sr. notes 14s, 2008  
 400,000 Call-Net Enterprises, Inc. sr. notes 8s, 2008 (Canada)  
 900,000 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON)  
 940,000 Dobson/Sygnnet Communications, Inc. sr. notes 12 1/4s, 2008  
 1,500,000 Econophone, Inc. company guaranty 13 1/2s, 2007 (In default) (NON)  
 535,000 Espirit Telecom Group PLC sr. notes 11 1/2s, 2007 (United Kingdom)  
 (In default) (NON)  
 110,000 FLAG Telecom Holdings, Ltd. sr. notes 11 5/8s, 2010 (Bermuda)  
 580,000 FLAG, Ltd. 144A sr. notes 8 1/4s, 2008 (Bermuda)  
 50,000 Global Crossing Holdings, Ltd. company guaranty 9 5/8s, 2008  
 (Bermuda) (In default) (NON)

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190,000 Global Crossing Holdings, Ltd. company guaranty 9 1/2s, 2009  
(Bermuda) (In default) (NON)

2,680,000 Global Crossing Holdings, Ltd. company guaranty 9 1/8s, 2006  
(Bermuda) (In default) (NON)

1,890,000 Horizon PCS, Inc. company guaranty stepped-coupon zero %  
(14s, 10/1/05), 2010 (STP)

160,000 Horizon PCS, Inc. 144A sr. notes 13 3/4s, 2011

160,000 Hyperion Telecommunications Corp., Inc. sr. disc. notes Ser. B, 13s, 2003

1,220,000 Hyperion Telecommunications Corp., Inc. sr. sub. notes 12s, 2007

60,000 Intermedia Communications, Inc. sr. notes Ser. B, 8.6s, 2008

430,000 Intermedia Communications, Inc. sr. notes Ser. B, 8 1/2s, 2008

630,000 Intermedia Communications, Inc. sr. sub. notes stepped-coupon Ser. B,  
zero% (12 1/4s, 3/1/04), 2009 (STP)

910,000 iPCS, Inc. sr. disc. notes stepped-coupon zero %  
(14s, 7/15/05), 2010 (STP)

60,000 Knology Holdings, Inc. sr. disc. notes stepped-coupon zero %  
(11 7/8s, 10/15/02), 2007 (STP)

1,020,000 Leap Wireless International, Inc. company guaranty 12 1/2s, 2010

527,000 Level 3 Communications, Inc. sr. disc. notes stepped-coupon zero %  
(10 1/2s, 12/1/03), 2008 (STP)

940,000 McCaw International, Ltd. sr. disc. notes stepped-coupon zero %  
(13s, 4/15/02), 2007 (STP)

220,000 Metrocall, Inc. sr. sub. notes 11s, 2008 (In default) (NON)

180,000 Metrocall, Inc. sr. sub. notes 10 3/8s, 2007 (In default) (NON)

190,000 Metrocall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON)

530,000 Metromedia Fiber Network, Inc. sr. notes 10s, 2009 (In default) (NON)

570,000 Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s, 2008 (In default) (NON)

900,000 Microcell Telecommunications sr. disc. notes Ser. B, 14s, 2006 (Canada)

581,000 Millicom International Cellular SA sr. disc. notes 13 1/2s, 2006  
(Luxembourg)

560,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon zero %  
(9 3/4s, 10/31/02), 2007 (STP)

870,000 Nextel Communications, Inc. sr. notes 12s, 2008

2,530,000 Nextel Communications, Inc. sr. notes 9 1/2s, 2011

690,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009

530,000 Nextel Partners, Inc. sr. notes 11s, 2010

320,000 Nextel Partners, Inc. sr. notes 11s, 2010

330,000 Nextel Partners, Inc. 144A sr. notes 12 1/2s, 2009

250,000 NorthEast Optic Network, Inc. sr. notes 12 3/4s, 2008 (In default) (NON)

490,000 PanAmSat Corp. bank term loan FRN Ser. B, 5.35s, 2009  
(acquired 2/21/02, cost \$489,388) (RES)

1,090,000 PanAmSat Corp. 144A sr. notes 8 1/2s, 2012

1,195,000 Price Communications Wireless, Inc. 144A sr. notes 9 1/8s, 2006

100,000 Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011

1,380,000 Qwest Capital Funding, Inc. company guaranty 7s, 2009

190,000 Qwest Capital Funding, Inc. company guaranty 6 3/8s, 2008

130,000 Rogers Cablesystems, Ltd. debs. 10 1/8s, 2012 (Canada)

550,000 Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s, 2005 (Canada)

650,000 Rogers Cablesystems, Ltd. sr. sub. notes 8.8s, 2007 (Canada)

330,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)

500,000 RSL Communications PLC company guaranty stepped-coupon zero %  
(10 1/8s, 3/1/03), 2008 (Bermuda) (STP)

770,000 RSL Communications, Ltd. company guaranty 12 1/4s, 2006 (Bermuda)  
(In default) (NON)

193,749 Rural Cellular Corp. bank term loan FRN Ser. C, 5.36s, 2009  
(acquired x11/5/01, cost \$188,421) (RES)

270,000 Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008

1,040,000 SBA Communications Corp. sr. notes 10 1/4s, 2009

970,000 Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon zero %  
(11 1/8s, 4/15/04), 2009 (STP)

1,270,000 Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon Ser. B, zero %  
(12 7/8s, 3/15/05), 2010 (STP)

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1,000,000 Startec Global Communications Corp. sr. notes 12s, 2008 (In default) (NON)  
 280,000 Tele1 Europe B.V. sr. notes 13s, 2009 (Netherlands)  
 1,330,000 Telecorp PCS, Inc. company guaranty 10 5/8s, 2010  
 640,000 Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008  
 960,000 Tritel PCS, Inc. company guaranty 10 3/8s, 2011  
 80,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011  
 780,000 Triton PCS, Inc. company guaranty 8 3/4s, 2011  
 70,000 Triton PCS, Inc. company guaranty stepped-coupon zero %  
 (11s, 5/01/03), 2008 (STP)  
 510,000 TSI Telecommunication Services, Inc. 144A sr. sub. notes 12 3/4s, 2009  
 390,000 U S West, Inc. notes 5 5/8s, 2008  
 1,670,000 UbiquiTel Operating Co. company guaranty stepped-coupon zero %  
 (14s, 4/15/05), 2010 (STP)  
 900,000 US UnWired, Inc. company guaranty stepped-coupon Ser. B, zero %  
 (13 3/8s, 11/1/04), 2009 (STP)  
 30,000 USA Mobile Communications, Inc. sr. notes 9 1/2s, 2004 (In default) (NON)  
 510,000 Versatel Telecom B.V. sr. notes 13 1/4s, 2008 (Netherlands)  
 180,000 Versatel Telecom B.V. sr. notes 13 1/4s, 2008 (Netherlands)  
 1,389,000 Voicestream Wireless Corp. sr. notes 10 3/8s, 2009  
 950,000 WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero %  
 (11 1/4s, 2/1/03), 2008 (STP)  
 750,000 Western Wireless Corp. bank term loan FRN 4.755s, 2008  
 (acquired 4/24/00, cost \$749,063) (RES)  
 10,000 Williams Communications Group, Inc. sr. notes 11 7/8s, 2010  
 220,000 Williams Communications Group, Inc. sr. notes 11.7s, 2008  
 200,000 Williams Communications Group, Inc. sr. notes 10.7s, 2007  
 3,976,000 WinStar Communications, Inc. sr. disc. notes stepped-coupon zero %  
 (14 3/4s, 4/15/05), 2010 (STP)  
 920,000 WinStar Communications, Inc. sr. notes 12 3/4s, 2010 (In default) (NON)  
 10,000 WinStar Communications, Inc. sr. notes 12 1/2s, 2008 (In default) (NON)

### Conglomerates (0.4%)

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890,000 Autonation, Inc. company guaranty 9s, 2008  
 430,000 Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008  
 90,000 Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011  
 330,000 Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007  
 260,000 Tenneco, Inc. company guaranty 11 5/8s, 2009 (Malaysia)  
 990,000 Tyco International Group SA company guaranty 6 3/8s, 2006  
 (Luxembourg)

### Consumer Cyclical (11.3%)

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568,575 Adams Outdoor Advertising bank term loan FRN Ser. B, 5.406s, 2008  
 (acquired 8/1/01, cost \$570,000) (RES)  
 844,000 Aftermarket Technology Corp. sr. sub. notes 12s, 2004  
 250,000 Aftermarket Technology Corp. sr. sub. notes Ser. D, 12s, 2004  
 470,000 Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon Ser. B,  
 zero % (13 1/2s, 3/1/03), 2010 (STP)  
 480,000 Amazon.com, Inc. sr. sub. notes stepped-coupon zero %  
 (10s, 5/1/03), 2008 (STP)  
 1,455,000 American Standard Companies, Inc. company guaranty 7 5/8s, 2010  
 80,000 American Standard Companies, Inc. company guaranty 7 1/8s, 2003  
 280,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009  
 650,000 Argosy Gaming Co. company guaranty 10 3/4s, 2009  
 90,000 Argosy Gaming Co. sr. sub. notes 9s, 2011  
 440,000 ArvinMeritor, Inc. notes 8 3/4s, 2012  
 230,000 Atrium Companies, Inc. company guaranty Ser. B, 10 1/2s, 2009

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1,052,148 Autotote Corp. bank term loan FRN 6.165s, 2007  
 (acquired 6/6/01, cost \$161,871) (RES)  
 700,000 Autotote Corp. company guaranty Ser. B, 12 1/2s, 2010  
 540,000 Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011  
 580,000 Belo Corp. sr. notes 7 1/8s, 2007  
 380,000 Belo Corp. sr. unsub. notes 8s, 2008  
 510,000 Boyd Gaming Corp. 144A sr. sub. notes 8 3/4s, 2012  
 320,000 Building Materials Corp. company guaranty 8s, 2008  
 230,000 Coinmach Corp. bank term loan FRN Ser. B, 4 5/8s, 2009  
 (acquired 1/31/02, cost \$229,713) (RES)  
 1,380,000 Coinmach Corp. 144A sr. notes 9s, 2010  
 343,715 Collins & Aikman Products, Inc. bank term loan FRN Ser. B, 7s, 2005  
 (acquired 12/20/01, cost \$340,277) (RES)  
 740,000 Collins & Aikman Products, Inc. company guaranty 11 1/2s, 2006  
 790,000 Collins & Aikman Products, Inc. 144A sr. notes 10 3/4s, 2011  
 2,430,000 Cybernet Internet Services International, Inc. 144A sr. disc. notes  
 stepped-coupon zero% (13s, 8/15/04), 2009 (Denmark) (STP)  
 80,000 D.R. Horton, Inc. company guaranty 8s, 2009  
 630,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011  
 360,000 Dana Corp. notes 6 1/4s, 2004  
 1,140,000 Dana Corp. sr. notes 9s, 2011  
 730,000 Dayton Superior Corp. company guaranty 13s, 2009  
 360,000 Del Webb Corp. sr. sub. deb. 9 3/8s, 2009  
 480,000 Delco Remy International, Inc. company guaranty 11s, 2009  
 120,000 Delco Remy International, Inc. company guaranty 10 5/8s, 2006  
 110,000 Delco Remy International, Inc. sr. notes 8 5/8s, 2007  
 503,128 Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON)  
 EUR 1,592,627 Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON)  
 \$ 1,420,000 Dura Operating Corp. company guaranty Ser. D, 9s, 2009  
 100,000 Dura Operating Corp. sr. sub. notes Ser. B, 9s, 2009  
 510,000 Exide Corp. sr. notes 10s, 2005  
 260,000 Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)  
 810,000 Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)  
 517,000 Felcor Lodging LP company guaranty 8 1/2s, 2011 (R)  
 880,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)  
 360,000 Felcor Lodging LP 144A company guaranty 9 1/2s, 2008 (R)  
 299,024 Felcor Lodging LP 144A company guaranty 9 1/2s, 2008 (R)  
 560,000 Galey & Lord, Inc. company guaranty 9 1/8s, 2008  
 670,000 Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011  
 80,000 Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009  
 660,000 Harrah's Entertainment, Inc. company guaranty 7 1/2s, 2009  
 560,000 Harrah's Operating Co., Inc. company guaranty 8s, 2011  
 80,000 Hasbro, Inc. notes 7.95s, 2003  
 1,090,000 Hayes Lemmerz International, Inc. company guaranty Ser. B,  
 8 1/4s, 2008 (In default) (NON)  
 380,000 Hayes Lemmerz International, Inc. 144A company guaranty  
 11 7/8s, 2006 (In default) (NON)  
 650,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008  
 3,005,000 HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008  
 360,000 Hollinger International Publishing, Inc. company guaranty 9 1/4s, 2007  
 1,728,132 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK)  
 980,000 Hollywood Casino Corp. company guaranty 11 1/4s, 2007  
 90,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007  
 940,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009  
 902,089 Interact Operating Co. notes 14s, 2003 (PIK)  
 720,000 International Game Technology sr. notes 8 3/8s, 2009  
 1,710,000 International Game Technology sr. notes 7 7/8s, 2004  
 30,000 Iron Age Holdings Corp. sr. disc. notes stepped-coupon zero %  
 (12 1/8s, 5/1/03), 2009 (STP)  
 220,000 Isle of Capri Casinos, Inc. 144A sr. sub. notes 9s, 2012  
 660,000 ITT Corp. notes 6 3/4s, 2005  
 180,000 JC Penney Company, Inc. notes 7.6s, 2007

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320,000 JC Penney Company, Inc. notes Ser.A, 7.05s, 2005  
 150,000 John Q. Hammons Hotels, Inc. 1st mtge. 8 7/8s, 2004  
 1,140,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010  
 450,000 K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007  
 1,000,000 K mart Corp. bank term loan FRN Ser. B, 5.13s, 2004  
 (acquired 3/7/02, cost \$1,000,000) (RES)  
 315,000 Kasper A.S.L., Ltd. sr. notes 12 3/4s, 2004 (In default) (NON)  
 920,000 KB Home sr. sub. notes 9 1/2s, 2011  
 440,000 Lamar Media Corp. company guaranty 9 5/8s, 2006  
 600,000 Lamar Media Corp. sr. sub. notes 9 1/4s, 2007  
 650,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009  
 1,100,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005  
 250,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010  
 510,000 Lennar Corp. sr. notes 7 5/8s, 2009  
 930,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008  
 80,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008  
 1,450,000 Majestic Investor Holdings/Majestic Investor Capital Corp. 144A  
 company guaranty 11.653s, 2007  
 80,000 Mandalay Resort Group sr. notes 9 1/2s, 2008  
 1,040,000 Mandalay Resort Group sr. sub. notes Ser. B, 10 1/4s, 2007  
 250,000 Mandalay Resort Group 144A sr. sub. notes 9 3/8s, 2010  
 470,000 Meristar Hospitality Corp. sr. notes 9 1/8s, 2011(R)  
 170,000 Meristar Hospitality Corp. sr. notes 9s, 2008 (R)  
 290,000 MeriStar Hospitality Operating Partnership/MeriStar Hospitality  
 Finance Corp. 144A sr. notes 10 1/2s, 2009 (R)  
 1,670,000 MGM Mirage company guaranty 8 1/2s, 2010  
 390,000 Mikohn Gaming Corp. company guaranty Ser. B, 11 7/8s, 2008  
 220,000 Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006  
 970,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009  
 280,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011  
 700,000 Mohegan Tribal Gaming Authority 144A sr. sub. notes 8s, 2012  
 870,000 Morrison Knudsen Corp. 144A sr. notes 11s, 2010 (In default) (NON)  
 60,000 Mothers Work, Inc. sr. notes 12 5/8s, 2005  
 750,000 Park Place Entertainment Corp. sr. notes 7 1/2s, 2009  
 1,050,000 Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008  
 140,000 Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008  
 360,000 Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010  
 1,390,000 Perry-Judd company guaranty 10 5/8s, 2007  
 350,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008  
 770,000 PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006  
 1,360,000 PRIMEDIA, Inc. sr. notes 8 7/8s, 2011  
 380,000 Resorts International Hotel and Casino, Inc. 144A 1st mtge.  
 11 1/2s, 2009  
 640,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010  
 140,000 Ryland Group, Inc. sr. sub. notes 8 1/4s, 2008  
 1,820,000 Saks, Inc. company guaranty 8 1/4s, 2008  
 1,801,000 Samsonite Corp. sr. sub. notes 10 3/4s, 2008  
 470,000 Scotts Co. (The) company guaranty 8 5/8s, 2009  
 249,388 Sealy Mattress Co. bank term loan FRN Ser. B, 4.063s, 2004  
 (acquired 12/17/01, cost \$250,167) (RES)  
 249,434 Sealy Mattress Co. bank term loan FRN Ser. C, 4.313s, 2005  
 (acquired 12/17/01, cost \$250,214) (RES)  
 249,447 Sealy Mattress Co. bank term loan FRN Ser. D, 4.563s, 2005  
 (acquired 12/17/01, cost \$250,226) (RES)  
 1,000,000 Sealy Mattress Co. company guaranty stepped-coupon Ser. B,  
 zero %, 2007 (10 7/8s, 12/15/02) (STP)  
 410,000 Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007  
 340,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010  
 350,000 Starwood Hotels & Resorts Worldwide, Inc. bank term loan  
 FRN 4.62s, 2003 (acquired 11/14/01, cost \$345,406) (RES)  
 720,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008  
 40,000 Station Casinos, Inc. sr. sub. notes 9 7/8s, 2010

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210,000 Station Casinos, Inc. 144A sr. sub. notes 9 3/4s, 2007  
 410,000 Telehub Communications Corp. company guaranty stepped-coupon  
 zero % (13 7/8s, 7/31/02), 2005 (STP)  
 600,000 The William Carter Holdings Co. company guaranty Ser. B,  
 10 7/8s, 2011  
 360,000 Toll Corp. company guaranty 8 1/8s, 2009  
 250,000 Toll Corp. sr. sub. notes 8 1/4s, 2011  
 220,000 Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003  
 190,000 Travel Centers of America, Inc. company guaranty 12 3/4s, 2009  
 40,000 Trump A.C. 1st mtge. Ser. B, 11 1/4s, 2006  
 410,000 Trump Atlantic City Associates company guaranty 11 1/4s, 2006  
 560,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003  
 2,430,000 Trump Castle Funding, Inc. sub. notes 10 1/4s, 2003  
 420,000 United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012  
 790,000 Venetian Casino, Inc. company guaranty 12 1/4s, 2004  
 190,000 Venture Holdings Trust 144A sr. notes Ser. B, 9 1/2s, 2005  
 920,000 Von Hoffman Press, Inc. 144A company guaranty 10 1/4s, 2009  
 107,589 Von Hoffman Press, Inc. 144A sr. sub. notes 13 1/2s, 2009  
 100,000 Von Hoffman Press, Inc. 144A sr. sub. notes 10 3/8s, 2007  
 1,310,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2005  
 320,000 Wheeling Island Gaming, Inc. 144A sr. notes 10 1/8s, 2009

### Consumer Staples (9.7%)

1,020,000 Acme Television company guaranty 10 7/8s, 2004  
 445,000 Adelpia Communications Corp. sr. notes 10 7/8s, 2010  
 1,635,000 Adelpia Communications Corp. sr. notes 10 1/4s, 2011  
 90,000 Adelpia Communications Corp. sr. notes 10 1/4s, 2006  
 400,000 Adelpia Communications Corp. sr. notes 7 7/8s, 2009  
 2,723,000 Adelpia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007  
 1,190,000 Adelpia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009  
 330,000 Albecca, Inc. company guaranty 10 3/4s, 2008  
 300,000 Allbritton Communications Co. sr. sub. notes Ser. B, 8 7/8s, 2008  
 680,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011  
 350,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009  
 510,000 AMF Bowling Worldwide bank term loan FRN Ser. B, 6.38s, 2008  
 (acquired 3/1/02, cost \$508,725) (RES)  
 1,090,000 Archibald Candy Corp. company guaranty 10 1/4s, 2004 (In default) (NON)  
 410,000 Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009  
 1,067,263 Aurora Foods, Inc. bank term loan FRN Ser. B2, 6.1s, 2010  
 (acquired 1/11/02, cost \$1,058,014) (RES)  
 235,000 Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007  
 800,000 Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007  
 10,263 Australis Media, Ltd. sr. disc. notes 15 3/4s, 2003 (Australia)  
 (In default) (NON) (PIK)  
 620,000 Benedek Communications Corp. sr. disc. notes 13 1/4s, 2006  
 (In default) (NON)  
 310,000 British Sky Broadcasting PLC company guaranty 8.2s, 2009  
 (United Kingdom)  
 1,420,000 British Sky Broadcasting PLC company guaranty 6 7/8s, 2009  
 (United Kingdom)  
 1,630,000 Chancellor Media Corp. company guaranty 8s, 2008  
 690,000 Charter Communications Holdings, LLC bank term loan FRN Ser. B,  
 4.52s, 2008 (acquired 10/22/01, cost \$674,675) (RES)  
 1,620,000 Charter Communications Holdings, LLC sr. notes 11 1/8s, 2011  
 410,000 Charter Communications Holdings, LLC sr. notes 10 3/4s, 2009  
 1,340,000 Charter Communications Holdings, LLC sr. disc. notes stepped-coupon  
 zero % (11 3/4s, 5/15/06), 2011 (STP)  
 160,000 Charter Communications Holdings, LLC sr. disc. notes stepped-coupon  
 zero % (13 1/2s, 1/15/06), 2011 (STP)

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550,000 Charter Communications Holdings, LLC sr. notes 10s, 2009  
 690,000 Charter Communications Holdings, LLC 144A sr. disc. notes  
 stepped-coupon zero % (12 1/8s, 1/15/07), 2012 (STP)  
 150,000 Charter Communications Holdings, LLC 144A sr. notes 10s, 2011  
 300,000 Charter Communications Holdings, LLC 144A sr. notes 9 5/8s, 2009  
 1,600,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008  
 150,000 Constellation Brands, Inc. company guaranty 8 1/2s, 2009  
 620,000 Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008  
 860,000 Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012  
 360,000 Cumulus Media, Inc. bank term loan FRN Ser. B, 4.909s, 2007  
 (acquired 3/20/02, cost \$359,550) (RES)  
 210,000 Del Monte Corp. sr. sub. notes, 9 1/4s, 2011  
 2,550,000 Diamond Cable Communications PLC sr. disc. notes 10 3/4s, 2007  
 (United Kingdom)  
 150,000 Diamond Cable Communications PLC sr. disc. notes 13 7/8s, 2005  
 (United Kingdom)  
 2,742,000 Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B, zero %  
 (12 5/8s, 3/1/03), 2008 (STP)  
 1,370,000 Doane Pet Care Co. sr. sub. deb. 9 3/4s, 2007  
 350,000 Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009  
 380,000 Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008  
 3,070,000 Echostar Broadband Corp. sr. notes 10 3/8s, 2007  
 1,480,000 Echostar DBS Corp. sr. notes 9 3/8s, 2009  
 830,000 Echostar DBS Corp. 144A sr. notes 9 1/8s, 2009  
 780,000 Emmis Communications Corp. bank term loan FRN Ser. A, 4.938s, 2009  
 (acquired 1/31/02, cost \$777,075) (RES)  
 140,000 Emmis Communications Corp. company guaranty Ser. B, 8 1/8s, 2009  
 400,000 Emmis Communications Corp. sr. disc. notes stepped-coupon zero %  
 (12 1/2s, 3/15/06), 2011 (STP)  
 610,000 Fleming Companies, Inc. company guaranty 10 1/8s, 2008  
 200,000 Fleming Companies, Inc. company guaranty Ser. B, 10 1/2s, 2004  
 10,000 Fleming Companies, Inc. 144A sr. sub. notes 10 5/8s, 2007  
 705,799 Fox Family Worldwide, Inc. sr. disc. notes 10 1/4s, 2007  
 1,320,000 Fox Family Worldwide, Inc. sr. notes 9 1/4s, 2007  
 190,000 Fox/Liberty Networks, LLC sr. disc. notes zero %  
 (9 3/4s, 8/15/02), 2007 (STP)  
 1,010,000 Fox/Liberty Networks, LLC sr. notes 8 7/8s, 2007  
 290,000 French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007  
 160,000 French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007  
 90,000 Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005  
 700,000 Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008  
 260,000 Great Atlantic & Pacific Tea Co. notes 7 3/4s, 2007  
 1,970,000 Insight Communications Company, Inc. sr. disc. notes stepped-coupon  
 zero % (12 1/4s, 2/15/06), 2011 (STP)  
 1,000,000 Insight Midwest LP/Insight Capital, Inc. bank term loan FRN 5.063s,  
 2009 (acquired 1/19/01, cost \$998,500) (RES)  
 20,000 Insight Midwest LP/Insight Capital, Inc. sr. notes 10 1/2s, 2010  
 650,000 International Cabletel, Inc. sr. disc. notes 11 1/2s, 2006  
 530,000 Key3media Group, Inc. company guaranty 11 1/4s, 2011  
 500,000 Leiner Health Products sr. sub. notes 9 5/8s, 2007 (In default) (NON)  
 1,320,000 LIN Holdings Corp. sr. disc. notes stepped-coupon zero %  
 (10s, 3/1/03), 2008 (STP)  
 120,000 LIN Holdings Corp. sr. disc. notes stepped-coupon zero %  
 (10s, 3/1/03), 2008 (STP)  
 260,000 LIN Television Corp. company guaranty 8 3/8s, 2008  
 390,000 NBTY, Inc. sr. sub. notes Ser. B, 8 5/8s, 2007  
 1,115,000 North Atlantic Trading Co. company guaranty Ser. B, 11s, 2004  
 470,000 NTL Communications Corp. sr. notes Ser. B, 11 7/8s, 2010  
 1,010,000 NTL Communications Corp. sr. notes Ser. B, 11 1/2s, 2008  
 510,000 NTL Communications Corp. sr. notes stepped-coupon Ser. B, zero %  
 (12 3/8s, 10/1/03), 2008 (STP)  
 1,090,000 NTL, Inc. sr. notes Ser. A, 12 3/4s, 2005



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220,000 NTL, Inc. sr. notes Ser. B, 10s, 2007  
 655,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006  
 15,000 Pegasus Communications Corp. sr. notes 12 1/2s, 2007  
 190,000 Pegasus Communications Corp. sr. notes Ser. B, 9 3/4s, 2006  
 400,000 Pegasus Satellite sr. notes 12 3/8s, 2006  
 550,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011  
 650,000 Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom)  
 570,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero %  
 (13 3/4s, 7/15/06), 2011 (Canada) (STP)  
 380,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)  
 1,896,149 Quorum Broadcast Holdings, LLC notes stepped-coupon zero %  
 (15s, 5/15/06), 2009 (acquired 5/15/01, cost \$753,466) (RES) (STP)  
 990,000 RAB Enterprises, Inc. company guaranty 10 1/2s, 2005  
 352,000 RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero %  
 (9.8s, 2/15/03), 2008 (STP)  
 454,250 Regal Cinemas, Inc. bank term loan FRN Ser. B, 5 3/8s, 2008  
 (acquired various dates from 3/1/01 to 3/14/01, cost \$1,113,743) (RES)  
 530,000 Regal Cinemas, Inc. 144A sr. sub. notes 9 3/8s, 2012  
 270,000 Revlon Consumer Products sr. notes 9s, 2006  
 260,000 Revlon Consumer Products sr. notes 8 1/8s, 2006  
 390,000 Revlon Consumer Products sr. sub. notes 8 5/8s, 2008  
 650,000 Sbarro, Inc. company guaranty 11s, 2009  
 800,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON)  
 148,000 Sinclair Broadcast Group, Inc. bank term loan FRN 5.9s, 2009  
 (acquired 10/23/01, cost \$145,318) (RES)  
 1,010,000 Sinclair Broadcast Group, Inc. company guaranty 9s, 2007  
 90,000 Sinclair Broadcast Group, Inc. sr. sub. notes 8 3/4s, 2007  
 340,000 Sinclair Broadcast Group, Inc. 144A sr. sub. notes 8 3/4s, 2011  
 350,000 Six Flags, Inc. sr. notes 9 1/2s, 2009  
 160,000 Smithfield Foods, Inc. sr. notes Ser. B, 8s, 2009  
 200,000 Southland Corp. deb. Ser. A, 4 1/2s, 2004  
 1,437,000 Southland Corp. deb. Ser. B, 4s, 2004  
 688,139 Suiza Foods Corp. bank term loan FRN Ser. B, 4.91s, 2008  
 (acquired 12/10/01, cost \$692,726) (RES)  
 60,000 TeleWest Communications PLC deb. 11s, 2007 (United Kingdom)  
 260,000 TeleWest Communications PLC deb. 9 5/8s, 2006 (United Kingdom)  
 280,000 TeleWest Communications PLC Structured Notes 10 7/8s, 2005  
 (issued by DLJ International Capital) (United Kingdom)  
 60,000 Tricon Global Restaurants, Inc. sr. notes 8 7/8s, 2011  
 1,060,000 Tricon Global Restaurants, Inc. sr. notes 7.65s, 2008  
 560,000 Tricon Global Restaurants, Inc. sr. notes 7.45s, 2005  
 1,749,000 United Pan-Europe NV sr. disc. notes 12 1/2s, 2009 (Netherlands)  
 1,630,000 United Pan-Europe NV sr. disc. notes stepped-coupon zero %  
 (13 3/4s, 2/1/05), 2010 (Netherlands) (STP)  
 250,000 United Pan-Europe NV sr. disc. notes stepped-coupon zero %  
 (12 1/2s, 8/1/04), 2009 (Netherlands) (STP)  
 290,000 United Rentals (North America), Inc. company guaranty, 10 3/4s, 2008  
 895,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B, 10 1/4s, 2009  
 (In default) (NON)  
 1,490,000 XM Satellite Radio Holdings, Inc. sec. notes 14s, 2010  
 1,750,000 Young Broadcasting, Inc. sr. sub. notes 10s, 2011  
 120,000 Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007

### Energy (2.6%)

710,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007  
 640,000 BRL Universal Equipment sec. notes 8 7/8s, 2008  
 390,000 Chesapeake Energy Corp. company guaranty 8 3/8s, 2008  
 1,210,000 Chesapeake Energy Corp. company guaranty 8 1/8s, 2011  
 190,000 Comstock Resources, Inc. company guaranty 11 1/4s, 2007

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340,000 Comstock Resources, Inc. 144A sr. notes 11 1/4s, 2007  
 470,000 Dresser, Inc. company guaranty 9 3/8s, 2011  
 410,000 El Paso Energy Partners L.P. company guaranty Ser. B, 8 1/2s, 2011  
 290,000 Forest Oil Corp. company guaranty 10 1/2s, 2006  
 520,000 Forest Oil Corp. sr. notes 8s, 2008  
 300,000 Forest Oil Corp. 144A sr. notes 8s, 2011  
 110,000 Grant Prideco, Inc. company guaranty Ser. B, 9 5/8s, 2007  
 370,000 Key Energy Services, Inc. company guaranty Ser. B, 8 3/8s, 2008  
 580,000 Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009  
 340,000 Magnum Hunter Resources, Inc. 144A sr. notes 9.6s, 2012  
 700,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011  
 370,000 Nuevo Energy Co. sr. sub. notes Ser. B, 9 1/2s, 2008  
 140,000 Ocean Energy, Inc. company guaranty Ser. B, 8 7/8s, 2007  
 800,000 Ocean Energy, Inc. company guaranty Ser. B, 8 3/8s, 2008  
 540,000 Parker Drilling Corp. company guaranty Ser. D, 9 3/4s, 2006  
 2,260,000 Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010  
 290,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011  
 800,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007  
 270,000 Seven Seas Petroleum, Inc. sr. notes Ser. B, 12 1/2s, 2005  
 400,000 Snyder Oil Corp. sr. sub. notes 8 3/4s, 2007  
 230,000 Stone Energy Corp. company guaranty 8 3/4s, 2007  
 390,000 Stone Energy Corp. sr. sub. notes 8 1/4s, 2011  
 930,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009  
 500,000 Vintage Petroleum, Inc. sr. sub. notes 9s, 2005  
 150,000 Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011  
 370,000 Westport Resources Corp. company guaranty 8 1/4s, 2011  
 500,000 XCL, Ltd. 144A company guaranty 13 1/2s, 2004 (In default) (NON)  
 310,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009

### Financial (2.5%)

1,565,000 Affinity Group Holdings sr. notes 11s, 2007  
 820,000 AMRESKO, Inc. sr. sub. notes Ser. 97-A, 10s, 2004 (In default) (NON)  
 460,000 Chevy Chase Savings Bank, Inc. sub. deb. 9 1/4s, 2005  
 390,000 CIT Group, Inc. sr. notes 7 3/4s, 2012  
 110,000 Comdisco, Inc. notes 7 1/4s, 2001 (In default) (NON) (DEF)  
 350,000 Comdisco, Inc. notes 5.95s, 2002 (In default) (NON)  
 790,000 Conesco, Inc. sr. notes 10 3/4s, 2008  
 2,167,000 Finova Group, Inc. notes 7 1/2s, 2009  
 190,000 Ford Motor Credit Corp. notes 7 3/8s, 2009  
 240,000 Green Tree Financial notes Ser. A, 6 1/2s, 2002  
 1,010,000 GS Escrow Corp. sr. notes 7 1/8s, 2005  
 2,980,000 Hanvit Bank 144A sub. notes 11 3/4s, 2010 (South Korea)  
 302,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005  
 710,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008  
 620,000 Madison River Capital Corp. sr. notes 13 1/4s, 2010  
 420,000 Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008  
 400,000 Newcourt Credit Group, Inc. company guaranty 6 7/8s, 2005  
 620,000 Ocwen Federal Bank sub. deb. 12s, 2005  
 200,000 Ocwen Financial Corp. notes 11 7/8s, 2003  
 400,000 ONO Finance PLC sr. notes 14s, 2011 (United Kingdom)  
 180,000 ONO Finance PLC sr. notes 13s, 2009 (United Kingdom)  
 20,000 Port Arthur Finance Corp. company guaranty 12 1/2s, 2009  
 770,000 Resource America, Inc. 144A sr. notes 12s, 2004  
 400,000 RFS Partnership LP 144A sr. notes 9 3/4s, 2012  
 2,130,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006  
 630,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003  
 340,000 Willis Corroon Corp. 144A company guaranty 9s, 2009

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### Health Care (3.6%)

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720,000	Accredo Health, Inc. bank term loan FRN Ser. B, 4.556s, 2009 (acquired 3/20/02, cost \$718,200) (RES)
940,000	ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero % (11 1/8s, 8/1/03), 2008 (STP)
340,000	ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006
190,000	ALARIS Medical Systems, Inc. 144A company guaranty 9 3/4s, 2006
1,200,700	Alderwoods Group, Inc. company guaranty 12 1/4s, 2009
3,100	Alderwoods Group, Inc. company guaranty 12 1/4s, 2004
15,700	Alderwoods Group, Inc. company guaranty 11s, 2007
450,000	Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011
560,000	AmerisourceBergen Corp. sr. notes 8 1/8s, 2008
380,000	Beverly Enterprises, Inc. sr. notes 9 5/8s, 2009
360,000	Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007
720,000	Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)
460,560	Concentra Operating Corp. bank term loan FRN Ser. B, 5.897s, 2006 (acquired 1/15/02, cost \$461,590) (RES)
230,280	Concentra Operating Corp. bank term loan FRN Ser. C, 6.147s, 2007 (acquired 1/15/02, cost \$230,782) (RES)
760,000	Conmed Corp. company guaranty 9s, 2008
210,000	Conventry Health Care, Inc. 144A sr. notes 8 1/8s, 2012
38,100	Genesis Health Ventures, Inc. sec. notes FRN 7.59s, 2007
780,000	Hanger Orthopedic Group, Inc. 144A sr. notes 10 3/8s, 2009
1,500,000	HCA, Inc. med. term notes 8.85s, 2007
560,000	HCA, Inc. notes 8 3/4s, 2010
1,370,000	HCA, Inc. notes 7s, 2007
490,000	Healthsouth Corp. sr. sub. notes 10 3/4s, 2008
530,000	Icon Health & Fitness 144A sr. sub. notes 11 1/4s, 2012
410,000	Insight Health Services Corp. 144A sr. sub. notes 9 7/8s, 2011
1,000,000	Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s, 2007 (In default) (NON)
380,000	Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s, 2008 (In default) (NON)
278,545	Kinetic Concepts, Inc. bank term loan FRN Ser. C, 5.56s, 2005 (acquired 11/5/01, cost \$278,894) (RES)
735,000	Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007
1,440,000	Magellan Health Services, Inc. sr. sub. notes 9s, 2008
170,000	Magellan Health Services, Inc. 144A sr. notes 9 3/8s, 2007
1,480,000	Mariner Post-Acute Network, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007 (In default) (NON)
310,000	Mariner Post-Acute Network, Inc. sr. sub. notes stepped-coupon Ser. B, zero % (10 1/2s, 11/1/02), 2007 (STP)
760,000	Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)
560,000	Mediq, Inc. deb. stepped-coupon zero % (13s, 6/1/03), 2009 (STP)
1,590,000	Multicare Companies, Inc. sr. sub. notes 9s, 2007 (In default) (NON)
570,000	Omnicare, Inc. sr. sub. notes, 8 1/8s, 2011
550,000	Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012
80,000	Service Corp. International notes 7.7s, 2009
1,930,000	Service Corp. International notes 6s, 2005
720,000	Stewart Enterprises, Inc. notes 10 3/4s, 2008
1,005,000	Sun Healthcare Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007 (In default) (NON)
500,000	Sun Healthcare Group, Inc. 144A sr. sub. notes 9 3/8s, 2008 (In default) (NON)
320,000	Tenet Healthcare Corp. sr. notes Ser. B, 8 1/8s, 2008
1,710,000	Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009
994,545	Triad Hospitals, Inc. bank term loan FRN Ser. B, 4.85s, 2008 (acquired 4/24/01, cost \$999,000) (RES)
270,000	Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009
560,000	Vanguard Health Systems, Inc. sr. sub. notes 9 3/4s, 2011

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### Technology (1.9%)

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980,000 Crown Castle International Corp. sr. disc. notes stepped-coupon zero %  
 (10 3/8s, 5/15/04), 2011 (STP)  
 460,000 Crown Castle International Corp. sr. notes 10 3/4s, 2011  
 930,000 Crown Castle International Corp. sr. notes 9 3/8s, 2011  
 432,000 CSG Systems International, Inc. bank term loan FRN Ser. B, 4.593s, 2008  
 (acquired 3/4/02, cost \$433,080) (RES)  
 850,000 Equinix, Inc. sr. notes 13s, 2007  
 100,000 Exodus Communications, Inc. sr. notes 11 5/8s, 2010 (In default) (NON)  
 450,000 Exodus Communications, Inc. sr. notes 10 3/4s, 2009 (In default) (NON)  
 720,000 Fairchild Semiconductor International, Inc. sr. sub. notes 10 1/8s, 2007  
 1,250,000 Firstworld Communication Corp. sr. disc. notes stepped-coupon zero %  
 (13s, 4/15/03), 2008 (STP)  
 1,500,000 Globix Corp. sr. notes 12 1/2s, 2010 (In default) (NON)  
 710,000 Intira Corp. bonds stepped-coupon zero % (13s, 2/1/05), 2010  
 (acquired 1/31/00, cost \$378,366) (RES) (STP)  
 1,150,000 Iron Mountain, Inc. company guaranty 8 3/4s, 2009  
 270,000 Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada)  
 390,000 Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011  
 760,000 IWO Holdings, Inc. company guaranty 14s, 2011  
 1,760,000 Lucent Technologies, Inc. notes 7 1/4s, 2006  
 1,000,000 Micron Technology, Inc. notes 6 1/2s, 2005  
 1,550,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006  
 620,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005 (In default) (NON)  
 480,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)  
 530,000 PSINet, Inc. sr. notes 11 1/2s, 2008 (In default) (NON)  
 840,000 PSINet, Inc. sr. notes 11s, 2009 (In default) (NON)  
 130,000 PSINet, Inc. sr. notes Ser. B, 10s, 2005 (In default) (NON)  
 110,000 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010 (In default) (NON)  
 370,000 SCG Holding & Semiconductor Corp. company guaranty 12s, 2009  
 150,000 Seagate Technology, Inc. 144A company guaranty 12 1/2s, 2007  
 (Cayman Islands)  
 545,000 Telecommunications Techniques, Inc. company guaranty 9 3/4s, 2008  
 144,297 Telex Communications Group, Inc. sr. sub. notes zero %, 2006  
 170,000 Viasystems, Inc. sr. notes Ser. B, 9 3/4s, 2007  
 900,000 World Access, Inc. sr. notes Ser. B, 13 1/4s, 2008 (In default) (NON)  
 100,000 Xerox Corp. notes 5 1/2s, 2003  
 1,280,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009  
 40,000 Xerox Credit Corp. sr. notes 6.1s, 2003

### Transportation (1.4%)

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60,000 Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada)  
 420,000 American Airlines, Inc. bonds Ser. 01-2, Class B, 8.608s, 2011  
 210,000 American Airlines, Inc. 144A pass-through certificates Ser. 01-2,  
 Class A-2, 7.858s, 2011  
 300,000 AMR Corp. debs. 9s, 2012  
 980,000 Calair, LLC. 144A company guaranty 8 1/8s, 2008  
 320,000 Continental Airlines, Inc. pass-through certificates Ser. D, 7.568s, 2006  
 390,000 Delta Air Lines, Inc. pass-through certificates Ser. 00-1, Class C,  
 7.779s, 2005  
 65,000 International Shipholding Corp. sr. notes 9s, 2003  
 740,000 Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008  
 250,000 Kitty Hawk, Inc. company guaranty 9.95s, 2004 (In default) (NON)  
 870,000 Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006  
 210,000 Navistar International Corp. sr. notes Ser. B, 8s, 2008

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240,000 Northwest Airlines, Inc. company guaranty 8 3/8s, 2004  
 540,000 Northwest Airlines, Inc. company guaranty 7 5/8s, 2005  
 610,000 Northwest Airlines, Inc. sr. notes 9 7/8s, 2007  
 281,077 NWA Trust sr. notes Ser. A, 9 1/4s, 2012  
 790,000 RailAmerica Transportation Corp. company guaranty 12 7/8s, 2010  
 140,000 Transportation Manufacturing Operations, Inc. company guaranty  
 11 1/4s, 2009  
 1,200,000 United Airlines, Inc. deb. 9 1/8s, 2012  
 1,450,000 US Air, Inc. pass-through certificates Ser. 93-A2, 9 5/8s, 2003

### Utilities (2.3%)

480,000 AES Corp. (The) notes 8 3/4s, 2008  
 1,490,000 AES Corp. (The) sr. notes 9 3/8s, 2010  
 270,000 Azurix Corp. sr. notes Ser. B, 10 3/4s, 2010  
 220,000 Azurix Corp. sr. notes Ser. B, 10 3/8s, 2007  
 1,640,000 Calpine Canada Energy Finance company guaranty  
 8 1/2s, 2008 (Canada)  
 390,000 Calpine Corp. sr. notes 10 1/2s, 2006  
 460,000 Calpine Corp. sr. notes 8 3/4s, 2007  
 720,000 Calpine Corp. sr. notes 8 5/8s, 2010  
 1,680,000 Calpine Corp. sr. notes 8 1/2s, 2011  
 700,000 Calpine Corp. sr. notes 7 7/8s, 2008  
 30,000 Calpine Corp. sr. notes 7 3/4s, 2009  
 600,000 CMS Energy Corp. sr. notes 8.9s, 2008  
 320,000 CMS Energy Corp. sr. notes 8 1/2s, 2011  
 600,000 CMS Energy Corp. sr. notes Ser. B, 6 3/4s, 2004  
 370,000 Edison Mission Energy sr. notes 10s, 2008  
 1,650,000 Midland Funding Corp. II debs. Ser. A, 11 3/4s, 2005  
 1,460,000 Mission Energy Holding Co. sec. notes 13 1/2s, 2008  
 665,932 Northeast Utilities notes Ser. A, 8.58s, 2006  
 140,800 Northeast Utilities notes Ser. B, 8.38s, 2005  
 360,000 Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005 (In default) (NON)  
 920,000 Southern California Edison Co. notes 8.95s, 2003  
 90,000 Southern California Edison Co. notes 6 3/8s, 2006  
 1,116,000 York Power Funding 144A notes 12s, 2007 (Cayman Islands)  
 (In default) (NON)

Total Corporate Bonds and Notes (cost \$375,627,154)

### FOREIGN GOVERNMENT BONDS AND NOTES (16.6%) (a) PRINCIPAL AMOUNT

AUD 10,940,000 Australia (Government of) bonds Ser. 513, 6 1/2s, 2013  
 USD 1,870,000 Brazil (Federal Republic of) notes 11s, 2012  
 CAD 3,680,000 Canada (Government of) bonds Ser. WH31, 6s, 2008  
 USD 1,415,000 Ecuador (Republic of) bonds Ser. REGS, 12s, 2012  
 EUR 1,440,000 Germany (Federal Republic of) bonds 5s, 2012  
 EUR 30,830,000 Germany (Federal Republic of) bonds Ser. 95, 7 3/8s, 2005  
 EUR 5,130,000 Germany (Federal Republic of) bonds Ser. 99, 4s, 2009  
 EUR 3,400,000 Italy (Government of) treasury bonds 5 1/2s, 2010  
 USD 360,000 Malaysia (Government of) bonds 7 1/2s, 2011  
 NZD 3,945,000 New Zealand (Government of) bonds Ser. 709, 7s, 2009  
 USD 2,685,000 Philippines (Republic of) notes 8 3/8s, 2009  
 USD 11,290,000 Russia (Federation of) unsub. 10s, 2007  
 USD 11,690,000 Russia (Federation of) unsub. 8 1/4s, 2010

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EUR	1,000,000	Spain (Government of) bonds 5.4s, 2011
EUR	1,690,000	Spain (Government of) bonds 4.8s, 2006
SEK	84,980,000	Sweden (Government of) bonds Ser. 1044, 3 1/2s, 2006
USD	785,000	Turkey (Republic of) bonds 11 3/4s, 2010
USD	520,000	Turkey (Republic of) notes 11 1/2s, 2012
GBP	4,030,000	United Kingdom Treasury bonds 7 1/4s, 2007
USD	1,470,000	United Mexican States notes 7 1/2s, 2012
USD	12,790,000	United Mexican States notes Ser. A, 9 7/8s, 2010

Total Foreign Government Bonds and Notes (cost \$104,324,808)

U.S. GOVERNMENT AND AGENCY OBLIGATIONS (12.6%) (a)  
PRINCIPAL AMOUNT

U.S. Government Agency Mortgage Obligations (8.9%)

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\$	7,960	Federal Home Loan Mortgage Corporation 6 1/2s, September 1, 2002 Federal National Mortgage Association Pass-Through Certificates
	472	8 1/2s, March 1, 2006
	42,853	8s, with due dates from October 1, 2025 to July 1, 2028
	165,192	7 1/2s, with due date from December 1, 2029 to June 1, 2031
	44,225,000	7 1/4s, January 15, 2010
	5,313,271	6 1/2s, with due dates from August 1, 2010 to February 1, 2032
	54,432	6s, June 1, 2031
		Government National Mortgage Association Pass-Through Certificates
	20,978	8s, July 15, 2023
	1,750,826	7 1/2s, with due dates from July 15, 2029 to January 15, 2030
	2,896,698	7s, with due dates from January 15, 2025 to December 15, 2028
	240,739	6 1/2s, May 15, 2029

U.S. Treasury Obligations (3.7%)

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		U.S. Treasury Notes
	4,565,000	4 7/8s, February 15, 2012
	21,570,000	3 1/2s, November 15, 2006

Total U.S. Government and Agency Obligations (cost \$85,130,758)

COLLATERALIZED MORTGAGE OBLIGATIONS (9.0%) (a)  
PRINCIPAL AMOUNT

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		Amortizing Residential Collateral Trust
\$	35,390,000	Ser. 02-BC1, Class A, Interest Only (IO), 6s, 2005
	2,270,000	Ser. 02-BC1, Class M2, FRN, 2.98s, 2032
	4,100,000	Amresco Commercial Mortgage Funding I Ser. 97-C1, Class F, 7.64s, 2029
	3,747,996	Bank of America Commercial Mortgage, Inc. Ser. 01-PB1, Class XC, IO, 0.535s, 2035
	5,966,097	Bank of America Mortgage Securities Ser. 01-10, Class 1A11, IO, 0.211s, 2031
	545,000	Chase Commercial Mortgage Securities Corp. Ser. 00-3, Class G, 6.887s, 2019
	8,577,607	Citicorp Mortgage Securities, Inc. Ser. 01-15, Class A3A, IO, 0.307s, 2031
	1,660,000	Commercial Mortgage Acceptance Corp. Ser. 97-ML1, Class D, 7.052s, 2010
	30,776,114	Commercial Mortgage Asset Trust Ser. 99-C1, Class X, IO, 0.560s, 2020

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CS First Boston Mortgage Securities Corp.  
520,000 Ser. 01-CF2, Class E, 7.29s, 2011  
540,000 Ser. 01-CF2, Class G, 6.93s, 2011  
30,614,876 Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, Class X, IO,  
1.04s, 2023  
Euro Loan Conduit 144A  
500,000 FRN Ser. 7A, Class E, 8.493s, 2006 (United Kingdom)  
500,000 FRN Ser. 7A, Class D, 6.743s, 2006 (United Kingdom)  
Fannie Mae  
68,326 Ser. 93-245, Class SD, 18.662s, 2023  
298,704 Ser. 98-63, Class S, 14.64s, 2026  
3,951,292 Ser. 319, Class 2, IO, 6 1/2s, 2032  
1,759,710 Ser. 01-55, Class CZ, 6 1/2s, 2031  
Fannie Mae  
931,400 Ser. 01-58, Class HI, IO, 6 1/2s, 2026  
3,508,000 Ser. 01-62, Class PI, IO, 6 1/2s, 2025  
2,335,800 Ser. 01-72, Class NI, IO, 6s, 2021  
3,319,200 Ser. 01-70, Class PI, IO, 6s, 2021  
2,343,700 Ser. 01-74, Class QI, IO, 6s, 2018  
1,666,700 Ser. 01-74, Class MI, IO, 6s, 2015  
6,565,495 Ser. 318, Class 2, IO, 2.981s, 2032  
1,773,879 Ser. 01-62, Class BI, IO, 1.723s, 2026  
700,606 Ser. 2351, Class EO, Principal Only (PO), zero %, August 15, 2031  
79,925 Ser. 2001-30, Class DO, zero %, 2031  
687,225 Ser. 1999-54, Class N, zero %, 2029  
716,602 Ser. 1999-52, Class MO, zero %, 2026  
351,872 Ser. 1997-92, Class PO, zero %, 2025  
914,957 Ser. 1996-5, Class PB, zero %, 2024  
309,039 Ser. 1999-4, Class M, zero %, 2023  
892,766 Ser. 1993-159, Class D, zero %, 2023  
17,802,362 FFCA Secured Lending Corp. Ser. 00-1, Class X, IO, 1.72s, 2020  
Freddie Mac  
489,872 Ser. 2154, Class SA, 24.83s, 2029  
221,193 Ser. 2149, Class ST, 22.43s, 2029  
769,670 Ser. 2319, Class S, 21.797s, 2031  
1,223,684 Ser. 2360, Class SC, 16.257s, 2031  
217,167 Ser. 2286, Class LR, 15.533s, 2024  
378,520 Ser. 1717, Class L, 6 1/2s, 2024  
1,154,654 Ser. 2044, Class SG, IO, 2.18s, 2023  
1,687,179 Ser. 2389, Class EI, IO, 0.755s, 2021  
700,606 Ser. 2351, Class EO, PO, zero %, 2031  
345,225 Ser. 2337, PO, zero %, 2031  
185,174 Ser. 2331, PO, zero %, 2031  
2,779,630 Ser. 215, PO, zero %, 2031  
52,862 Ser. 2312, PO, zero %, 2031  
205,166 Ser. 2317, PO, zero %, 2031  
56,457 Ser. 2302, Class LO, PO, zero %, 2031  
32,365 Ser. 2291, Class QO, PO, zero %, 2031  
518,527 Ser. 57, Class A, PO, zero %, 2023  
255,846 Ser. 2078, Class KC, PO, zero %, 2023  
121,202 Ser. 2190, PO, zero %, 2014  
9,188,635 Ser. 216, IO, 6s, January 1, 2032  
13,072,147 Ser. 212, IO, 1.917s, May 1, 2031  
550,000 GE Capital Commercial Mortgage Corp. Ser. 01-1, Class G, 7.04s, 2011  
Government National Mortgage Association  
868,808 Ser. 98-2, Class EA, PO, zero %, 2028  
304,813 Ser. 99-42, PO, zero %, 2027  
1,075,000 Granite Mortgages PLC FRN Ser. 01-1, Class 1C, 3.17s, 2041  
(United Kingdom)  
5,065,000 Holmes Financing PLC Ser. 1, Class 2C, 2.977s, 2040  
Merrill Lynch Mortgage Investors, Inc.  
16,896,587 Ser. 96-C2, IO, 8.59s, 2028

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1,070,000 Ser. 96-C2, Class E, 6.96s, 2028  
5,743,730 Mortgage Capital Funding, Inc. Ser. 97-MC2, Class X, IO, 7.18s, 2012  
60,788 Prudential Home Mortgage Securities Ser. 93-57, Class A4, 5.9s, 2023  
17,922,400 Residential Funding Mortgage Securities, Inc. Ser. 01-S26, Class A9, IO,  
0.765s, 2031  
264,296 Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026  
2,500,000 Starwood Asset Receivables Trust FRB Ser. 00-1, Class E, 4.6s, 2005

Total Collateralized Mortgage Obligations (cost \$57,962,190)

### BRADY BONDS (4.1%) (a) PRINCIPAL AMOUNT

---

\$ 23,510,000 Brazil (Federal Republic of) govt. guaranty FRB 3 1/4s, 2012  
5,272,400 Bulgaria (Government of) debs. FRB Ser. PDI, 2.813s, 2011  
499,800 Bulgaria (Government of) debs. FRB Ser. RPDI, 4.563s, 2011  
4,714,215 Venezuela (Republic of) debs. FRB Ser. DL, 4 3/4s, 2007

Total Brady Bonds (cost \$25,171,537)

### ASSET-BACKED SECURITIES (2.9%) (a) PRINCIPAL AMOUNT

---

\$ 852,000 Aames Mortgage Trust Ser. 02-1, Class A3, FRN, 6.869s, 2032  
807,000 Arc Net Interest Margin Trust 144A Ser. 02-1A, Class A, 7 3/4s, 2032  
662,610 Asset Backed Funding Corporation NIM Trust Ser. 02-WF1, 9.32s, 2032  
3,055,000 Conseco Finance Securitization Corp. Ser. 00-4, Class A6, 8.31s, 2032  
1,100,000 Conseco Finance Securitization Corp. Ser. 00-6, Class M2, 8.2s, 2032  
1,030,000 Conseco Finance Securitization Corp. Ser. 01-4, Class B1, 9.4s, 2010  
1,185,000 Consumer Credit Reference Index Securities Ser. 02-2A, Class BFL,  
FRN, 3.881s, 2007  
2,713,497 Greenpoint Manufactured Housing Ser. 00-3, Class IA, 8.45s, 2031  
1,046,356 Madison Avenue Manufactured Housing Contract Ser. 02-A, Class B1,  
FRN, 5.15s, 2034  
630,563 Mid-State Trust Ser. 10, Class B, 7.54s, 2026  
390,000 Morgan Stanley Dean Witter Capital I Ser. 01-NC3, Class B1, FRN,  
4.35s, 2031  
1,660,000 Morgan Stanley Dean Witter Capital I Ser. 01-NC4, Class B1, FRN,  
4.35s, 2032  
598,877 Morgan Stanley Dean Witter Capital I 144A Ser. 01-AM1N,  
12 3/4s, 2032  
1,252,107 Morgan Stanley Dean Witter Capital I 144A Ser. 01-NC4N,  
8 1/2s, 2032  
1,268,915 Option One Mortgage Securities Corp. Ser. 02-2A, Class CFTS,  
8.83s, 2032  
1,185,448 Option One Mortgage Securities Corp. 144A Ser. 02-1, Class CTFs,  
6 3/4s, 2032

Total Asset-Backed Securities (cost \$19,174,991)

### PREFERRED STOCKS (1.6%) (a) NUMBER OF SHARES

---

11,714 AmeriKing, Inc. \$3.25 cum. pfd. (PIK)  
56,000 California Federal Bancorp, Inc. Ser. A, \$2.281 pfd.  
28,531 Chevy Chase Capital Corp. Ser. A, \$5.188 pfd. (PIK)  
3,150 Chevy Chase Savings Bank, Inc. \$3.25 pfd.



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18,412 CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd. (PIK)  
1,380 Delta Financial Corp. Ser. A, \$10.00 cum. pfd.  
19,200 Diva Systems Corp. Ser. C, 6.00% cum. pfd.  
238 Dobson Communications Corp. 144A 12.25% pfd. (PIK)  
320 First Republic Capital Corp. 144A 10.50% pfd.  
11,765 Fitzgeralds Gaming Corp. 15% cum. pfd.  
1,116 Granite Broadcasting Corp. 12.75% cum. pfd. (PIK)  
1,352 Intermedia Communications, Inc. Ser. B, 13.50% pfd. (PIK)  
357 Nextel Communications, Inc. 144A Ser. E, 11.125% pfd. (PIK)  
269 Paxson Communications Corp. 13.25% cum. pfd. (PIK)  
1,168 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$11,731,912)

### COMMON STOCKS (0.9%) (a) (NON) NUMBER OF SHARES

---

2,305 Alderwoods Group, Inc.  
150 AmeriKing, Inc.  
28,107 Arch Wireless, Inc.  
14,080 Aurora Foods, Inc.  
149,352 Celcaribe SA  
15,321 Covad Communications Group, Inc. 144A  
1,380 Delta Funding Residual Exchange Co., LLC  
1,380 Delta Funding Residual Management, Inc.  
20,520 Dorskocil Manufacturing Company, Inc.  
23,404 Fitzgeralds Gaming Corp.  
2,708 Focal Communications Corp.  
6,936 Genesis Health Ventures, Inc.  
11,477 Intira Corp.  
6,795 MPower Holdings Corp. 144A  
815,000 Paracelsus Healthcare Corp.  
49,759 Pioneer Cos., Inc.  
327 Premium Holdings (L.P.) 144A  
715 PSF Holdings LLC Class A  
167 Quorum Broadcast Holdings, Inc. Class E (acquired 5/15/01,  
cost \$166,517) (RES)  
21,831 Regal Cinemas, Inc.  
10,704 Safety Components International, Inc. (acquired 7/21/97,  
cost \$200,000) (RES)  
10,050 Specialty Foods Acquisition Corp.  
1,335 Vast Solutions, Inc. Class B1  
1,335 Vast Solutions, Inc. Class B2  
1,335 Vast Solutions, Inc. Class B3  
65 Waste Management, Inc.

Total Common Stocks (cost \$7,145,037)

### CONVERTIBLE BONDS AND NOTES (0.5%) (a) PRINCIPAL AMOUNT

---

\$690,000 American Tower Corp. cv. notes 5s, 2010  
990,000 DaVita, Inc. cv. sub. notes 7s, 2009  
1,220,000 Exide Corp. 144A cv. sr. sub. notes 2.9s, 2005  
490,000 Healthsouth Corp. cv. sub. deb. 3 1/4s, 2003  
111,000 Hexcel Corp. cv. sub. notes 7s, 2003  
1,680,000 Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010  
310,000 Rogers Communications cv. deb. 2s, 2005 (Canada)

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50,000 Spectrasite Holdings, Inc. cv. sr. notes 6 3/4s, 2010  
 1,300,000 Telewest Finance Corp. cv. sub. notes 6s, 2005 (United Kingdom)

Total Convertible Bonds and Notes (cost \$4,837,362)

UNITS (0.1%) (a)  
 NUMBER OF UNITS

-----  
 600 Australis Media, Ltd. units 15 3/4s, 2003 (Australia) (In default) (NON)  
 3,445,121 Contifinancial Corp. Liquidating Trust units 8 1/8s, 2031 (NON)  
 608 Hercules Trust II units cum. cv. pfd. 6 1/2s  
 840 Pegasus Shipping 144A units stepped-coupon zero %  
 (14 1/2s, 6/20/03), 2008 (Bermuda) (STP)  
 500 XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)

Total Units (cost \$3,873,892)

CONVERTIBLE PREFERRED STOCKS (0.1%) (a)  
 NUMBER OF SHARES

-----  
 51 Anker Coal Group, Inc. 14.25% cv. pfd.  
 55 Genesis Health Ventures, Inc. \$6.00 cv. pfd. (PIK)  
 520 Interact Systems, Inc. 144A 14.00% cv. pfd. (In default) (NON)  
 3,800 LTV Corp. (The) 144A \$4.125 cv. pfd. (In default) (NON)  
 41 Paxson Communications Corp. 144A 9.75% cv. pfd. (PIK)  
 6,846 Telex Communications, Inc. zero % cv. pfd.  
 115 World Access, Inc. 144A Ser. D, zero % cv. pfd.

Total Convertible Preferred Stocks (cost \$740,705)

WARRANTS (--%) (a) (NON)  
 NUMBER OF WARRANTS

EXPIRATION  
 DATE

-----  
 4 Anker Coal Group, Inc. 144A 10/28/0  
 460 Birch Telecommunications, Inc. 144A 6/15/08  
 1,220 Club Regina, Inc. 144A 12/1/04  
 900 Colo.com, Inc. 144A 3/15/10  
 1,500 Comunicacion Cellular 144A 11/15/0  
 1,020 Dayton Superior Corp. 6/15/09  
 90 Decrane Aircraft Holdings Co. 9/30/08  
 14,628 Delta Financial Corp. 12/21/1  
 809 Diva Systems Corp. 5/15/06  
 8,173 Diva Systems Corp. 144A 3/1/08  
 6,915 Genesis Health Ventures, Inc. 10/1/02  
 1,050 Horizon PCS, Inc. 10/1/10  
 9,768 ICG Communications, Inc. 10/15/0  
 16,858 Imperial Credit Industries, Inc. 8/1/08  
 520 Interact Systems, Inc. 8/1/03  
 520 Interact Systems, Inc. 144A 12/15/0  
 69,097 Intira Corp. Class B 9/29/10  
 910 iPCS, Inc. 144A 7/15/10  
 400 Iridium World Com 144A 7/15/05  
 590 IWO Holdings, Inc. 1/15/11  
 1,140 Jostens, Inc. 5/1/10  
 2,085 KMC Telecommunications Holdings, Inc. 144A 4/15/08  
 1,180 Knology Holdings, Inc. 10/22/0

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544 Leap Wireless International, Inc. 144A	4/15/10
3,034 Loral Space & Communications, Ltd.	12/27/0
930 McCaw International, Ltd.	4/15/07
560 Mediq, Inc. 144A	6/1/09
390 Mikohn Gaming Corp. 144A	8/15/08
400 ONO Finance PLC 144A (United Kingdom)	2/15/11
620 Orbital Imaging Corp. 144A	3/1/05
1,840 Pagemart, Inc. 144A	12/31/0
960 Paxson Communications Corp. 144A	6/30/03
410 Pliant Corp. 144A	6/1/10
860 Startec Global Communications Corp.	5/15/08
185 Sterling Chemicals Holdings	8/15/08
410 Telehub Communications Corp. 144A	7/31/05
270 Telex Communications Group, Inc.	3/30/07
1,830 Travel Centers of America, Inc.	5/1/09
1,670 Ubiquitel, Inc. 144A	4/15/10
1,260 UIH Australia/Pacific, Inc. 144A	5/15/06
13,865 United Artists Theatre	3/2/08
680 Veraldo Holdings, Inc. 144A	4/15/08
30 Versatel Telecom NV (Netherlands)	5/15/08
590 XM Satellite Radio Holdings, Inc. 144A	3/15/10
Total Warrants (cost \$2,036,761)	

SHORT-TERM INVESTMENTS (4.6%) (a)  
PRINCIPAL AMOUNT

---

\$	970,000 U.S. Treasury Notes zero %, June 13, 2002 (SEG)
	12,191 Short-term investments held as collateral for loaned securities with yields ranging from 1.80% to 2.19% and due dates ranging from April 1, 2002 to May 13, 2002 (d)
	29,646,000 Interest in \$715,000,000 joint tri-party repurchase agreement dated March 28, 2002 with Goldman Sachs & Co. due April 1, 2002 with respect to various U.S. Government obligations -- maturity value of \$29,652,325 for an effective yield of 1.92%
	Total Short-Term Investments (cost \$30,624,804)
	Total Investments (cost \$728,381,911) (b)

---

(a) Percentages indicated are based on net assets of \$659,748,443.

(b) The aggregate identified cost on a tax basis is \$731,358,719, resulting in gross unrealized appreciation and depreciation of \$24,562,495 and \$78,019,236, respectively, or net unrealized depreciation of \$53,456,741.

(NON) Non-income-producing security.

(STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at March 31, 2002 was \$19,632,682 or 3.0% of net assets.

(DEF) Security is in default of principal and interest.

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- (PIK) Income may be received in cash or additional securities at the discretion of the issuer.
- (SEG) This security was pledged and segregated with the custodian to cover margin requirements for futures contracts at March 31, 2002.
- (R) Real Estate Investment Trust.
- (d) See footnote 1 to the financial statements.

144A after the name of a security represents those exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates shown at March 31, 2002, which are subject to change based on the terms of the security.

### DIVERSIFICATION BY COUNTRY

Distribution of investments by country of issue at March 31, 2002:  
(as percentage of Market Value)

Australia	0.9%
Brazil	2.9
Canada	2.1
Germany	5.1
Mexico	2.3
Russia	3.4
Sweden	1.1
United Kingdom	2.0
United States	75.9
Other	4.3
	-----
Total	100.0%

-----  
Forward Currency Contracts to Buy at March 31, 2002  
(aggregate face value \$43,549,258)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/Depreciation
Australian Dollars	\$ 9,415,610	\$ 9,227,511	6/19/2002	\$ 188,099
British Pounds	2,258,753	2,252,093	6/19/2002	6,660
Canadian Dollars	2,163,334	2,170,749	6/19/2002	(7,415)
Danish Krone	755,243	753,481	6/19/2002	1,762
Euro	12,329,094	12,413,405	6/19/2002	(84,311)
Japanese Yen	16,263,163	16,380,452	6/19/2002	(117,289)
Swiss Franc	351,248	351,567	6/19/2002	(319)
				-----
				\$ (12,813)

-----  
Forward Currency Contracts to Sell at March 31, 2002  
(aggregate face value \$39,008,477)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/Depreciation
Australian Dollars	\$ 4,092,040	\$ 4,025,716	6/19/2002	\$ (66,324)
British Pounds	2,204,257	2,201,772	6/19/2002	(2,485)

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Canadian Dollars	1,649,287	1,658,417	6/19/2002	9,130
Euro	22,356,065	22,252,590	6/19/2002	(103,475)
New Zealand Dollars	1,680,240	1,638,003	6/19/2002	(42,237)
Swedish Krona	7,217,070	7,231,979	6/19/2002	14,909

-----  
 \$ (190,482)  
 -----

Futures Contracts Outstanding at March 31, 2002

	Total Value	Aggregate Face Value	Expiration Date	Unrealized Appreciation/ (Depreciation)
3 Month Eurodollar (long)	\$ 1,705,725	\$ 1,710,655	Jun-02	\$ (4,930)
3 Month Eurodollar (long)	1,692,862	1,702,955	Sep-02	(10,093)
3 Month Eurodollar (long)	1,662,587	1,664,630	Jun-03	(2,043)
Euro-Bobl 5yr (long)	17,684,815	17,823,327	Jun-02	(138,512)
Euro-Bund 10yr (long)	3,564,176	3,599,361	Jun-02	(35,185)
Interest Rate Swap 10yr (long)	1,477,031	1,490,097	Jun-02	(13,066)
Japanese Government Bond 10yr (long)	4,583,292	4,552,460	Jun-02	30,832
Japanese Government Bond 10yr (long)	4,167,535	4,138,569	Jun-02	28,966
US Treasury Note 10yr (long)	31,862,922	32,787,523	Jun-02	(924,601)
US Treasury Note 10yr (short)	23,666,672	23,829,527	Jun-02	162,855
US Treasury Note 10yr (long)	9,526,856	9,804,629	Jun-02	(277,773)
US Treasury Note 5yr (short)	3,630,703	3,631,101	Jun-02	398

-----  
 \$ (1,183,152)  
 -----

Written Call Options on Foreign Currency Outstanding at March 31, 2002  
 (premiums received \$7,815)

Contract Amount		Expiration Date/ Strike Price	Market Value
7	Eurodollar 3 Month - CME (call)	Sep 02/\$97.25	\$1,750
7	Eurodollar 3 Month - CME (call)	Jun 02/\$97.75	569

-----  
 \$2,319  
 -----

TBA Sales Commitments at March 31, 2002  
 (Proceeds receivable \$4,935,181)

Agency	Principal Amount	Settlement Date	Market Value
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FNMA, 6 1/2s, April 2032	\$4,946,000	4/11/02	\$4,919,737
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Swap Contracts outstanding at March 31, 2002	Notional Amount	Termination Date	Unrealized Appreciation
----- Agreement with Merrill Lynch Capital Services dated November 17, 2000 to pay semi-annually the notional amount multiplied by the return of LIBOR-BAA and receive quarterly the notional amount multiplied by 6.7506%	\$6,500,000	11/21/05	\$363,174

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ASSETS AND LIABILITIES  
March 31, 2002 (Unaudited)

Assets

Investments in securities, at value, including \$10,402 of securities on loan (identified cost \$728,381,911) (Note 1)	\$677,901,978
Cash	5,072,787
Foreign currency (cost \$182,782)	165,468
Dividends, interest and other receivables	13,648,858
Receivable for securities sold	26,107,882
Receivable for open swap contracts (Note 1)	363,174
Receivable for open forward currency contracts (Note 1)	235,088
Receivable for closed forward currency contracts (Note 1)	469,140
Total assets	723,964,375

Liabilities

Payable for variation margin (Note 1)	29,698
Distributions payable to shareholders	4,483,710
Payable for securities purchased	52,905,851

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Payable for compensation of Manager (Note 2)	1,142,284
Payable for investor servicing and custodian fees (Note 2)	127,441
Payable for compensation of Trustees (Note 2)	64,490
Payable for administrative services (Note 2)	3,434
Payable for open forward currency contracts (Note 1)	438,383
Payable for closed forward currency contracts (Note 1)	53,218
Written options outstanding, at value (premiums received \$7,815) (Notes 1 and 3)	2,319
TBA sales commitments, at value (proceeds receivable \$4,935,181) (Note 1)	4,919,737
Collateral on securities loaned, at value (Note 1)	12,180
Other accrued expenses	33,187
Total liabilities	64,215,932
Net assets	\$659,748,443
Represented by	
Paid-in capital (Notes 1 and 4)	\$844,899,761
Distributions in excess of net investment income (Note 1)	(10,210,451)
Accumulated net realized loss on investment and foreign currency transactions (Note 1)	(123,309,210)
Net unrealized depreciation of investments and assets and liabilities in foreign currencies	(51,631,657)
Total -- Representing net assets applicable to capital shares outstanding	\$659,748,443
Computation of net asset value	
Net asset value per share (\$659,748,443 divided by 100,133,127 shares)	\$6.59

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS  
Six months March 31, 2002 (Unaudited)

Investment income:

Interest income	\$28,421,421
Dividends	601,320

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Securities lending	315
<hr/>	
Total investment income	29,023,056
<hr/>	
Expenses:	
<hr/>	
Compensation of Manager (Note 2)	2,300,863
Investor servicing and custodian fees (Note 2)	332,366
Compensation of Trustees (Note 2)	10,559
Administrative services (Note 2)	7,023
Other	132,189
Total expenses	2,783,000
Expense reduction (Note 2)	(20,386)
Net expenses	2,762,614
Net investment income	26,260,442
Net realized loss on investments (Notes 1 and 3)	(25,334,614)
Net realized loss on foreign currency transactions (Note 1)	(900,223)
Net realized gain on futures contracts (Note 1)	5,817
Net realized gain on written options (Note 1)	7,982
Net unrealized depreciation of assets and liabilities in foreign currencies during the period	(214,019)
Net unrealized appreciation of investments, futures, TBA sales commitments, written options and swap contracts during the period	31,797,110
Net gain on investments	5,362,053
Net increase in net assets resulting from operations	\$31,622,495

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six months ended March 31 2002*	Year ended September 30 2001
Increase (decrease) in net assets		
Operations:		



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Net investment income	\$ 26,260,442	\$ 58,649,68
Net realized loss on investments and foreign currency transactions	(26,221,038)	(30,897,82
Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies	31,583,091	(26,007,03
Net increase in net assets resulting from operations	31,622,495	1,744,82
Distributions to shareholders: (Note 1)		
From net investment income	(27,034,819)	(45,980,55
From return of capital	--	(14,497,45
Total increase (decrease) in net assets	4,587,676	(58,733,18
Net assets		
Beginning of period	655,160,767	713,893,94
End of period (including distributions in excess of net investment income of \$10,210,451 and \$9,436,074 respectively)	\$ 659,748,443	\$ 655,160,76
Number of fund shares		
Shares outstanding at beginning and end of period	100,133,127	100,133,12

\*Unaudited

The accompanying notes are an integral part of these financial statements.

FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

Per-share operating performance	Six months ended March 31 (Unaudited)		Year ended September 30		
	2002	2001	2000	1999	1998
Net asset value, beginning of period	\$6.54	\$7.13	\$7.57	\$8.14	\$8.79
Investment operations:					
Net investment income (a)	.26	.58	.63	.58	.71
Net realized and unrealized gain (loss) on investments	.06	(.57)	(.43)	(.47)	(.67)

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Total from investment operations	.32	.01	.20	.11	.04
Less distributions:					
From net investment income	(.27)	(.46)	(.64)	(.56)	(.69)
From return of capital	--	(.14)	--	(.12)	--
Total distributions	(.27)	(.60)	(.64)	(.68)	(.69)
Net asset value, end of period	\$6.59	\$6.54	\$7.13	\$7.57	\$8.14
Market value, end of period	\$6.130	\$6.050	\$6.438	\$6.438	\$7.750
Total return at market value (%) (b)	5.74*	3.06	10.72	(9.09)	3.91

Ratios and supplemental data

Net assets, end of period (in thousands)	\$659,748	\$655,161	\$713,894	\$757,533	\$814,342
Ratio of expenses to average net assets (%) (c)	.42*	.90	.87	.93	.92
Ratio of net investment income to average net assets (%)	3.97*	8.50	8.60	7.39	8.13
Portfolio turnover (%)	85.88* (e)	111.45	116.71	133.72	179.84

\* Not annualized.

(a) Per share net investment income has been determined on the basis of weighted average number of shares outstanding during the period.

(b) Total return does not reflect the effect of sales charges.

(c) Includes amounts paid through expense offset arrangements (Note 2).

(d) Portfolio turnover excludes the impact of assets received from the acquisition of Putnam Intermediate Government Income Trust.

(e) Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS  
March 31, 2002 (Unaudited)

Note 1  
Significant accounting policies

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Putnam Master Intermediate Income Trust (the "fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company and is authorized to issue an unlimited number of shares. The fund's investment objective is to seek, with equal emphasis, high current income and relative stability of net asset value, by allocating its investments among the U.S. investment grade sector, high-yield sector and international sector.

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

A) Security valuation Investments for which market quotations are readily available are stated at market value, which is determined using the last reported sales price on its principal exchange, or if no sales are reported -- as in the case of some securities traded over-the-counter -- the last reported bid price. Securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate. Short-term investments having remaining maturities of 60 days or less are stated at amortized cost, which approximates market value. Other investments, including restricted securities, are stated at fair value following procedures approved by the Trustees. Market quotations are not considered to be readily available for certain debt obligations; such investments are stated at fair value on the basis of valuations furnished by an independent pricing service or dealers, approved by the Trustees, which determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and variable relationships, generally recognized by institutional traders, between securities.

B) Joint trading account The fund may transfer uninvested cash balances, including cash collateral received under security lending arrangements, into a joint trading account along with the cash of other registered investment companies and certain other accounts managed by Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

C) Repurchase agreements The fund, or any joint trading account, through its custodian, receives delivery of the underlying securities, the market value of which at the time of purchase is required to be in an amount at least equal to the resale price, including accrued interest. Collateral for certain tri-party repurchase agreements is held at the counterparty's custodian in a segregated account for the benefit of the fund and the counterparty. Putnam Management is responsible for determining that the value of these underlying securities is at all times at least equal to the resale price, including accrued interest.

D) Security transactions and related investment income Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis.

Interest income is recorded on the accrual basis. Dividend income is

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recorded on the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. All premiums/discounts are amortized /accreted on a yield-to-maturity basis.

E) Foreign currency translation The accounting records of the fund are maintained in U.S. dollars. The market value of foreign securities, currency holdings, and other assets and liabilities are recorded in the books and records of the fund after translation to U.S. dollars based on the exchange rates on that day. The cost of each security is determined using historical exchange rates. Income and withholding taxes are translated at prevailing exchange rates when accrued or incurred. The fund does not isolate that portion of realized or unrealized gains or losses resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such gains and losses are included with the net realized and unrealized gain or loss on investments. Net realized gains and losses on foreign currency transactions represent net realized exchange gains or losses on closed forward currency contracts, disposition of foreign currencies and the difference between the amount of investment income and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized appreciation and depreciation of assets and liabilities in foreign currencies arise from changes in the value of open forward currency contracts and assets and liabilities other than investments at the period end, resulting from changes in the exchange rate. Investments in foreign securities involve certain risks, including those related to economic instability, unfavorable political developments, and currency fluctuations, not present with domestic investments.

F) Forward currency contracts The fund may engage in forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts are used to protect against a decline in value relative to the U.S. dollar of the currencies in which its portfolio securities are denominated or quoted (or an increase in the value of a currency in which securities a fund intends to buy are denominated, when a fund holds cash reserves and short-term investments). The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is "marked-to-market" daily and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position.

G) Futures and options contracts The fund may use futures and options contracts to hedge against changes in the values of securities the fund owns or expects to purchase. The fund may also write options on securities it owns or in which it may invest to increase its current returns.

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. When the contract is closed, the fund records a

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realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. The Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the futures contract. Such receipts or payments are known as "variation margin". Exchange traded options are valued at the last sale price, or if no sales are reported, the last bid price for purchased options and the last ask price for written options. Options traded over-the-counter are valued using prices supplied by dealers.

H) Interest rate swap contracts The fund may engage in interest rate swap agreements, which are arrangements between two parties to exchange cash flows based on a notional principal amount. The fund may enter into interest rate swap agreements, to manage the funds exposure to interest rates. Interest rate swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments made or received are included as part of interest income. Payments received or made upon early termination are recorded as realized gain or loss. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or that the counterparty may default on its obligation to perform.

I) TBA purchase commitments The fund may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed unit price at a future date beyond customary settlement time. Although the unit price has been established, the principal value has not been finalized. However, the amount of the commitments will not fluctuate more than .01% from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the fund's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities, according to the procedures described under "Security valuation" above.

Although the fund will generally enter into TBA purchase commitments with the intention of acquiring securities for their portfolio or for delivery pursuant to options contracts it has entered into, the fund may dispose of a commitment prior to settlement if Putnam Management deems it appropriate to do so.

J) TBA sale commitments The fund may enter into TBA sale commitments to hedge its portfolio positions or to sell mortgage-backed securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover" for the transaction.

Unsettled TBA sale commitments are valued at the current market value of the underlying securities, generally according to the procedures

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described under "Security valuation" above. The contract is "marked-to-market" daily and the change in market value is recorded by the fund as an unrealized gain or loss. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the fund realizes a gain or loss. If the fund delivers securities under the commitment, the fund realizes a gain or a loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

K) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A., the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At March 31, 2002, the value of securities loaned amounted to \$10,402. The fund received cash collateral of \$12,180 which is pooled with collateral of other Putnam funds into 35 issuers of high grade short-term investments.

L) Federal taxes It is the policy of the fund to distribute all of its income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At September 30, 2001, the fund had a capital loss carryover of approximately \$71,656,000 available to offset future capital gains, if any. The amount of the carryover and the expiration dates are:

Loss Carryover	Expiration
\$ 7,035,000	September 30, 2003
2,793,000	September 30, 2004
1,555,000	September 30, 2005
10,040,000	September 30, 2007
25,640,000	September 30, 2008
24,593,000	September 30, 2009

### M) Distributions to shareholders

Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

### Note 2

Management fee, administrative services and other transactions

Compensation of Putnam Management, for management and investment

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advisory services is paid quarterly based on the average net assets of the fund. Such fee is based on the following annual rates: 0.75% of the first \$500 million of average weekly net assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million, and 0.55% thereafter.

The fund reimburses Putnam Management an allocated amount for the compensation and related expenses of certain officers of the fund and their staff who provide administrative services to the fund. The aggregate amount of all such reimbursements is determined annually by the Trustees.

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a wholly-owned subsidiary of Putnam, LLC. Investor servicing agent functions are provided by Putnam Investor Services, a division of PFTC.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the six months ended March 31, 2002, the fund's expenses were reduced by \$20,386 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$988 has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

The fund has adopted a Trustee Fee Deferral Plan (the "Deferral Plan") which allows the Trustees to defer the receipt of all or a portion of Trustees Fees payable on or after July 1, 1995. The deferred fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Compensation of Trustees in the Statement of operations. Accrued pension liability is included in Payable for compensation of Trustees in the Statement of assets and liabilities.

### Note 3

#### Purchases and sales of securities

During the six months ended March 31, 2002, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$394,094,903 and \$318,636,193, respectively. Purchases and sales of U.S. government obligations aggregated \$625,100,281 and \$646,044,770, respectively.

Written option transactions during the period are summarized as follows:

	Contract Amounts	Premiums Received
-----		
Written options outstanding at beginning of year	\$           --	\$           --
-----		
Options opened	4,378,014	15,797
-----		
Options expired	(4,378,000)	(7,982)

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Options closed	--	--
Written options outstanding at end of period	\$ 14	\$ 7,815

Note 4

Share repurchase program

In November 1994, the Trustees authorized the fund to repurchase up to 1,950,000 of its shares in the open market. Repurchases will only be made when the fund's shares are trading at less than net asset value and at such times and amounts as is believed to be in the best interest of the fund's shareholders. Any repurchases of shares will have the effect of increasing the net asset value per share of remaining shares outstanding.

For the six months ended March 31, 2002, the fund repurchased no shares.

As of September 30, 2001, 570,000 shares have been repurchased since the inception of the program.

Note 5

New accounting pronouncement

As required, effective January 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. This Guide requires that the fund amortize premium and accrete discount on all fixed-income securities, and classify as interest income gains and losses realized on paydowns on mortgage-backed securities. Prior to January 1, 2001, the fund did not amortize premium and accrete discounts for certain fixed income securities and characterized as realized gains and losses paydowns on mortgage backed securities. Adopting these accounting principles will not affect the fund's net asset value, but will change the classification of certain amounts between interest income and realized and unrealized gain/loss in the Statement of operations. The adoption of this principle is not material to the financial statements.

AMENDMENT TO BYLAWS

(Unaudited)

On March 9, 2001, the Trustees amended the fund's Bylaws to require advance notice of shareholder Trustee nominations and shareholder proposals fixing the number of Trustees. Shareholders wishing to propose one or more nominees for election as Trustees or wishing to make a proposal fixing the number of Trustees at an annual meeting of shareholders must provide written notice to the fund (including all required information) so that such notice is received in good order by the fund not less than sixty (60) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting. An exception applies in the case of the annual meeting to be held in calendar year 2001, to the effect that the notice described above to be timely must be received in good order by the fund not less than thirty (30) days prior to that anniversary date. A further exception to the notice deadline applies in the event the date of the annual meeting is substantially advanced or delayed from that anniversary date. Copies of these amendments to the Bylaws have been filed with the Securities and Exchange Commission and are available from its public reference



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facilities.

### FUND INFORMATION

#### ABOUT PUTNAM INVESTMENTS

One of the largest mutual fund families in the United States, Putnam Investments has a heritage of investment leadership dating back to Judge Samuel Putnam, whose Prudent Man Rule has defined fiduciary tradition and practice since 1830. Founded 65 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We presently manage over 100 mutual funds in growth, value, blend, fixed income, and international.

#### INVESTMENT MANAGER

Putnam Investment Management, LLC  
One Post Office Square  
Boston, MA 02109

#### MARKETING SERVICES

Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

#### CUSTODIAN

Putnam Fiduciary Trust Company

#### LEGAL COUNSEL

Ropes & Gray

#### TRUSTEES

John A. Hill, Chairman  
Jameson Adkins Baxter  
Charles B. Curtis  
Ronald J. Jackson  
Paul L. Joskow  
Elizabeth T. Kennan  
Lawrence J. Lasser  
John H. Mullin III  
Robert E. Patterson  
George Putnam, III  
A.J.C. Smith  
W. Thomas Stephens  
W. Nicholas Thorndike

#### OFFICERS

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President

Charles E. Porter  
Executive Vice President and Treasurer

Patricia C. Flaherty  
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visit our Web site ([www.putnaminvestments.com](http://www.putnaminvestments.com)) any time for up-to-date  
information about the fund's NAV.

NOT FDIC INSURED, MAY LOSE VALUE, NO BANK GUARANTEE

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PUTNAM INVESTMENTS

The Putnam Funds  
One Post Office Square  
Boston, Massachusetts 02109

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