PUTNAM MASTER INTERMEDIATE INCOME TRUST
Form N-CSR
May 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: (811- 05498)

Exact name of registrant as specified in charter: Putnam Master Intermediate Income Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service:	Beth S. Mazor, Vice President One Post Office Square Boston, Massachusetts 02109
Copy to:	John W. Gerstmayr, Esq. Ropes & Gray LLP One International Place Boston, Massachusetts 02110
Registrant's telephone number, including area code:	(617) 292-1000

Date of fiscal year end: September 30, 2006

Date of reporting period: October 1, 2005 March, 31 2006

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

What makes Putnam different?

In 1830, Massachusetts Supreme Judicial Court Justice Samuel Putnam established The Prudent Man Rule, a legal foundation for responsible money management.

THE PRUDENT MAN RULE

All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

A time-honored tradition in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their financial representatives can build diversified portfolios.

A commitment to doing what's right for investors

We have stringent investor protections and provide a wealth of information about the Putnam funds.

Industry-leading service

We help investors, along with their financial representatives, make informed investment decisions with confidence.

Putnam Master Intermediate Income Trust

3|31|06

Semiannual Report

Message from the Trustees

Dear Fellow Shareholder

In the early months of 2006, we have seen a continuation of generally benign economic conditions in the United States. The expansion that began in late 2001 is continuing, fueled by gains in worker productivity. The stock market has advanced, driven largely by corporate profit levels that, by some measures, are near all-time highs. Inflation, which can cause problems for stock and bond markets, has remained fairly steady in recent months even as energy prices have resumed their ascent. Investors can be encouraged by these conditions, but should also be mindful of risks. Bond prices have fallen recently in response to stronger job creation. As mortgage rates have risen to higher levels, activity in the housing market has slowed. Our nations large trade deficit is also dampening prosperity and could cause the U.S. dollar to weaken, which might make it more difficult for U.S. stocks and bonds to attract investment from abroad.

We consider it fortunate that the Federal Reserves (the Feds) new Chairman, Ben Bernanke, like his predecessor, Alan Greenspan, regards the Feds role in pursuing both price stability and economic growth as essential to maintaining a healthy financial system. In its first months under the leadership of Mr. Bernanke, the Fed has continued Mr. Greenspans program of interest-rate increases, while offering some signals that the end of the current tightening cycle might not be far away.

The economys significant strengths and notable weaknesses remind us once again that a well-diversified financial program under the guidance of a professional financial representative can help many investors pursue their goals. And in our view, the professional research, diversifi-cation, and active management that mutual funds provide continue to make them an intelligent choice for investors.

We want you to know that Putnam Investments, under the leadership of Chief Executive Officer Ed Haldeman, continues to focus on delivering consistent, dependable, superior investment performance over time. In the following pages, members of your funds management team discuss the funds performance and strategies, and their outlook for the months ahead. We thank you for your support of the Putnam funds.

Putnam Master Intermediate Income Trust: seeking

broad diversification across global bond markets

When Putnam Master Intermediate Income Trust was launched in 1988, its three-pronged focus on U.S. investment-grade bonds, high-yield corporate bonds, and non-U.S. bonds was considered innovative. Lower-rated, higher-yielding corporate bonds were relatively new, having just been established in the late 1970s. And, at the time of the fund□s launch, few investors were venturing outside the United States for fixed-income opportunities.

The bond investment landscape has undergone a transformation in the nearly two decades since. New sectors like mortgage- and asset-backed securities now make up over one third of the U.S. investment-grade market. The high-yield corporate bond sector has also grown significantly. Outside the United States, the popularity of the euro has resulted in a large market of European government bonds. There are also growing opportunities to invest in the debt of emerging-market countries.

The fund□s original investment focus has been enhanced to keep pace with this market expansion. To process the market□s increasing complexity, Putnam□s 100-member fixed-income group aligns teams of specialists with the varied investment opportunities. Each team identifies compelling strategies within its area of expertise. Your fund□s management team selects from among these strategies, striving to systematically build a diversified portfolio that carefully balances risk and return.

We believe the fund□s multi-strategy approach is well suited to the expanding opportunities of today□s global bond marketplace. As different factors drive the performance of the various fixed-income sectors, the fund□s diversified

Optimizing the risk/return trade-off across multiple sectors

Putnam believes that building a diversified fund□s objectives. The fund□s portfolio is portfolio with multiple income-generating composed of a broad spectrum of government, strategies is the best way to pursue your credit, and securitized debt instruments.

strategy can take advantage of changing market leadership in pursuit of high current income consistent with capital preservation.

International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. While diversification can help protect returns from excessive volatility, it cannot ensure protection against a market loss.

How do closed-end funds differ from open-end funds?

More assets at work While open-end funds must maintain a cash position to meet redemptions, closed-end funds have no such requirement and can keep more of their assets invested in the market.

Traded like stocks Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

Market price vs. net asset value Like an open-end fund’s net asset value (NAV) per share, the NAV of a closed-end fund share is equal to the current value of the fund’s assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

	GOVERNMENT	
*	U.S.Treasury	10.5%
*	International Treasury (developed markets)	7.1%
*	International Treasury (emerging markets)	5.0%
	CASH/OTHER	
*	Cash/derivatives/equivalents (e.g., short-term U.S. Treasuries, commercial paper, and other cash equivalents)	14.8%

Allocations and holdings in each sector will vary over time. For more information on current fund holdings, see pages 10 and 28.

Putnam Master Intermediate Income Trust seeks high current income and relative stability by investing in investment-grade, high-yield, and non-U.S. fixed-income securities of limited maturity. Fund holdings and sector classifications reflect the diversification of the fixed-income market. The fund is designed for investors seeking high current income, asset class diversification, or both.

Highlights

* For the six months ended March 31, 2006, Putnam Master Intermediate Income Trust posted total returns of 1.30% at net asset value (NAV) and –1.05% at market price.

* The fund’s primary benchmark, the Lehman Government/Credit Bond Index, returned –0.42% .

* The average return for the fund’s Lipper category, Flexible Income Funds (closed-end), was 1.58% .

* The fund’s dividend was reduced to $0.028 per share in November 2005. See page 11 for details.

* Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

Performance

Total return for periods ended 3/31/06

Since the fund’s inception (4/29/88), average annual return is 7.74% at NAV and 6.43% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price

10 years	6.44%	6.34%	86.60%	84.84%
5 years	7.74	5.74	45.16	32.21
3 years	8.95	5.26	29.32	16.63
1 year	3.91	–0.02	3.91	–0.02
6 months	—	—	1.30	–1.05

Data is historical. Past performance does not guarantee 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 assumes reinvestment of distributions and does not account for taxes.

Report from the fund managers

The period in review

The six-month period ended March 31, 2006, was generally favorable for most sectors of the fixed-income market, especially those associated with higher credit risk, such as high-yield and emerging-market bonds. Strong investor demand for yield boosted prices in both of these sectors, particularly during the first calendar quarter of 2006. Because your fund invests in a variety of fixed-income investments, its results at net asset value (NAV) were ahead of the return of its all-bond benchmark index. However, the fund’s results at NAV trailed the average for the fund’s Lipper category because the fund had less exposure than many of its peers to the strong-performing emerging-market and high-yield sectors. The fund continued to benefit from its holdings in securitized bonds, while its currency strategy had a neutral effect on performance over the course of the semiannual period.

Market overview

During the six months ended March 31, 2006, the U.S. economy grew at a solid, moderate pace with low inflation, continuing a trend that has been in place for over four years. Fixed-income securities generally remained in a relatively narrow trading range in the fourth quarter of 2005. During the first quarter of calendar 2006, however, strong demand for high-yield and emerging-market bonds drove their prices up and caused their yields to decline close to the level of comparable Treasuries.

While the bond market has benefited from a supportive environment for the past several years, we have detected growing cautionary signs. The U.S. economy has been posting a steady 3% to 4% growth rate since 2002, but during the past six months, we believe that spare or “excess” capacity to fuel economic growth (i.e., plant and equipment capacity) has all but disappeared. This is an important development, because excess capacity can help keep prices low as companies try to boost sales volume, and consequently, when present, it has a dampening effect on inflation. Furthermore, in what could be a significant development for the world□s financial markets, Japan is currently emerging from 15 years of economic difficulty. Japan□s previously stagnant economy and very low interest rates have long been key elements of an important mechanism for keeping long-term interest rates low in the United States. Japanese investors (who have a very high savings rate) have purchased U.S. Treasury and corporate bonds in large volume to take advantage of their higher yields. Recently, real estate prices in Japan have been rising, unemployment has declined, and the Japanese stock market has been strengthening. In addition, Japanese interest rates rose across the board during the past six months.

Japanese investors, noting the changing conditions, have begun to divert some of their capital out of the international markets and back to their domestic markets. We believe these developments could soon mean significantly higher long-term interest rates here, as credit issuers in the United States could be forced to raise interest rates to compete for Japanese capital. We continue to monitor unfolding events in Japan closely.

Strategy overview

As we have noted the beginnings of possible changes in the global economy over the past six months, amid signs

Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 3/31/06.

Bonds	
Lehman Government/Credit Bond Index (U.S. Treasury and agency securities and corporate bonds)	-0.42%
JP Morgan Global Diversified Emerging Markets Bond Index (global emerging-market bonds)	3.30%
Citigroup Non-U.S. World Government Bond Index (international government bonds)	-2.80%
JP Morgan Global High Yield Index (global high-yield corporate bonds)	3.65%
Equities	
S&P 500 Index (broad stock market)	6.38%
Russell 2000 Index (small-company stocks)	15.23%
MSCI EAFE Index (international stocks)	13.86%

that long-term interest rates could rise, our primary goal has been to keep the portfolios level of credit risk at a reduced level. (Credit risk is the risk that a bond issuer could default and fail to pay interest and repay principal in a timely manner.) During the six-month period, we de-emphasized the emerging-market sector and increased the average credit quality of the funds high-yield holdings by selling lower-quality bonds and purchasing bonds with higher ratings. High-yield securities, which are generally lower in quality than other securities such as Treasuries, are classed among several tiers of credit quality.

In addition, we sought to reduce the funds sensitivity to changes in interest rates by maintaining a shorter portfolio duration than in past years. Duration, which is measured in years, is an indicator of interest-rate sensitivity. The shorter a bonds duration, the less sensitive its price will be to interest-rate changes. Since bond prices move in the opposite direction of interest rates, the funds lower interest-rate sensitivity helped performance over the six-month period.

We have also maintained the funds position in bank loans. These securities offer floating interest rates that, like an adjustable-rate home mortgage, move in

Comparison of sector weightings

This chart shows how the funds weightings have changed over the last six months. Weightings are shown as a percentage of net assets. Holdings will vary over time.

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tandem with market rates and can therefore help to provide some protection from interest-rate risk.

Your funds holdings

The portfolios significant position in **securitized bonds**, or **structured securities**, performed well during the semiannual period, as interest rates fluctuated within a narrow range. Structured securities currently offer higher income than corporate bonds of comparable credit quality. They also carry short maturities, providing us with the flexibility to shift to other fixed-income securities should interest rates rise. The most common types of structured securities are **mortgage-backed securities (MBSs)** issued by the **Federal National Mortgage Association (Fannie Mae)** and the **Government National Mortgage Association (Ginnie Mae)**. Other types of structured securities include **asset-backed securities (ABSs)**, which are typically backed by car loans and credit card payments, and **commercial mortgage-backed securities (CMBSs)**, which are backed by loans on large commercial real estate projects, such as office parks or shopping malls.

European government bonds outperformed Treasury bonds and contributed to performance during the six-month period. European bonds benefited from

Top holdings

This table shows the funds top holdings, and the percentage of the funds net assets that each comprised, as of 3/31/06. The funds holdings will change over time.

Holding (percent of funds net assets)	Coupon (%) and maturity date
Securitized sector	
Federal National Mortgage Association	

pass-through certificates (5.2%)	5.5%, 2036
Federal National Mortgage Association pass-through certificates (2.6%)	5.5%, 2036
Structured Asset Investment Loan Trust floating-rate bonds (1.0%)	5.118%, 2034
Credit sector	
Pemex Project Funding Master Trust company guaranty (0.6%)	5.75%, 2015
VTB Capital SA 144A notes (Luxembourg) (0.5%)	7.5%, 2011
Gazprom OAO 144A notes (Germany) (0.3%)	9.625%, 2013
Government sector	
U.S. Treasury notes (5.4%)	4.25%, 2013
U.S. Treasury notes (3.9%)	3.25%, 2008
Ireland (Republic of) bonds (1.4%)	5%, 2013

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the Fed□s continuing series of interest-rate increases and the fact that economic growth on the Continent has generally been slower than in the United States. Although the fund□s benchmark includes bonds from **Italy**, we avoided these, emphasizing bonds issued in **Germany** and **France** instead. In general, the fund has benefited from this strategy.

While the fund continues to deemphasize emerging-market securities, we added some emerging-market bonds during the period, believing them to be more attractive than high-yield corporate bonds. Over the period, the fund benefited from positions in higher-yielding issues from the **Philippines,** which we sold by period-end to take profits, and **Brazil**. However, our emphasis on more defensive, lower-yielding bonds from countries such as **Mexico** and **Russia** detracted from performance.

In the **high-yield corporate bond** portion of the portfolio, we continued to emphasize bonds from the energy sector, which has benefited from higher energy prices. These included holdings in **Dynegy**, a Houston-based power company that sold assets and took excess cash flow along with new financing in order to retire outstanding bonds at a significant premium. One high-yield bond position that detracted from results was the fund□s holdings in **MedQuest**. This medical diagnostic imaging firm was negatively affected by changes in Medicare reimbursement in the first quarter of 2006, and prices of its securities declined accordingly.

Additionally, we maintained the fund's allocation in senior-secured bank loans. These floating-rate bank loans are issued by banks to corporations. The interest these loans pay adjusts to reflect changes in short-term interest rates. When rates rise, these securities pay a higher yield. Also, their "senior-secured" status means that they are backed by the assets of each issuing company, such as buildings and equipment. Although the floating-rate feature of these securities does not eliminate interest-rate or inflation risk, floating-rate bank loans can help an income-oriented portfolio weather the ups and downs of a full interest-rate cycle.

Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the fund's investment strategy and may vary in the future.

Of special interest

Fund's dividend reduced

Shortly after the beginning of the 2006 fiscal year, in November 2005, the fund reduced its dividend to $0.028 per share from $0.035 per share. This reduction reflected the fund's short portfolio duration and its continued de-emphasis of high-yield bonds, which together have reduced the fund's earning capacity but are expected to contribute to longer-term performance.

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The outlook for your fund

The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.

In the coming months, we believe that the Fed — even with its recent change in leadership — will continue to raise short-term interest rates beyond the market's current expectations. In the near term, we expect steady economic growth and contained inflation pressure. Valuations in the credit markets, particularly in high-yield bonds, look high but sustainable at present. However, we continue to believe there is increased risk that long-term interest rates could rise sharply at some point, in light of the disappearing excess capacity in the U.S. economy and especially if the rebound in the Japanese economy continues. Over the near term, we will maintain a cautious stance, reflected in a portfolio with higher credit quality and a duration that is shorter than that of the fund's benchmark. In our view, there is not enough reward available in the form of higher interest rates to make it worthwhile for the fund to take on additional credit or interest-rate risk. Going forward, we will continue to remain vigilant regarding any possible disruptions to the global economy and fixed-income markets, seeking to keep the fund positioned defensively while remaining diversified in a broad range of fixed-income sectors and securities.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.

International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.

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Your fund's performance

This section shows your fund□s performance for periods ended March 31, 2006, the end of the first half of its current fiscal year. Performance should always be considered in light of a fund□s investment strategy. Data represents past performance. Past performance does not guarantee 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.

Fund performance

Total return for periods ended 3/31/06

	NAV	Market price
Annual average Life of fund (since 4/29/88)	7.74%	6.43%
10 years	86.60	84.84
Annual average	6.44	6.34
5 years	45.16	32.21
Annual average	7.74	5.74
3 years	29.32	16.63
Annual average	8.95	5.26
1 year	3.91	-0.02
6 months	1.30	-1.05

Performance assumes reinvestment of distributions and does not account for taxes.

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Comparative index returns

For periods ended 3/31/06

	Lehman Government/ Credit Bond Index	Citigroup Non-U.S. World Government Bond Index	JP Morgan Global High Yield Index	Lipper Flexible Income Funds (closed-end) category average□
Annual average Life of fund (since 4/29/88)	7.60%	6.50%	□*	7.92%
10 years	84.49	56.39	98.41%	87.75

Annual average	6.32	4.57	7.09	6.33
5 years	29.04	49.03	54.36	44.20
Annual average	5.23	8.31	9.07	7.41
3 years	8.72	16.11	41.37	29.72
Annual average	2.83	5.10	12.23	8.95
1 year	2.02	-6.48	7.18	5.07
6 months	-0.42	-2.80	3.65	1.58

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculations for reinvested dividends may differ from actual performance.

* *The inception date of the JP Morgan Global High Yield Index was 12/31/93.*

 Over the 6-month, 1-, 3-, 5-, and 10-year periods ended 3/31/06, there were 8 funds in this Lipper category.

Fund price and distribution information

For the six-month period ended 3/31/06

Distributions*		
Number	6	
Income	$0.175000	
Capital gains		
Total	$0.175000	
Share value:	NAV	Market price
9/30/05	$7.07	$6.25
3/31/06	6.96	6.01
Current yield (end of period)		
Current dividend rate[1]	4.83%	5.59%

* *Dividend sources are estimated and may vary based on final tax calculations after the fund s fiscal year-end.*

1 *Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.*

Your fund□s management

Your fund is managed by the members of the Putnam Core Fixed-Income and Core Fixed-Income High Yield teams. D. William Kohli is the Portfolio Leader. Rob Bloemker, Jeffrey Kaufman, Paul Scanlon, and David Waldman are Portfolio Members of the fund. The Portfolio Leader and Portfolio Members coordinate the team□s management of the fund.

For a complete listing of the members of the Putnam Core Fixed-Income and Core Fixed-Income High-Yield teams, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam□s Individual Investor Web site at www.putnam.com.

Fund ownership by the Portfolio Leader and Portfolio Members

The table below shows how much the fund□s current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is as of March 31, 2006, and March 31, 2005.

	Year	$0	$1 □ $10,000	$10,001 □ $50,000	$50,001 □ $100,000	$100,001 □ $500,000	$500,001 □ $1,000,000	$1,000,001 and over
D. William Kohli	2006	*						
Portfolio Leader	2005	*						
Rob Bloemker	2006	*						
Portfolio Member	2005	*						
Jeffrey Kaufman	2006	*						
Portfolio Member	2005	*						
Paul Scanlon	2006	*						
Portfolio Member	2005	*						
David Waldman	2006	*						
Portfolio Member	2005	*						

Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately $930,000. This amount includes a portion of 2005 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2005 compensation paid to the Chief Investment Officer of the team and the Group Chief Investment Officer of the funds broader investment category for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the funds fiscal period-end. For personnel who joined Putnam Management during or after 2005, the calculation reflects annualized 2005 compensation or an estimate of 2006 compensation, as applicable.

Other Putnam funds managed by the Portfolio Leader and Portfolio Members

D. William Kohli is also a Portfolio Leader of Putnam Diversified Income Trust and Putnam Premier Income Trust, and a Portfolio Member of Putnam Global Income Trust.

Rob Bloemker is also a Portfolio Member of Putnam American Government Income Fund, Putnam Diversified Income Trust, Putnam Income Fund, Putnam Limited Duration Government Income Fund, Putnam Premier Income Trust, and Putnam U.S. Government Income Trust.

Jeffrey Kaufman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

Paul Scanlon is also a Portfolio Leader of Putnam Floating Rate Income Fund, Putnam High Yield Advantage Fund, Putnam High Yield Trust, and Putnam Managed High Yield Trust. He is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

David Waldman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

D. William Kohli, Rob Bloemker, Jeffrey Kaufman, Paul Scanlon, and David Waldman may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

Changes in your funds Portfolio Leader and Portfolio Members

Your funds Portfolio Leader and Portfolio Members did not change during the year ended March 31, 2006.

Fund ownership by Putnams Executive Board

The table below shows how much the members of Putnams Executive Board have invested in the fund (in dollar ranges). Information shown is as of March 31, 2006, and March 31, 2005.

	Year	$0	$1 $10,000	$10,001 $50,000	$50,001 $100,000	$100,001 and over
Philippe Bibi	2006	*				
Chief Technology Officer	2005	*				

Joshua Brooks	2006	*
Deputy Head of Investments	2005	*
William Connolly	2006	*
Head of Retail Management	N/A	
Kevin Cronin	2006	*
Head of Investments	2005	*
Charles Haldeman, Jr.	2006	*
President and CEO	2005	*
Amrit Kanwal	2006	*
Chief Financial Officer	2005	*
Steven Krichmar	2006	*
Chief of Operations	2005	*
Francis McNamara, III	2006	*
General Counsel	2005	*
Richard Robie, III	2006	*
Chief Administrative Officer	2005	*
Edward Shadek	2006	*
Deputy Head of Investments	2005	*
Sandra Whiston	2006	*
Head of Institutional Management	N/A	

N/A indicates the individual was not a member of Putnams Executive Board as of 3/31/05.

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Terms and definitions

Important terms

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 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 exchanges such as the American Stock Exchange and the New York Stock Exchange.

Comparative indexes

Citigroup Non-U.S. World Government Bond Index is an unmanaged index of global investment-grade fixed-income securities, excluding the United States.

JP Morgan Global Diversified Emerging Markets Bond Index is an unmanaged index of global emerging-market fixed-income securities.

JP Morgan Global High Yield Index is an unmanaged index of global high-yield fixed-income securities.

Lehman Government/Credit Bond Index is an unmanaged index of U.S. Treasuries, agency securities, and investment-grade corporate bonds.

Morgan Stanley Capital International (MSCI) EAFE Index is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

Russell 2000 Index is an unmanaged index of the 2,000 smallest companies in the Russell 3000 Index.

S&P 500 Index is an unmanaged index of common stock performance.

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.

Lipper is a third-party industry-ranking entity that ranks mutual funds. Its rankings do not reflect sales charges. Lipper rankings are based on total return at net asset value relative to other funds that have similar current investment styles or objectives as determined by Lipper. Lipper may change a fund□s category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

Trustee approval of management contract

General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund□s management contract with Putnam Management and its sub-management contract with Putnam Management□s affiliate, Putnam Investments Limited (□PIL□). In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not □interested persons□ (as such term is defined in the Investment Company Act of 1940, as amended) of the Putnam funds (the □Independent Trustees□), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months beginning in March and ending in June 2005, the Contract Committee met five times to consider the information provided by Putnam Management and other information developed with the assistance of the Board□s independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended and the Independent Trustees approved the continuance of your fund□s management contract and sub-management contract, effective July 1, 2005. Because PIL is an affiliate of Putnam Management and Putnam Management remains fully responsible for all services provided by PIL, the Trustees have not evaluated PIL as a separate entity and all subsequent references to Putnam Management below should be deemed to include reference to PIL as necessary or appropriate in the context.

This approval was based on the following conclusions:

- That the fee schedule currently in effect for your fund, subject to certain changes noted below, represents reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and
- That such fee schedule represents an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees□ deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees□ conclusions may be based, in part, on their consideration of these same arrangements in prior years.

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Model fee schedules and categories; total expenses

The Trustees□ review of the management fees and total expenses of the Putnam funds focused on three major themes:

* Consistency.The Trustees, working in cooperation with Putnam Management, have developed and implemented a series of model fee schedules for the Putnam funds designed to ensure that each fund□s management fee is consistent with the fees for similar funds in the Putnam family of funds and compares favorably with fees paid by competitive funds sponsored by other investment advisors. Under this approach, each Putnam fund is assigned to one of several fee categories based on a combination of factors, including competitive fees and perceived difficulty of management, and a common fee schedule is implemented for all funds in a given fee category. The Trustees reviewed the model fee schedule then in effect for your fund, including fee levels and breakpoints, and the assignment of the fund to a particular fee category under this structure. (□Breakpoints□ refer to reductions in fee rates that apply to additional assets once specified asset levels are reached.)

Since their inception, Putnam□s closed-end funds have generally had management fees that are higher than those of Putnam□s open-end funds pursuing comparable investment strategies. These differences ranged from five to 20 basis points. The Trustees have reexamined this matter and recommended that these differences be conformed to a uniform five basis points. At a meeting on January 13, 2006, the Trustees approved an amended management contract for your fund to memorialize the fee arrangements agreed to in June 2005. Under the new fee schedule, the fund pays a quarterly fee to Putnam Management at the following rates:

0.75% of the first $500 million of the fund□s average weekly assets (as described further below under □Approval of Amended and Restated Management Contract in July 2005□);
0.65% of the next $500 million;
0.60% of the next $500 million;
0.55% of the next $5 billion;
0.525% of the next $5 billion;
0.505% of the next $5 billion;
0.49% of the next $5 billion;
0.48% of the next $5 billion;
0.47% of the next $5 billion;
0.46% of the next $5 billion;
0.45% of the next $5 billion;
0.44% of the next $5 billion;
0.43% of the next $5 billion; and
0.42% thereafter.

Based on net asset levels as of June 30, 2005, the new fee schedule for your fund will not change the management fees, as a percentage of the fund□s net assets, currently paid by common shareholders. The Trustees approved the new fee schedules for the funds effective as

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of January 1, 2006, in order to provide Putnam Management an opportunity to accommodate the impact on revenues in its budget process for the coming year.

* Competitiveness. The Trustees also reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 67th percentile in management fees and in the 67th percentile in total expenses as of December 31, 2004 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of the Putnam funds continue to meet evolving competitive standards.

* Economies of scale. The Trustees concluded that the fee schedule then in effect for your fund, which as of January 1, 2006, reflects the changes noted above, represents an appropriate sharing of economies of scale at current asset levels. Your fund currently has the benefit of breakpoints in its management fee that provide shareholders with significant economies of scale, which means that the effective management fee rate of a fund (as a percentage of fund assets) declines as a fund grows in size and crosses specified asset thresholds. The Trustees examined the existing breakpoint structure of the Putnam funds□ management fees in light of competitive industry practices. The Trustees considered various possible modifications to the Putnam funds□ current breakpoint structure, but ultimately concluded that the current breakpoint structure continues to serve the interests of fund shareholders. Accordingly, the Trustees continue to believe that the fee schedules currently in effect for the funds, taking into account the changes noted above, represent an appropriate sharing of economies of scale at current asset levels.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by Putnam Management and its affiliates from the relationship with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management and distribution services provided to the funds. In this regard, the Trustees also reviewed an analysis of Putnam Management□s revenues, expenses and profitability with respect to the funds□ management contracts, allocated on a fund-by-fund basis.

Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees evaluation of the quality of services provided by Putnam Management under your funds management contract. The Trustees were assisted in their review of the funds investment process and performance by the work of the Investment Oversight Committees of the Trustees, which meet on a regular monthly basis with the funds portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general

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the ability of Putnam Management to attract and retain high-quality personnel but also recognize that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing the funds performance with various benchmarks and with the performance of competitive funds. The Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and continued to discuss with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of underperformance. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted.

In the case of your fund, the Trustees considered that your funds common share cumulative total return performance at net asset value was in the following percentiles of its Lipper Inc. peer group (Lipper Flexible Income Funds (closed-end)) for the one-, three- and five-year periods ended December 31, 2004 (the first percentile being the best-performing funds and the 100th percentile being the worst-performing funds):

One-year period	Three-year period	Five-year period
55th	55th	55th

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report. Over the one-, three-, and five-year periods ended December 31, 2004, there were 10 funds in your funds Lipper peer group.* Past performance is no guarantee of future performance.)

As a general matter, the Trustees believe that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees believe that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees believe that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees view, the alternative of terminating a management contract and engaging a new investment advisor for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

** The percentile rankings for your funds common share annualized total return performance in the Lipper Flexible Income Funds (closed-end) category for the one-, five-, and ten-year periods ended March 31, 2006, were 78%, 45%, and 56%, respectively. Over the one-, five-, and ten-year periods ended March 31, 2006, the fund ranked 7th out of 8, 4th out of 8, and 5th out of 8 funds, respectively. Note that this more recent information was not available when the Trustees approved the continuance of your funds management contract.*

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Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include principally benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage is earmarked to pay for research services that may be utilized by a funds investment advisor, subject to the obligation to seek best execution. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage, which pertains mainly to funds investing in equity securities, represent assets of the funds that should be used for the benefit of fund shareholders. This area has been marked by significant change in recent years. In July 2003, acting upon the Contract Committees recommendation, the Trustees directed that allocations of brokerage to reward firms that sell fund shares be discontinued no later than December 31, 2003. In addition, commencing in 2004, the allocation of brokerage commissions by Putnam Management to acquire research services from third-party service providers has been significantly reduced, and continues at a modest level only to acquire research that is customarily not available for cash. The Trustees will continue to monitor the allocation of the funds brokerage to ensure that the principle of best price and execution remains paramount in the portfolio trading process.

The Trustees annual review of your funds management contract also included the review of your funds custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to an affiliate of Putnam Management.

Comparison of retail and institutional fee schedules

The information examined by the Trustees as part of their annual contract review has included for many years information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, etc. This information included comparison of such fees with fees charged to the funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and the mutual funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflect to a substantial degree historical competitive forces operating in separate market places. The Trustees considered the fact that fee rates across all asset sectors are higher on average for mutual funds than for institutional clients, as well as the differences between the services that Putnam Management provides to the Putnam funds and those that it provides to institutional clients of the firm, but have not relied on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

Approval of amended and restated management contract in July 2005

In July 2005, the Trustees, including the Independent Trustees of your fund, approved an amendment to your funds management contract to take into account investment leverage in calculating management fees. The Trustees, including a majority of the Independent Trustees, have concluded that it would be in the best interest of your fund and its common shareholders to compensate Putnam Management on the basis of its average weekly assets, rather than its net assets. Average weekly assets is defined as the difference (as measured on a weekly basis) between the funds total assets (including assets attributable to leverage for investment purposes) and its total liabilities (excluding liabilities attributable to leverage for investment purposes). This formulation effectively allows for Putnam Management to receive management fees on leveraged assets. As your funds Agreement and Declaration of Trust prohibits the issuance of preferred shares, for all practical purposes the only form of investment leverage available would be borrowing. In the course of their evaluation, the Trustees considered the benefit to your fund from the additional investment management services that Putnam Management would perform in connection with a leveraged investment strategy, as well as the amount of compensation Putnam Management would receive under the proposed fee structure.

The Trustees noted that the proposed amendment would align the fee arrangements for your fund with those of other closed-end Putnam funds that currently engage in leverage for investment purposes. Furthermore, the Trustees were advised by Putnam Management that it is a customary and widespread practice in the closed-end fund industry to structure leveraged products in a manner that compensates advisors for their management of the assets acquired through leverage.

In evaluating the incentives and potential conflicts of interest created by an average weekly assets-based fee, the Trustees considered that the asset coverage restrictions under the 1940 Act, as well as other legal requirements, limit the extent to which a manager can expose a fund to additional risk through leverage. Furthermore, the Trustees considered the advantages of a management fee reduction mechanism that is included in the amended contract, which reduces the management fee dollar for dollar (subject to a specified maximum reduction) where the costs of carrying investment leverage outweigh the benefits (in terms of net income and short-term capital gains) to common shareholders from managing additional investment assets. In the event that your fund actually engages in leverage, the Trustees will have the opportunity, through regular reports from Putnam Management prepared in connection with the fee reduction mechanism described above, to continue monitoring the conflict of interest between Putnam Management and your fund.

The Trustees approved the proposed changes to your fund's management contract in principle at a meeting held on April 15, 2005, and further confirmed their approval in principle by written consent of a majority of the Trustees (including a majority of the Independent Trustees) dated May 18, 2005. Shareholders of your fund approved the amended and restated management contract at the fund's annual meeting of shareholders on July 14, 2005. The Trustees confirmed their action by written consent at an in-person meeting as required under the 1940 Act prior to the execution of the amended management contract.

The Trustees also approved conforming changes to the sub-management contract between Putnam Management and PIL with respect to your fund, to provide for PIL's fee to be calculated on the basis of the fund's average weekly assets. The fee paid under the sub-management contract is paid by Putnam Management and not by your fund. Under the circumstances, the changes to the sub-management contract did not require shareholder approval.

Other information for shareholders

Important notice regarding share repurchase program

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding shares over the 12 months ending October 6, 2006. In March 2006, the Trustees approved an expansion of this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period.

Important notice regarding delivery of shareholder documents

In accordance with SEC regulations, Putnam sends a single copy of annual and semiannual shareholder reports, prospectuses, and proxy statements to Putnam shareholders who share the same address. If you prefer to receive your own copy of these documents, please call Putnam at 1-800-225-1581, and Putnam will begin sending individual copies within 30 days.

Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2005, are available on the Putnam Individual Investor Web site, www.putnam.com/individual, and on the SEC's Web site, www.sec.gov. If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the funds Forms N-Q on the SECs Web site at www.sec.gov. In addition, the funds Forms N-Q may be reviewed and copied at the SECs Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SECs Web site or the operation of the Public Reference Room.

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Financial statements

A guide to financial statements

These sections of the report, as well as the accompanying Notes, constitute the funds financial statements.

The funds portfolio lists all the funds 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 funds 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 liquidation preference of preferred shares.)

Statement of operations shows the funds net investment gain or loss. This is done by first adding up all the funds 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 funds net gain or loss for the fiscal period.

Statement of changes in net assets shows how the funds net assets were affected by the funds net investment gain or loss, by distributions to shareholders, and by changes in the number of the funds 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. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the funds fiscal year.

Financial highlights provide an overview of the funds 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.

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The funds portfolio /31/06 (Unaudited)

CORPORATE BONDS AND NOTES (18.5%)*

	Principal amount	Value

Basic Materials (1.4%)				
Chaparral Steel Co. company guaranty 10s, 2013		$	486,000	$ 541,890
Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s, 2014 (Germany)	EUR		265,000	364,098
Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013		$	285,000	255,075
Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012			775,000	716,875
Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014			345,000	269,100
Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008			581,000	617,313
Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)			680,000	746,300
Huntsman, LLC company guaranty 11 5/8s, 2010			260,000	294,450
Huntsman, LLC company guaranty 11 1/2s, 2012			191,000	219,650
Innophos, Inc. company guaranty 8 7/8s, 2014			225,000	234,000
International Steel Group, Inc. sr. notes 6 1/2s, 2014			130,000	129,350
Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013			120,000	112,800
JSG Holding PLC 144A sr. notes 11 1/2s, 2015 (Ireland)	EUR		171,178	215,203
Lyondell Chemical Co. company guaranty 10 1/2s, 2013		$	155,000	171,663
MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)			235,000	248,513
MDP Acquisitions PLC sr. notes Ser. EUR, 10 1/8s, 2012 (Ireland)	EUR		440,000	592,827
Nalco Co. sr. sub. notes 9s, 2013	EUR		75,000	97,919
Nalco Co. sr. sub. notes 8 7/8s, 2013		$	824,000	856,960
Novelis, Inc. 144A sr. notes 7 3/4s, 2015			805,000	772,800
PQ Corp. 144A company guaranty 7 1/2s, 2013			92,000	88,320
Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014	EUR		350,000	438,111
Steel Dynamics, Inc. company guaranty 9 1/2s, 2009		$	695,000	722,800
Sterling Chemicals, Inc. sec. notes 10s, 2007			146,606	139,642
Stone Container Corp. sr. notes 9 3/4s, 2011			145,000	149,350
Stone Container Corp. sr. notes 8 3/8s, 2012			240,000	236,400
Stone Container Finance company guaranty 7 3/8s, 2014 (Canada)			140,000	130,200
United States Steel Corp. sr. notes 9 3/4s, 2010			324,000	349,920
				9,711,529

Capital Goods (1.0%)				
Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008			732,000	764,940
BE Aerospace, Inc. sr. notes 8 1/2s, 2010			33,000	35,063
Blount, Inc. sr. sub. notes 8 7/8s, 2012			541,000	562,640
Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008			73,000	73,000
Crown Euro Holdings SA company guaranty 6 1/4s,				

2011 (France)	EUR	107,000	138,015

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CORPORATE BONDS AND NOTES (18.5%)* *continued*

			Principal amount		Value
Capital Goods *continued*					
Decrane Aircraft Holdings Co. company guaranty zero %,					
2008 (acquired 7/23/04, cost $323,523)		$	986,000	$	650,760
L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015			854,000		813,435
Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012			55,000		60,225
Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011	EUR		180,000		230,977
Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013		$	220,000		224,400
Milacron Escrow Corp. sec. notes 11 1/2s, 2011			123,000		112,545
Mueller Group, Inc. sr. sub. notes 10s, 2012			265,000		290,175
Owens-Brockway Glass company guaranty 7 3/4s, 2011			181,000		188,693
Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012			877,000		938,390
Siebe PLC 144A sr. unsub. 6 1/2s, 2010 (United Kingdom)			436,000		406,570
Terex Corp. company guaranty 9 1/4s, 2011			190,000		202,113
Terex Corp. company guaranty Ser. B, 10 3/8s, 2011			730,000		770,150
					6,462,091
Communication Services (1.2%)					
Alamosa Delaware, Inc. company guaranty 12s, 2009			268,000		288,770
Alamosa Delaware, Inc. company guaranty 11s, 2010			332,000		368,427
American Cellular Corp. company guaranty 9 1/2s, 2009			195,000		201,825
Cincinnati Bell, Inc. company guaranty 7s, 2015			578,000		572,220
Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014			59,000		59,959
Citizens Communications Co. sr. notes 6 1/4s, 2013			1,711,000		1,663,948
Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica)			325,000		343,688
Inmarsat Finance PLC company guaranty 7 5/8s, 2012					
(United Kingdom)			335,000		343,375
Inmarsat Finance PLC company guaranty stepped-coupon					
zero % (10 3/8s, 10/15/08), 2012 (United Kingdom)			754,000		640,900
iPCS, Inc. sr. notes 11 1/2s, 2012			300,000		342,000
IWO Holdings, Inc. sec. FRN 8.8s, 2012			82,000		85,383
Qwest Communications International, Inc. company guaranty					
7 1/2s, 2014			428,000		440,840
Qwest Corp. notes 8 7/8s, 2012			1,501,000		1,677,368
Qwest Corp. sr. notes 7 5/8s, 2015			409,000		437,630
Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada)			164,000		200,080
Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010			75,000		76,125
SBA Communications Corp. sr. notes 8 1/2s, 2012			148,000		164,280

SBA Telecommunications, Inc./SBA Communications Corp.				
sr. disc. notes stepped-coupon zero % (9 3/4s,				
12/15/07), 2011		208,000		198,640
				8,105,458
Consumer Cyclicals (3.8%)				
ArvinMeritor, Inc. notes 8 3/4s, 2012		285,000		280,725
Autonation, Inc. company guaranty 9s, 2008		885,000		955,800
Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012		585,000		621,563
Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012		165,000		172,838
Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014		134,000		133,665
CanWest Media, Inc. company guaranty 8s, 2012 (Canada)		454,021		465,372

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CORPORATE BONDS AND NOTES (18.5%)* *continued*

		Principal amount		Value
Consumer Cyclicals *continued*				
Dex Media West, LLC/Dex Media Finance Co. sr. notes				
Ser. B, 8 1/2s, 2010	$	605,000	$	639,788
Dex Media, Inc. notes 8s, 2013		182,000		187,460
FelCor Lodging LP company guaranty 9s, 2008 (R)		515,000		563,925
General Motors Acceptance Corp. FRN 5.55s, 2007		350,000		339,864
General Motors Acceptance Corp. FRN Ser. MTN, 5.62s, 2007		695,000		680,807
General Motors Acceptance Corp. notes 7 3/4s, 2010		90,000		87,751
General Motors Acceptance Corp. notes 6 7/8s, 2012		90,000		83,026
General Motors Acceptance Corp. notes 6 3/4s, 2014		59,000		53,112
Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011		1,075,000		1,050,813
HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 (R)		185,000		186,388
Host Marriott LP sr. notes Ser. M, 7s, 2012 (R)		725,000		740,406
Jostens IH Corp. company guaranty 7 5/8s, 2012		718,000		709,025
K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012		600,000		627,000
K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014		295,000		276,621
Levi Strauss & Co. sr. notes 9 3/4s, 2015		651,000		685,178
Levi Strauss & Co. 144A sr. notes 8 7/8s, 2016		285,000		285,713
MeriStar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)		418,000		483,835
Meritage Homes Corp. company guaranty 6 1/4s, 2015		235,000		207,975
Meritor Automotive, Inc. notes 6.8s, 2009		71,000		71,000
MGM Mirage, Inc. company guaranty 8 1/2s, 2010		468,000		500,760
MGM Mirage, Inc. company guaranty 6s, 2009		1,009,000		993,865
Movie Gallery, Inc. sr. unsecd. notes 11s, 2012		190,000		94,050
Owens Corning notes 7 1/2s, 2006 (In default)		534,000		427,200
Oxford Industries, Inc. sr. notes 8 7/8s, 2011		460,000		473,800

Park Place Entertainment Corp. sr. notes 7s, 2013	495,000	515,569
Park Place Entertainment Corp. sr. sub. notes 7 7/8s, 2010	395,000	419,688
Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	247,000	258,733
PRIMEDIA, Inc. sr. notes 8s, 2013	688,000	629,520
R.H. Donnelley Corp. sr. notes 6 7/8s, 2013	268,000	250,580
R.H. Donnelley Corp. 144A sr. disc. notes Ser. A-2, 6 7/8s, 2013	67,000	62,645
Reader□s Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	365,000	364,088
Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	450,000	493,875
Russell Corp. company guaranty 9 1/4s, 2010	466,000	484,640
Scientific Games Corp. company guaranty 6 1/4s, 2012	626,000	612,698
Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	735,000	768,075
Standard Pacific Corp. sr. notes 7 3/4s, 2013	420,000	410,025
Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 7/8s, 2012	560,000	609,000
Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 3/8s, 2007	390,000	396,825
Starwood Hotels & Resorts Worldwide, Inc. debs. 7 3/8s, 2015	520,000	561,600
Station Casinos, Inc. sr. notes 6s, 2012	470,000	463,538
Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014	420,000	420,000
Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013	436,000	483,960
Texas Industries, Inc. sr. unsecd. notes 7 1/4s, 2013	161,000	165,830

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CORPORATE BONDS AND NOTES (18.5%)* *continued*

	Principal amount	Value
Consumer Cyclicals *continued*		
THL Buildco, Inc. (Nortek Holdings, Inc.) sr. sub. notes 8 1/2s, 2014	$ 604,000	$ 614,570
Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015	117,000	113,783
United Auto Group, Inc. company guaranty 9 5/8s, 2012	515,000	545,256
Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	736,000	723,120
Vertis, Inc. 144A sub. notes 13 1/2s, 2009	730,000	585,825
WCI Communities, Inc. company guaranty 9 1/8s, 2012	810,000	824,175
Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 1st mtge. 6 5/8s, 2014	555,000	539,044
		25,395,987
Consumer Staples (2.8%)		
Affinity Group, Inc. sr. sub. notes 9s, 2012	545,000	547,725

AMC Entertainment, Inc. sr. sub. notes 8s, 2014	456,000	406,980
Archibald Candy Corp. company guaranty 10s, 2007		
(In default) (F)	90,153	4,711
Ashtead Holdings PLC 144A sr. notes 8 5/8s, 2015		
(United Kingdom)	210,000	218,400
Brand Services, Inc. company guaranty 12s, 2012	565,000	605,963
Cablevision Systems Corp. sr. notes Ser. B, 8s, 2012	167,000	162,825
CCH I Holdings LLC company guaranty stepped-coupon		
zero %, 2015	49,000	21,560
CCH I LLC secd. notes 11s, 2015	1,347,000	1,119,694
Charter Communications Holdings II 144A sr. notes		
10 1/4s, 2010	259,000	253,820
Charter Communications Holdings, LLC/Capital Corp.		
sr. notes 10 1/4s, 2010	86,000	84,495
Church & Dwight Co., Inc. company guaranty 6s, 2012	444,000	436,785
Cinemark USA, Inc. sr. sub. notes 9s, 2013	30,000	31,875
Cinemark, Inc. sr. disc. notes stepped-coupon zero %		
(9 3/4s, 3/15/07), 2014	990,000	757,350
Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	825,000	853,875
Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012	425,000	446,781
CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011	595,000	597,975
CSC Holdings, Inc. 144A sr. notes 7 1/4s, 2012	1,068,000	1,043,970
Dean Foods Co. sr. notes 6 5/8s, 2009	918,000	927,180
Del Monte Corp. company guaranty 6 3/4s, 2015	320,000	312,000
Del Monte Corp. sr. sub. notes 8 5/8s, 2012	560,000	591,500
DirecTV Holdings, LLC company guaranty 6 3/8s, 2015	1,026,000	1,013,175
Echostar DBS Corp. company guaranty 6 5/8s, 2014	2,119,000	2,047,484
Interpublic Group of Companies, Inc. notes 6 1/4s, 2014	118,000	100,300
Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada)	509,000	495,003
Jean Coutu Group, Inc. sr. sub. notes 8 1/2s, 2014 (Canada)	251,000	230,293
Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013	741,000	733,590
Playtex Products, Inc. company guaranty 9 3/8s, 2011	266,000	277,970
Playtex Products, Inc. sec. notes 8s, 2011	770,000	814,275
Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012	450,000	454,500
Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	482,000	513,330
Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	735,000	606,375

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CORPORATE BONDS AND NOTES (18.5%)* *continued*

		Principal amount		Value
Consumer Staples *continued*				
Sbarro, Inc. company guaranty 11s, 2009	$	726,000	$	738,705
Scotts Co. (The) sr. sub. notes 6 5/8s, 2013		255,000		256,275

Six Flags, Inc. sr. notes 9 5/8s, 2014	370,000	372,775
Young Broadcasting, Inc. company guaranty 10s, 2011	431,000	397,598
Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	365,000	312,075
		18,789,187
Energy (3.5%)		
Arch Western Finance, LLC sr. notes 6 3/4s, 2013	1,347,000	1,336,898
Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands)	487,000	511,350
CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	812,000	828,240
Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	269,000	281,105
Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	1,031,000	1,077,395
Chesapeake Energy Corp. sr. notes 7s, 2014	279,000	285,278
Comstock Resources, Inc. sr. notes 6 7/8s, 2012	510,000	502,350
Dresser, Inc. company guaranty 9 3/8s, 2011	696,000	729,060
EXCO Resources, Inc. company guaranty 7 1/4s, 2011	725,000	721,375
Forest Oil Corp. company guaranty 7 3/4s, 2014	108,000	111,240
Forest Oil Corp. sr. notes 8s, 2011	540,000	580,500
Forest Oil Corp. sr. notes 8s, 2008	335,000	347,981
Gazprom OAO 144A notes 9 5/8s, 2013 (Germany)	1,860,000	2,199,450
Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)	584,000	572,320
Hornbeck Offshore Services, Inc. sr. notes Ser. B, 6 1/8s, 2014	517,000	496,320
Massey Energy Co. sr. notes 6 5/8s, 2010	774,000	787,545
Newfield Exploration Co. sr. notes 7 5/8s, 2011	700,000	743,750
Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014	348,000	348,870
Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	655,000	615,700
Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011	490,858	498,413
Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014	355,000	361,213
Pemex Finance, Ltd. bonds 9.69s, 2009 (Cayman Islands)	710,500	762,374
Pemex Project Funding Master Trust company guaranty 5 3/4s, 2015	4,060,000	3,887,450
Pemex Project Funding Master Trust 144A company guaranty 5 3/4s, 2015	1,778,000	1,702,435
Pioneer Natural Resources Co. company guaranty 6 1/2s, 2008	115,000	116,245
Plains Exploration & Production Co. sr. notes 7 1/8s, 2014	620,000	637,050
Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	485,000	517,738
Pogo Producing Co. s		