

PUTNAM MASTER INTERMEDIATE INCOME TRUST  
Form N-CSR  
December 05, 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 - September 30, 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:

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## What makes Putnam different?

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.

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.

# Putnam Master Intermediate Income Trust

## 9|30|06

### *Annual Report*

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## Message from the Trustees

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### **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 investment perspective has been broadened to keep pace with the market expansion over time. 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

### **Optimizing the risk/return trade-off across multiple sectors**

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

performance of the various fixed-income sectors, the fund's diversified strategy can take advantage of changing market leadership in pursuit of high current income and relative stability of net asset value.

*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 need to maintain a cash position to meet redemptions, closed-end funds are not subject to redemptions and can keep more of their assets invested in the market, if appropriate.

**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.

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**Putnam Master Intermediate Income Trust** seeks high current income and relative stability of net asset value 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, fixed-income diversification, or both.

## Highlights

For the 12 months ended September 30, 2006, Putnam Master Intermediate Income Trust posted total returns of 6.01% at net asset value (NAV) and 4.17% at market price.

The fund's benchmark, the Lehman Government/Credit Bond Index, returned 3.33% .

The average return for the fund's Lipper category, Flexible Income Funds (closed-end), was 5.56% .

After being reduced in November 2005, the fund's dividend increased in July 2006. See page 8 for more details.

Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 10.

## Performance

It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment manager, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

Total return for periods ended 9/30/06

Since the fund's inception (4/29/88), average annual return is 7.79% at NAV and 6.55% at market price.

|          | Average annual return |              | Cumulative return |              |
|----------|-----------------------|--------------|-------------------|--------------|
|          | NAV                   | Market price | NAV               | Market price |
| 10 years | 6.33%                 | 6.26%        | 84.74%            | 83.59%       |
| 5 years  | 9.07                  | 7.70         | 54.35             | 44.93        |
| 3 years  | 7.14                  | 5.22         | 22.99             | 16.50        |
| 1 year   | 6.01                  | 4.17         | 6.01              | 4.17         |

*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.*

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## *Report from the fund managers*

### The year in review

The 12-month period ended September 30, 2006, was generally favorable for most sectors of the fixed-income market, especially those associated with higher credit risk, such as emerging-market and high-yield 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 were ahead of the return of its all-bond benchmark index, based on results at net asset value. The fund's defensive posture and the performance of its emerging-market holdings also helped it outpace the average return for funds in its Lipper peer group, based on results at net asset value. The fund continued to benefit from its holdings in securitized bonds, and its currency strategy also had a positive effect on performance over the course of the 12-month period.

### Market overview

Bond yields in the United States, as well as those overseas, were slightly higher at the close of the 12-month period, responding to continued global growth and monetary policy tightening. Because yields of fixed-income instruments move in the opposite direction of their prices, this trend led to lower prices for most government

bonds. However, strong demand for yield, worldwide economic expansion, and robust demand for commodities led to favorable performance within other sectors of the fixed-income market, such as emerging-market and high-yield bonds.

For the first nine months of the period, the Fed continued its program of pushing up short-term interest rates in an effort to head off a higher level of price inflation without undermining economic growth. The Fed decided to pause in raising rates at its August and September 2006 meetings, however, while retaining its stated bias toward a possible resumption of rate increases in the future. As of September 30, 2006, the federal funds rate □ the overnight lending rate that banks charge each other, which guides other short-term rates □ stood at 5.25% .

## Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 9/30/06.

### Bonds

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|  |       |
|--|-------|
| Lehman Government/Credit Bond Index<br>(U.S. Treasury and agency securities and corporate bonds) | 3.33% |
|--|-------|

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|   |       |
|---|-------|
| JPMorgan Global Diversified Emerging Markets Bond Index<br>(global emerging-market bonds) | 7.46% |
|---|-------|

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|  |       |
|--|-------|
| Citigroup Non-U.S. World Government Bond Index<br>(international government bonds) | 2.02% |
|--|-------|

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|   |       |
|---|-------|
| JPMorgan Global High Yield Index<br>(global high-yield corporate bonds) | 7.67% |
|---|-------|

### Equities

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|                                    |        |
|------------------------------------|--------|
| S&P 500 Index (broad stock market) | 10.79% |
|------------------------------------|--------|

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|   |       |
|---|-------|
| Russell 2000 Index (small-company stocks) | 9.92% |
|---|-------|

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|  |        |
|--|--------|
| MSCI EAFE Index (international stocks) | 19.16% |
|--|--------|

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Longer-term Treasury rates also increased slightly for the period, as foreign purchasing continued to prop up Treasury security prices. (Note that, given the inverse relationship of bond yields and prices, this also lowered yields for these securities.) From mid-2004 to the end of the summer of 2006, the Fed spearheaded the global effort to cool excessive economic growth that might lead to a resurgence of inflation. By the close of the fund's fiscal period, the U.S. economy had weakened slightly, responding to higher rates and significantly higher commodity prices. In contrast, economic growth internationally □ especially in Germany and Japan □ remained very strong. Foreign central banks worldwide now seem to be taking the lead in battling inflation, enacting a series of short-term rate increases that have maintained upward pressure on global interest rates.

## Strategy overview

Your fund's managers believe that using multiple income-generating strategies to build a diversified portfolio is the best way to pursue the fund's objectives. The fund's portfolio includes a broad spectrum of securitized, credit, and government debt instruments. Our investment process involves aligning teams of specialists with these varied investment opportunities. Each team identifies what it considers to be the most compelling strategies within its area of expertise. Our fund management team then draws from these strategies, systematically building an array of investments that seeks to carefully balance risk and return.

Over the 12-month period, we continued to maintain a conservative posture regarding both duration — a measure of interest-rate sensitivity — and credit risk. (Credit risk is the risk that a bond issuer could default and fail to pay interest and repay principal in a timely manner.) Despite the Fed's recent pause beginning in August 2006, the global trend in monetary policy is toward higher rates. Therefore, we have kept the fund's duration short, or less sensitive to rising rates, in order to lessen the portfolio's vulnerability to the negative impact of potential future rate increases.

Also for defensive purposes, we continued to maintain a higher level of credit quality than we have in past years by keeping the fund's exposure to high-yield bonds relatively low and maintaining significant exposure to securitized instruments with short maturities. The fund's positions in international bonds, especially emerging-market debt, further diversified the fund's sources of return. The portfolio's relatively low exposure to high-yield and emerging-market bonds had the effect of increasing the portfolio's cash position. The relatively flat yield curve,

## Comparison of sector weightings

This chart shows how the fund's weightings have changed over the last six months. Weightings are shown as a percentage of total investment portfolio. Holdings will vary over time. See pages 2 and 3 for more information about each sector.

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moreover, made cash holdings attractive relative to other strategies. We have also maintained an exposure to bank loans. These securities offer floating interest rates that, like an adjustable-rate home mortgage, move in tandem with market rates and can therefore help to provide some protection from interest-rate risk.

## Your fund's holdings

The portfolio's significant position in **securitized bonds**, or **structured securities**, performed well during the 12-month period, as interest rates continued to fluctuate within a relatively 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.

Our country selection in the area of European government bonds contributed positively to performance during the 12-month period. We avoided bonds from **Portugal**, **Greece**, and **Italy**, countries that are experiencing higher inflation and large deficits. Bonds from these countries have also experienced a deterioration in credit quality due to euro-zone restrictions on how budgetary problems can be resolved. We invested instead in bonds from **Germany** and **France**, countries that we believe are better equipped for fiscal management when the euro is strong, and whose bonds appear to offer better relative value.

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While the fund has gradually de-emphasized emerging-market securities over the past three years, holdings in this area nevertheless helped performance. Positive contributors included bonds from **Brazil, Argentina, Colombia, and Indonesia** (the last of which was sold by the end of the period). High energy and agriculture prices boosted exports and growth in these countries, encouraging investors to reach for their higher yield.

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. Also, their senior-secured status means that they are

### Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each represented, as of 9/30/06. The fund's holdings will change over time.

| Holding (percent of fund's net assets)                                     | Coupon (%) and maturity date |
|--|------------------------------|
| Securitized sector   |                              |
| Federal National Mortgage Association pass-through certificates TBA (1.7%) | 6%, 2021                     |
| Federal National Mortgage Association pass-through certificates TBA (1.0%) | 4.5%, 2021                   |
| Federal National Mortgage Association pass-through certificates TBA (1.0%) | 4.5%, 2021                   |
| Credit sector  |                              |
| Gazprom OAO 144A notes (Germany) (1.6%)                                    | 9.625%, 2013                 |
| Pemex Project Funding Master Trust company guaranty (0.6%)                 | 5.75%, 2015                  |
| VTB Capital SA 144A notes (Luxembourg) (0.5%)                              | 7.5%, 2011                   |
| Government sector  |                              |
| U.S. Treasury Notes (5.6%)   | 4.25%, 2013                  |
| U.S. Treasury Notes (4.0%)   | 3.25%, 2008                  |
| Ireland (Republic of) bonds (1.5%)   | 5%, 2013                     |

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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



## Changes in your fund's dividend

After being reduced from \$0.035 to \$0.028 in November 2005, the fund's dividend increased to \$0.030 in July 2006. This net reduction from the prior year reflected the fund's short portfolio duration and its continued relative de-emphasis of high-yield bonds, which together have reduced earning capacity at this time 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.**

Though the U.S. economy could continue to slow in the months ahead, we believe that accelerating growth in Europe and Japan will keep the global economy on track. Given the Fed's recent pause from its credit-tightening program, it remains to be seen whether inflationary pressures will prompt a resumption of rate increases in late 2006 or early 2007. However, we do expect foreign central banks to continue to tighten credit overseas in the coming months. This potential shift in "inflation-fighting" leadership and global growth dynamics means that central bank behavior is likely to be less predictable over the next 12 months. This unpredictability, coupled with an upward drift in interest rates, could represent a significant challenge to financial markets in general. We are therefore continuing to position the fund defensively with regard to both duration and credit. As part of this defensive posture, we are maintaining an emphasis on structured securities, which tend to have shorter maturities and are of higher quality. Going forward, we will remain vigilant regarding any possible disruptions to the global economy and fixed-income markets, and intend to continue our efforts to diversify the portfolio across 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. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. 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 lower than the fund's net asset value.*

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## Your fund's performance

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This section shows your fund's performance for periods ended September 30, 2006, the end of its 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 9/30/06

|                              | NAV   | Market price |
|------------------------------|-------|--------------|
| Annual average               |       |              |
| Life of fund (since 4/29/88) | 7.79% | 6.55%        |
| 10 years                     | 84.74 | 83.59        |
| Annual average               | 6.33  | 6.26         |
| 5 years                      | 54.35 | 44.93        |
| Annual average               | 9.07  | 7.70         |
| 3 years                      | 22.99 | 16.50        |
| Annual average               | 7.14  | 5.22         |
| 1 year                       | 6.01  | 4.17         |

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

### Comparative index returns For periods ended 9/30/06

|   | Lehman<br>Government/<br>Credit Bond<br>Index | Citigroup Non-<br>U.S. World<br>Government<br>Bond Index | JPMorgan<br>Global<br>High Yield<br>Index | Lipper<br>Flexible Income<br>Funds<br>(closed-end)<br>category average |
|---|---|--|---|--|
| Annual average<br>(life of fund, since 4/29/88) | 7.60%   | 6.59%  | □*  | 7.44%  |
| 10 years  | 87.24   | 58.33  | 93.55%                                    | 73.40  |
| Annual average                                  | 6.47  | 4.70   | 6.83                                      | 5.58   |
| 5 years   | 27.43   | 48.08  | 69.22                                     | 55.15  |
| Annual average                                  | 4.97  | 8.17   | 11.09                                     | 8.94   |
| 3 years   | 9.53  | 13.81  | 30.02                                     | 23.51  |
| Annual average                                  | 3.08  | 4.41   | 9.15                                      | 7.24   |
| 1 year  | 3.33  | 2.02   | 7.67                                      | 5.56   |

*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 JPMorgan Global High Yield Index was 12/31/93.*

*Over the 1-, 3-, 5-, and 10-year periods ended 9/30/06, there were 7 funds in this Lipper category.*

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## **Fund price and distribution information** For the 12-month period ended 9/30/06

### Distributions

|                                    |         |              |
|------------------------------------|---------|--------------|
| Number                             | 12      |              |
| Income                             | \$0.349 |              |
| Capital gains                      | □       |              |
| Total                              | \$0.349 |              |
| Share value:                       | NAV     | Market price |
| 9/30/05                            | \$7.07  | \$6.25       |
| 9/30/06                            | 7.08    | 6.15         |
| Current yield (end of period)      |         |              |
| Current dividend rate <sup>1</sup> | 5.08%   | 5.85%        |

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

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## **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](http://www.putnam.com).

## **Investment team fund ownership**

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The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund and in all Putnam mutual funds (in dollar ranges). Information shown is as of September 30, 2006, and September 30, 2005.

### Trustee and Putnam employee fund ownership

As of September 30, 2006, all of the 11 Trustees then on the Board of the Putnam funds owned fund shares. The table below shows the approximate value of investments in the fund and all Putnam funds as of that date by the Trustees and Putnam employees. These amounts include investments by the Trustees' and employees' immediate family members and investments through retirement and deferred compensation plans.

|                  | Assets in the fund | Total assets in all Putnam funds |
|------------------|--------------------|----------------------------------|
| Trustees         | \$31,000           | \$ 90,000,000                    |
| Putnam employees | \$ 6,000           | \$418,000,000                    |

### Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately \$940,000. 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 fund's 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 fund's 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.

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### 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, and Putnam 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.

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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 fund's Portfolio Leader and Portfolio Members**

Your fund's Portfolio Leader and Portfolio Members did not change during the year ended September 30, 2006.

**Putnam fund ownership by Putnam's Executive Board**

The table below shows how much the members of Putnam's Executive Board have invested in all Putnam mutual funds (in dollar ranges). Information shown is as of September 30, 2006, and September 30, 2005.

|                                       | Year | \$1 | \$10,001 | \$50,001 | \$100,001 | \$500,001 | \$1,000,001          |
|---------------------------------------|------|-----|----------|----------|-----------|-----------|----------------------|
|                                       |      | \$0 | \$10,000 | \$50,000 | \$100,000 | \$500,000 | \$1,000,000 and over |
| Philippe Bibi                         | 2006 |     |          |          |           |           | ☐                    |
| <i>Chief Technology Officer</i>       | 2005 |     |          |          |           |           | ☐                    |
| Joshua Brooks                         | 2006 |     |          |          |           |           | ☐                    |
| <i>Deputy Head of Investments</i>     | 2005 |     |          |          |           |           | ☐                    |
| William Connolly                      | 2006 |     |          |          |           |           | ☐                    |
| <i>Head of Retail Management</i>      | 2005 |     |          |          |           |           | ☐                    |
| Kevin Cronin                          | 2006 |     |          |          |           |           | ☐                    |
| <i>Head of Investments</i>            | 2005 |     |          |          |           |           | ☐                    |
| Charles Haldeman, Jr.                 | 2006 |     |          |          |           |           | ☐                    |
| <i>President and CEO</i>              | 2005 |     |          |          |           |           | ☐                    |
| Amrit Kanwal                          | 2006 |     |          |          |           | ☐         |                      |
| <i>Chief Financial Officer</i>        | 2005 |     |          |          |           | ☐         |                      |
| Steven Krichmar                       | 2006 |     |          |          |           | ☐         |                      |
| <i>Chief of Operations</i>            | 2005 |     |          |          |           |           | ☐                    |
| Francis McNamara, III                 | 2006 |     |          |          |           |           | ☐                    |
| <i>General Counsel</i>                | 2005 |     |          |          |           |           | ☐                    |
| Jeffrey Peters                        | 2006 |     |          |          |           |           | ☐                    |
| <i>Head of International Business</i> | N/A  |     |          |          |           |           |                      |
| Richard Robie, III                    | 2006 |     |          |          |           | ☐         |                      |
| <i>Chief Administrative Officer</i>   | 2005 |     |          |          |           | ☐         |                      |
| Edward Shadek                         | 2006 |     |          |          |           |           | ☐                    |
| <i>Deputy Head of Investments</i>     | 2005 |     |          |          |           |           | ☐                    |
| Sandra Whiston                        | 2006 |     |          |          |           | ☐         |                      |

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N/A indicates the individual was not a member of Putnam's Executive Board as of 9/30/05.

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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 New York Stock Exchange and the American Stock Exchange.

### Comparative indexes

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

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

JPMorgan 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.

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## **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 the sub-management contract between Putnam Management's affiliate, Putnam Investments Limited ("PIL"), and Putnam Management. 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 ending in June 2006, the Contract Committee met four 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, 2006. (Because PIL is an affiliate of Putnam Management and Putnam Management remain 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 include reference to PIL as necessary or appropriate in the context.) This approval was based on the following conclusions:

That the fee schedule in effect for your fund 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.

### **Management fee schedules and categories; total expenses**

The Trustees reviewed the management fee schedules in effect for all Putnam funds, including fee levels and breakpoints, and the assignment of funds to particular fee categories. In reviewing fees and expenses, the Trustees generally focused their attention on material changes in circumstances—for example, changes in a fund's size or investment style, changes in Putnam Management's operating costs, or changes in competitive practices in the mutual fund industry—that suggest that consideration of fee changes might be warranted. The Trustees concluded that the circumstances did not warrant changes to the management fee structure of your fund, which had been carefully developed over the years, re-examined on many occasions and adjusted where appropriate. The Trustees focused on two areas of particular interest, as discussed further below:

**Competitiveness.** The Trustees 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, 2005 (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 your fund continue to meet evolving competitive standards.

Economies of scale. 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. Conversely, as a fund shrinks in size-as has been the case for many Putnam funds in recent years-these breakpoints result in increasing fee levels. In recent years, the Trustees have examined the operation of the existing breakpoint structure during periods of both growth and decline in asset levels. The Trustees concluded that the fee schedules in effect for the funds represented an appropriate sharing of economies of scale at current asset levels. In reaching this

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conclusion, the Trustees considered the Contract Committee's stated intent to continue to work with Putnam Management to plan for an eventual resumption in the growth of assets, including a study of potential economies that might be produced under various growth assumptions.

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. Because many of the costs incurred by Putnam Management in managing the funds are not readily identifiable to particular funds, the Trustees observed that the methodology for allocating costs is an important factor in evaluating Putnam Management's costs and profitability, both as to the Putnam funds in the aggregate and as to individual funds. The Trustees reviewed Putnam Management's cost allocation methodology with the assistance of independent consultants and concluded that this methodology was reasonable and well-considered.

## **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 fund's management contract. The Trustees were assisted in their review of the Putnam funds' investment process and performance by the work of the Investment Process Committee of the Trustees and the Investment Oversight Committee 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 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 each fund's 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 discussed 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. In particular, they noted the important contributions of Putnam Management's leadership in attracting, retaining and supporting high-quality investment professionals and in systematically implementing an investment process that seeks to merge the best features of fundamental and quantitative analysis. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional changes to address areas of underperformance are warranted.

In the case of your fund, the Trustees considered that your fund's 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 March 31, 2006 (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 |
|-----------------|-------------------|------------------|
| 78%             | 45%               | 45%              |

(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 March 31, 2006, there were 8 funds in your fund's Lipper peer group.\* Past performance is no guarantee of future performance.)

The Trustees noted the disappointing performance for your fund for the one-year period ended March 31, 2006. In this regard, the Trustees considered Putnam Management's view that one factor in the fund's relative underperformance during this period was its selection of higher quality bonds during recent periods, given market conditions. The Trustees also considered Putnam Management's belief that the fund's investment strategy and process are designed to produce attractive relative performance over longer periods.

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As a general matter, the Trustees concluded that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees noted 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 concluded 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 adviser for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

### **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 benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage may be used to acquire research services that may be useful to Putnam Management in managing the assets of the fund and of other clients. The Trustees indicated their continued intent to monitor the potential benefits associated with the allocation of fund brokerage to ensure that the principle of seeking "best price and execution" remains paramount in the portfolio trading process. The Trustees' annual review of your fund's management contract also included the review of your fund's custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to affiliates 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 did not rely on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

\* The percentile rankings for your fund's common share annualized total return performance in the Lipper Flexible Income Funds (closed-end) category for the one-, five- and ten-year periods ended September 30, 2006, were 63%, 50%, and 50%, respectively. Over the one-, five- and ten-year periods ended September 30, 2006, the fund ranked 5 out of 7, 4 out of 7, and 4 out of 7 funds,

respectively. Note that his more recent information was not available when the Trustees approved the continuance of your fund's management contract.

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## Other information for shareholders

### Important notice regarding share repurchase program

In September 2006, the Trustees of your fund approved an extension of the current share repurchase program being implemented by Putnam Investments on behalf of your fund. The plan, as extended, allows your fund to repurchase, in the 24 months ending October 6, 2007, up to 10% of the shares outstanding as of October 7, 2005.

### Putnam's policy on confidentiality

In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' addresses, telephone numbers, Social Security numbers, and the names of their financial advisors. We use this information to assign an account number and to help us maintain accurate records of transactions and account balances. It is our policy to protect the confidentiality of your information, whether or not you currently own shares of our funds, and in particular, not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use. Under certain circumstances, we share this information with outside vendors who provide services to us, such as mailing and proxy solicitation. In those cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. We may also share this information with our Putnam affiliates to service your account or provide you with information about other Putnam products or services. It is also our policy to share account information with your financial advisor, if you've listed one on your Putnam account. If you would like clarification about our confidentiality policies or have any questions or concerns, please don't hesitate to contact us at 1-800-225-1581, Monday through Friday, 8:30 a.m. to 7:00 p.m., or Saturdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

### 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, 2006, are available on the Putnam Individual Investor Web site, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's Web site, [www.sec.gov](http://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 fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the Public Reference Room.

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## Financial statements

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These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, 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. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of 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 year.

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, 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.

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## Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders  
Putnam Master Intermediate Income Trust:

We have audited the accompanying statement of assets and liabilities of Putnam Master Intermediate Income Trust, including the fund's portfolio, as of September 30, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years or periods in the period then ended. These financial statements and financial highlights are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2006 by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Putnam Master Intermediate Income Trust as of September 30, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years or periods in the period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
November 9, 2006

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## The fund's portfolio<sup>3/30/06</sup>

### CORPORATE BONDS AND NOTES (17.8%)\*

|  | Principal amount | Value      |
|--|------------------|------------|
| Basic Materials (1.4%)   |                  |            |
| Abitibi-Consolidated, Inc.   |                  |            |
| notes 7 3/4s, 2011 (Canada)  | \$ 145,000       | \$ 132,675 |
| Chaparral Steel Co. company  |                  |            |
| guaranty 10s, 2013   | 486,000          | 541,890    |
| Cognis Holding GmbH & Co.  |                  |            |
| 144A sr. notes 9 1/2s,<br>2014 (Germany)   | EUR 148,000      | 199,829    |
| Compass Minerals International,<br>Inc. sr. disc.notes stepped-coupon                                |                  |            |
| Ser. B, zero % (12s, 6/1/08),<br>2013 ☐☐   | \$ 285,000       | 265,050    |
| Compass Minerals International,<br>Inc. sr. notes stepped-coupon                                     |                  |            |
| zero % (12 3/4s, 12/15/07),<br>2012 ☐☐   | 775,000          | 748,844    |
| Covalence Specialty Materials<br>Corp. 144A sr. sub. notes 10 1/4s,<br>2016                          |                  |            |
|  | 653,000          | 633,410    |
| Crystal US Holdings, LLC sr. disc.<br>notes stepped-coupon Ser. A,<br>zero % (10s, 10/1/09), 2014 ☐☐ |                  |            |
|  | 444,000          | 356,310    |
| Equistar Chemicals LP/Equistar<br>Funding Corp. company  |                  |            |
| guaranty 10 1/8s, 2008   | 581,000          | 617,313    |

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|  |     |         |         |
|--|-----|---------|---------|
| Gerdau Ameristeel Corp. sr.<br>notes 10 3/8s, 2011 (Canada)            |     | 358,000 | 385,745 |
| Huntsman, LLC company<br>guaranty 11 5/8s, 2010                        |     | 260,000 | 287,300 |
| Huntsman, LLC company<br>guaranty 11 1/2s, 2012                        |     | 191,000 | 217,263 |
| Jefferson Smurfit Corp. company<br>guaranty 7 1/2s, 2013               |     | 120,000 | 110,700 |
| JSG Holding PLC 144A sr. notes<br>11 1/2s, 2015 (Ireland) ☐☐           | EUR | 181,020 | 235,012 |
| Lyondell Chemical Co. company<br>guaranty 10 1/2s, 2013                | \$  | 155,000 | 170,500 |
| MDP Acquisitions PLC sr. notes<br>9 5/8s, 2012 (Ireland)               |     | 235,000 | 247,925 |
| MDP Acquisitions PLC sr. notes<br>Ser. EUR, 10 1/8s, 2012<br>(Ireland) | EUR | 440,000 | 607,740 |
| Nalco Co. sr. sub. notes 9s,<br>2013                                   | EUR | 75,000  | 102,690 |
| Nalco Co. sr. sub. notes 8 7/8s,<br>2013                               | \$  | 583,000 | 607,778 |
| Novelis, Inc. 144A sr. notes 7<br>1/4s, 2015                           |     | 760,000 | 722,000 |
| PQ Corp. company guaranty<br>7 1/2s, 2013                              |     | 92,000  | 87,400  |
| Rockwood Specialties Group, Inc.<br>company guaranty 7 5/8s, 2014      | EUR | 350,000 | 461,042 |
| Steel Dynamics, Inc. company<br>guaranty 9 1/2s, 2009                  | \$  | 695,000 | 718,456 |
| Stone Container Corp. sr.<br>notes 9 3/4s, 2011                        |     | 125,000 | 128,906 |
| Stone Container Corp. sr.<br>notes 8 3/8s, 2012                        |     | 240,000 | 230,400 |

CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|   |    | Principal amount |    | Value     |
|---|----|------------------|----|-----------|
| <hr/>   |    |                  |    |           |
| Basic Materials <i>continued</i>                                  |    |                  |    |           |
| Stone Container Finance company<br>guaranty 7 3/8s, 2014 (Canada) | \$ | 140,000          | \$ | 127,400   |
| United States Steel Corp. sr.<br>notes 9 3/4s, 2010               |    | 324,000          |    | 345,870   |
|   |    |                  |    | 9,289,448 |
| <hr/>   |    |                  |    |           |

Capital Goods (1.0%)

|  |  |         |  |         |
|--|--|---------|--|---------|
| Alliant Techsystems, Inc. sr. sub.<br>notes 6 3/4s, 2016 |  | 223,000 |  | 219,655 |
|--|--|---------|--|---------|

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|   |            |           |
|---|------------|-----------|
| Allied Waste North America, Inc.<br>company guaranty Ser. B,<br>8 1/2s, 2008                              | 732,000    | 766,770   |
| Blount, Inc. sr. sub. notes<br>8 7/8s, 2012   | 455,000    | 453,863   |
| Browning-Ferris Industries, Inc.<br>sr. notes 6 3/8s, 2008  | 73,000     | 73,000    |
| Crown Euro Holdings SA<br>company guaranty 6 1/4s, 2011<br>(France) EUR                                   | 107,000    | 141,760   |
| Decrane Aircraft Holdings Co.<br>company guaranty zero %,<br>2008 (acquired 7/23/04,<br>cost \$323,523) □ | \$ 986,000 | 704,990   |
| L-3 Communications Corp.<br>company guaranty 6 1/8s, 2013   | 2,370,000  | 2,304,825 |
| L-3 Communications Corp. sr.<br>sub. notes 5 7/8s, 2015   | 854,000    | 811,300   |
| Manitowoc Co., Inc. (The)<br>company guaranty 10 1/2s, 2012   | 184,000    | 198,260   |
| Milacron Escrow Corp. sec.<br>notes 11 1/2s, 2011   | 123,000    | 116,850   |
| Owens-Brockway Glass company<br>guaranty 7 3/4s, 2011   | 181,000    | 185,978   |
| Owens-Brockway Glass sr. sec.<br>notes 8 3/4s, 2012   | 877,000    | 925,235   |
|   |            | 6,902,486 |

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|  |         |         |
|--|---------|---------|
| Communication Services (0.8%)<br>American Cellular Corp. company<br>guaranty 9 1/2s, 2009                          | 195,000 | 196,706 |
| Cincinnati Bell, Inc. company<br>guaranty 7s, 2015   | 578,000 | 566,440 |
| Digicel, Ltd. 144A sr. notes 9 1/4s,<br>2012 (Jamaica)   | 325,000 | 337,188 |
| Inmarsat Finance PLC company<br>guaranty 7 5/8s, 2012<br>(United Kingdom)  | 223,000 | 229,690 |
| Inmarsat Finance PLC company<br>guaranty stepped-coupon<br>zero % (10 3/8s, 11/15/08), 2012<br>(United Kingdom) □□ | 866,000 | 766,410 |
| iPCS, Inc. sr. notes 11 1/2s, 2012   | 300,000 | 336,000 |
| IWO Holdings, Inc. sec. FRN 9.<br>257s, 2012   | 82,000  | 84,255  |
| Qwest Communications<br>International, Inc. company  |         |         |

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|                                |           |           |
|--------------------------------|-----------|-----------|
| guaranty 7 1/2s, 2014          | 428,000   | 429,070   |
| Qwest Corp. notes 8 7/8s, 2012 | 1,501,000 | 1,637,966 |

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CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Communication Services continued</i>             |                  |            |
| Qwest Corp. sr. notes 7 5/8s, 2015                  | \$ 409,000       | \$ 424,338 |
| Rural Cellular Corp. sr. sub. notes<br>9 3/4s, 2010 | 75,000           | 75,469     |
|   |                  | 5,083,532  |

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Consumer Cyclicals (3.1%)

|  |         |         |
|--|---------|---------|
| Boyd Gaming Corp. sr. sub. notes 8 3/4s,<br>2012                               | 585,000 | 615,713 |
| Boyd Gaming Corp. sr. sub. notes 7 3/4s,<br>2012                               | 165,000 | 169,331 |
| Boyd Gaming Corp. sr. sub. notes 6 3/4s,<br>2014                               | 134,000 | 130,985 |
| CanWest Media, Inc. company guaranty<br>8s, 2012 (Canada)                      | 337,021 | 332,808 |
| Dex Media West, LLC/Dex Media<br>Finance Co. sr. notes Ser. B, 8 1/2s,<br>2010 | 605,000 | 624,663 |
| Dex Media, Inc. notes 8s, 2013   | 182,000 | 180,635 |
| FelCor Lodging LP company guaranty<br>8 1/2s, 2008 (R)                         | 515,000 | 545,256 |
| Ford Motor Credit Corp. notes 7 7/8s,<br>2010                                  | 245,000 | 238,600 |
| Ford Motor Credit Corp. notes 7 3/8s,<br>2009                                  | 361,000 | 350,821 |
| Ford Motor Credit Corp. sr. notes 9 7/8s,<br>2011                              | 621,000 | 642,600 |
| Ford Motor Credit Corp. 144A sr.<br>unsecd. notes 9 3/4s, 2010                 | 444,000 | 458,418 |
| General Motors Acceptance Corp. FRN<br>6.457s, 2007                            | 350,000 | 348,033 |
| General Motors Acceptance Corp. FRN<br>Ser. MTN, 6.243s, 2007                  | 695,000 | 692,654 |
| General Motors Acceptance Corp.<br>notes 7 3/4s, 2010                          | 90,000  | 92,218  |
| General Motors Acceptance Corp.<br>notes 6 7/8s, 2012                          | 68,000  | 67,307  |
| General Motors Acceptance Corp.  |         |         |

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|  |         |         |
|--|---------|---------|
| notes 6 3/4s, 2014<br>General Motors Acceptance Corp.                                  | 59,000  | 57,599  |
| sr. unsub. notes 5.85s, 2009<br>Goodyear Tire & Rubber Co. (The) sr.<br>notes 9s, 2015 | 33,000  | 32,355  |
| Host Marriott LP sr. notes Ser. M, 7s,<br>2012 (R)                                     | 418,000 | 424,270 |
| Jostens IH Corp. company guaranty<br>7 5/8s, 2012                                      | 725,000 | 733,156 |
| K. Hovnanian Enterprises, Inc. company<br>guaranty 8 7/8s, 2012                        | 718,000 | 721,590 |
| K. Hovnanian Enterprises, Inc. company<br>guaranty 7 3/4s, 2013                        | 138,000 | 135,240 |
| Lear Corp. company guaranty Ser. B,<br>8.11s, 2009                                     | 269,000 | 246,135 |
| Levi Strauss & Co. sr. notes 9 3/4s, 2015  | 495,000 | 477,675 |
| Levi Strauss & Co. sr. notes 8 7/8s, 2016  | 651,000 | 675,413 |
| Meritage Homes Corp. company<br>guaranty 6 1/4s, 2015                                  | 285,000 | 283,575 |
| Meritor Automotive, Inc. notes<br>6.8s, 2009   | 235,000 | 199,750 |
|  | 71,000  | 68,338  |

CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <i>Consumer Cyclicals continued</i>                            |                  |            |
| MGM Mirage, Inc. company guaranty<br>8 1/2s, 2010              | \$ 468,000       | \$ 497,835 |
| MGM Mirage, Inc. company guaranty<br>6s, 2009                  | 1,009,000        | 996,388    |
| Movie Gallery, Inc. sr. unsecd. notes<br>11s, 2012             | 190,000          | 121,600    |
| Owens Corning notes 7 1/2s, 2005<br>(In default) □ ****        | 534,000          | 275,010    |
| Oxford Industries, Inc. sr. notes 8 7/8s,<br>2011              | 460,000          | 469,200    |
| Park Place Entertainment Corp. sr.<br>notes 7s, 2013           | 495,000          | 508,877    |
| Park Place Entertainment Corp.<br>sr. sub. notes 7 7/8s, 2010  | 395,000          | 410,800    |
| Pinnacle Entertainment, Inc. sr. sub.<br>notes 8 1/4s, 2012    | 247,000          | 250,088    |
| PRIMEDIA, Inc. sr. notes 8s, 2013                              | 688,000          | 624,360    |
| R.H. Donnelley Corp. sr. disc. notes<br>Ser. A-2, 6 7/8s, 2013 | 67,000           | 61,138     |
| R.H. Donnelley Corp. sr. notes 6 7/8s,<br>2013                 | 268,000          | 244,550    |



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|  |         |            |
|--|---------|------------|
| Reader's Digest Association, Inc. (The)<br>sr. notes 6 1/2s, 2011              | 365,000 | 346,750    |
| Resorts International Hotel and Casino,<br>Inc. company guaranty 11 1/2s, 2009 | 450,000 | 465,750    |
| Scientific Games Corp. company<br>guaranty 6 1/4s, 2012                        | 626,000 | 602,525    |
| Sealy Mattress Co. sr. sub. notes 8 1/4s,<br>2014                              | 735,000 | 749,700    |
| Standard Pacific Corp. sr. notes 7 3/4s,<br>2013                               | 101,000 | 95,445     |
| Starwood Hotels & Resorts Worldwide,<br>Inc. debs. 7 3/8s, 2015                | 339,000 | 343,238    |
| Station Casinos, Inc. sr. notes 6s, 2012                                       | 470,000 | 453,550    |
| Tenneco Automotive, Inc. company<br>guaranty 8 5/8s, 2014                      | 73,000  | 72,088     |
| Tenneco Automotive, Inc. sec. notes<br>Ser. B, 10 1/4s, 2013                   | 302,000 | 327,670    |
| Texas Industries, Inc. sr. unsecd. notes<br>7 1/4s, 2013                       | 161,000 | 161,000    |
| THL Buildco, Inc. (Nortek Holdings, Inc.)<br>sr. sub. notes 8 1/2s, 2014       | 604,000 | 570,780    |
| Trump Entertainment Resorts, Inc. sec.<br>notes 8 1/2s, 2015                   | 117,000 | 111,881    |
| United Auto Group, Inc. company<br>guaranty 9 5/8s, 2012                       | 515,000 | 545,900    |
| Vertis, Inc. company guaranty Ser. B,<br>10 7/8s, 2009                         | 661,000 | 661,000    |
| Vertis, Inc. 144A sub. notes 13 1/2s,<br>2009                                  | 285,000 | 259,350    |
| Wynn Las Vegas, LLC/Wynn Las Vegas<br>Capital Corp. 1stmtge. 6 5/8s, 2014      | 555,000 | 538,350    |
|  |         | 20,309,961 |

Consumer Staples (2.7%)

|  |         |         |
|--|---------|---------|
| Affinity Group, Inc. sr. sub. notes<br>9s, 2012    | 545,000 | 545,000 |
| AMC Entertainment, Inc. sr. sub. notes<br>8s, 2014 | 456,000 | 428,640 |

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CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|                                   | Principal amount | Value |
|-----------------------------------|------------------|-------|
| Consumer Staples <i>continued</i> |                  |       |
| Archibald Candy Corp. company     |                  |       |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| guaranty 10s, 2007 (In default) (F) □  | \$ | 90,153    | \$ | 4,711     |
| Avis Budget Care Rental, LLC 144A sr.<br>notes 7 3/4s, 2016                                  |    | 285,000   |    | 275,738   |
| Brand Services, Inc. company guaranty<br>12s, 2012   |    | 565,000   |    | 632,800   |
| Cablevision Systems Corp. sr. notes<br>Ser. B, 8s, 2012                                      |    | 167,000   |    | 169,088   |
| CCH I, LLC/Capital Corp. sec. notes<br>11s, 2015   |    | 1,347,000 |    | 1,225,770 |
| CCH I Holdings, LLC company guaranty<br>stepped-coupon zero % (12 1/8s,<br>1/15/07), 2015 □□ |    | 49,000    |    | 33,443    |
| CCH II, LLC/Capital Corp. sr. notes<br>Ser. B, 10 1/4s, 2010                                 |    | 259,000   |    | 262,885   |
| CCH, LLC/Capital Corp. sr. notes<br>10 1/4s, 2010  |    | 86,000    |    | 87,720    |
| Church & Dwight Co., Inc. company<br>guaranty 6s, 2012                                       |    | 444,000   |    | 425,130   |
| Cinemark USA, Inc. sr. sub.<br>notes 9s, 2013  |    | 20,000    |    | 20,750    |
| Cinemark, Inc. sr. disc. notes<br>stepped-coupon zero %<br>(9 3/4s, 3/15/09), 2014 □□        |    | 990,000   |    | 789,525   |
| Constellation Brands, Inc. company<br>guaranty Ser. B, 8s, 2008                              |    | 825,000   |    | 845,625   |
| Constellation Brands, Inc. sr. sub.<br>notes Ser. B, 8 1/8s, 2012                            |    | 425,000   |    | 442,000   |
| CSC Holdings, Inc. sr. notes Ser. B,<br>7 5/8s, 2011   |    | 595,000   |    | 610,619   |
| CSC Holdings, Inc. 144A sr. notes<br>7 1/4s, 2012  |    | 1,068,000 |    | 1,063,995 |
| Dean Foods Co. company guaranty 7s,<br>2016  |    | 264,000   |    | 264,000   |
| Dean Foods Co. sr. notes 6 5/8s, 2009  |    | 445,000   |    | 446,669   |
| Del Monte Corp. company guaranty<br>6 3/4s, 2015   |    | 320,000   |    | 308,800   |
| Del Monte Corp. sr. sub. notes<br>8 5/8s, 2012   |    | 560,000   |    | 587,300   |
| DirecTV Holdings, LLC company<br>guaranty 6 3/8s, 2015                                       |    | 1,026,000 |    | 964,440   |
| Echostar DBS Corp. company guaranty<br>6 5/8s, 2014  |    | 2,119,000 |    | 2,015,699 |
| Interpublic Group of Companies, Inc.<br>notes 6 1/4s, 2014                                   |    | 118,000   |    | 102,070   |
| Jean Coutu Group, Inc. sr. notes 7 5/8s,<br>2012 (Canada)                                    |    | 509,000   |    | 535,086   |
| Pinnacle Foods Holding Corp. sr. sub.<br>notes 8 1/4s, 2013                                  |    | 741,000   |    | 741,926   |

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|   |         |         |
|---|---------|---------|
| Playtex Products, Inc. company guaranty<br>9 3/8s, 2011       | 170,000 | 177,650 |
| Playtex Products, Inc. sec. notes 8s,<br>2011                 | 770,000 | 798,875 |
| Prestige Brands, Inc. sr. sub. notes<br>9 1/4s, 2012          | 450,000 | 452,250 |
| Rainbow National Services, LLC 144A<br>sr. notes 8 3/4s, 2012 | 482,000 | 515,740 |

CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <hr/>  |                  |            |
| <i>Consumer Staples continued</i>                          |                  |            |
| Remington Arms Co., Inc. company<br>guaranty 10 1/2s, 2011 | \$ 302,000       | \$ 277,840 |
| Sbarro, Inc. company guaranty 11s,<br>2009                 | 726,000          | 738,705    |
| Scotts Co. (The) sr. sub. notes 6 5/8s,<br>2013            | 255,000          | 248,944    |
| Six Flags, Inc. sr. notes 9 5/8s, 2014                     | 370,000          | 329,300    |
| Young Broadcasting, Inc. company<br>guaranty 10s, 2011     | 431,000          | 402,446    |
| Young Broadcasting, Inc. sr. sub. notes<br>8 3/4s, 2014    | 365,000          | 310,250    |
|  |                  | 18,081,429 |
| <hr/>  |                  |            |

Energy (3.9%)

|   |           |           |
|---|-----------|-----------|
| Arch Western Finance, LLC sr. notes<br>6 3/4s, 2013                           | 1,347,000 | 1,293,120 |
| Bluewater Finance, Ltd. company<br>guaranty 10 1/4s, 2012<br>(Cayman Islands) | 487,000   | 493,088   |
| CHC Helicopter Corp. sr. sub. notes<br>7 3/8s, 2014 (Canada)                  | 812,000   | 765,310   |
| Chesapeake Energy Corp. company<br>guaranty 7 3/4s, 2015                      | 269,000   | 274,380   |
| Chesapeake Energy Corp. sr. notes<br>7 1/2s, 2013                             | 1,031,000 | 1,046,465 |
| Chesapeake Energy Corp. sr. notes<br>7s, 2014                                 | 279,000   | 275,861   |
| Comstock Resources, Inc. sr. notes<br>6 7/8s, 2012                            | 510,000   | 486,413   |
| Dresser, Inc. company guaranty<br>10 1/8s, 2011                               | 476,000   | 498,610   |
| EXCO Resources, Inc. company<br>guaranty 7 1/4s, 2011                         | 725,000   | 708,688   |
| Forest Oil Corp. sr. notes 8s, 2011   | 540,000   | 558,900   |

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|  |           |            |
|--|-----------|------------|
| Forest Oil Corp. sr. notes 8s, 2008  | 335,000   | 343,375    |
| Gazprom OAO 144A notes 9 5/8s,<br>2013 (Germany)                               | 9,080,000 | 10,748,450 |
| Harvest Operations Corp. sr. notes<br>7 7/8s, 2011 (Canada)                    | 584,000   | 541,660    |
| Hornbeck Offshore Services, Inc. sr.<br>notes Ser. B, 6 1/8s, 2014             | 517,000   | 482,749    |
| Massey Energy Co. sr. notes 6 5/8s,<br>2010                                    | 774,000   | 754,650    |
| Newfield Exploration Co. sr. notes<br>7 5/8s, 2011                             | 700,000   | 721,000    |
| Newfield Exploration Co. sr. sub.<br>notes 6 5/8s, 2014                        | 348,000   | 340,605    |
| Offshore Logistics, Inc. company<br>guaranty 6 1/8s, 2013                      | 655,000   | 614,063    |
| Oslo Seismic Services, Inc. 1st mtge.<br>8.28s, 2011                           | 458,704   | 470,201    |
| Pacific Energy Partners/Pacific Energy<br>Finance Corp. sr. notes 7 1/8s, 2014 | 355,000   | 362,100    |
| PetroHawk Energy Corp. 144A sr.<br>notes 9 1/8s, 2013                          | 870,000   | 874,350    |
| Plains Exploration & Production Co.<br>sr. notes 7 1/8s, 2014                  | 620,000   | 647,900    |

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CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <i>Energy continued</i>  |                  |            |
| Plains Exploration & Production Co.<br>sr. sub. notes 8 3/4s, 2012                   | \$ 485,000       | \$ 512,888 |
| Pogo Producing Co. sr. sub. notes<br>Ser. B, 8 1/4s, 2011                            | 670,000          | 688,425    |
| Pride International, Inc. sr. notes<br>7 3/8s, 2014                                  | 826,000          | 850,780    |
| Seabulk International, Inc. company<br>guaranty 9 1/2s, 2013                         | 402,000          | 438,180    |
|  |                  | 25,792,211 |
| <hr/>  |                  |            |
| <i>Financial (1.9%)</i>  |                  |            |
| Bosphorus Financial Services, Ltd.<br>144A sec. FRN 7.205s, 2012<br>(Cayman Islands) | 1,445,000        | 1,434,641  |
| Crescent Real Estate Equities LP notes<br>7 1/2s, 2007 (R)                           | 310,000          | 312,325    |

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|   |           |            |
|---|-----------|------------|
| Finova Group, Inc. notes 7 1/2s, 2009   | 439,620   | 123,094    |
| Pemex Finance, Ltd. bonds 9.69s, 2009<br>(Cayman Islands)   | 609,000   | 644,824    |
| Pemex Project Funding Master Trust<br>company guaranty 5 3/4s, 2015   | 4,060,000 | 3,966,620  |
| Pemex Project Funding Master Trust 144A<br>company guaranty 5 3/4s, 2015  | 1,778,000 | 1,737,106  |
| UBS Luxembourg SA for Sberbank unsec.<br>sub. notes stepped-coupon 6.23s<br>(7.429s, 2/11/10), 2015 (Luxembourg) ☐☐ | 1,400,000 | 1,398,600  |
| VTB Capital SA 144A notes 7 1/2s, 2011<br>(Luxembourg)  | 3,010,000 | 3,198,125  |
|   |           | 12,815,335 |

Health Care (1.2%)

|  |         |         |
|--|---------|---------|
| Community Health Systems, Inc.<br>sr. sub. notes 6 1/2s, 2012    | 183,000 | 174,994 |
| DaVita, Inc. company guaranty 6 5/8s,<br>2013                    | 175,000 | 170,844 |
| Extendicare Health Services, Inc.<br>sr. sub. notes 6 7/8s, 2014 | 312,000 | 333,840 |
| HCA, Inc. debs. 7.19s, 2015                                      | 51,000  | 42,462  |
| HCA, Inc. notes 6 3/8s, 2015                                     | 212,000 | 171,190 |
| HCA, Inc. notes 5 3/4s, 2014                                     | 260,000 | 204,100 |
| MedQuest, Inc. company guaranty<br>Ser. B, 11 7/8s, 2012         | 595,000 | 517,650 |
| Omnicare, Inc. sr. sub. notes 6 1/8s,<br>2013                    | 740,000 | 699,300 |
| Service Corp. International notes 6 1/2s,<br>2008                | 110,000 | 110,000 |
| Service Corp. International 144A sr.<br>notes 8s, 2017           | 170,000 | 162,775 |
| Service Corporation International<br>sr. notes 6 3/4s, 2016      | 535,000 | 512,931 |
| Stewart Enterprises, Inc. sr. notes<br>6 1/4s, 2013              | 724,000 | 669,700 |
| Tenet Healthcare Corp. notes<br>7 3/8s, 2013                     | 390,000 | 351,488 |
| Tenet Healthcare Corp. sr. notes<br>9 7/8s, 2014                 | 835,000 | 831,869 |
| Triad Hospitals, Inc. sr. notes 7s,<br>2012                      | 825,000 | 816,750 |

CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|                  |       |
|------------------|-------|
| Principal amount | Value |
|------------------|-------|

Health Care *continued*

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|   |    |         |    |           |
|---|----|---------|----|-----------|
| Triad Hospitals, Inc. sr. sub.<br>notes 7s, 2013                    | \$ | 211,000 | \$ | 204,934   |
| US Oncology, Inc. company<br>guaranty 9s, 2012                      |    | 420,000 |    | 434,700   |
| Vanguard Health Holding Co. II,<br>LLC sr. sub. notes 9s, 2014      |    | 556,000 |    | 539,320   |
| Ventas Realty LP/Capital Corp.<br>company guaranty 9s, 2012 (R)     |    | 305,000 |    | 340,075   |
| Ventas Realty LP/Capital Corp.<br>company guaranty 6 3/4s, 2010 (R) |    | 201,000 |    | 204,518   |
| Ventas Realty LP/Capital Corp.<br>sr. notes 6 5/8s, 2014 (R)        |    | 173,000 |    | 173,433   |
|   |    |         |    | 7,666,873 |

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Technology (0.5%)

|  |     |           |  |           |
|--|-----|-----------|--|-----------|
| Advanced Micro Devices, Inc. sr.<br>notes 7 3/4s, 2012                     |     | 334,000   |  | 339,010   |
| Freescale Semiconductor, Inc. sr.<br>notes Ser. B, 7 1/8s, 2014            |     | 1,229,000 |  | 1,318,103 |
| Iron Mountain, Inc. company<br>guaranty 8 5/8s, 2013                       |     | 700,000   |  | 715,750   |
| New ASAT Finance, Ltd. company<br>guaranty 9 1/4s, 2011(Cayman<br>Islands) |     | 13,000    |  | 9,880     |
| SunGard Data Systems, Inc.<br>company guaranty 9 1/8s, 2013                |     | 340,000   |  | 351,900   |
| Xerox Corp. sr. notes 9 3/4s,<br>2009                                      | EUR | 195,000   |  | 272,303   |
| Xerox Corp. sr. notes 7 5/8s,<br>2013                                      | \$  | 278,000   |  | 291,900   |
| Xerox Corp. unsec. sr. notes<br>6 3/4s, 2017                               |     | 233,000   |  | 236,495   |
|  |     |           |  | 3,535,341 |

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Transportation (0.1%)

|   |  |         |  |         |
|---|--|---------|--|---------|
| CalAir, LLC/CalAir Capital Corp.<br>company guaranty 8 1/8s, 2008 |  | 760,000 |  | 744,800 |
|---|--|---------|--|---------|

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Utilities & Power (1.2%)

|   |  |         |  |         |
|---|--|---------|--|---------|
| AES Corp. (The) sr. notes 8 7/8s,<br>2011       |  | 54,000  |  | 57,780  |
| AES Corp. (The) 144A sec. notes<br>8 3/4s, 2013 |  | 460,000 |  | 492,200 |
| CMS Energy Corp. sr. notes 8.9s,<br>2008        |  | 600,000 |  | 628,500 |

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|   |         |         |
|---|---------|---------|
| CMS Energy Corp. sr. notes 7 3/4s,<br>2010                | 180,000 | 189,000 |
| Colorado Interstate Gas Co. sr. notes<br>5.95s, 2015      | 174,000 | 166,400 |
| Edison Mission Energy 144A sr. notes<br>7 3/4s, 2016      | 146,000 | 147,825 |
| Edison Mission Energy 144A sr. notes<br>7 1/2s, 2013      | 172,000 | 173,720 |
| El Paso Corp. sr. notes Ser. *, 6 3/8s,<br>2009           | 200,000 | 199,500 |
| El Paso Natural Gas Co. sr. notes<br>Ser. A, 7 5/8s, 2010 | 365,000 | 377,319 |

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CORPORATE BONDS AND NOTES (17.8%)\* *continued*

|  | Principal amount | Value        |
|--|------------------|--------------|
| <i>Utilities &amp; Power continued</i>                                   |                  |              |
| El Paso Production Holding Co.<br>company guaranty 7 3/4s, 2013          | \$ 993,000       | \$ 1,015,343 |
| Ferrellgas LP/Finance sr. notes<br>6 3/4s, 2014                          | 520,000          | 508,300      |
| Mission Energy Holding Co. sec.<br>notes 13 1/2s, 2008                   | 749,000          | 836,071      |
| Monongahela Power Co. 1st mtge.<br>6.7s, 2014                            | 400,000          | 426,204      |
| NRG Energy, Inc. sr. notes 7 3/8s,<br>2016                               | 235,000          | 233,531      |
| Orion Power Holdings, Inc. sr. notes<br>12s, 2010                        | 655,000          | 741,788      |
| SEMCO Energy, Inc. sr. notes 7 3/4s,<br>2013                             | 517,000          | 519,499      |
| Teco Energy, Inc. notes 7.2s, 2011                                       | 185,000          | 192,863      |
| Teco Energy, Inc. notes 7s, 2012   | 280,000          | 289,800      |
| Teco Energy, Inc. sr. notes 6 3/4s, 2015                                 | 32,000           | 32,800       |
| Utilicorp Canada Finance Corp. company<br>guaranty 7 3/4s, 2011 (Canada) | 612,000          | 642,600      |
| Utilicorp United, Inc. sr. notes 9.95s,<br>2011                          | 18,000           | 19,743       |
| Williams Cos., Inc. (The) notes<br>8 1/8s, 2012                          | 150,000          | 160,125      |
| Williams Cos., Inc. (The) 144A notes<br>6 3/8s, 2010                     | 172,000          | 171,140      |
| York Power Funding 144A notes 12s,<br>2007 (Cayman Islands)              |                  |              |
| (In default) (F) □   | 203,730          | 16,991       |

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8,239,042

Total corporate bonds and notes

(cost \$118,271,487) \$ 118,460,458

U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (4.4%)\*

Principal amount Value

Federal National Mortgage Association

Pass-Through Certificates

|  |            |            |
|--|------------|------------|
| 8s, October 1, 2025  | \$ 6,246   | \$ 6,622   |
| 6 1/2s, June 1, 2036   | 52,989     | 53,983     |
| 6 1/2s, October 1, 2018  | 18,193     | 18,753     |
| 6s, TBA, October 1, 2021   | 11,400,000 | 11,571,000 |
| 5 1/2s, April 1, 2036  | 46,389     | 45,700     |
| 5 1/2s, with due dates from<br>March 1, 2020 to January 1, 2021  | 986,279    | 986,496    |
| 5s, May 1, 2021  | 121,048    | 118,949    |
| 4 1/2s, with due dates from<br>September 1, 2020 to June 1, 2034 | 3,004,238  | 2,815,318  |
| 4 1/2s, TBA, October 1, 2021                                     | 6,900,000  | 6,655,265  |
| 4 1/2s, TBA, November 1, 2021                                    | 6,900,000  | 6,655,265  |

Total U.S. government and agency mortgage obligations (cost \$28,820,550) \$ 28,927,351

U.S. TREASURY OBLIGATIONS (10.8%)\*

Principal amount Value

U.S. Treasury Notes

|                           |              |              |
|---------------------------|--------------|--------------|
| 6 1/2s, February 15, 2010 | \$ 7,500,000 | \$ 7,937,109 |
| 4 1/4s, August 15, 2013   | 38,008,000   | 37,212,208   |
| 3 1/4s, August 15, 2008   | 27,242,000   | 26,539,669   |

Total U.S. treasury obligations (cost \$73,614,704) \$ 71,688,986

FOREIGN GOVERNMENT BONDS AND NOTES (14.1%)\*

Principal amount Value

Argentina (Republic of ) FRB 5.59s,



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|   |     |    |               |              |
|---|-----|----|---------------|--------------|
| 2012  |     | \$ | 8,133,750     | \$ 7,503,436 |
| Austria (Republic of ) 144A<br>notes Ser. EMTN, 3.8s, 2013      | EUR |    | 1,390,000     | 1,775,539    |
| Brazil (Federal Republic of )<br>bonds 10 1/2s, 2014            |     | \$ | 1,018,000     | 1,279,117    |
| Brazil (Federal Republic of )<br>bonds 12 1/2s, 2016            |     |    | 1,405,000     | 652,622      |
| Brazil (Federal Republic of )<br>notes 11s, 2012                |     |    | 7,240,000     | 8,861,760    |
| Canada (Government of ) bonds<br>Ser. WH31, 6s, 2008            | CAD |    | 3,680,000     | 3,406,821    |
| Colombia (Republic of )<br>notes 10s, 2012                      |     | \$ | 3,697,000     | 4,307,005    |
| Colombia (Republic of )<br>notes 12s, 2015                      | COP |    | 450,000,000   | 216,239      |
| France (Government of ) bonds<br>4s, 2013                       | EUR |    | 4,730,000     | 6,110,838    |
| France (Government of ) bonds<br>Ser. OATe, 3s, 2012            | EUR |    | 4,329,160     | 5,933,494    |
| Germany (Federal Republic of )<br>bonds Ser. 97, 6s, 2007       | EUR |    | 5,500,000     | 7,088,210    |
| Germany (Federal Republic of )<br>bonds Ser. 97, 6s, 2007       | EUR |    | 5,000,000     | 6,374,165    |
| Ireland (Republic of ) bonds 5s,<br>2013                        | EUR |    | 7,500,000     | 10,242,361   |
| Japan (Government of ) CPI<br>Linked bonds Ser. 8, 1s, 2016     | JPY |    | 1,114,545,000 | 9,382,760    |
| Russia (Ministry of Finance) debs.<br>Ser. V, 3s, 2008          |     | \$ | 2,445,000     | 2,347,200    |
| South Africa (Republic of )<br>notes 7 3/8s, 2012               |     |    | 1,495,000     | 1,618,338    |
| South Africa (Republic of )<br>notes 6 1/2s, 2014               |     |    | 1,330,000     | 1,393,175    |
| Spain (Government of ) bonds<br>5.4s, 2011                      | EUR |    | 1,000,000     | 1,363,140    |
| Spain (Kingdom of ) bonds<br>5s, 2012                           | EUR |    | 800,000       | 1,083,105    |
| Sweden (Government of )<br>debs. Ser. 1041, 6 3/4s, 2014        | SEK |    | 30,690,000    | 5,050,561    |
| United Mexican States notes<br>6 5/8s, 2015                     |     | \$ | 4,530,000     | 4,824,450    |
| Venezuela (Republic of )<br>notes 10 3/4s, 2013                 |     |    | 2,150,000     | 2,628,375    |
| <hr/>   |     |    |               |              |
| Total foreign government bonds<br>and notes (cost \$89,911,434) |     | \$ |               | 93,442,711   |

## COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\*

|  | Principal amount | Value      |
|--|------------------|------------|
| Amresco Commercial Mortgage<br>Funding I Ser. 97-C1,<br>Class G, 7s, 2029                              | \$ 434,000       | \$ 434,878 |
| Banc of America Commercial<br>Mortgage, Inc. Ser. 01-1,<br>Class G, 7.324s, 2036                       | 325,000          | 345,027    |
| Banc of America Commercial<br>Mortgage, Inc.<br>144A<br>Ser. 01-1, Class J, 6 1/8s, 2036               | 163,000          | 164,207    |
| Ser. 01-1, Class K, 6 1/8s, 2036   | 367,000          | 293,332    |
| Banc of America Large Loan 144A<br>FRB Ser. 02-FL2A, Class L1,<br>8.33s, 2014                          | 141,000          | 141,000    |
| FRB Ser. 02-FL2A, Class K1,<br>7.83s, 2014   | 100,000          | 99,850     |
| FRB Ser. 05-MIB1, Class K,<br>7.33s, 2022  | 645,000          | 638,342    |
| FRB Ser. 05-ESHA, Class K,<br>7.13s, 2020  | 712,000          | 712,355    |
| FRB Ser. 06-LAQ, Class M,<br>7.018s, 2021  | 548,000          | 549,655    |
| FRB Ser. 06-LAQ, Class L,<br>6.918s, 2021  | 342,000          | 343,554    |
| Bear Stearns Commercial<br>Mortgage Securities, Inc.<br>144A FRB Ser. 05-LXR1, Class J,<br>6.98s, 2018 | 696,000          | 696,000    |
| Bear Stearns Commercial<br>Mortgage Securitization Corp.<br>Ser. 00-WF2, Class F, 8.453s,<br>2032      | 410,000          | 459,248    |
| Broadgate Financing PLC sec.<br>FRB Ser. D, 5.553s,<br>2023 (United Kingdom)                           | GBP 460,750      | 858,047    |
| Commercial Mortgage Pass-<br>Through Certificates 144A<br>FRB Ser. 05-F10A, Class A1,<br>5.43s, 2017   | \$ 2,660,647     | 2,660,267  |
| Countrywide Alternative<br>Loan Trust<br>FRB Ser. 06-OA10, Class XBI,<br>Interest Only (IO),           |                  |            |

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|   |           |         |
|---|-----------|---------|
| 1.401s, 2046  | 6,196,123 | 294,316 |
| IFB Ser. 06-19CB, Class A2,<br>IO, zero %, 2036                                   | 463,476   | 1,358   |
| IFB Ser. 06-20CB, Class A14,<br>IO, zero %, 2036                                  | 647,046   | 1,213   |
| IFB Ser. 06-14CB, Class A9,<br>IO, zero %, 2036                                   | 1,191,150 | 7,166   |
| IFB Ser. 06-6CB, Class 1A3,<br>IO, zero %, 2036                                   | 7,598,805 | 20,184  |
| CRESI Finance Limited Partnership<br>144A FRB Ser. 06-A, Class C,<br>5.924s, 2017 | 251,000   | 250,999 |

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| CS First Boston Mortgage<br>Securities Corp. 144A<br>FRB Ser. 05-TFLA, Class L,<br>7.18s, 2020 | \$ 699,000       | \$ 698,994 |
| FRB Ser. 05-TFLA, Class K,<br>6.63s, 2020  | 388,000          | 387,997    |
| Ser. 98-C1, Class F, 6s, 2040  | 966,000          | 969,605    |
| Ser. 02-CP5, Class M,<br>5 1/4s, 2035  | 354,000          | 322,361    |
| Deutsche Mortgage & Asset<br>Receiving Corp. Ser. 98-C1,<br>Class X, IO, 0.982s, 2031          | 16,751,086       | 266,802    |
| DLJ Commercial Mortgage Corp.<br>Ser. 98-CF2, Class B4, 6.04s,<br>2031                         | 286,492          | 290,689    |
| Ser. 98-CF2, Class B5, 5.95s,<br>2031  | 915,958          | 870,197    |
| DLJ Mortgage Acceptance Corp.<br>144A<br>Ser. 97-CF1, Class B2, 8.16s,<br>2030                 | 275,000          | 220,000    |
| Ser. 97-CF1, Class B1, 7.91s,<br>2030  | 266,000          | 268,279    |
| European Loan Conduit FRB<br>Ser. 6X, Class E, 6.49s,<br>2010 (United Kingdom)                 | GBP 358,417      | 670,419    |
| European Loan Conduit 144A<br>FRB Ser. 6A, Class F, 6.99s,<br>2010 (United Kingdom)            | GBP 128,006      | 239,483    |
| FRB Ser. 22A, Class D, 5.59s,<br>2014 (Ireland)  | GBP 507,000      | 946,924    |
| European Prime Real Estate   |                  |            |

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|   |     |           |           |
|---|-----|-----------|-----------|
| PLC 144A FRB Ser. 1-A,<br>Class D, 5.608s, 2014<br>(United Kingdom) | GBP | 352,516   | 656,814   |
| Fannie Mae<br>IFB Ser. 06-70, Class BS, 14.56s,<br>2036             | \$  | 311,429   | 371,869   |
| IFB Ser. 06-62, Class PS, 7.92s,<br>2036                            |     | 838,738   | 930,297   |
| IFB Ser. 06-76, Class QB, 7.62s,<br>2036                            |     | 2,007,080 | 2,215,705 |
| IFB Ser. 06-70, Class SJ, 7.62s,<br>2036                            |     | 139,278   | 155,886   |
| Ser. 04-W8, Class 3A, 7 1/2s,<br>2044                               |     | 413,793   | 435,405   |
| Ser. 04-W2, Class 5A, 7 1/2s,<br>2044                               |     | 1,424,909 | 1,498,641 |
| Ser. 04-T2, Class 1A4, 7 1/2s,<br>2043                              |     | 348,904   | 366,754   |
| Ser. 03-W4, Class 4A, 7 1/2s,<br>2042                               |     | 109,094   | 113,974   |
| Ser. 03-W3, Class 1A3, 7 1/2s,<br>2042                              |     | 226,854   | 237,660   |
| Ser. 02-T19, Class A3, 7 1/2s,<br>2042                              |     | 282,810   | 296,306   |
| Ser. 03-W2, Class 1A3, 7 1/2s,<br>2042                              |     | 5,073     | 5,316     |
| Ser. 02-W1, Class 2A, 7 1/2s,<br>2042                               |     | 443,639   | 461,963   |

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COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|                                       |    | Principal amount |    | Value     |
|---------------------------------------|----|------------------|----|-----------|
| Fannie Mae                            |    |                  |    |           |
| Ser. 02-14, Class A2, 7 1/2s, 2042    | \$ | 2,258            | \$ | 2,360     |
| Ser. 01-T10, Class A2, 7 1/2s, 2041   |    | 284,308          |    | 296,400   |
| Ser. 02-T4, Class A3, 7 1/2s, 2041    |    | 1,355            |    | 1,414     |
| Ser. 01-T8, Class A1, 7 1/2s, 2041    |    | 3,729            |    | 3,879     |
| Ser. 01-T7, Class A1, 7 1/2s, 2041    |    | 1,130,427        |    | 1,174,100 |
| Ser. 01-T3, Class A1, 7 1/2s, 2040    |    | 175,907          |    | 183,094   |
| Ser. 01-T1, Class A1, 7 1/2s, 2040    |    | 543,384          |    | 566,428   |
| Ser. 99-T2, Class A1, 7 1/2s, 2039    |    | 223,975          |    | 235,286   |
| Ser. 00-T6, Class A1, 7 1/2s, 2030    |    | 108,376          |    | 113,145   |
| Ser. 02-W7, Class A5, 7 1/2s,<br>2029 |    | 189,020          |    | 197,817   |
| Ser. 01-T4, Class A1, 7 1/2s, 2028    |    | 511,737          |    | 539,264   |

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|  |           |           |
|--|-----------|-----------|
| Ser. 02-W3, Class A5, 7 1/2s,<br>2028        | 1,140     | 1,191     |
| IFB Ser. 06-63, Class SP, 7.32s,<br>2036     | 2,182,220 | 2,397,060 |
| IFB Ser. 06-60, Class TK, 7.28s,<br>2036     | 575,910   | 605,544   |
| Ser. 04-W12, Class 1A3, 7s,<br>2044          | 413,658   | 429,755   |
| Ser. 01-T10, Class A1, 7s, 2041              | 1,109,435 | 1,143,964 |
| IFB Ser. 05-74, Class CS, 5.363s,<br>2035    | 673,828   | 678,115   |
| IFB Ser. 05-74, Class CP, 5.207s,<br>2035    | 591,031   | 602,246   |
| IFB Ser. 05-76, Class SA, 5.207s,<br>2034    | 837,411   | 839,484   |
| IFB Ser. 06-27, Class SP, 5.023s,<br>2036    | 791,000   | 802,785   |
| IFB Ser. 06-8, Class HP, 5.023s,<br>2036     | 970,446   | 978,272   |
| IFB Ser. 06-8, Class WK, 5.023s,<br>2036     | 1,487,929 | 1,484,995 |
| IFB Ser. 05-106, Class US, 5.023s,<br>2035   | 1,441,799 | 1,466,012 |
| IFB Ser. 05-99, Class SA, 5.023s,<br>2035    | 706,279   | 706,103   |
| IFB Ser. 05-114, Class SP, 4.923s,<br>2036   | 410,334   | 396,998   |
| IFB Ser. 06-60, Class CS, 4.547s,<br>2036    | 946,410   | 907,462   |
| IFB Ser. 05-95, Class CP, 4.059s,<br>2035    | 111,401   | 109,993   |
| IFB Ser. 05-95, Class OP, 3.892s,<br>2035    | 360,000   | 334,776   |
| IFB Ser. 05-83, Class QP, 3.536s,<br>2034    | 228,318   | 212,634   |
| IFB Ser. 02-36, Class QH, IO, 2.72s,<br>2029 | 161,580   | 1,545     |
| IFB Ser. 06-90, Class SE, IO, 2.47s,<br>2036 | 2,567,619 | 232,089   |
| IFB Ser. 03-66, Class SA, IO, 2.32s,<br>2033 | 1,280,856 | 98,466    |
| IFB Ser. 03-48, Class S, IO, 2.22s,<br>2033  | 571,911   | 44,234    |
| IFB Ser. 05-113, Class AI, IO, 1.9s,<br>2036 | 854,337   | 58,741    |

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|                  |       |
|------------------|-------|
| Principal amount | Value |
|------------------|-------|

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Fannie Mae

|   |    |            |    |         |
|---|----|------------|----|---------|
| IFB Ser. 05-113, Class DI, IO, 1.9s,<br>2036  | \$ | 7,241,512  | \$ | 428,060 |
| IFB Ser. 06-60, Class DI, IO, 1.74s,<br>2035  |    | 2,566,384  |    | 135,546 |
| IFB Ser. 05-95, Class CI, IO, 1.37s,<br>2035  |    | 1,465,857  |    | 89,674  |
| IFB Ser. 05-84, Class SG, IO, 1.37s,<br>2035  |    | 2,584,374  |    | 152,145 |
| IFB Ser. 05-69, Class AS, IO, 1.37s,<br>2035  |    | 675,176    |    | 36,189  |
| IFB Ser. 04-92, Class S, IO, 1.37s,<br>2034   |    | 2,074,746  |    | 119,622 |
| IFB Ser. 05-104, Class SI, IO, 1.37s,<br>2033 |    | 3,454,660  |    | 204,308 |
| IFB Ser. 05-83, Class QI, IO, 1.36s,<br>2035  |    | 378,091    |    | 25,848  |
| IFB Ser. 05-92, Class SC, IO, 1.35s,<br>2035  |    | 3,452,985  |    | 201,762 |
| IFB Ser. 05-83, Class SL, IO, 1.34s,<br>2035  |    | 6,630,210  |    | 327,086 |
| IFB Ser. 06-20, Class IG, IO, 1.32s,<br>2036  |    | 9,172,246  |    | 397,928 |
| IFB Ser. 06-45, Class SM, IO, 1.27s,<br>2036  |    | 2,242,457  |    | 99,789  |
| IFB Ser. 06-20, Class IB, IO, 1.26s,<br>2036  |    | 3,930,462  |    | 164,457 |
| IFB Ser. 05-95, Class OI, IO, 1.26s,<br>2035  |    | 212,607    |    | 14,622  |
| IFB Ser. 06-85, Class TS, IO, 1.23s,<br>2036  |    | 2,929,877  |    | 124,741 |
| IFB Ser. 03-112, Class SA, IO, 1.17s,<br>2028 |    | 1,267,589  |    | 38,407  |
| Ser. 03-W17, Class 12, IO, 1.159s,<br>2033    |    | 2,880,048  |    | 112,132 |
| Ser. 03-W10, Class 1A, IO, 1.041s,<br>2043    |    | 4,210,192  |    | 66,466  |
| Ser. 03-W10, Class 3A, IO, 1.024s,<br>2043    |    | 5,038,303  |    | 89,483  |
| IFB Ser. 05-67, Class BS, IO, 0.82s,<br>2035  |    | 1,705,918  |    | 49,813  |
| IFB Ser. 05-74, Class SE, IO, 0.77s,<br>2035  |    | 2,333,160  |    | 66,035  |
| IFB Ser. 05-87, Class SE, IO, 0.72s,<br>2035  |    | 12,785,667 |    | 356,222 |
| IFB Ser. 04-54, Class SW, IO, 0.67s,<br>2033  |    | 793,092    |    | 22,972  |

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|   |           |           |
|---|-----------|-----------|
| Ser. 02-T18, IO, 0.524s, 2042                             | 8,022,748 | 101,196   |
| Ser. 06-84, Class OP, Principal<br>Only (PO) zero %, 2036 | 130,291   | 122,962   |
| Ser. 371, Class 1, PO, zero %, 2036                       | 517,288   | 436,481   |
| Ser. 05-113, Class DO, PO, zero %, 2036                   | 1,112,959 | 895,563   |
| Ser. 367, Class 1, PO, zero %, 2036                       | 783,150   | 578,550   |
| Ser. 363, Class 1, PO, zero %, 2035                       | 4,322,166 | 3,193,406 |
| Ser. 361, Class 1, PO, zero %, 2035                       | 3,091,887 | 2,476,506 |

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COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Fannie Mae   |                  |            |
| Ser. 04-38, Class AO, PO, zero %, 2034                                 | \$ 372,501       | \$ 269,772 |
| Ser. 342, Class 1, PO, zero %, 2033                                    | 266,566          | 208,379    |
| Ser. 02-82, Class TO, PO, zero %, 2032                                 | 235,500          | 189,062    |
| Ser. 04-61, Class CO, PO, zero %, 2031                                 | 517,000          | 414,812    |
| Ser. 99-51, Class N, PO, zero %, 2029                                  | 82,135           | 67,684     |
| FRB Ser. 05-117, Class GF, zero %, 2036                                | 336,822          | 317,086    |
| Federal Home Loan Mortgage Corp.<br>Structured Pass-Through Securities |                  |            |
| Ser. T-59, Class 1A3, 7 1/2s, 2043                                     | 450,019          | 474,292    |
| Ser. T-58, Class 4A, 7 1/2s, 2043                                      | 7,185            | 7,524      |
| Ser. T-41, Class 3A, 7 1/2s, 2032                                      | 1,089,544        | 1,136,563  |
| Ser. T-60, Class 1A2, 7s, 2044   | 2,113,932        | 2,193,725  |
| Ser. T-57, Class 1AX, IO, 0.005s, 2043                                 | 2,673,542        | 29,516     |
| FFCA Secured Lending Corp. Ser. 00-1,<br>Class X, IO, 1.381s, 2020     | 5,884,428        | 325,914    |
| Freddie Mac  |                  |            |
| IFB Ser. 3153, Class UK, 7.44s, 2036                                   | 214,182          | 243,563    |
| IFB Ser. 3182, Class PS, 7.28s, 2032                                   | 233,772          | 255,268    |
| IFB Ser. 3081, Class DC, 5.175s, 2035                                  | 575,857          | 571,231    |

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|   |            |         |
|---|------------|---------|
| IFB Ser. 3114, Class GK, 5.08s,<br>2036     | 379,137    | 378,189 |
| IFB Ser. 2979, Class AS, 4.73s,<br>2034     | 252,589    | 250,221 |
| IFB Ser. 3065, Class DC, 3.87s,<br>2035     | 861,040    | 796,778 |
| IFB Ser. 3050, Class SA, 3.55s,<br>2034     | 619,779    | 563,876 |
| IFB Ser. 2828, Class TI, IO, 1.72s,<br>2030 | 824,852    | 49,491  |
| IFB Ser. 3033, Class SF, IO, 1.47s,<br>2035 | 1,211,513  | 48,461  |
| IFB Ser. 3028, Class ES, IO, 1.42s,<br>2035 | 4,155,854  | 292,150 |
| IFB Ser. 3042, Class SP, IO, 1.42s,<br>2035 | 972,721    | 61,962  |
| IFB Ser. 3045, Class DI, IO, 1.4s,<br>2035  | 10,980,079 | 487,077 |
| IFB Ser. 3054, Class CS, IO, 1.37s,<br>2035 | 957,129    | 47,707  |
| IFB Ser. 3107, Class DC, IO, 1.37s,<br>2035 | 4,355,380  | 300,755 |
| IFB Ser. 3066, Class SI, IO, 1.37s,<br>2035 | 2,817,422  | 190,248 |
| IFB Ser. 3031, Class BI, IO, 1.36s,<br>2035 | 790,228    | 56,338  |
| IFB Ser. 3067, Class SI, IO, 1.32s,<br>2035 | 3,286,073  | 227,032 |
| IFB Ser. 3114, Class TS, IO, 1.32s,<br>2030 | 5,425,610  | 244,086 |

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|   | Principal amount | Value     |
|---|------------------|-----------|
| <hr/>                                       |                  |           |
| Freddie Mac                                 |                  |           |
| IFB Ser. 3114, Class BI, IO, 1.32s,<br>2030 | \$ 2,308,365     | \$ 98,004 |
| IFB Ser. 3065, Class DI, IO, 1.29s,<br>2035 | 619,296          | 40,448    |
| IFB Ser. 3174, Class BS, IO, 1.19s,<br>2036 | 4,011,932        | 159,606   |
| IFB Ser. 3152, Class SY, IO, 1.15s,<br>2036 | 3,493,373        | 224,269   |
| IFB Ser. 3081, Class DI, IO, 1.15s,<br>2035 | 810,181          | 44,681    |
| IFB Ser. 3199, Class S, IO, 1.12s,<br>2036  | 2,927,718        | 142,383   |
| IFB Ser. 3016, Class SP, IO, 0.78s,         |                  |           |



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|  |           |           |
|--|-----------|-----------|
| 2035   | 813,224   | 24,153    |
| IFB Ser. 3016, Class SQ, IO, 0.78s,  |           |           |
| 2035   | 1,935,445 | 61,354    |
| IFB Ser. 2937, Class SY, IO, 0.77s,  |           |           |
| 2035   | 745,662   | 19,536    |
| IFB Ser. 2815, Class S, IO, 0.67s,   |           |           |
| 2032   | 1,874,227 | 52,606    |
| Ser. 3174, PO, zero %, 2036  | 152,869   | 124,335   |
| Ser. 236, PO, zero %, 2036   | 734,183   | 576,227   |
| Ser. 3045, Class DO, PO, zero %, 2035  | 839,648   | 675,770   |
| Ser. 231, PO, zero %, 2035   | 5,340,429 | 3,982,889 |
| Ser. 228, PO, zero %, 2035   | 3,101,294 | 2,426,934 |
| Ser. 3130, Class KO, PO, zero %, 2034  | 149,394   | 117,495   |
| Ser. 215, PO, zero %, 2031   | 165,012   | 135,080   |
| Ser. 2235, PO, zero %, 2030  | 196,761   | 156,148   |
| FRB Ser. 3022, Class TC, zero %, 2035  | 145,750   | 156,021   |
| FRB Ser. 2986, Class XT, zero %, 2035  | 88,284    | 90,409    |
| FRB Ser. 3046, Class WF, zero %, 2035  | 203,095   | 198,357   |
| FRB Ser. 3054, Class XF, zero %, 2034  | 90,493    | 89,771    |
| GE Capital Commercial Mortgage Corp. 144A  |           |           |
| Ser. 00-1, Class F, 7.787s, 2033   | 170,000   | 181,710   |
| Ser. 00-1, Class G, 6.131s, 2033   | 596,000   | 535,595   |
| GMAC Commercial Mortgage Securities, Inc. 144A Ser. 99-C3, Class G, 6.974s, 2036 | 529,968   | 534,135   |
| Government National Mortgage Association   |           |           |
| IFB Ser. 05-66, Class SP, 3.067s, 2035   | 524,562   | 479,323   |
| IFB Ser. 06-26, Class S, IO, 1.17s, 2036   | 866,154   | 42,815    |
| IFB Ser. 05-65, Class SI, IO, 1.02s, 2035  | 2,072,610 | 83,300    |
| IFB Ser. 05-68, Class SI, IO, 0.97s, 2035  | 6,925,834 | 310,825   |
| IFB Ser. 06-14, Class S, IO, 0.92s, 2036   | 2,075,812 | 76,597    |
| IFB Ser. 05-51, Class SJ, IO, 0.87s, 2035  | 2,052,114 | 86,735    |

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| Government National Mortgage Association  |                  |            |
| IFB Ser. 05-68, Class S, IO, 0.87s, 2035  | 4,025,574        | \$ 165,403 |
| Ser. 98-2, Class EA, PO, zero %, 2028   | 81,546           | 66,623     |
| GS Mortgage Securities Corp. II 144A FRB Ser. 03-FL6A, Class L, 8.58s, 2015                         | 214,000          | 215,204    |
| LB Commercial Conduit Mortgage Trust 144A Ser. 99-C1, Class G, 6.41s, 2031                          | 253,101          | 238,076    |
| Lehman Brothers Floating Rate Commercial Mortgage Trust 144A FRB Ser. 03-LLFA, Class L, 9.08s, 2014 | 876,000          | 876,876    |
| Lehman Mortgage Trust IFB Ser. 06-5, Class 2A2, IO, 1.82s, 2036                                     | 2,479,000        | 90,274     |
| IFB Ser. 06-5, Class 1A3, IO, 0.07s, 2036   | 907,000          | 4,498      |
| IFB Ser. 06-4, Class 1A3, IO, 0.07s, 2036   | 1,238,991        | 10,914     |
| Mach One Commercial Mortgage Trust 144A Ser. 04-1A, Class J, 5.45s, 2040                            | 594,000          | 490,541    |
| Ser. 04-1A, Class K, 5.45s, 2040  | 212,000          | 170,600    |
| Ser. 04-1A, Class L, 5.45s, 2040  | 96,000           | 70,857     |
| Merrill Lynch Mortgage Investors, Inc. Ser. 96-C2, Class JS, IO, 2.174s, 2028                       | 3,398,385        | 207,753    |
| Mezz Cap Commercial Mortgage Trust 144A Ser. 04-C1, Class X, IO, 8.05s, 2037                        | 1,017,430        | 367,229    |
| Morgan Stanley Capital I Ser. 98-CF1, Class E, 7.35s, 2032  | 1,252,000        | 1,306,457  |
| Morgan Stanley Capital I 144A Ser. 04-RR, Class F7, 6s, 2039  | 1,730,000        | 1,237,988  |
| Mortgage Capital Funding, Inc. FRB Ser. 98-MC2, Class E, 7 1/4s, 2030                               | 327,112          | 336,105    |
| Ser. 97-MC2, Class X, IO, 1.457s, 2012  | 1,968,464        | 11,303     |

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|   |     |         |         |
|---|-----|---------|---------|
| Permanent Financing PLC FRB<br>Ser. 8, Class 2C, 5.7s,<br>2042 (United Kingdom) |     | 500,000 | 499,999 |
| PNC Mortgage Acceptance Corp.<br>144A Ser. 00-C1, Class J, 6 5/8s,<br>2010      |     | 123,000 | 116,544 |
| Quick Star PLC FRB Ser. 1,<br>Class D, 5.59s, 2011<br>(United Kingdom)          | GBP | 322,135 | 601,652 |
| SBA CMBS Trust 144A Ser.<br>05-1A, Class E, 6.706s, 2035<br>STRIPS 144A         | \$  | 303,000 | 302,876 |
| Ser. 03-1A, Class M, 5s, 2018<br>(Cayman Islands)                               |     | 162,000 | 136,770 |
| Ser. 03-1A, Class N, 5s, 2018<br>(Cayman Islands)                               |     | 193,000 | 149,575 |

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)\* *continued*

|  |     | Principal amount | Value         |
|--|-----|------------------|---------------|
| <hr/>  |     |                  |               |
| STRIPS 144A<br>Ser. 04-1A, Class M, 5s, 2018<br>(Cayman Islands)                             | \$  | 174,000          | \$ 146,269    |
| Ser. 04-1A, Class N, 5s, 2018<br>(Cayman Islands)  |     | 167,000          | 129,360       |
| Titan Europe PLC 144A<br>FRB Ser. 05-CT1A, Class D,<br>5.79s, 2014 (Ireland)                 | GBP | 626,798          | 1,170,671     |
| FRB Ser. 05-CT2A, Class E,<br>5.763s, 2014 (Ireland)   | GBP | 344,000          | 642,489       |
| FRB Ser. 04-2A, Class D,<br>3.992s, 2014 (Ireland)   | EUR | 350,545          | 444,000       |
| FRB Ser. 04-2A, Class C,<br>3.592s, 2014 (Ireland)   | EUR | 156,367          | 198,055       |
| URSUS EPC 144A FRB Ser.<br>1-A, Class D, 5.64s, 2012<br>(Ireland)                            | GBP | 351,055          | 655,665       |
| Wachovia Bank Commercial<br>Mortgage Trust 144A FRB<br>Ser. 05-WL5A, Class L, 8.63s,<br>2018 | \$  | 477,000          | 473,008       |
| <hr/>  |     |                  |               |
| Total collateralized mortgage<br>obligations (cost \$85,377,936)                             |     |                  | \$ 86,002,867 |
| <hr/>  |     |                  |               |

ASSET-BACKED SECURITIES (11.7%)\*

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|   | Principal amount | Value      |
|---|------------------|------------|
| Americredit Automobile<br>Receivables Trust 144A Ser. 05-1,<br>Class E, 5.82s, 2012                             | \$ 155,144       | \$ 155,059 |
| Ameritrust Finance NIM Trust<br>144A Ser. 04-RN9, Class N2,<br>10s, 2034 (Cayman Islands)                       | 233,764          | 217,401    |
| Arcap REIT, Inc. 144A<br>Ser. 03-1A, Class E, 7.11s, 2038   | 383,000          | 398,381    |
| Ser. 04-1A, Class E, 6.42s, 2039  | 361,000          | 357,849    |
| Asset Backed Securities Corp. Home<br>Equity Loan Trust 144A<br>FRB Ser. 06-HE2, Class M10, 7.83s,<br>2036      | 509,000          | 456,074    |
| FRB Ser. 06-HE2, Class M11, 7.83s,<br>2036  | 450,000          | 365,399    |
| Aviation Capital Group Trust 144A FRB<br>Ser. 03-2A, Class G1, 6.03s, 2033                                      | 283,591          | 284,012    |
| Banc of America Alternative Loan<br>Trust IFB Ser. 06-6, Class CB2, IO, 0.02s,<br>2036                          | 1,279,263        | 2,534      |
| Banc of America Funding Corp. IFB<br>Ser. 06-4, Class A4, IO, 0.17s, 2036                                       | 1,342,113        | 3,942      |
| Banc of America Mortgage Securities IFB<br>Ser. 06-2, Class A4, IO, 0.07s, 2036                                 | 1,067,963        | 7,020      |
| Bank One Issuance Trust FRB Ser. 03-C4,<br>Class C4, 6.36s, 2011  | 340,000          | 344,631    |
| Bear Stearns Alternate Trust Ser. 05-5,<br>Class 21A1, 4.688s, 2035   | 1,287,951        | 1,277,674  |
| Bear Stearns Asset Backed Securities<br>NIM Trust 144A Ser. 04-HE10,<br>Class A1, 4 1/4s, 2034 (Cayman Islands) | 974              | 971        |

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ASSET-BACKED SECURITIES (11.7%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| Bear Stearns Asset Backed Securities, Inc.<br>FRB Ser. 04-FR3, Class M6, 8.58s,<br>2034 | \$ 286,000       | \$ 285,643 |
| FRB Ser. 06-PC1, Class M9, 7.08s,<br>2035   | 185,000          | 151,816    |
| Bear Stearns Asset Backed Securities,<br>Inc. 144A FRB Ser. 06-HE2, Class M10,          |                  |            |

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|   |           |           |
|---|-----------|-----------|
| 7.58s, 2036   | 270,000   | 243,338   |
| Bombardier Capital Mortgage<br>Securitization Corp.                   |           |           |
| Ser. 00-A, Class A4, 8.29s, 2030                                      | 568,551   | 413,266   |
| Ser. 00-A, Class A2, 7.575s, 2030                                     | 155,618   | 109,318   |
| Ser. 99-B, Class A4, 7.3s, 2016                                       | 731,571   | 495,611   |
| Ser. 99-B, Class A3, 7.18s, 2015                                      | 1,231,162 | 817,569   |
| FRB Ser. 00-A, Class A1, 5.49s,<br>2030                               | 163,542   | 93,219    |
| Broadhollow Funding, LLC 144A FRB                                     |           |           |
| Ser. 04-A, Class Sub, 6.57s, 2009                                     | 598,000   | 604,937   |
| Capital Auto Receivables Asset Trust                                  |           |           |
| 144A Ser. 06-1, Class D, 7.16s,<br>2013                               | 500,000   | 500,566   |
| CARSSX Finance, Ltd. 144A   |           |           |
| FRB Ser. 04-AA, Class B4, 10.83s,<br>2011 (Cayman Islands)            | 180,214   | 187,427   |
| FRB Ser. 04-AA, Class B3, 8.68s,<br>2011 (Cayman Islands)             | 34,922    | 35,612    |
| Chase Credit Card Master Trust FRB                                    |           |           |
| Ser. 03-3, Class C, 6.41s, 2010                                       | 350,000   | 355,400   |
| CHEC NIM Ltd., 144A Ser. 04-2,<br>Class N3, 8s, 2034 (Cayman Islands) | 46,290    | 44,293    |
| Citigroup Mortgage Loan Trust, Inc.                                   |           |           |
| FRB Ser. 06-WMC1, Class M10,<br>8.83s, 2035                           | 90,000    | 81,984    |
| FRB Ser. 05-HE4, Class M11,<br>7.83s, 2035                            | 304,000   | 256,773   |
| FRB Ser. 05-HE4, Class M12,<br>7.38s, 2035                            | 457,000   | 372,294   |
| Conseco Finance Securitizations Corp.                                 |           |           |
| Ser. 00-2, Class A5, 8.85s, 2030                                      | 1,207,000 | 1,029,961 |
| Ser. 00-2, Class A4, 8.48s, 2030                                      | 44,069    | 44,020    |
| Ser. 00-4, Class A6, 8.31s, 2032                                      | 3,615,000 | 3,115,180 |
| Ser. 00-5, Class A7, 8.2s, 2032                                       | 476,000   | 402,458   |
| Ser. 00-1, Class A5, 8.06s, 2031                                      | 1,153,335 | 1,023,080 |
| Ser. 00-4, Class A5, 7.97s, 2032                                      | 240,000   | 193,160   |
| Ser. 00-5, Class A6, 7.96s, 2032                                      | 199,000   | 172,193   |
| Ser. 00-4, Class A4, 7.73s, 2031                                      | 406,992   | 384,282   |
| Ser. 01-3, Class M2, 7.44s, 2033                                      | 132,118   | 11,891    |
| Ser. 01-4, Class A4, 7.36s, 2033                                      | 268,000   | 277,376   |
| Ser. 00-6, Class A5, 7.27s, 2032                                      | 97,324    | 89,845    |
| FRB Ser. 01-4, Class M1, 7.08s,<br>2033                               | 295,000   | 112,100   |
| Ser. 01-1, Class A5, 6.99s, 2032                                      | 993,000   | 973,453   |
| Ser. 01-3, Class A4, 6.91s, 2033                                      | 3,073,000 | 2,955,737 |
| Ser. 02-1, Class A, 6.681s, 2033                                      | 1,393,501 | 1,413,609 |
| Ser. 01-3, Class A3, 5.79s, 2033                                      | 3,410     | 3,407     |

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|   |         |         |
|---|---------|---------|
| Consumer Credit Reference IDX<br>Securities 144A FRB Ser. 02-1A,<br>Class A, 7.387s, 2007 | 790,000 | 802,838 |
|---|---------|---------|

ASSET-BACKED SECURITIES (11.7%)\* *continued*

|   | Principal amount | Value     |
|---|------------------|-----------|
| Countrywide Alternative Loan Trust IFB<br>Ser. 06-26CB, Class A2, IO, 0.47s,<br>2036                | \$ 1,531,582     | \$ 4,092  |
| Countrywide Asset Backed Certificates<br>144A<br>Ser. 04-6N, Class N1, 6 1/4s,<br>2035              | 40,452           | 40,331    |
| Ser. 04-BC1N, Class Note, 5 1/2s,<br>2035   | 25,846           | 25,528    |
| Countrywide Home Loans<br>Ser. 06-0A5, Class X, IO, 1.543s,<br>2046                                 | 4,890,108        | 222,347   |
| Ser. 05-2, Class 2X, IO, 1.16s,<br>2035   | 6,240,978        | 152,124   |
| Countrywide Home Loans 144A<br>IFB Ser. 05-R1, Class 1AS, IO, 0.806s,<br>2035 (SN)                  | 4,745,671        | 156,460   |
| Crest, Ltd. 144A Ser. 03-2A, Class E2,<br>8s, 2038 (Cayman Islands)                                 | 431,000          | 418,945   |
| DB Master Finance, LLC 144A Ser. 06-1,<br>Class M1, 8.285s, 2031                                    | 277,000          | 284,494   |
| First Chicago Lennar Trust 144A<br>Ser. 97-CHL1, Class E, 7.627s, 2039                              | 1,770,781        | 1,795,405 |
| First Franklin Mortgage Loan Asset<br>Backed Certificates FRB Ser. 04-FF7,<br>Class A4, 5.63s, 2034 | 2,903,898        | 2,904,662 |
| First Horizon Mortgage Pass-Through<br>Trust Ser. 05-AR2, Class 1A1,<br>4.818s, 2035                | 1,263,332        | 1,255,687 |
| Fremont NIM Trust 144A<br>Ser. 04-3, Class B, 7 1/2s, 2034  | 42,131           | 39,081    |
| Ser. 04-3, Class A, 4 1/2s, 2034  | 11,662           | 11,623    |
| Gears Auto Owner Trust Ser.<br>05-AA, Class E1, 8.22s, 2012   | 687,000          | 683,021   |
| Granite Mortgages PLC<br>FRB Ser. 02-1, Class 1C, 6.8s,<br>2042 (United Kingdom)                    | 401,699          | 403,095   |
| FRB Ser. 03-2, Class 3C,<br>6.287s, 2043<br>(United Kingdom) GBP                                    | 1,075,000        | 2,061,385 |
| FRB Ser. 03-2, Class 2C1,   |                  |           |

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|   |     |           |           |
|---|-----|-----------|-----------|
| 5.2s, 2043 (United Kingdom)<br>Green Tree Financial Corp. | EUR | 1,430,000 | 1,863,945 |
| Ser. 94-6, Class B2, 9s, 2020                             | \$  | 870,032   | 809,527   |
| Ser. 94-4, Class B2, 8.6s,<br>2019                        |     | 347,458   | 258,580   |
| Ser. 93-1, Class B, 8.45s,<br>2018                        |     | 705,993   | 675,748   |
| Ser. 99-5, Class A5, 7.86s,<br>2030                       |     | 4,480,000 | 3,963,456 |
| Ser. 96-8, Class M1, 7.85s,<br>2027                       |     | 387,000   | 336,622   |
| Ser. 95-8, Class B1, 7.3s,<br>2026                        |     | 362,579   | 362,159   |
| Ser. 95-4, Class B1, 7.3s,<br>2025                        |     | 371,800   | 366,456   |
| Ser. 97-6, Class M1, 7.21s,<br>2029                       |     | 909,000   | 796,782   |

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ASSET-BACKED SECURITIES (11.7%)\* *continued*

|  |    | Principal amount |    | Value     |
|--|----|------------------|----|-----------|
| Green Tree Financial Corp.   |    |                  |    |           |
| Ser. 99-3, Class A7, 6.74s,<br>2031  | \$ | 733,000          | \$ | 708,886   |
| Ser. 99-3, Class A5, 6.16s,<br>2031  |    | 26,132           |    | 26,295    |
| Greenpoint Manufactured Housing  |    |                  |    |           |
| Ser. 00-3, Class IA, 8.45s,<br>2031  |    | 1,758,669        |    | 1,630,306 |
| Ser. 99-5, Class A4, 7.59s,<br>2028  |    | 80,843           |    | 82,244    |
| GS Auto Loan Trust 144A Ser.<br>04-1, Class D, 5s, 2011  |    | 365,777          |    | 363,067   |
| GSAMP Trust 144A Ser. 04-NIM2,<br>Class N, 4 7/8s, 2034  |    | 58,696           |    | 58,444    |
| GSMPS Mortgage Loan Trust<br>144A  |    |                  |    |           |
| IFB Ser. 05-RP1, Class 1AS,<br>IO, 0.857s, 2035 (SN)   |    | 25,265,036       |    | 795,125   |
| IFB Ser. 06-RP1, Class 1AS,<br>IO, 0.468s, 2036 (SN)   |    | 4,500,264        |    | 111,108   |
| Guggenheim Structured Real<br>Estate Funding, Ltd. FRB<br>Ser. 05-1A, Class E, 7.13s,<br>2030 (Cayman Islands) |    | 371,000          |    | 371,000   |

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|  |           |           |
|--|-----------|-----------|
| Guggenheim Structured Real Estate Funding, Ltd. 144A FRB Ser. 05-2A, Class E, 7.33s, 2030 (Cayman Islands) | 379,000   | 381,577   |
| HASCO NIM Trust 144A Ser. 05-OP1A, Class A, 6 1/4s, 2035 (Cayman Islands)                                  | 297,164   | 291,741   |
| Holmes Financing PLC FRB Ser. 8, Class 2C, 6.227s, 2040 (United Kingdom)                                   | 235,000   | 235,376   |
| Lehman Mortgage Trust IFB Ser. 06-6, Class 1A2, IO, 1.17s, 2036  | 2,050,000 | 69,673    |
| IFB Ser. 06-6, Class 1A3, IO, 1.17s, 2036  | 2,615,000 | 141,314   |
| IFB Ser. 06-6, Class 4A2, IO, 0.02s, 2036  | 1,981,000 | 5,812     |
| LNR CDO, Ltd. 144A FRB Ser. 02-1A, Class FFL, 8.08s, 2037 (Cayman Islands)                                 | 1,260,000 | 1,260,444 |
| Long Beach Mortgage Loan Trust FRB Ser. 06-2, Class M10, 7.83s, 2036                                       | 318,000   | 268,114   |
| Ser. 04-3, Class S1, IO, 4 1/2s, 2006  | 612,305   | 4,305     |
| Ser. 04-3, Class S2, IO, 4 1/2s, 2006  | 306,157   | 2,153     |
| Long Beach Mortgage Loan Trust 144A FRB Ser. 06-2, Class B, 7.83s, 2036                                    | 318,000   | 248,934   |
| Lothian Mortgages PLC 144A FRB Ser. 3A, Class D, 5.537s, 2039 (United Kingdom)                             | 900,000   | 1,680,930 |

ASSET-BACKED SECURITIES (11.7%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Madison Avenue Manufactured Housing Contract FRB Ser. 02-A, Class B1, 8.58s, 2032                    | \$ 1,046,356     | \$ 732,449 |
| MASTR Asset Backed Securities NIM Trust 144A Ser. 04-HE1A, Class Note, 5.191s, 2034 (Cayman Islands) | 6,762            | 6,721      |
| MBNA Credit Card Master Note Trust FRB Ser. 03-C5, Class C5, 6.51s, 2010                             | 350,000          | 355,745    |
| Merrill Lynch Mortgage Investors,  |                  |            |



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|  |           |           |
|--|-----------|-----------|
| Inc. Ser. 03-WM3N, Class N1,<br>8s, 2034   | 3,791     | 3,739     |
| Merrill Lynch Mortgage Investors,<br>Inc. 144A Ser. 04-FM1N,<br>Class N1, 5s, 2035<br>(Cayman Islands) | 10,052    | 9,901     |
| Mid-State Trust Ser. 11, Class B,<br>8.221s, 2038  | 135,060   | 133,752   |
| Morgan Stanley ABS Capital I<br>FRB Ser. 04-HE8,<br>Class B3, 8.53s, 2034                              | 214,000   | 216,623   |
| Morgan Stanley Auto Loan Trust<br>144A Ser. 04-HB2,<br>Class E, 5s, 2012                               | 130,958   | 129,088   |
| Morgan Stanley Mortgage Loan<br>Trust Ser. 05-5AR,<br>Class 2A1, 5.398s, 2035                          | 1,748,331 | 1,746,859 |
| Navistar Financial Corp. Owner Trust<br>Ser. 05-A, Class C, 4.84s,<br>2014                             | 231,609   | 227,088   |
| Ser. 04-B, Class C, 3.93s,<br>2012   | 98,761    | 96,381    |
| Oakwood Mortgage Investors, Inc.<br>Ser. 99-D, Class A1, 7.84s,<br>2029                                | 1,106,506 | 977,398   |
| Ser. 00-A, Class A2, 7.765s,<br>2017   | 166,862   | 130,500   |
| Ser. 95-B, Class B1, 7.55s,<br>2021  | 364,000   | 240,240   |
| Ser. 00-D, Class A4, 7.4s,<br>2030   | 1,022,000 | 665,007   |
| Ser. 02-B, Class A4, 7.09s,<br>2032  | 441,703   | 392,997   |
| Ser. 99-B, Class A4, 6.99s,<br>2026  | 1,201,233 | 1,054,234 |
| Ser. 01-D, Class A4, 6.93s,<br>2031  | 790,714   | 564,691   |
| Ser. 01-C, Class A2, 5.92s,<br>2017  | 1,025,446 | 537,514   |
| Ser. 02-C, Class A1, 5.41s,<br>2032  | 1,470,219 | 1,266,956 |
| Ser. 01-D, Class A2, 5.26s,<br>2019  | 162,625   | 108,165   |
| Ser. 01-E, Class A2, 5.05s,<br>2019  | 1,180,303 | 919,276   |
| Ser. 02-A, Class A2, 5.01s,<br>2020  | 333,362   | 256,083   |

ASSET-BACKED SECURITIES (11.7%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Oakwood Mortgage Investors,<br>Inc. 144A Ser. 01-B, Class A4,<br>7.21s, 2030                         | \$ 235,299       | \$ 208,991 |
| Ocean Star PLC 144A<br>FRB Ser. 04-A, Class E,<br>11.902s, 2018 (Ireland)                            | 885,000          | 921,783    |
| FRB Ser. 05-A, Class E,<br>10.002s, 2012 (Ireland)   | 238,000          | 242,808    |
| Option One Mortgage Loan<br>Trust FRB Ser. 05-4,<br>Class M11, 7.83s, 2035                           | 509,000          | 460,168    |
| Park Place Securities, Inc. FRB<br>Ser. 04-MCW1, Class A2, 5.71s,<br>2034                            | 1,518,777        | 1,519,726  |
| Park Place Securities, Inc. 144A<br>FRB Ser. 05-WCW2,<br>Class M11, 7.83s, 2035                      | 191,000          | 135,610    |
| People's Choice Net Interest<br>Margin Note 144A<br>Ser. 04-2, Class B, 5s, 2034                     | 13,361           | 13,311     |
| Permanent Financing PLC<br>FRB Ser. 3, Class 3C, 6.45s,<br>2042 (United Kingdom)                     | 350,000          | 353,734    |
| FRB Ser. 6, Class 3C, 5.4s,<br>2042 (United Kingdom)   | GBP 887,000      | 1,656,650  |
| Residential Asset Securities<br>Corp. Ser. 01-KS3,<br>Class All, 5.79s, 2031                         | \$ 3,176,408     | 3,177,056  |
| Residential Asset Securities Corp.<br>144A<br>FRB Ser. 05-KS10, Class B,<br>8.074s, 2035             | 395,000          | 351,661    |
| Ser. 04-N10B, Class A1, 5s,<br>2034  | 8,213            | 8,177      |
| Residential Asset Securitization<br>Trust IFB Ser. 06-A7CB, Class<br>1A6, IO, 0.22s, 2036            | 461,373          | 5,551      |
| Residential Mortgage Securities<br>144A FRB Ser. 20A, Class B1A,<br>5.693s, 2038<br>(United Kingdom) | GBP 150,000      | 278,642    |
| Rural Housing Trust Ser. 87-1,<br>Class D, 6.33s, 2026   | \$ 38,941        | 39,154     |

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SAIL Net Interest Margin

Notes 144A

|   |        |       |
|---|--------|-------|
| Ser. 03-3, Class A, 7 3/4s,<br>2033 (Cayman Islands)    | 17,341 | 3,468 |
| Ser. 03-BC2A, Class A, 7 3/4s,<br>2033 (Cayman Islands) | 75,194 | 7,519 |
| Ser. 03-10A, Class A, 7 1/2s,<br>2033 (Cayman Islands)  | 49,754 | 4,975 |
| Ser. 03-5, Class A, 7.35s,<br>2033 (Cayman Islands)     | 12,736 | 1,274 |
| Ser. 03-8A, Class A, 7s,<br>2033 (Cayman Islands)       | 7,301  | 584   |
| Ser. 03-9A, Class A, 7s,<br>2033 (Cayman Islands)       | 10,294 | 515   |
| Ser. 03-6A, Class A, 7s,<br>2033 (Cayman Islands)       | 3,426  | 343   |

ASSET-BACKED SECURITIES (11.7%)\*

|   | Principal amount | Value     |
|---|------------------|-----------|
| Ser. 03-7A, Class A, 7s,<br>2033 (Cayman Islands)   | \$ 20,842        | \$ 2,084  |
| Ser. 04-10A, Class A, 5s,<br>2034 (Cayman Islands)  | 13,783           | 13,754    |
| Sasco Net Interest Margin Trust 144A<br>Ser. 05-WF1A, Class A,<br>4 3/4s, 2035                                  | 47,565           | 47,347    |
| Ser. 03-BC1, Class B, zero %,<br>2033 (Cayman Islands)  | 273,210          | 32,785    |
| Sharps SP I, LLC Net Interest<br>Margin Trust 144A<br>Ser. 04-HS1N, Class Note,<br>5.92s, 2034 (Cayman Islands) | 3,759            | 263       |
| Ser. 04-HE2N, Class NA,<br>5.43s, 2034 (Cayman Islands)   | 5,853            | 5,809     |
| Soundview Home Equity Loan<br>Trust 144A FRB Ser. 05-4,<br>Class M10, 7.318%, 2036                              | 392,000          | 355,446   |
| South Coast Funding 144A FRB<br>Ser. 3A, Class A2, 6.646s, 2038<br>(Cayman Islands)                             | 140,000          | 140,420   |
| Structured Asset Investment<br>Loan Trust FRB<br>Ser. 04-9, Class A4, 5.63s, 2034                               | 2,311,142        | 2,312,116 |
| Structured Asset Investment<br>Loan Trust 144A<br>FRB Ser. 06-BNC2, Class B1,<br>7.83s, 2036                    | 293,000          | 262,316   |

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|   |            |               |
|---|------------|---------------|
| FRB Ser. 05-HE3, Class M11,<br>7.83s, 2035  | 436,000    | 358,422       |
| Structured Asset Receivables<br>Trust 144A FRB Ser. 05-1,<br>5.575s, 2015                             | 1,788,943  | 1,788,385     |
| TIAA Real Estate CDO, Ltd.<br>Ser. 03-1A, Class E, 8s, 2038<br>(Cayman Islands)                       | 467,000    | 478,618       |
| TIAA Real Estate CDO, Ltd.<br>144A Ser. 02-1A, Class IV, 6.84s,<br>2037 (Cayman Islands)              | 390,000    | 392,814       |
| Wells Fargo Mortgage Backed<br>Securities Trust Ser. 05-AR13,<br>Class 1A4, IO, 0.742s, 2035          | 14,777,882 | 227,799       |
| Whinstone Capital Management,<br>Ltd. 144A FRB Ser. 1A,<br>Class B3, 6.385s, 2044<br>(United Kingdom) | 733,000    | 733,015       |
| Whole Auto Loan Trust 144A<br>Ser. 04-1, Class D, 5.6s,<br>2011                                       | 138,250    | 137,488       |
| <hr/>   |            |               |
| Total asset-backed securities<br>(cost \$78,201,262)  |            | \$ 78,004,994 |

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SENIOR LOANS (7.2%)\* (c)

|  | Principal amount | Value      |
|--|------------------|------------|
| <hr/>  |                  |            |
| Basic Materials (0.8%)   |                  |            |
| Georgia-Pacific Corp. bank term<br>loan FRN Ser. B, 7.414s, 2013         | \$ 843,625       | \$ 845,177 |
| Graphic Packaging Corp. bank<br>term loan FRN Ser. C, 7.922s,<br>2010    | 131,094          | 132,241    |
| Huntsman International, LLC<br>bank term loan FRN Ser. B,<br>7.08s, 2012 | 741,717          | 740,095    |
| Innophos, Inc. bank term loan<br>FRN 7.67s, 2010                         | 270,431          | 271,107    |
| Lyondell Chemical Co. bank term<br>loan FRN Ser. B, 7.231s, 2013         | 100,000          | 100,250    |
| Nalco Co. bank term loan FRN<br>Ser. B, 7.29s, 2010                      | 1,078,404        | 1,078,649  |
| Novelis, Inc. bank term loan<br>FRN 7.718s, 2012                         | 335,529          | 336,133    |

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|  |           |                        |
|--|-----------|------------------------|
| Novelis, Inc. bank term loan<br>FRN Ser. B, 7.718s, 2012                       | 583,058   | 584,107                |
| Rockwood Specialties Group, Inc.<br>bank term loan FRN<br>Ser. E, 7.485s, 2012 | 1,380,980 | 1,385,813<br>5,473,572 |

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Capital Goods (0.4%)

|   |         |                      |
|---|---------|----------------------|
| Allied Waste Industries, Inc. bank<br>term loan FRN, 5.334s, 2012 | 62,264  | 61,999               |
| Allied Waste Industries, Inc. bank<br>term loan FRN, 7.212s, 2012 | 156,479 | 155,832              |
| Graham Packaging Corp. bank term<br>loan FRN Ser. B, 7.765s, 2011 | 394,975 | 395,715              |
| Hexcel Corp. bank term loan FRN<br>Ser. B, 7.226s, 2012           | 546,027 | 546,027              |
| Mueller Group, Inc. bank term loan<br>FRN, 7.418s, 2012           | 412,241 | 413,971              |
| Polypore, Inc. bank term loan<br>FRN 8.33s, 2011                  | 711,411 | 713,782              |
| Solo Cup Co. bank term loan<br>FRN 7.823s, 2011                   | 146,250 | 145,832              |
| Terex Corp. bank term loan<br>FRN Ser. D, 7.12s, 2013             | 49,875  | 49,937               |
| Transdigm, Inc. bank term loan<br>FRN 7.389s, 2013                | 250,000 | 250,937<br>2,734,032 |

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Communication Services (0.7%)

|  |         |         |
|--|---------|---------|
| Centennial Cellular Operating Co.,<br>LLC bank term loan FRN Ser. B,<br>7.691s, 2011     | 973,277 | 977,969 |
| Consolidated Communications<br>Holdings, Inc. bank term<br>loan FRN Ser. D, 7.441s, 2011 | 124,255 | 124,177 |
| Fairpoint Communications, Inc. bank<br>term loan FRN Ser. B, 7 1/4s, 2012                | 543,116 | 539,043 |
| Intelsat, Ltd. bank term loan FRN<br>Ser. B, 7.758s, 2013 (Bermuda)                      | 600,000 | 603,250 |
| Level 3 Communications, Inc.<br>bank term loan FRN 8.398s, 2011                          | 182,000 | 183,517 |
| Madison River Capital, LLC bank<br>term loan FRN Ser. B, 7.73s, 2012                     | 796,423 | 798,912 |

SENIOR LOANS (7.2%)\* (c) *continued*

|                  |       |
|------------------|-------|
| Principal amount | Value |
|------------------|-------|

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Communication Services *(continued)*

|  |    |         |    |           |
|--|----|---------|----|-----------|
| PanAmSat Corp. bank term loan<br>FRN Ser. B, 7.981s, 2013            | \$ | 600,000 | \$ | 603,667   |
| Syniverse Holdings, Inc. bank term<br>loan FRN Ser. B, 7 1/2s, 2012  |    | 507,438 |    | 507,438   |
| Time Warner Telecom, Inc. bank<br>term loan FRN Ser. B, 7.824s, 2010 |    | 93,000  |    | 93,194    |
| Windstream Corp. bank term loan<br>FRN Ser. B, 7.26s, 2013           |    | 288,000 |    | 288,823   |
|  |    |         |    | 4,719,990 |

Consumer Cyclical (1.5%)

|  |  |         |  |         |
|--|--|---------|--|---------|
| Adams Outdoor Advertising, LP<br>bank term loan FRN 7.269s, 2012                       |  | 822,236 |  | 822,751 |
| CCM Merger, Inc. bank term loan<br>FRN Ser. B, 7.465s, 2012                            |  | 987,504 |  | 983,060 |
| Coinmach Service Corp. bank term<br>loan FRN Ser. B-1, 7.908s, 2012                    |  | 249,243 |  | 250,957 |
| Cooper Tire & Rubber Co. bank<br>term loan FRN Ser. B, 8s, 2012                        |  | 326,625 |  | 326,931 |
| Cooper Tire & Rubber Co. bank<br>term loan FRN Ser. C, 8s, 2012                        |  | 605,875 |  | 606,443 |
| Dex Media West, LLC bank term<br>loan FRN Ser. B1, 6.96s, 2010                         |  | 496,623 |  | 493,643 |
| Dex Media West, LLC/Dex Media<br>Finance Co. bank term<br>loan FRN Ser. B, 6.87s, 2010 |  | 131,733 |  | 130,894 |
| Goodman Global Holdings, Inc. bank<br>term loan FRN Ser. C, 7 1/4s, 2011               |  | 707,868 |  | 704,329 |
| Goodyear Tire & Rubber Co. (The)<br>bank term loan FRN 7.954s, 2010                    |  | 195,000 |  | 196,056 |
| Landsource, Inc. bank term loan<br>FRN Ser. B, 7 7/8s, 2010                            |  | 50,000  |  | 49,833  |
| Neiman Marcus Group, Inc. bank<br>term loan FRN Ser. B, 7.891s, 2013                   |  | 474,684 |  | 477,652 |
| Oriental Trading Co. bank term loan<br>FRN 8.186s, 2013                                |  | 149,625 |  | 149,251 |
| Penn National Gaming, Inc. bank<br>term loan FRN Ser. B, 7.196s, 2012                  |  | 198,000 |  | 198,594 |
| PRIMEDIA, Inc. bank term loan<br>FRN Ser. B, 7.58s, 2013                               |  | 148,500 |  | 146,421 |
| R.H. Donnelley Finance Corp. bank<br>term loan FRN, 6.891s, 2011                       |  | 706,471 |  | 700,620 |
| R.H. Donnelley, Inc. bank term loan<br>FRN Ser. D1, 6.905s, 2011                       |  | 396,970 |  | 393,857 |
| Standard-Pacific Corp. bank term   |  |         |  |         |

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|   |         |         |
|---|---------|---------|
| loan FRN Ser. B, 6.926s, 2013   | 100,000 | 98,000  |
| Sun Media Corp. bank term loan<br>FRN Ser. B, 7.235s, 2009 (Canada)               | 149,853 | 149,853 |
| Travelport bank term loan<br>FRN 8.347s, 2013                                     | 6,335   | 6,338   |
| Travelport bank term loan FRN Ser. B,<br>8.347s, 2013                             | 64,665  | 64,700  |
| Trump Hotel & Casino Resort, Inc.<br>bank term loan FRN Ser. B-1, 8.034s,<br>2012 | 173,250 | 174,008 |
| Trump Hotel & Casino Resort, Inc.<br>bank term loan FRN, 5.62s,<br>2012 (U)       | 174,125 | 174,887 |

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SENIOR LOANS (7.2%)\* (c) *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Consumer Cyclicals (continued)</i>   |                  |            |
| TRW Automotive, Inc. bank term<br>loan FRN Ser. B, 7.188s, 2010                 | \$ 517,587       | \$ 515,862 |
| TRW Automotive, Inc. bank term<br>loan FRN Ser. B2, 6.813s, 2010                | 119,400          | 119,102    |
| Venetian Casino Resort, LLC bank<br>term loan FRN Ser. B, 7 1/4s, 2011          | 664,302          | 663,990    |
| Venetian Casino Resort, LLC<br>bank term loan FRN Ser. DD, 7 1/4s,<br>2011      | 136,969          | 136,905    |
| Visant Holding Corp. bank term loan<br>FRN Ser. C, 7.068s, 2010                 | 823,563          | 826,446    |
| William Carter Holdings Co. (The)<br>bank term loan FRN Ser. B, 6.854s,<br>2012 | 78,580           | 78,359     |
|   |                  | 9,639,742  |

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Consumer Staples (2.0%)

|   |         |         |
|---|---------|---------|
| Affiliated Computer Services, Inc.<br>bank term loan FRN Ser. B2, 7.395s,<br>2013 | 49,938  | 50,012  |
| Affinion Group, Inc. bank term loan<br>FRN Ser. B, 8.174s, 2013                   | 824,917 | 829,042 |
| Affinity Group Holdings bank term<br>loan FRN Ser. B2, 7.83s, 2009                | 116,598 | 116,889 |
| AMC Entertainment, Inc. bank term<br>loan FRN Ser. B, 7.455s, 2013                | 199,000 | 200,016 |

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|  |           |           |
|--|-----------|-----------|
| Brand Services, Inc. bank term loan<br>FRN 7.693s, 2009                              | 99,748    | 99,811    |
| Burlington Coat Factory Warehouse<br>Corp. bank term loan FRN Ser. B,<br>7.53s, 2013 | 348,250   | 338,673   |
| Cablevision Systems Corp. bank<br>term loan FRN Ser. B, 7.183s, 2013                 | 1,097,250 | 1,092,450 |
| CBRL Group, Inc. bank term loan<br>FRN Ser. B, 6.959s, 2013                          | 131,326   | 130,703   |
| CBRL Group, Inc. bank term loan FRN<br>Ser. DD, 5 3/4s, 2007 (U)                     | 18,310    | 18,127    |
| Cebridge Connections, Inc. bank<br>term loan FRN Ser. B, 7.739s, 2013                | 350,000   | 346,828   |
| Century Cable Holdings bank term<br>loan FRN 10 1/4s, 2009                           | 900,000   | 874,286   |
| Charter Communications bank term<br>loan FRN, 8 1/8s, 2013                           | 1,028,831 | 1,032,895 |
| Cinemark, Inc. bank term loan FRN<br>Ser. C, 7.264s, 2011                            | 246,835   | 246,835   |
| Gray Television, Inc. bank term loan<br>FRN Ser. B, 7.01s, 2012                      | 148,875   | 148,503   |
| Insight Midwest, LP/Insight Capital, Inc.<br>bank term loan FRN 7 3/8s, 2009         | 68,075    | 68,238    |
| Jean Coutu Group, Inc. bank term loan<br>FRN Ser. B, 8s, 2011 (Canada)               | 118,461   | 118,609   |
| Mediacom Communications Corp.<br>bank term loan FRN Ser. C, 7.222s,<br>2015          | 987,500   | 982,739   |
| Mediacom Communications Corp.<br>bank term loan FRN Ser. DD, 7.38s,<br>2015          | 120,000   | 119,200   |
| MGM Studios, Inc. bank term loan<br>FRN Ser. B, 8.749s, 2011                         | 895,500   | 885,745   |

SENIOR LOANS (7.2%)\* (c) *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <hr/>   |                  |            |
| <i>Consumer Staples continued</i>                                       |                  |            |
| Olympus Cable Holdings, LLC bank<br>term loan FRN Ser. B, 10 1/4s, 2010 | \$ 500,000       | \$ 485,469 |
| Pinnacle Foods Holding Corp. bank<br>term loan FRN Ser. C, 7.473s, 2010 | 614,096          | 613,905    |
| Regal Cinemas, Inc. bank term loan<br>FRN Ser. B, 7.238s, 2010          | 537,587          | 535,210    |
| Reynolds American, Inc. bank term<br>loan FRN Ser. B, 7.284s, 2012      | 249,375          | 250,466    |
| Six Flags, Inc. bank term loan FRN<br>Ser. B, 8.73s, 2009               | 427,685          | 432,163    |



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|   |         |            |
|---|---------|------------|
| Spanish Broadcasting Systems, Inc.<br>bank term loan FRN 7 1/4s, 2012 | 444,361 | 443,805    |
| Spectrum Brands, Inc. bank term loan<br>FRN Ser. B, 8.451s, 2013      | 739,297 | 740,221    |
| United Rentals, Inc. bank term loan<br>FRN 7.32s, 2011                | 134,837 | 135,029    |
| United Rentals, Inc. bank term loan<br>FRN Ser. B, 5.334s, 2011       | 51,579  | 51,653     |
| Universal City Development bank<br>term loan FRN Ser. B, 7.467s, 2011 | 969,872 | 969,872    |
| Warner Music Group bank term loan<br>FRN Ser. B, 7.388s, 2011         | 154,432 | 154,838    |
| Young Broadcasting, Inc. bank term<br>loan FRN Ser. B, 7.999s, 2012   | 887,935 | 882,941    |
|   |         | 13,395,173 |

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Energy (0.4%)

|   |         |           |
|---|---------|-----------|
| CR Gas Storage bank term loan FRN<br>7.162s, 2013                                 | 63,318  | 63,130    |
| CR Gas Storage bank term loan FRN<br>7.14s, 2013                                  | 60,606  | 60,568    |
| CR Gas Storage bank term loan FRN<br>Ser. B, 7.166s, 2013                         | 332,519 | 331,532   |
| CR Gas Storage bank term loan FRN<br>Ser. DD, 6 3/4s, 2013 (U)                    | 42,424  | 42,398    |
| Dresser, Inc. bank term loan FRN<br>8.94s, 2010                                   | 180,000 | 181,575   |
| Key Energy Services, Inc. bank term<br>loan FRN Ser. B, 9.107s, 2012              | 893,250 | 896,600   |
| Meg Energy Corp. bank term loan<br>FRN 7 1/2s, 2013 (Canada)                      | 99,500  | 99,589    |
| Meg Energy Corp. bank term loan<br>FRN Ser. DD, 6s, 2013 (Canada) (U)             | 100,000 | 99,286    |
| Petroleum Geo-Services ASA bank<br>term loan FRN Ser. B, 7 3/4s, 2012<br>(Norway) | 34,544  | 34,751    |
| Targa Resources, Inc. bank term loan<br>FRN 7.643s, 2012                          | 634,718 | 636,984   |
| Targa Resources, Inc. bank term loan<br>FRN 5.374s, 2012                          | 153,871 | 154,420   |
| Universal Compression, Inc. bank<br>term loan FRN Ser. B, 7s, 2012                | 147,005 | 146,913   |
|   |         | 2,747,746 |

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SENIOR LOANS (7.2%)\* (c) *continued*

|   | Principal amount | Value        |
|---|------------------|--------------|
| <b>Financial (0.3%)</b>   |                  |              |
| Capital Automotive bank term loan   |                  |              |
| FRN 7.08s, 2010 (R)   | \$ 1,182,304     | \$ 1,183,946 |
| Fidelity National Information Solutions, Inc. bank term loan FRN Ser. B, 7.08s, 2013  | 607,947          | 608,749      |
| Nasdaq Stock Market, Inc. (The) bank term loan FRN Ser. B, 6.972s, 2012               | 247,294          | 246,985      |
| Nasdaq Stock Market, Inc. (The) bank term loan FRN Ser. C, 7.068s, 2012               | 145,526          | 145,344      |
|   |                  | 2,185,024    |
| <b>Health Care (0.6%)</b>   |                  |              |
| Alderwoods Group, Inc. bank term loan FRN 7.33s, 2009                                 | 625,756          | 625,756      |
| AmeriPath, Inc. bank term loan FRN Ser. B, 7.39s, 2012                                | 47,000           | 46,894       |
| Community Health Systems, Inc. bank term loan FRN Ser. B, 7.15s, 2011                 | 314,585          | 314,241      |
| DaVita, Inc. bank term loan FRN Ser. B, 7.472s, 2012                                  | 513,692          | 515,068      |
| Fresenius Medical Care AG & CO KGAA bank term loan FRN Ser. B, 6.829s, 2013 (Germany) | 92,535           | 91,790       |
| Healthsouth Corp. bank term loan FRN Ser. B, 8.58s, 2013                              | 1,194,000        | 1,197,980    |
| LifePoint, Inc. bank term loan FRN Ser. B, 7 1/8s, 2012                               | 916,222          | 909,478      |
| United Surgical Partners International, Inc. bank term loan FRN 7.145s, 2013          | 52,868           | 52,868       |
|   |                  | 3,754,075    |
| <b>Technology (0.2%)</b>  |                  |              |
| Aspect Software, Inc. bank term loan FRN 8.438s, 2011                                 | 50,000           | 50,025       |
| JDA Software Group, Inc. bank term loan FRN Ser. B, 7.787s, 2013                      | 40,000           | 40,000       |
| SunGard Data Systems, Inc. bank term loan FRN Ser. B, 7.999s, 2013                    | 790,435          | 795,445      |

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|   |                  |         |         |            |           |
|---|------------------|---------|---------|------------|-----------|
| UGS Corp. bank term loan FRN<br>Ser. C, 7.229s, 2012                      | 408,276          |         | 407,425 |            | 1,292,895 |
| <hr/>   |                  |         |         |            |           |
| Transportation (0.2%)   |                  |         |         |            |           |
| Travelcenters of America, Inc. bank<br>term loan FRN Ser. B, 7.075s, 2011 | 545,875          |         | 545,466 |            |           |
| United Airlines bank term loan FRN<br>Ser. B, 9 1/4s, 2012                | 304,719          |         | 308,845 |            |           |
| United Airlines bank term loan FRN<br>Ser. DD, 9.08s, 2012                | 43,531           |         | 44,121  |            | 898,432   |
| <hr/>   |                  |         |         |            |           |
| SENIOR LOANS (7.2%)* (c) <i>continued</i>                                 |                  |         |         |            |           |
|   | Principal amount |         | Value   |            |           |
| <hr/>   |                  |         |         |            |           |
| Utilities & Power (0.1%)  |                  |         |         |            |           |
| Mirant North America, LLC. bank<br>term loan FRN Ser. B, 7.08s, 2013      | \$               | 76,807  | \$      | 76,512     |           |
| NRG Energy, Inc. bank term loan<br>FRN Ser. B, 7.33s, 2013                |                  | 694,510 |         | 697,187    | 773,699   |
| <hr/>   |                  |         |         |            |           |
| Total senior loans (cost \$47,861,629)                                    |                  |         | \$      | 47,614,380 |           |
| <br>  |                  |         |         |            |           |
| UNITS (0.4%)* (cost \$1,180,933)  |                  |         |         |            |           |
|   | Units            |         | Value   |            |           |
| <hr/>   |                  |         |         |            |           |
| XCL, Ltd. Equity Units (F)  |                  | 991     | \$      | 2,577,624  |           |
| <br>  |                  |         |         |            |           |
| PREFERRED STOCKS (0.1%)*  |                  |         |         |            |           |
|   | Shares           |         | Value   |            |           |
| <hr/>   |                  |         |         |            |           |
| First Republic Capital Corp. 144A<br>10.50% pfd.                          |                  | 320     | \$      | 340,800    |           |
| Ion Media Networks, Inc. 14.25%<br>cum. pfd. □□                           |                  | 11      |         | 91,300     |           |
| Rural Cellular Corp. Ser. B, 11.375%<br>cum. pfd.                         |                  | 426     |         | 517,590    |           |
| <hr/>   |                  |         |         |            |           |
| Total preferred stocks (cost \$746,701)                                   |                  |         | \$      | 949,690    |           |

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CONVERTIBLE PREFERRED STOCKS (□%)\*

|   | Shares |    | Value   |
|---|--------|----|---------|
| Emmis Communications Corp. Ser. A, \$3.125<br>cum. cv. pfd. | 2,441  | \$ | 97,030  |
| Ion Media Networks, Inc. 144A 9.75%                         | 18     |    | 122,400 |
| <hr/>   |        |    |         |
| Total convertible preferred stocks<br>(cost \$284,218)      |        | \$ | 219,430 |

COMMON STOCKS (□%)\*

|  | Shares    |    | Value   |
|--|-----------|----|---------|
| Contifinancial Corp. Liquidating Trust<br>Units (F)    | 3,445,121 | \$ | 345     |
| Knology, Inc. □  | 199       |    | 1,974   |
| Sterling Chemicals, Inc. □                             | 110       |    | 1,403   |
| Sun Healthcare Group, Inc. □                           | 740       |    | 7,948   |
| USA Mobility, Inc.                                     | 12        |    | 274     |
| VFB LLC (acquired 10/27/00,<br>cost \$594,553) (F) □ □ | 948,004   |    | 20,145  |
| WHX Corp. □  | 18,832    |    | 169,488 |
| <hr/>  |           |    |         |
| Total common stocks (cost \$3,567,649)                 |           | \$ | 201,577 |

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WARRANTS (□%)\* □

|  | Expiration<br>date | Strike<br>Price | Warrants |    | Value  |
|--|--------------------|-----------------|----------|----|--------|
| Dayton Superior<br>Corp. 144A          | 6/15/09            | \$1,020         | .01      | \$ | 10     |
| MDP Acquisitions<br>PLC 144A (Ireland) | 10/01/13           | EUR .001        | 508      |    | 14,224 |
| Ubiquitel, Inc. 144A                   | 4/15/10            | \$22.74         | 1,670    |    | 17     |
| <hr/>                                  |                    |                 |          |    |        |
| Total warrants (cost \$116,394)        |                    |                 |          | \$ | 14,251 |

EQUITY VALUE CERTIFICATES (□%)\* (cost \$55,183)

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| Maturity date  | Certificates            | Value        |
|--|-------------------------|--------------|
| ONO Finance PLC 144A<br>(United Kingdom) 3/16/11                   | 400                     | \$ 4         |
| <b>SHORT-TERM INVESTMENTS (23.0%)*</b>                             |                         |              |
|  | Principal amount/shares | Value        |
| U.S. Treasury Bills for an effective<br>yield of 4.81%, 11/30/06 # | \$ 2,299,000            | \$ 2,280,762 |
| Putnam Prime Money Market<br>Fund (d)                              | 150,451,196             | 150,451,196  |
| <hr/>  |                         |              |
| Total short-term investments<br>(cost \$152,731,958)               | \$                      | 152,731,958  |
| <hr/>  |                         |              |
| <b>TOTAL INVESTMENTS</b>   |                         |              |
| Total investments (cost \$680,742,038)                             | \$                      | 680,836,281  |

\* Percentages indicated are based on net assets of \$664,410,071.

\*\*\*\* Security is in default of principal and interest.

Non-income-producing security.

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.

Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at September 30, 2006 was \$725,135 or 0.1% of net assets.

Income may be received in cash or additional securities at the discretion of the issuer.

# This security was pledged and segregated with the custodian to cover margin requirements for futures contracts at September 30, 2006.

(c) Senior loans are exempt from registration under the Security Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rate shown for senior loans are the current interest rates at September 30, 2006. Senior loans are also subject to mandatory and/or optional prepayment which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown (Notes 1 and 6).

(d) See Note 5 to the financial statements regarding investments in Putnam Prime Money Market Fund.

(F) Security is valued at fair value following procedures approved by the Trustees.

(R) Real Estate Investment Trust.

(SN) The securities noted above were purchased during the period for an aggregate cost of \$1,226,102. During the period, questions arose regarding a potential misidentification of the characteristics of these securities. As a result of initial inquiries into the matter, the values of these securities were adjusted. As of September 30, 2006, the aggregate values of these securities totaled \$1,062,693. An investigation of the facts surrounding the acquisition and valuation of these securities is currently underway to determine whether the Fund may have claims against other parties in this regard.

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*(U) A portion of the position represents unfunded loan commitments (Note 6).*

*At September 30, 2006, liquid assets totaling \$153,186,091 have been designated as collateral for open forward commitments, swap contracts and forward contracts.*

*144A after the name of an issuer represents securities exempt from registration under Rule 144A under the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

*TBA after the name of a security represents to be announced securities (Note 1).*

*The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at September 30, 2006.*

*The dates shown on debt obligations are the original maturity dates.*

*Inverse Floating Rate Bonds (IFB) are securities that pay interest rates that vary inversely to changes in the market interest rates. As interest rates rise, inverse floaters produce less current income. The interest rates shown are the current interest rates at September 30, 2006.*

### DIVERSIFICATION BY COUNTRY

*Distribution of investments by country of issue at September 30, 2006 (as a percentage of Portfolio Value):*

|                |        |
|----------------|--------|
| Argentina      | 1.1%   |
| Brazil         | 1.6    |
| Canada         | 1.1    |
| Cayman Islands | 1.1    |
| Colombia       | 0.7    |
| France         | 1.8    |
| Germany        | 3.6    |
| Ireland        | 2.4    |
| Japan          | 1.4    |
| Luxembourg     | 0.7    |
| Mexico         | 0.7    |
| Sweden         | 0.7    |
| United Kingdom | 2.0    |
| United States  | 79.2   |
| Other          | 1.9    |
|                |        |
| Total          | 100.0% |

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### FORWARD CURRENCY CONTRACTS TO BUY at 9/30/06

(aggregate face value \$107,505,972)

|                   | Value        | Aggregate<br>face value | Delivery<br>date | Unrealized<br>appreciation/<br>(depreciation) |
|-------------------|--------------|-------------------------|------------------|---|
| Australian Dollar | \$23,784,343 | \$24,169,518            | 10/18/06         | \$ (385,175)                                  |
| British Pound     | 21,312,356   | 21,505,398              | 12/20/06         | (193,042)                                     |

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|                    |            |            |          |           |
|--------------------|------------|------------|----------|-----------|
| Canadian Dollar    | 8,386,171  | 8,371,116  | 10/18/06 | 15,055    |
| Czech Koruna       | 3,345,590  | 3,409,085  | 12/20/06 | (63,495)  |
| Danish Krone       | 1,197,190  | 1,209,367  | 12/20/06 | (12,177)  |
| Euro Dollar        | 8,336,415  | 8,373,396  | 12/20/06 | (36,981)  |
| Japanese Yen       | 26,672,090 | 27,142,826 | 11/15/06 | (470,736) |
| Malaysian Ringgit  | 1,679,446  | 1,697,499  | 11/15/06 | (18,053)  |
| New Zealand Dollar | 1,666,815  | 1,667,313  | 10/18/06 | (498)     |
| Polish Zloty       | 2,262,191  | 2,284,651  | 12/20/06 | (22,460)  |
| South African Rand | 1,582,537  | 1,649,653  | 10/18/06 | (67,116)  |
| South Korean Won   | 3,608,970  | 3,547,381  | 11/15/06 | 61,589    |
| Swedish Krona      | 1,676,779  | 1,685,100  | 12/20/06 | (8,321)   |
| Swiss Franc        | 790,171    | 793,669    | 12/20/06 | (3,498)   |

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Total \$(1,204,908)

FORWARD CURRENCY CONTRACTS TO SELL at 9/30/06  
(aggregate face value \$148,228,223)

|                    | Value        | Aggregate<br>face value | Delivery<br>date | Unrealized<br>appreciation/<br>(depreciation) |
|--------------------|--------------|-------------------------|------------------|---|
| Australian Dollar  | \$ 3,274,171 | \$ 3,327,343            | 10/18/06         | \$ 53,172                                     |
| British Pound      | 1,656,902    | 1,672,927               | 12/20/06         | 16,025  |
| Canadian Dollar    | 10,670,556   | 10,595,746              | 10/18/06         | (74,810)                                      |
| Euro Dollar        | 58,149,217   | 58,726,607              | 12/20/06         | 577,390                                       |
| Japanese Yen       | 41,953,772   | 43,225,655              | 11/15/06         | 1,271,883                                     |
| New Zealand Dollar | 1,684,750    | 1,666,577               | 10/18/06         | (18,173)                                      |
| Norwegian Krone    | 8,586,646    | 8,643,710               | 12/20/06         | 57,064  |
| Singapore Dollar   | 1,661,169    | 1,678,544               | 11/15/06         | 17,375  |
| Swedish Krona      | 13,536,410   | 13,592,705              | 12/20/06         | 56,295  |
| Swiss Franc        | 5,066,483    | 5,098,409               | 12/20/06         | 31,926  |

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Total \$1,988,147

FUTURES CONTRACTS OUTSTANDING at 9/30/06

|                                       | Number of<br>contracts | Value         | Expiration<br>date | Unrealized<br>appreciation/<br>(depreciation) |
|---------------------------------------|------------------------|---------------|--------------------|---|
| Bank Acceptance Bill 90 day (Long)    | 441                    | \$ 77,122,519 | Dec-06             | \$ 72,294                                     |
| Canadian Government Bond 10 yr (Long) | 11                     | 1,135,503     | Dec-06             | 17,510  |
| Euro-Bobl 5 yr (Long)                 | 87                     | 12,115,856    | Dec-06             | 42,704  |
| Euro-Bund 10 yr (Short)               | 35                     | 5,235,493     | Dec-06             | (50,207)                                      |
| Euro-Dollar 90 day (Long)             | 590                    | 139,866,875   | Mar-07             | (55,192)                                      |

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|                                       |       |             |        |           |
|---------------------------------------|-------|-------------|--------|-----------|
| Euro-Dollar 90 day (Short)            | 642   | 152,812,050 | Dec-07 | 75,691    |
| Euro-Dollar 90 day (Short)            | 147   | 34,789,388  | Dec-06 | (108,813) |
| Euro-Schatz 2 yr (Short)              | 235   | 30,958,690  | Dec-06 | (39,255)  |
| Euro-Yen 90 day (Long)                | 304   | 63,906,311  | Jun-07 | 196,787   |
| Euro-Yen 90 day (Short)               | 152   | 32,022,363  | Dec-06 | (60,178)  |
| Euro-Yen 90 day (Short)               | 152   | 31,895,214  | Dec-07 | (132,510) |
| Japanese Government Bond 10 yr (Long) | 36    | 41,108,005  | Dec-06 | 234,340   |
| U.K. Gilt 10 yr (Long)                | 9     | 1,849,695   | Dec-06 | 4,173     |
| U.S. Treasury Bond 20 yr (Long)       | 856   | 96,219,750  | Dec-06 | 637,886   |
| U.S. Treasury Note 10 yr (Short)      | 838   | 90,556,375  | Dec-06 | (932,170) |
| U.S. Treasury Note 2 yr (Short)       | 404   | 82,618,000  | Dec-06 | 76,040    |
| U.S. Treasury Note 5 yr (Short)       | 1,438 | 151,731,469 | Dec-06 | (683,422) |

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Total \$(704,322)

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WRITTEN OPTIONS OUTSTANDING at 9/30/06 (premiums received \$245,817)

|   | Contract amount    | Expiration date/<br>strike price | Value     |
|---|--------------------|----------------------------------|-----------|
| Option on an interest rate swap with Citibank for the obligation to pay a fixed rate of 1.165% versus the one year JPY-LIBOR maturing on April 3, 2008. | JPY 13,104,267,000 | Mar-07/\$1.165                   | \$466,670 |

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TBA SALE COMMITMENTS OUTSTANDING at 9/30/06 (proceeds receivable \$6,653,918)

|                               | Principal amount | Settlement date | Value       |
|-------------------------------|------------------|-----------------|-------------|
| FNMA, 4 1/2s, October 1, 2021 | \$6,900,000      | 10/17/06        | \$6,655,050 |

INTEREST RATE SWAP CONTRACTS OUTSTANDING at 9/30/06

| Swap counterparty /<br>Notional amount | Termination date | Payments made by fund per annum | Payments received by fund per annum | Unrealized appreciation/<br>(depreciation) |
|--|------------------|---------------------------------|-------------------------------------|--|
| Bank of America, N.A.                  |                  |                                 |                                     |  |
| \$ 10,000,000                          | 9/1/15           | 3 month USD-LIBOR-BBA           | 4.53%                               | \$ (448,750)                               |
| 16,800,000                             | 3/30/09          | 3.075%                          | 3 month USD-LIBOR-BBA               | 777,123                                    |



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|   |               |         |                                  |                                 |           |
|---|---------------|---------|----------------------------------|---------------------------------|-----------|
|   | 4,400,000     | 1/27/14 | 4.35%                            | 3 month USD-LIBOR-BBA           | 216,759   |
| Citibank, N.A.                              |               |         |                                  |                                 |           |
| NOK   | 47,500,000    | 7/14/10 | 6 month NOK-NIBOR-NIBR           | 3.40%                           | (228,509) |
| EUR   | 5,800,000     | 7/14/10 | 2.7515%                          | 6 month<br>EUR-EURIBOR-Telerate | 274,818   |
|   | \$ 24,650,000 | 7/27/09 | 5.504%                           | 3 month USD-LIBOR-BBA           | (275,347) |
| JPY   | 1,200,000,000 | 4/22/13 | 1.9225%                          | 6 month JPY-LIBOR-BBA           | (360,168) |
| JPY   | 5,372,749,000 | 4/3/08  | 1 year JPY-LIBOR-BBA             | 1.165%                          | 175,678   |
| JPY   | 380,000,000   | 4/21/36 | 6 month JPY-LIBOR-BBA            | 2.775%                          | 177,313   |
| EUR   | 2,300,000     | 7/22/10 | 2.825%                           | 6 month<br>EUR-EURIBOR-Telerate | 101,419   |
| NOK   | 18,800,000    | 7/22/10 | 6 month NOK-NIBOR-NIBR           | 3.52%                           | (78,437)  |
| JPY   | 1,300,000,000 | 2/10/16 | 6 month JPY-LIBOR-BBA            | 1.755%                          | (11,631)  |
|   | \$ 42,130,000 | 9/29/13 | 5.078%                           | 3 month USD-LIBOR-BBA           | 88,306    |
| JPY   | 1,134,000,000 | 9/11/16 | 1.8675%                          | 6 month JPY-LIBOR-BBA           | (32,748)  |
| CAD   | 39,143,000    | 8/22/08 | 4.3535%                          | 3 month CAD-BA-CDOR             | 131,735   |
| CAD   | 9,329,000     | 8/22/16 | 4.6535%                          | 3 month CAD-BA-CDOR             | (157,265) |
| AUD   | 31,963,000    | 8/4/09  | 3 month AUD-BBR-BBSW             | 6.315%                          | 90,407    |
| CAD   | 13,670,000    | 8/4/09  | 4.497%                           | 3 month CAD-BA-CDOR             | (122,458) |
| Credit Suisse First<br>Boston International |               |         |                                  |                                 |           |
|   | \$ 5,699,500  | 7/9/14  | 4.945%                           | 3 month USD-LIBOR-BBA           | 76,207    |
| Credit Suisse<br>International              |               |         |                                  |                                 |           |
| EUR   | 2,568,000     | 7/17/21 | 6 month EUR-EURIBOR-<br>Telerate | 4.445%                          | 144,617   |
| EUR   | 9,930,000     | 7/17/13 | 4.146%                           | 6 month<br>EUR-EURIBOR-Telerate | (233,475) |

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|                           |                |         |                              |                       |             |
|---------------------------|----------------|---------|------------------------------|-----------------------|-------------|
| EUR                       | 11,985,000     | 7/17/09 | 6 month EUR-EURIBOR-Telerate | 3.896%                | 64,303      |
| GBP                       | 1,480,000      | 4/3/36  | GBP 3,728,462 at maturity    | 6 month GBP-LIBOR-BBA | (6,451)     |
| Deutsche Bank AG          |                |         |                              |                       |             |
| ZAR                       | 12,120,000     | 7/6/11  | 3 month ZAR-JIBAR-SAFEX      | 9.16%                 | 15,176      |
| JPMorgan Chase Bank, N.A. |                |         |                              |                       |             |
| JPY                       | 2,576,000,000  | 7/24/13 | 1.7875%                      | 6 month JPY-LIBOR-BBA | (434,086)   |
| JPY                       | 10,638,000,000 | 7/24/08 | 6 month JPY-LIBOR-BBA        | 0.905%                | 325,296     |
|                           | \$ 25,100,000  | 9/2/15  | 3 month USD-LIBOR-BBA        | 4.4505%               | (1,266,520) |
|                           | 16,700,000     | 8/4/16  | 3 month USD-LIBOR-BBA        | 5.5195%               | 446,114     |
|                           | 31,100,000     | 8/4/08  | 3 month USD-LIBOR-BBA        | 5.40%                 | 130,128     |
|                           | 70,918,000     | 5/4/08  | 3 month USD-LIBOR-BBA        | 5.37%                 | 1,136,226   |

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INTEREST RATE SWAP CONTRACTS OUTSTANDING at 9/30/06  
*continued*

| Swap counterparty /<br>Notional amount        | Termination<br>date | Payments<br>made by<br>fund per annum | Payments<br>received by<br>fund per annum | Unrealized<br>appreciation/<br>depreciation) |
|---|---------------------|---------------------------------------|---|--|
| JPMorgan Chase Bank,<br>N.A. <i>continued</i> |                     |                                       |   |  |
| \$ 22,964,000                                 | 5/4/16              | 5.62375%                              | 3 month USD-LIBOR-BBA                     | \$(1,117,379)                                |
| JPY 7,460,000,000                             | 6/6/13              | 1.83%                                 | 6 month JPY-LIBOR-BBA                     | (1,610,584)                                  |
| \$ 30,000,000                                 | 6/17/15             | 3 month USD-LIBOR-BBA                 | 4.5505%                                   | (919,899)                                    |
| 134,000,000                                   | 6/17/07             | 4.0825%                               | 3 month USD-LIBOR-BBA                     | (69,250)                                     |
| 8,000,000                                     | 3/6/16              | 3 month USD-LIBOR-BBA                 | 5.176%                                    | 10,651                                       |
| NZD 20,421,000                                | 8/8/09              | 3 month NZD-BBR-FRA                   | 7.10%                                     | (11,523)                                     |

Lehman Brothers  
International (Europe)

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|   |               |              |                           |   |               |
|---|---------------|--------------|---------------------------|---|---------------|
|   | \$ 2,218,000  | 8/3/16       | 5.5675%                   | 3 month USD-LIBOR-BBA                                     | (67,536)      |
|   | 10,091,000    | 8/3/11       | 3 month USD-LIBOR-BBA     | 5.445%  | 156,026       |
| Lehman Brothers Special Financing, Inc. |               |              |                           |   |               |
|   | 79,881,000    | 8/3/08       | 3 month USD-LIBOR-BBA     | 5.425%  | 373,016       |
| GBP                                     | 1,365,000     | 3/15/36      | 3,304,437 GBP at maturity | 6 month GBP-LIBOR-BBA                                     | 90,086        |
| JPY                                     | 1,862,000,000 | 9/8/13       | 1.58375%                  | 6 month JPY-LIBOR-BBA                                     | (63,349)      |
| JPY                                     | 7,854,000,000 | 9/8/08       | 6 month JPY-LIBOR-BBA     | 0.80625%  | 65,373        |
| Merrill Lynch Capital Services, Inc.    |               |              |                           |   |               |
| EUR                                     | 3,500,000     | 7/26/10      | 2.801%                    | 6 month EUR-EURIBOR-Telerate                              | 157,074       |
| NOK                                     | 28,000,000    | 7/26/10      | 6 month NOK-NIBOR-NIBR    | 3.54%   | (118,052)     |
|   | \$ 8,500,000  | (E) 11/22/16 | 4.1735%                   | 3 month U.S. Bond Market Association Municipal Swap Index | (292,121)     |
|   | 6,000,000     | (E) 11/22/16 | 3 month USD-LIBOR-BBA     | 5.711%  | 250,980       |
| CAD                                     | 27,167,000    | 8/2/09       | 4.464%                    | 3 month CAD-BA-CDOR                                       | (218,048)     |
| Total                                   |               |              |                           |   | \$(2,668,755) |

(E) See Note 1 to the financial statements regarding extended effective dates.

TOTAL RETURN SWAP CONTRACTS OUTSTANDING at 9/30/06

| Swap counterparty /<br>Notional amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Total return<br>received by<br>or paid by fund | Unrealized<br>appreciation/<br>(depreciation) |
|--|---------------------|--|--|---|
| Credit Suisse International            |                     |  |  |   |
| GBP 1,480,000                          | 4/3/36              | 3.1225%  | GBP Non-revised Retail Price Index             | \$ 40,466                                     |
| Goldman Sachs International            |                     |  |  |   |
| \$1,345,000                            | 9/15/11             | 678 bp (1 month  | Ford Credit Auto                               | 741   |

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USD-LIBOR-BBA)

Owner Trust  
Series 2005-B  
Class D

JPMorgan Chase Bank,  
N.A.

|     |            |         |          |  |           |
|-----|------------|---------|----------|--|-----------|
| EUR | 15,930,000 | 7/21/11 | (2.295%) | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | (284,363) |
|-----|------------|---------|----------|--|-----------|

|     |            |         |         |  |         |
|-----|------------|---------|---------|--|---------|
| EUR | 15,930,000 | 7/21/11 | 2.2325% | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | 297,267 |
|-----|------------|---------|---------|--|---------|

|     |            |         |       |  |         |
|-----|------------|---------|-------|--|---------|
| EUR | 10,800,000 | 6/16/14 | 2.25% | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | 198,942 |
|-----|------------|---------|-------|--|---------|

|     |            |         |          |  |           |
|-----|------------|---------|----------|--|-----------|
| EUR | 10,800,000 | 6/16/14 | (2.275%) | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | (193,351) |
|-----|------------|---------|----------|--|-----------|

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TOTAL RETURN SWAP CONTRACTS OUTSTANDING at  
9/30/06 *continued*

| Swap counterparty<br>/<br>Notional amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Total return<br>received by<br>or paid by fund | Unrealized<br>appreciation/<br>(depreciation) |
|---|---------------------|--|--|---|
|---|---------------------|--|--|---|

Lehman Brothers Special Financing,  
Inc.

|     |            |         |       |   |            |
|-----|------------|---------|-------|---|------------|
| EUR | 16,889,000 | 4/26/11 | 2.11% | French Non-<br>revised Consumer<br>Price Index<br>excluding tobacco | \$ 116,584 |
|-----|------------|---------|-------|---|------------|

|     |            |         |          |  |         |
|-----|------------|---------|----------|--|---------|
| EUR | 16,889,000 | 4/26/11 | (2.115%) | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | (4,278) |
|-----|------------|---------|----------|--|---------|

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|       |           |         |                           |                                    |            |
|-------|-----------|---------|---------------------------|------------------------------------|------------|
| GBP   | 1,365,000 | 3/15/36 | 2,065,993 GBP at maturity | GBP Non-revised Retail Price Index | 34,672     |
| Total |           |         |                           |                                    | \$ 206,680 |

CREDIT DEFAULT CONTRACTS  
OUTSTANDING at 9/30/06

| Swap counterparty / Referenced debt*                    | Upfront premium received (paid)** | Notional amount | Termination date | Fixed payments received (paid) by fund per annum | Unrealized appreciation/ (depreciation) |
|---|-----------------------------------|-----------------|------------------|--|---|
| Bank of America, N.A.<br>DJ CDX NA HY Series 3<br>Index | \$ 24,008                         | \$ 960,000      | 6/20/10          | 360 bp   | \$ 57,742                               |
| DJ CDX NA HY Series 4<br>Index                          | 47,895                            | 1,824,000       | 6/20/10          | 360 bp   | 111,990                                 |
| DJ CDX NA HY Series 4<br>Index                          | 18,006                            | 4,800,000       | 6/20/10          | (360 bp)   | (150,666)                               |
| DJ CDX NA HY Series 4<br>Index                          | (12,004)                          | 2,400,000       | 6/20/10          | (360 bp)   | (96,340)                                |
| L-3 Communications Corp. 7 5/8%, 6/15/12                | □                                 | 590,000         | 9/20/11          | (111 bp)   | (1,805)                                 |
| L-3 Communications Corp. 7 5/8%, 6/15/12                | □                                 | 235,000         | 6/20/11          | (101 bp)   | (169)                                   |
| Citibank, N.A.<br>DJ CDX NA HY Series 6<br>Index        | 507                               | 405,750         | 6/20/11          | (345 bp)   | (4,388)                                 |

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|  |       |           |          |            |          |
|--|-------|-----------|----------|------------|----------|
| DJ CDX NA HY<br>Series 6<br>Index  | 3,453 | 212,500   | 6/20/11  | (345 bp)   | 889      |
| DJ CDX NA HY<br>Series 6<br>Index 25-35%<br>tranche                                | □     | 1,623,000 | 6/20/11  | 80 bp      | 2,052    |
| DJ CDX NA HY<br>Series 6<br>Index 25-35%<br>tranche                                | □     | 850,000   | 6/20/11  | 74 bp      | 157      |
| CreditSuisse First Boston<br>International<br>Ford Motor Co.,<br>7.45%,<br>7/16/31 | □     | 1,400,000 | 9/20/07  | (487.5 bp) | (24,919) |
| Ford Motor Co.,<br>7.45%,<br>7/16/31   | □     | 1,700,000 | 9/20/08  | 725 bp     | 80,419   |
| Ford Motor Co.,<br>7.45%,<br>7/16/31   | □     | 300,000   | 9/20/07  | (485 bp)   | (5,266)  |
| Republic of<br>Argentina,<br>8.28%, 2033   | □     | 1,175,000 | 7/20/09  | (214 bp)   | (24,614) |
| Ukraine<br>Government,<br>7.65%, 6/11/13   | □     | 1,105,000 | 10/20/11 | 194 bps    | (497)    |
| Deutsche Bank AG<br>DJ CDX NA IG<br>Series 7                                       | 36    | 1,308,000 | 12/20/13 | (50 bp)    | (517)    |
| DJ CDX NA IG<br>Series 7<br>Index 7-10%<br>tranche                                 | □     | 1,308,000 | 12/20/13 | 55 bp      | 840      |
| Republic of<br>Indonesia,<br>6.75%, 2014   | □     | 575,000   | 9/20/16  | 294 bp     | 23,437   |
| Republic of<br>Indonesia,<br>6.75%, 2014   | □     | 575,000   | 9/20/16  | 292 bp     | 22,622   |

CREDIT DEFAULT CONTRACTS OUTSTANDING at 9/30/06 *continued*

| Swap counterparty /<br>Referenced debt*  | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|--|---|--------------------|---------------------|--|---|
| Goldman Sachs International<br>Any one of the<br>underlying securities<br>in the basket of BB<br>CMBS securities | \$ □                                    | \$ 3,768,000       | (a)                 | 2.461%   | \$ 256,637                                    |
| DJ CDX NA HY Series 4<br>Index   | 14,044                                  | 864,000            | 6/20/10             | 360 bp   | 48,760  |
| DJ CDX NA HY Series 4<br>Index   | 14,645                                  | 2,400,000          | 6/20/10             | (360 bp)   | (69,691)                                      |
| DJ CDX NA HY Series 5<br>Index   | (241,095)                               | 13,774,000         | 12/20/10            | (395 bp)   | (792,150)                                     |
| DJ CDX NA HY Series 6<br>Index   | 1,300                                   | 520,000            | 6/20/11             | (345 bp)   | (4,973)                                       |
| DJ CDX NA HY Series 6<br>Index 25-35% tranche  | □                                       | 2,080,000          | 6/20/11             | 85 bp  | 7,050   |
| DJ CDX NA IG Series 6<br>Index   | □                                       | 2,181,000          | 6/20/13             | 55 bp  | 14,500  |
| DJ CDX NA IG Series 6<br>Index   | 935                                     | 2,181,000          | 6/20/13             | (50 bp)  | (227)   |
| DJ CDX NA IG Series 7<br>Index   | 151                                     | 2,178,000          | 12/20/13            | (50 bp)  | 1,390   |
| DJ CDX NA IG Series 7<br>Index 7-10% tranche   | □                                       | 2,178,000          | 12/20/13            | 56 bp  | 2,630   |
| General Motors Corp.,<br>7 1/8%, 7/15/13   | □                                       | 1,400,000          | 9/20/08             | 620 bp   | 66,114  |

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|   |        |             |         |            |           |
|---|--------|-------------|---------|------------|-----------|
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □      | 1,400,000   | 9/20/07 | (427.5 bp) | (29,227)  |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □      | 300,000     | 9/20/07 | (425 bp)   | (6,046)   |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □      | 300,000     | 9/20/08 | 620 bp     | 14,164    |
| Ray Acquisition SCA, 9<br>3/8%, 3/15/15                                   | □      | EUR 600,000 | 9/20/08 | (187 bp)   | (9,882)   |
| Ray Acquisition SCA, 9<br>3/8%, 3/15/15                                   | □      | EUR 600,000 | 9/20/11 | 399 bp     | 33,001    |
| United States Steel<br>Corp., 9 3/4%, 5/15/10                             | □      | \$ 324,000  | 9/20/09 | (65 bp)    | 268       |
| JPMorgan Chase Bank, N.A.<br>Ford Motor Co.,<br>7.45%, 7/16/31            | □      | 235,000     | 9/20/07 | (345 bp)   | (61)      |
| Ford Motor Co.,<br>7.45%, 7/16/31   | □      | 235,000     | 9/20/08 | 550 bp     | 1,917     |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □      | 235,000     | 9/20/07 | (350 bp)   | (3,127)   |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □      | 235,000     | 9/20/08 | 500 bp     | 5,783     |
| United Rentals N.A.,<br>61/2%, 2/15/12                                    | □      | 233,000     | 9/20/08 | (95 bp)    | (79)      |
| Lehman Brothers Special Financing, Inc.<br>DJ CDX NA HY Series 4<br>Index | 23,767 | 864,000     | 6/20/10 | 360 bp     | 57,070    |
| DJ CDX NA HY Series 4<br>Index  | 24,968 | 4,800,000   | 6/20/10 | (360 bp)   | (160,047) |
| DJ CDX NA HY Series 6<br>Index  | 3,116  | 415,500     | 6/20/11 | (345 bp)   | (1,897)   |
| DJ CDX NA HY Series 6<br>Index  | 5,133  | 513,250     | 6/20/11 | (345 bp)   | (1,059)   |



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|   |   |           |         |       |       |
|---|---|-----------|---------|-------|-------|
| DJ CDX NA HY Series 6<br>Index 25-35% tranche | □ | 1,662,000 | 6/20/11 | 74 bp | 1,746 |
| DJ CDX NA HY Series 6<br>Index 25-35% tranche | □ | 2,053,000 | 6/20/11 | 72 bp | 409   |

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CREDIT DEFAULT CONTRACTS OUTSTANDING at 9/30/06

*continued*

| Swap counterparty /<br>Referenced debt* | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|---|---|--------------------|---------------------|--|---|
|---|---|--------------------|---------------------|--|---|

Lehman Brothers Special Financing, Inc.

*continued*

|   |          |               |          |          |            |
|---|----------|---------------|----------|----------|------------|
| DJ iTraxx EUR Series 5<br>Index   | \$ 9,890 | EUR 1,836,000 | 6/20/13  | (50 bp)  | \$ (5,535) |
| DJ iTraxx EUR Series 5<br>Index 6-9% tranche                              | □        | EUR 1,836,000 | 6/20/13  | 53.5 bp  | 8,172      |
| Republic of Peru, 8<br>3/4%, 11/21/33                                     | □        | \$ 1,185,000  | 10/20/16 | 215 bp   | 10,340     |
| Merrill Lynch Capital Services, Inc.<br>Ford Motor Co., 7.45%,<br>7/16/31 | □        | 685,000       | 9/20/07  | (345 bp) | (1,098)    |
| Ford Motor Co., 7.45%,<br>7/16/31   | □        | 685,000       | 9/20/08  | 570 bp   | 13,235     |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □        | 960,000       | 9/20/07  | (335 bp) | (2,229)    |
| General Motors Corp.,<br>7 1/8%, 7/15/13                                  | □        | 960,000       | 9/20/08  | 500 bp   | 24,229     |
| L-3 Communications<br>Corp. 7 5/8%, 2012                                  | □        | 960,000       | 9/20/11  | (111 bp) | (2,937)    |
| L-3 Communications<br>Corp. 7 5/8%, 2012                                  | □        | 585,000       | 6/20/11  | (92 bp)  | 2,948      |

Merrill Lynch International  
DJ CDX NA HY Series 4

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|  |        |               |          |          |             |
|--|--------|---------------|----------|----------|-------------|
| Index                                    | 27,289 | 1,056,000     | 6/20/10  | 360 bp   | 64,396      |
| Morgan Stanley Capital Services, Inc.    |        |               |          |          |             |
| DJ CDX NA HY Series 6                    |        |               |          |          |             |
| Index                                    | 5,313  | 531,250       | 6/20/11  | (345 bp) | (1,096)     |
| DJ CDX NA HY Series 6                    |        |               |          |          |             |
| Index 25-35% tranche                     | □      | 2,125,000     | 6/20/11  | 73 bp    | (3,842)     |
| DJ CDX NA HY Series 6                    |        |               |          |          |             |
| Index 25-35% tranche                     | 3,453  | 360,000       | 6/20/11  | (345 bp) | (890)       |
| DJ CDX NA HY Series 6                    |        |               |          |          |             |
| Index 25-35% tranche                     | □      | 1,440,000     | 6/20/11  | 74 bp    | (1,848)     |
| DJ CDX NA IG Series 7                    |        |               |          |          |             |
| Index                                    | 1,344  | 2,264,000     | 12/20/13 | (50 bp)  | 1,086       |
| DJ CDX NA IG Series 7                    |        |               |          |          |             |
| Index, 7-10% tranche                     | □      | 2,264,000     | 12/20/13 | 53 bp    | (298)       |
| DJ iTraxx EUR Series 5                   |        |               |          |          |             |
| Index                                    | 8,793  | EUR 1,836,000 | 6/20/13  | (50 bp)  | (6,632)     |
| DJ iTraxx EUR Series 5                   |        |               |          |          |             |
| Index 6-9% tranche                       | □      | EUR 1,836,000 | 6/20/13  | 57 bp    | 14,290      |
| Ford Motor Co., 7.45%,<br>7/16/31        |        |               |          |          |             |
| Index                                    | □      | \$ 235,000    | 9/20/07  | (345 bp) | (934)       |
| Ford Motor Co., 7.45%,<br>7/16/31        |        |               |          |          |             |
| Index                                    | □      | 235,000       | 9/20/08  | 560 bp   | 4,117       |
| General Motors Corp.,<br>7 1/8%, 7/15/13 |        |               |          |          |             |
| Index                                    | □      | 235,000       | 9/20/07  | (335 bp) | (2,784)     |
| General Motors Corp.,<br>7 1/8%, 7/15/13 |        |               |          |          |             |
| Index                                    | □      | 235,000       | 9/20/08  | 500 bp   | 5,931       |
| Total                                    |        |               |          |          | \$(457,439) |

\* Payments related to the reference debt are made upon a credit default event.

\*\* Upfront premium is based on the difference between the original spread on issue and the market spread on day of execution.

(a) Terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference entity are liquidated.

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

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## Statement of assets and liabilities 9/30/06

### ASSETS

|  |                |
|--|----------------|
| Investment in securities, at value (Note 1):                 |                |
| Unaffiliated issuers (identified cost \$530,290,842)         | \$ 530,385,085 |
| Affiliated issuers (identified cost \$150,451,196) (Note 5)  | 150,451,196    |
| Cash   | 2,813,581      |
| Foreign currency (cost \$5,451,053) (Note 1)                 | 5,441,282      |
| Dividends, interest and other receivables                    | 6,961,244      |
| Receivable for securities sold                               | 1,246,349      |
| Receivable for sales of delayed delivery securities (Note 1) | 6,667,718      |
| Receivable for variation margin (Note 1)                     | 127,653        |
| Receivable for open forward currency contracts (Note 1)      | 2,184,408      |
| Receivable for closed forward currency contracts (Note 1)    | 429,238        |
| Unrealized appreciation on swap contracts (Note 1)           | 7,123,834      |
| Premium received on swap contracts (Note 1)                  | 253,099        |
| Receivable for closed swap contracts (Note 1)                | 25,419         |
| Total assets   | 714,110,106    |

### LIABILITIES

|  |            |
|--|------------|
| Distributions payable to shareholders            | 2,804,027  |
| Payable for securities purchased                 | 608,023    |
| Payable for delayed delivery securities (Note 1) | 24,863,201 |
| Payable for shares of the fund repurchased       | 910,764    |

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|   |                |
|---|----------------|
| Payable for compensation of Manager (Note 2)  | 1,172,214      |
| Payable for investor servicing and custodian fees (Note 2)                                  | 49,123         |
| Payable for Trustee compensation and expenses (Note 2)                                      | 119,572        |
| Payable for administrative services (Note 2)  | 2,925          |
| Payable for open forward currency contracts (Note 1)  | 1,401,169      |
| Payable for closed forward currency contracts (Note 1)                                      | 240,488        |
| Written options outstanding, at value (premiums received \$245,817) (Note 1)                | 466,670        |
| Unrealized depreciation on swap contracts (Note 1)  | 10,043,348     |
| TBA sales commitments, at value (proceeds receivable \$6,653,918) (Note 1)                  | 6,655,050      |
| Premium paid on swap contracts (Note 1)   | 238,046        |
| Other accrued expenses  | 125,415        |
| Total liabilities   | 49,700,035     |
| Net assets applicable to common shares outstanding  | \$ 664,410,071 |
| REPRESENTED BY  |                |
| Paid-in capital (Unlimited shares authorized) (Note 1)                                      | \$ 798,527,745 |
| Undistributed net investment income (Note 1)  | 7,431,962      |
| Accumulated net realized loss on investments and foreign currency transactions (Note 1)     | (138,879,980)  |
| Net unrealized depreciation of investments and assets and liabilities in foreign currencies | (2,669,656)    |
| Total □ Representing net assets applicable to capital shares outstanding                    | \$ 664,410,071 |
| COMPUTATION OF NET ASSET VALUE  |                |
| Net asset value per share (\$664,410,071 divided by 93,824,140 shares)                      | \$7.08         |

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

**Statement of operations** Year ended 9/30/06

## INVESTMENT INCOME

|   |              |
|---|--------------|
| Interest (including interest income of \$5,025,042 from investments in affiliated issuers) (Note 5) | \$38,393,939 |
| Dividends   | 349,144      |
| Total investment income   | 38,743,083   |

## EXPENSES

|   |             |
|---|-------------|
| Compensation of Manager (Note 2)  | 4,928,639   |
| Investor servicing fees (Note 2)  | 340,900     |
| Custodian fees (Note 2)   | 289,863     |
| Trustee compensation and expenses (Note 2)  | 49,168      |
| Administrative services (Note 2)  | 25,687      |
| Other   | 558,607     |
| Fees waived and reimbursed by Manager (Note 5)  | (131,153)   |
| Total expenses  | 6,061,711   |
| Expense reduction (Note 2)  | (306,590)   |
| Net expenses  | 5,755,121   |
| Net investment income   | 32,987,962  |
| Net realized loss on investments (Notes 1 and 3)  | (6,326,993) |
| Net realized gain on swap contracts (Note 1)  | 474,476     |
| Net realized gain on futures contracts (Note 1)   | 746,950     |
| Net realized loss on foreign currency transactions (Note 1)                                 | (3,715,978) |
| Net realized loss on written options (Notes 1 and 3)  | (78,523)    |
| Net unrealized appreciation of assets and liabilities in foreign currencies during the year | 936,759     |

Net unrealized appreciation of investments, futures contracts, swap contracts,

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|  |              |
|--|--------------|
| written options and TBA sale commitments during the year | 3,766,317    |
| Net loss on investments                                  | (4,196,992)  |
| Net increase in net assets resulting from operations     | \$28,790,970 |

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

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## Statement of changes in net assets

### DECREASE IN NET ASSETS

|  | Year ended<br>9/30/06 | Year ended<br>9/30/05 |
|--|-----------------------|-----------------------|
| <i>Operations:</i>   |                       |                       |
| Net investment income  | \$ 32,987,962         | \$ 31,885,428         |
| Net realized gain (loss) on investments and foreign currency transactions                                  | (8,900,068)           | 20,477,730            |
| Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies | 4,703,076             | (16,564,065)          |
| Net increase in net assets resulting from operations   | 28,790,970            | 35,799,093            |
| Distributions to shareholders: (Note 1)  |                       |                       |
| From net investment income   | (34,013,650)          | (42,129,483)          |
| Decrease from shares repurchased (Note 4)  | (39,632,967)          | □                     |
| Total decrease in net assets   | (44,855,647)          | (6,330,390)           |

### NET ASSETS

|   |               |               |
|---|---------------|---------------|
| Beginning of year   | 709,265,718   | 715,596,108   |
| End of year (including undistributed net investment income of \$7,431,962 and \$10,822,412, respectively) | \$664,410,071 | \$709,265,718 |

### NUMBER OF FUND SHARES

|   |             |             |
|---|-------------|-------------|
| Shares outstanding at beginning of year | 100,313,084 | 100,313,084 |
| Shares repurchased                      | (6,488,944) | □           |
| Shares outstanding at end of year       | 93,824,140  | 100,313,084 |

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

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## Financial highlights (For a common share outstanding throughout the period)

### PER-SHARE OPERATING PERFORMANCE

|   | Year ended |         |         |         |         |
|---|------------|---------|---------|---------|---------|
|   | 9/30/06    | 9/30/05 | 9/30/04 | 9/30/03 | 9/30/02 |
| Net asset value,<br>beginning of period                   | \$7.07     | \$7.13  | \$6.99  | \$6.26  | \$6.54  |
| <i>Investment operations:</i>                             |            |         |         |         |         |
| Net investment income (a)                                 | .34(d)     | .32(d)  | .40(d)  | .48     | .52     |
| Net realized and unrealized<br>gain (loss) on investments | (.04)      | .04     | .23     | .73     | (.26)   |
| Total from<br>investment operations                       | .30        | .36     | .63     | 1.21    | .26     |
| <i>Less distributions:</i>                                |            |         |         |         |         |
| From net investment income                                | (.35)      | (.42)   | (.49)   | (.48)   | (.53)   |
| From return of capital                                    | □          | □       | □       | □       | (.01)   |
| Total distributions                                       | (.35)      | (.42)   | (.49)   | (.48)   | (.54)   |
| Increase from shares repurchased                          | .06        | □       | □       | □       | □       |
| Net asset value,<br>end of period                         | \$7.08     | \$7.07  | \$7.13  | \$6.99  | \$6.26  |
| Market value,<br>end of period                            | \$6.15     | \$6.25  | \$6.73  | \$6.41  | \$6.38  |
| Total return at<br>market value (%) (b)                   | 4.17       | (0.98)  | 12.95   | 8.35    | 14.81   |

### RATIOS AND SUPPLEMENTAL DATA

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Net assets, end of period<br>(in thousands) | \$664,410 | \$709,266 | \$715,596 | \$700,694 | \$627,620 |
|---|-----------|-----------|-----------|-----------|-----------|

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|  |           |           |         |           |           |
|--|-----------|-----------|---------|-----------|-----------|
| Ratio of expenses to average net assets (%)              | .89(d)    | .87(d)    | .86(d)  | .89       | .87       |
| Ratio of net investment income to average net assets (%) | 4.84(d)   | 4.43(d)   | 5.61(d) | 7.22      | 7.97      |
| Portfolio turnover (%)                                   | 113.12(e) | 165.33(e) | 113.46  | 141.60(f) | 193.33(f) |

(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) *Reflects waivers of certain fund expenses in connection with investments in Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of the fund for the periods ended September 30, 2006, September 30, 2005 and September 30, 2004 reflect a reduction of 0.02%, 0.02% and less than 0.01% respectively, of average net assets for common shares (Note 5).*

(e) *Portfolio turnover excludes dollar roll transactions.*

(f) *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.*

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## Notes to financial statements 9/30/06

### Note 1: Significant accounting policies

Putnam Master Intermediate Income Trust (the "fund"), a Massachusetts business trust, 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 fund invests in higher yielding, lower rated bonds that have a higher rate of default.

In the normal course of business, the fund enters into contracts that may include agreements to indemnify another party under given circumstances. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be, but have not yet been, made against the fund. However, the fund expects the risk of material loss to be remote.

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 valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported as in



the case of some securities traded over-the-counter □ a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected by Putnam Investment Management, LLC (□Putnam Management□), the fund□s manager, an indirect wholly-owned subsidiary of Putnam, LLC. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities. Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value foreign equity securities taking into account multiple factors, including movements in the U.S. securities markets. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies, if any, are translated into U.S. dollars at the current exchange rate. Certain investments, including certain restricted securities, are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees. The fair value of securities is generally determined as the amount that the fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. By its nature, a fair value price is a good faith estimate of the value of a security at a given point in time and does not reflect an actual market price, which may be different by a material amount.

B) Joint trading account Pursuant to an exemptive order from the Securities and Exchange Commission, 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 issues of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

C) Security transactions and related investment income Security transactions are recorded on the trade date (the 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, net of applicable withholding taxes, is recognized on the ex-dividend date except that certain dividends from foreign securities, if any, are recognized as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. Dividends representing a return of capital or capital gains, if any, are reflected as a reduction of cost and/or as a realized gain. All premiums/discounts are amortized/accreted on a yield-to-maturity basis. The fund earned certain fees in connection with its senior loan purchasing activities. These fees are treated as market discount and are recorded as income in the statement of operations.

Securities purchased or sold on a delayed delivery basis may be settled a month or more after the trade date; interest income is accrued based on the terms of the securities. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

D) Stripped securities The fund may invest in stripped securities which represent a participation in securities that may be structured in classes with rights to receive different portions of the interest and principal. Interest-only securities receive all of the interest and principal-only securities receive all of the principal. If the interest-only securities experience greater than anticipated prepayments of principal, the fund may fail to recoup fully its initial investment in these securities. Conversely, principal-only securities increase in value if prepayments are greater than anticipated and decline if prepayments are slower than anticipated. The market value of these securities is highly sensitive to changes in interest rates.

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 earned 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

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of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions 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 buy and sell 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), or for other investment purposes. 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. Risks may exceed amounts recognized on the statement of assets and liabilities. Forward currency contracts outstanding at period end, if any, are listed after the fund's portfolio.

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, or for other investment purposes. The fund may also write options on swaps or 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. Risks may exceed amounts recognized on the statement of assets and liabilities. 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. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. The fund and the broker agree to exchange 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. Futures and written option contracts outstanding at period end, if any, are listed after the fund's portfolio.

H) Total return swap contracts The fund may enter into total return swap contracts, which are arrangements to exchange a market linked return for a periodic payment, both based on a notional principal amount. To the extent that the total return of the security, index or other financial measure underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the fund will receive a payment from or make a payment to the counterparty. Total return swap contracts are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made are recorded as realized gains or loss. Certain total return swap contracts may include extended effective dates. Income related to these swap contracts is accrued based on the terms of the contract. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or in the price of the underlying security or index, the possibility that there is no liquid market for these agreements or that the counterparty may default on its

obligation to perform. Risk of loss may exceed amounts recognized on the statement of assets and liabilities. Total return swap contracts outstanding at period end, if any, are listed after the fund's portfolio.

I) Interest rate swap contracts The fund may enter into interest rate swap contracts, which are arrangements between two parties to exchange cash flows based on a notional principal amount, to manage the fund's exposure to interest rates. Interest rate swap contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made are recorded as realized gains or loss. Certain interest rate swap contracts may include extended effective dates. Income related to these swap contracts is accrued based on the terms of the contract. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or if the counterparty defaults on its obligation to perform. Risk of loss may exceed amounts recognized on the statement of assets and liabilities. Interest rate swap contracts outstanding at period end, if any, are listed after the fund's portfolio.

J) Credit default contracts The fund may enter into credit default contracts where one party, the protection buyer, makes an upfront or periodic payment to a counter party, the protection seller, in exchange for the right to receive a contingent payment. The maximum amount of the payment may equal the notional amount, at par, of the underlying index or security as a result of a related credit event. Payments are made upon a credit default event of the disclosed primary referenced obligation of all other equally ranked obligations of the referenced entity. An upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund's books. An upfront payment made by the fund, as the protection buyer, is recorded as an asset on the fund's books. Periodic payments received or paid by the fund are recorded as realized gains or losses. The credit default contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the

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risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that the counterparty may default on its obligation to perform. Risks of loss may exceed amounts recognized on the statement of assets and liabilities. Credit default contracts outstanding at period end, if any, are listed after the fund's portfolio.

K) TBA purchase commitments The fund may enter into "TBA" (to be announced) 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 significantly differ 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 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 fair value of the underlying securities, according to the procedures 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.

Although the fund will generally enter into TBA purchase commitments with the intention of acquiring securities for its 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.

L) 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.

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Unsettled TBA sale commitments are valued at fair value of the underlying securities, generally according to the procedures 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. TBA sale commitments outstanding at period end, if any, are listed after the fund's portfolio.

M) Dollar rolls To enhance returns, the fund may enter into dollar rolls (principally using TBAs) in which the fund sells securities for delivery in the current month and simultaneously contracts to purchase similar securities on a specified future date. During the period between the sale and subsequent purchase, the fund will not be entitled to receive income and principal payments on the securities sold. The fund will, however, retain the difference between the initial sales price and the forward price for the future purchase. The fund will also be able to earn interest on the cash proceeds that are received from the initial sale. The fund may be exposed to market or credit risk if the price of the security changes unfavorably or the counterparty fails to perform under the terms of the agreement.

N) Federal taxes It is the policy of the fund to distribute all of its taxable income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code of 1986 (the "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 Code, 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, 2006, the fund had a capital loss carryover of \$132,636,061 available to the extent allowed by the Code to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

| Loss Carryover | Expiration         |
|----------------|--------------------|
| \$ 6,989,067   | September 30, 2007 |
| 25,640,537     | September 30, 2008 |
| 24,593,458     | September 30, 2009 |
| 27,431,170     | September 30, 2010 |
| 47,564,236     | September 30, 2011 |
| 417,593        | September 30, 2014 |

O) 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. These differences include temporary and permanent differences of foreign currency gains and losses, post-October loss deferrals, dividends payable, realized and unrealized gains and losses on certain futures contracts, income on swap contracts, amortization and accretion and interest only securities. 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. For the year ended September 30, 2006, the fund reclassified \$2,364,762 to decrease undistributed net investment income and \$60,923 to increase paid-in-capital, with a decrease to accumulated net realized losses of \$2,303,839.

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The tax basis components of distributable earnings and the federal tax cost as of September 30, 2006 were as follows:

|                                      |               |
|--------------------------------------|---------------|
| Unrealized appreciation              | \$ 12,410,136 |
| Unrealized depreciation              | (12,923,479)  |
|                                      | □□□□□□□□□□□□  |
| Net unrealized depreciation          | (513,343)     |
| Undistributed ordinary income        | 10,209,859    |
| Capital loss carryforward            | (132,636,061) |
| Post-October loss                    | (6,929,768)   |
| Cost for federal income tax purposes | \$681,349,624 |

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending September 30, 2007, \$6,929,768 of losses recognized during the period November 1, 2005 to September 30, 2006.

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### Note 2: Management fee, administrative services and other transactions

Putnam Management is paid for management and investment advisory services quarterly based on the □average weekly assets□ of the fund. □Average weekly assets□ is defined to mean the average of the weekly determinations of the difference between the total assets of the fund (including any assets attributable to leverage for investment purposes (through incurrence of indebtedness) and the total liabilities of the fund (excluding liabilities incurred in connection with leverage for investment purposes through incurrence of indebtedness). This fee is based on the following annual rates: 0.75% of the first \$500 million of average weekly assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% of the next \$5 billion, with additional breakpoints at higher asset levels.

Prior to January 1, 2006, the fund□s management fee was based on the following annual rates: 0.75% of the first \$500 million of average weekly assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% thereafter.

Putnam Investments Limited (□PIL□), an affiliate of Putnam Management, is authorized by the Trustees to manage a separate portion of the assets of the fund as determined by Putnam Management from time to time. Putnam Management pays a quarterly sub-management fee to PIL for its services at an annual rate of 0.40% of the average weekly assets (calculated in the same manner as under the fund□s management contract with Putnam Management) of the portion of the fund managed by PIL.

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 subsidiary of Putnam, LLC. PFTC receives fees for custody services based on the fund□s asset level, the number of its security holdings and transaction volumes. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. Putnam Investor Services is paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund□s average net assets. During the year ended September 30, 2006, the fund incurred \$630,763 for these services.

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 year ended September 30, 2006, the fund□s expenses were reduced by \$306,590 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$373, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional

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fees for attendance at certain committee meetings, industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

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 and were first elected prior to 2004. Benefits under the Pension Plan are equal to 50% of the Trustee's average annual attendance and retainer fees for the three years ended December 31, 2005. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

### **Note 3: Purchases and sales of securities**

During the year ended September 30, 2006, cost of purchases and proceeds from sales of investment securities other than U.S. government securities and short-term investments aggregated \$614,073,287 and \$767,148,110, respectively. Purchases and sales of U.S. government securities aggregated \$13,920,330 and \$11,995,558, respectively.

Written option transactions during the year ended September 30, 2006 are summarized as follows:

|   | Contract<br>Amounts  | Premiums<br>Received |
|---|----------------------|----------------------|
| Written options outstanding<br>at beginning of year | □                    | □                    |
| Options opened                                      | JPY 28,562,767,000   | \$468,959            |
| Options exercised                                   | □                    | □                    |
| Options expired                                     | □                    | □                    |
| Options closed                                      | JPY (15,458,500,000) | (223,142)            |
| Written options outstanding<br>at end of year       | JPY 13,104,267,000   | \$245,817            |

### **Note 4: 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 increase in this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period. In September 2006, the Trustees extended the program on its existing terms through October 6, 2007. Repurchases will only be made when the fund's shares are trading at less than net asset value and in accordance with procedures approved by the fund's Trustees.

For the year ended September 30, 2006, the fund repurchased 6,488,944 common shares for an aggregate purchase price of \$39,632,967, which reflects a weighted-average discount from net asset value per share of 12.7% .

### **Note 5: Investment in Putnam Prime Money Market Fund**

The fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Investments in Putnam Prime Money Market Fund are valued at its closing net asset value each business day. Management fees paid by the fund are reduced by an amount equal to the management and administrative services fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund.

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For the year ended September 30, 2006, management fees paid were reduced by \$131,153 relating to the fund's investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled \$5,025,042 for the year ended September 30, 2006. During the year ended September 30, 2006, cost of purchases and proceeds of sales of investments in Putnam Prime Money Market Fund aggregated \$340,543,751 and \$235,207,879, respectively.

**Note 6: Senior loan commitments**

Senior loans are purchased or sold on a when-issued or delayed delivery basis and may be settled a month or more after the trade date, which from time to time can delay the actual investment of available cash balances; interest income is accrued based on the terms of the securities. Senior loans can be acquired through an agent, by assignment from another holder of the loan, or as a participation interest in another holder's portion of the loan. When the fund invests in a loan or participation, the fund is subject to the risk that an intermediate participant between the fund and the borrower will fail to meet its obligations to the fund, in addition to the risk that the borrower under the loan may default on its obligations.

**Note 7: Unfunded loan commitments**

As of September 30, 2006, the fund had unfunded loan commitments of \$344,422, which could be extended at the option of the borrower, pursuant to the following loan agreements with the following borrowers:

| Borrower             | Unfunded<br>commitments |
|----------------------|-------------------------|
| CBRL Group, Inc.     | \$ 18,310               |
| CR Gas Storage       | 42,424                  |
| MEG Energy Corp.     | 100,000                 |
| Trump Hotel & Casino | 174,125                 |

**Note 8: Regulatory matters and litigation**

Putnam Management has entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division settling charges connected with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. Pursuant to these settlement agreements, Putnam Management will pay a total of \$193.5 million in penalties and restitution, with \$153.5 million being paid to certain open-end funds and their shareholders. The amount will be allocated to shareholders and funds pursuant to a plan developed by an independent consultant, and will be paid following approval of the plan by the SEC and the Massachusetts Securities Division.

The Securities and Exchange Commission's and Massachusetts Securities Division's allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management will bear any costs incurred by Putnam funds in connection with these lawsuits. Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to

provide investment management services to its clients, including the Putnam funds.

The Staff of the SEC has indicated that it believes that Putnam Management did not comply with certain disclosure requirements in connection with dividend payments to shareholders of your fund. Putnam Management is currently engaged in settlement negotiations with the SEC Staff regarding this matter.

Putnam Management and Putnam Retail Management are named as defendants in a civil suit in which the plaintiffs allege that the management and distribution fees paid by certain Putnam funds were excessive and seek recovery under the Investment Company Act of 1940. Putnam Management and Putnam Retail Management have contested the plaintiffs' claims and the matter is currently pending in the U.S. District Court for the District of Massachusetts. Based on currently available information, Putnam Management believes that this action is without merit and that it is unlikely to have a material effect on Putnam Management's and Putnam Retail Management's ability to provide services to their clients, including the fund.

#### **Note 9: New accounting pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation). The Interpretation prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken by a filer in the filer's tax return. The Interpretation will become effective for fiscal years beginning after December 15, 2006 but will also apply to tax positions reflected in the fund's financial statements as of that date. No determination has been made whether the adoption of the Interpretation will require the fund to make any adjustments to its net assets or have any other effect on the fund's financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (the Standard). The Standard defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Standard applies to fair value measurements already required or permitted by existing standards. The Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Putnam Management is currently evaluating what impact the adoption of the Standard will have on the fund's financial statements.

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## **Federal tax information (Unaudited)**

### **Federal tax information**

The fund designated 1.11% of ordinary income distributions as qualifying for the dividends received deduction for corporations.

For its tax year ended September 30, 2006, the fund hereby designates 1.11%, or the maximum amount allowable, of its taxable ordinary income distributions as qualified dividends taxed at the individual net capital gain rates.

The Form 1099 you receive in January 2007 will show the tax status of all distributions paid to your account in calendar 2006.

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## **Shareholder meeting results (Unaudited)**

The annual meeting of shareholders of the fund was held on June 29, 2006.



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At the meeting, each of the nominees for Trustees was elected, as follows:

|                          | Votes for  | Votes withheld |
|--------------------------|------------|----------------|
| Jameson A. Baxter        | 86,358,775 | 2,201,698      |
| Charles B. Curtis        | 86,371,546 | 2,188,927      |
| Myra R. Drucker          | 86,400,762 | 2,159,711      |
| Charles E. Haldeman, Jr. | 86,404,843 | 2,155,630      |
| John A. Hill             | 86,400,932 | 2,159,541      |
| Paul L. Joskow           | 86,420,202 | 2,140,271      |
| Elizabeth T. Kennan      | 86,351,607 | 2,208,866      |
| Robert E. Patterson      | 86,420,070 | 2,140,403      |
| George Putnam, III       | 86,403,291 | 2,157,182      |
| W. Thomas Stephens       | 79,674,994 | 8,885,479      |
| Richard B. Worley        | 86,385,546 | 2,174,927      |

A proposal to convert the fund to an open-end investment company was defeated as follows:

| Votes for | Votes against | Abstentions | Broker non-votes |
|-----------|---------------|-------------|------------------|
| 9,501,146 | 28,303,210    | 1,613,318   | 49,142,799       |

*All tabulations are rounded to the nearest whole number.*

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## **Compliance certifications (Unaudited)**

On July 21, 2006, your fund submitted a CEO annual certification to the New York Stock Exchange (["NYSE"]) on which the fund's principal executive officer certified that he was not aware, as of that date, of any violation by the fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the fund's principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the fund's disclosure controls and procedures and internal control over financial reporting.

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## About the Trustees

### **Jameson A. Baxter** (Born 1943), Trustee since 1994, Vice Chairman since 2005

Ms. Baxter is the President of Baxter Associates, Inc., a private investment firm that she founded in 1986.

Ms. Baxter serves as a Director of ASHTA Chemicals, Inc., Banta Corporation (a printing and digital imaging firm), Ryerson Tull, Inc. (a steel service corporation), the Mutual Fund Directors Forum, Advocate Health Care and BoardSource, formerly the National Center for Nonprofit Boards. She is Chairman Emeritus of the Board of Trustees, Mount Holyoke College, having served as Chairman for five years and as a board member for thirteen years. Until 2002, Ms. Baxter was a Director of Intermatic Corporation (a manufacturer of energy control products).

Ms. Baxter has held various positions in investment banking and corporate finance, including Vice President and Principal of the Regency Group, and Vice President of and Consultant to First Boston Corporation. She is a graduate of Mount Holyoke College.

### **Charles B. Curtis** (Born 1940), Trustee since 2001

Mr. Curtis is President and Chief Operating Officer of the Nuclear Threat Initiative (a private foundation dealing with national security issues) and serves as Senior Advisor to the United Nations Foundation.

Mr. Curtis is a member of the Council on Foreign Relations and the Trustee Advisory Council of the Applied Physics Laboratory, Johns Hopkins University. Until 2003, Mr. Curtis was a member of the Electric Power Research Institute Advisory Council and the University of Chicago Board of Governors for Argonne National Laboratory. Prior to 2002, Mr. Curtis was a Member of the Board of Directors of the Gas Technology Institute and the Board of Directors of the Environment and Natural Resources Program Steering Committee, John F. Kennedy School of Government, Harvard University. Until 2001, Mr. Curtis was a member of the Department of Defense Policy Board and Director of EG&G Technical Services, Inc. (a fossil energy research and development support company).

From August 1997 to December 1999, Mr. Curtis was a Partner at Hogan & Hartson L.L.P., a Washington, D.C. law firm. Prior to May 1997, Mr. Curtis was Deputy Secretary of Energy and Under Secretary of the U.S. Department of Energy. He served as Chairman of the Federal Energy Regulatory Commission from 1977 to 1981 and has held positions on the staff of the U.S. House of Representatives, the U.S. Treasury Department, and the SEC.

### **Myra R. Drucker** (Born 1948), Trustee since 2004

Ms. Drucker is Chair of the Board of Trustees of Commonfund (a not-for-profit firm specializing in asset management for educational endowments and foundations), Vice Chair of the Board of Trustees of Sarah Lawrence College, and a member of the Investment Committee of the Kresge Foundation (a charitable trust). She is also a director of New York Stock Exchange LLC, a wholly-owned subsidiary of the publicly-traded NYSE Group, Inc. She is an advisor to Hamilton Lane LLC and RCM Capital Management (investment management firms).

Ms. Drucker is an ex-officio member of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee, having served as Chair for seven years and a member of the Executive Committee of the Committee on Investment of Employee Benefit Assets.

Until August 31, 2004, Ms. Drucker was Managing Director and a member of the Board of Directors of General Motors Asset Management and Chief Investment Officer of General Motors Trust Bank. Ms. Drucker also served as a member of the NYSE Corporate Accountability and Listing Standards Committee and the NYSE/NASD IPO Advisory Committee.

Prior to joining General Motors Asset Management in 2001, Ms. Drucker held various executive positions in the investment management industry. Ms. Drucker served as Chief Investment Officer of Xerox Corporation (a technology and service company in the document industry), where she was responsible for the investment of the

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company's pension assets. Ms. Drucker was also Staff Vice President and Director of Trust Investments for International Paper (a paper, paper distribution, packaging and forest products company) and previously served as Manager of Trust Investments for Xerox Corporation. Ms. Drucker received a B.A. degree in Literature and Psychology from Sarah Lawrence College and pursued graduate studies in economics, statistics and portfolio theory at Temple University.

### **John A. Hill** (Born 1942), *Trustee since 1985 and Chairman since 2000*

Mr. Hill is Vice Chairman of First Reserve Corporation, a private equity buyout firm that specializes in energy investments in the diversified worldwide energy industry.

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Mr. Hill is a Director of Devon Energy Corporation, TransMontaigne Oil Company and various private companies controlled by First Reserve Corporation, as well as Chairman of TH Lee, Putnam Investment Trust (a closed-end investment company advised by an affiliate of Putnam Management). He is also a Trustee of Sarah Lawrence College. Until 2005, he was a Director of Continuum Health Partners of New York.

Prior to acquiring First Reserve Corporation in 1983, Mr. Hill held executive positions in investment banking and investment management with several firms and with the federal government, including Deputy Associate Director of the Office of Management and Budget and Deputy Director of the Federal Energy Administration. He is active in various business associations, including the Economic Club of New York, and lectures on energy issues in the United States and Europe. Mr. Hill holds a B.A. degree in Economics from Southern Methodist University and pursued graduate studies there as a Woodrow Wilson Fellow.

### **Paul L. Joskow** (Born 1947), *Trustee since 1997*

Dr. Joskow is the Elizabeth and James Killian Professor of Economics and Management, and Director of the Center for Energy and Environmental Policy Research at the Massachusetts Institute of Technology.

Dr. Joskow serves as a Director of National Grid plc (a UK-based holding company with interests in electric and gas transmission and distribution and telecommunications infrastructure) and TransCanada Corporation (an energy company focused on natural gas transmission and power services). He also serves on the Board of Overseers of the Boston Symphony Orchestra. Prior to February 2005, he served on the board of the Whitehead Institute for Biomedical Research (a non-profit research institution) and has been President of the Yale University Council since 1993. Prior to February 2002, he was a Director of State Farm Indemnity Company (an automobile insurance company), and, prior to March 2000, he was a Director of New England Electric System (a public utility holding company).

Dr. Joskow has published five books and numerous articles on topics in industrial organization, government regulation of industry, and competition policy. He is active in industry restructuring, environmental, energy, competition and privatization policies — serving as an advisor to governments and corporations worldwide. Dr. Joskow holds a Ph.D. and M. Phil from Yale University and a B.A. from Cornell University.

### **Elizabeth T. Kennan** (Born 1938), *Trustee since 1992*

Dr. Kennan is a Partner of Cambus-Kenneth Farm (thoroughbred horse and cattle breeding). She is President Emeritus of Mount Holyoke College.

Dr. Kennan served as Chairman and is now Lead Director of Northeast Utilities. Until 2005, she was a Director of Talbots, Inc. She has served as Director on a number of other boards, including Bell Atlantic, Chastain Real Estate, Shawmut Bank, Berkshire Life Insurance and Kentucky Home Life Insurance. She is a Trustee of the National Trust for Historic Preservation, of Centre College and of Midway College in Midway, Kentucky. Until 2006, she was a member of The Trustees of Reservations. Dr. Kennan has served on the oversight committee of the Folger Shakespeare Library, as President of Five Colleges Incorporated, as a Trustee of Notre Dame University and is active in various educational and civic associations.

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As a member of the faculty of Catholic University for twelve years, until 1978, Dr. Kennan directed the post-doctoral program in Patristic and Medieval Studies, taught history and published numerous articles. Dr. Kennan holds a Ph.D. from the University of Washington in Seattle, an M.S. from St. Hilda's College at Oxford University and an A.B. from Mount Holyoke College. She holds several honorary doctorates.

### **Kenneth R. Leibler** (Born 1949), Trustee since 2006

Mr. Leibler is founding Chairman of the Boston Options Exchange, the nation's newest electronic marketplace for the trading of derivative securities.

Mr. Leibler currently serves as a Trustee of Beth Israel Deaconess Hospital in Boston. He is also lead director of Ruder Finn Group, a global communications and advertising firm. Since 2003, he has served as a director of the Optimum Funds group. Prior to October 2006, he served as a director of ISO New England, the organization responsible for the operation of the electric generation system in the New England states. Prior to 2000, he was a director of the Investment Company Institute in Washington, D.C.

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Prior to January 2005, Mr. Leibler served as Chairman and Chief Executive Officer of the Boston Stock Exchange. Prior to January 2000, he served as President and Chief Executive Officer of Liberty Financial Companies, a publicly traded diversified asset management organization. Prior to June 1990, he served as President and Chief Operating Officer of the American Stock Exchange, the youngest person in Exchange history to hold the title of President. Prior to serving as Amex President, he held the position of Chief Financial Officer, and headed its management and marketing operations. Mr. Leibler graduated magna cum laude in economics from Syracuse University, where he was elected Phi Beta Kappa.

### **Robert E. Patterson** (Born 1945), Trustee since 1984

Mr. Patterson is Senior Partner of Cabot Properties, L.P. and Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate).

Mr. Patterson serves as Chairman Emeritus and Trustee of the Joslin Diabetes Center and as a Director of Brandywine Trust Group, LLC. Prior to June 2003, he was a Trustee of Sea Education Association. Prior to December 2001, he was President and Trustee of Cabot Industrial Trust (a publicly traded real estate investment trust). Prior to February 1998, he was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership (a registered investment adviser involved in institutional real estate investments). Prior to 1990, he served as Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (the predecessor company of Cabot Partners).

Mr. Patterson practiced law and held various positions in state government and was the founding Executive Director of the Massachusetts Industrial Finance Agency. Mr. Patterson is a graduate of Harvard College and Harvard Law School.

### **W. Thomas Stephens** (Born 1942), Trustee since 1997

Mr. Stephens is Chairman and Chief Executive Officer of Boise Cascade, L.L.C. (a paper, forest products and timberland assets company).

Until 2005, Mr. Stephens was a director of TransCanada Pipelines, Ltd. Until 2004, Mr. Stephens was a Director of Xcel Energy Incorporated (a public utility company), Qwest Communications, and Norske Canada, Inc. (a paper manufacturer). Until 2003, Mr. Stephens was a Director of Mail-Well, Inc. (a diversified printing company). He served as Chairman of Mail-Well until 2001 and as CEO of MacMillan-Bloedel, Ltd. (a forest products company) until 1999.

Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville Corporation. He holds B.S. and M.S. degrees from the University of Arkansas.

**Richard B. Worley** *(Born 1945), Trustee since 2004*

Mr. Worley is Managing Partner of Permit Capital LLC, an investment management firm.

Mr. Worley serves on the Executive Committee of the University of Pennsylvania Medical Center, is a Trustee of The Robert Wood Johnson Foundation (a philanthropic organization devoted to health care issues) and is a Director of The Colonial Williamsburg Foundation (a historical preservation organization). Mr. Worley also serves on the investment committees of Mount Holyoke College and World Wildlife Fund (a wildlife conservation organization).

Prior to joining Permit Capital LLC in 2002, Mr. Worley served as Chief Strategic Officer of Morgan Stanley Investment Management. He previously served as President, Chief Executive Officer and Chief Investment Officer of Morgan Stanley Dean Witter Investment Management and as a Managing Director of Morgan Stanley, a financial services firm. Mr. Worley also was the Chairman of Miller Anderson & Sherrerd, an investment management firm.

Mr. Worley holds a B.S. degree from University of Tennessee and pursued graduate studies in economics at the University of Texas.

**Charles E. Haldeman, Jr.\*** *(Born 1948), Trustee since 2004*

Mr. Haldeman is President and Chief Executive Officer of Putnam, LLC (Putnam Investments). He is a member of Putnam Investments Executive Board of Directors and Advisory Council. Prior to November 2003, Mr. Haldeman served as Co-Head of Putnam Investments Investment Division.

Prior to joining Putnam Investments in 2002, Mr. Haldeman held executive positions in the investment management industry. He previously served as Chief Executive Officer of Delaware Investments and President & Chief Operating Officer of United Asset Management. Mr. Haldeman was also a partner and director of Cooke & Bieler, Inc. (an investment management firm).

Mr. Haldeman currently serves on the Board of Governors of the Investment Company Institute and as a Trustee of Dartmouth College, and he is a member of the Partners HealthCare Systems Investment Committee. He is a graduate of Dartmouth College, Harvard Law School and Harvard Business School. Mr. Haldeman is also a Chartered Financial Analyst (CFA) charterholder.

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**George Putnam, III\*** *(Born 1951), Trustee since 1984  
and President since 2000*

Mr. Putnam is President of New Generation Research, Inc. (a publisher of financial advisory and other research services), and of New Generation Advisers, Inc. (a registered investment advisor to private funds). Mr. Putnam founded the New Generation companies in 1986.

Mr. Putnam is a Director of The Boston Family Office, LLC (a registered investment adviser). He is a Trustee of St. Mark's School and Shore Country Day School, and until 2002 was a Trustee of the Sea Education Association.

Mr. Putnam previously worked as an attorney with the law firm of Dechert LLP (formerly known as Dechert Price & Rhoads) in Philadelphia. He is a graduate of Harvard College, Harvard Business School and Harvard Law School.

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The address of each Trustee is One Post Office Square, Boston, MA 02109.

As of September 30, 2006, there were 108 Putnam Funds. All Trustees serve as Trustees of all Putnam funds.

Each Trustee serves for an indefinite term, until his or her resignation, retirement at age 72, death, or removal.

\* Trustees who are or may be deemed to be "interested persons" (as defined in the Investment Company Act of 1940) of the fund, Putnam Management, Putnam Retail Management, or Marsh & McLennan Companies, Inc., the parent company of Putnam, LLC and its affiliated companies. Messrs. Haldeman and Putnam, III are deemed "interested persons" by virtue of their positions as officers of the fund, Putnam Management or Putnam Retail Management and as shareholders of Marsh & McLennan Companies, Inc. Mr. Putnam, III is the President of your fund and each of the other Putnam funds. Mr. Haldeman is President and Chief Executive Officer of Putnam Investments.

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## Officers

In addition to George Putnam, III, the other officers of the fund are shown below:

Charles E. Porter (*Born 1938*)  
Executive Vice President, Principal Executive Officer, Associate  
Treasurer, and Compliance Liaison  
*Since 1989*

Jonathan S. Horwitz (*Born 1955*)  
Senior Vice President and Treasurer  
*Since 2004*  
Prior to 2004, Managing Director,  
Putnam Investments

Steven D. Krichmar (*Born 1958*)  
Vice President and Principal Financial Officer  
*Since 2002*  
Senior Managing Director, Putnam Investments.  
Prior to July 2001, Partner, PricewaterhouseCoopers LLP

Michael T. Healy (*Born 1958*)  
Assistant Treasurer and Principal Accounting Officer  
*Since 2000*  
Managing Director, Putnam Investments

Beth S. Mazor (*Born 1958*)  
Vice President  
*Since 2002*  
Managing Director, Putnam Investments

James P. Pappas (*Born 1953*)  
Vice President  
*Since 2004*  
Managing Director, Putnam Investments and Putnam Management.  
During 2002, Chief Operating Officer, Atalanta/Sosnoff Management  
Corporation; prior to 2001, President and Chief Executive Officer,

UAM Investment Services, Inc.

Richard S. Robie, III (*Born 1960*)

Vice President

*Since 2004*

Senior Managing Director, Putnam Investments, Putnam Management and Putnam Retail Management. Prior to 2003, Senior Vice President, United Asset Management Corporation

Francis J. McNamara, III (*Born 1955*)

Vice President and Chief Legal Officer

*Since 2004*

Senior Managing Director, Putnam Investments, Putnam Management and Putnam Retail Management. Prior to 2004, General Counsel, State Street Research & Management Company

Charles A. Ruys de Perez (*Born 1957*)

Vice President and Chief Compliance Officer

*Since 2004*

Managing Director, Putnam Investments

Mark C. Trenchard (*Born 1962*)

Vice President and BSA Compliance Officer

*Since 2002*

Managing Director, Putnam Investments

Judith Cohen (*Born 1945*)

Vice President, Clerk and Assistant Treasurer

*Since 1993*

Wanda M. McManus (*Born 1947*)

Vice President, Senior Associate Treasurer and Assistant Clerk

*Since 2005*

Nancy E. Florek (*Born 1957*)

Vice President, Assistant Clerk, Assistant Treasurer and Proxy Manager

*Since 2005*

*The address of each Officer is One Post Office Square, Boston, MA 02109.*

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## **The Putnam Family of Funds**

The following is a list of Putnam's open-end mutual funds offered to the public. *Investors should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. For a prospectus containing this and other information for any Putnam fund or product, call your financial advisor at 1-800-225-1581 and ask for a prospectus. Please read the prospectus carefully before investing.*

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Growth funds

Discovery Growth Fund  
Growth Opportunities Fund  
Health Sciences Trust  
International New Opportunities Fund\*  
New Opportunities Fund  
OTC & Emerging Growth Fund  
Small Cap Growth Fund\*  
Vista Fund  
Voyager Fund

Blend funds

Capital Appreciation Fund  
Capital Opportunities Fund\*  
Europe Equity Fund\*  
Global Equity Fund\*  
Global Natural Resources Fund\*  
International Capital Opportunities Fund\*  
International Equity Fund\*  
Investors Fund  
Research Fund  
Tax Smart Equity Fund®  
Utilities Growth and Income Fund

Value funds

Classic Equity Fund  
Convertible Income-Growth Trust  
Equity Income Fund  
The George Putnam Fund of Boston  
The Putnam Fund for Growth and Income  
International Growth and Income Fund\*  
Mid Cap Value Fund  
New Value Fund  
Small Cap Value Fund\*□

Income funds

American Government Income Fund  
Diversified Income Trust  
Floating Rate Income Fund  
Global Income Trust\*  
High Yield Advantage Fund\*□  
High Yield Trust\*  
Income Fund  
Limited Duration Government Income Fund  
Money Market Fund□  
U.S. Government Income Trust

Tax-free income funds

AMT-Free Insured Municipal Fund  
Tax Exempt Income Fund  
Tax Exempt Money Market Fund\$



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### Tax-Free High Yield Fund

#### *State tax-free income funds:*

Arizona, California, Florida, Massachusetts, Michigan, Minnesota,  
New Jersey, New York, Ohio, and Pennsylvania

#### Asset allocation funds Income Strategies Fund

Putnam Asset Allocation Funds □ three investment portfolios that spread your money across a variety of stocks, bonds, and money market investments.

#### *The three portfolios:*

Asset Allocation: Balanced Portfolio  
Asset Allocation: Conservative Portfolio  
Asset Allocation: Growth Portfolio

#### Putnam RetirementReady® Funds

Putnam RetirementReady Funds □ ten investment portfolios that offer diversification among stocks, bonds, and money market instruments and adjust to become more conservative over time based on a target date for withdrawing assets.

#### *The ten funds:*

Putnam RetirementReady 2050 Fund  
Putnam RetirementReady 2045 Fund  
Putnam RetirementReady 2040 Fund  
Putnam RetirementReady 2035 Fund  
Putnam RetirementReady 2030 Fund  
Putnam RetirementReady 2025 Fund  
Putnam RetirementReady 2020 Fund  
Putnam RetirementReady 2015 Fund  
Putnam RetirementReady 2010 Fund  
Putnam RetirementReady Maturity Fund

*\* A 1% redemption fee on total assets redeemed or exchanged within 90 days of purchase may be imposed for all share classes of these funds.*

□ *Closed to new investors.*

□ *An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve your investment at \$1.00 per share, it is possible to lose money by investing in the fund.*

*With the exception of money market funds, a 1% redemption fee may be applied to shares exchanged or sold within 7 days of purchase (90 days, for certain funds).*

*Check your account balances and the most recent month-end performance at [www.putnam.com](http://www.putnam.com).*

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## Fund information

### About Putnam Investments

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Founded over 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 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

Officers  
George Putnam, III  
*President*

Wanda M. McManus  
*Vice President, Senior Associate Treasurer  
and Assistant Clerk*

Investment Sub-Manager  
Putnam Investments Limited  
57□59 St. James Street  
London, England SW1A 1LD

Charles E. Porter  
*Executive Vice President, Principal  
Executive Officer, Associate Treasurer,  
and Compliance Liaison*

Nancy E. Florek  
*Vice President, Assistant Clerk,  
Assistant Treasurer and Proxy Manager*

Marketing Services  
Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

Jonathan S. Horwitz  
*Senior Vice President and Treasurer*

Steven D. Krichmar  
*Vice President and Principal Financial Officer*

Custodian  
Putnam Fiduciary Trust Company

Michael T. Healy  
*Assistant Treasurer and  
Principal Accounting Officer*

Legal Counsel  
Ropes & Gray LLP

Beth S. Mazor  
*Vice President*

Independent Registered Public  
Accounting Firm  
KPMG LLP

James P. Pappas  
*Vice President*

Trustees

Richard S. Robie, III  
*Vice President*

John A. Hill, *Chairman*

Jameson Adkins Baxter, *Vice Chairman*

Francis J. McNamara, III  
*Vice President and Chief Legal Officer*

Charles B. Curtis

Myra R. Drucker

Charles E. Haldeman, Jr.

Charles A. Ruys de Perez  
*Vice President and Chief Compliance Officer*

Paul L. Joskow

Elizabeth T. Kennan

Kenneth R. Leibler

Mark C. Trenchard  
*Vice President and BSA Compliance Officer*

Robert E. Patterson

George Putnam, III

W. Thomas Stephens

Judith Cohen  
*Vice President, Clerk and Assistant Treasurer*

Richard B. Worley

Call 1-800-225-1581 weekdays between 9:00 a.m. and 5:00 p.m. Eastern Time, or visit our Web site ([www.putnam.com](http://www.putnam.com)) anytime for up-to-date information about the fund's NAV.

Item 2. Code of Ethics:

(a) The Fund's principal executive, financial and accounting officers are employees of Putnam Investment Management, LLC, the Fund's investment manager. As such they are subject to a comprehensive Code of Ethics adopted and administered by Putnam Investments which is designed to protect the interests of the firm and its clients. The Fund has adopted a Code of Ethics which incorporates the Code of Ethics of Putnam Investments with respect to all of its officers and Trustees who are employees of Putnam Investment Management, LLC. For this reason, the Fund has not adopted a separate code of ethics governing its principal executive, financial and accounting officers.

(c) None

Item 3. Audit Committee Financial Expert:

The Funds' Audit and Compliance Committee is comprised solely of Trustees who are "independent" (as such term has been defined by the Securities and Exchange Commission ("SEC") in regulations implementing Section 407 of the Sarbanes-Oxley Act (the "Regulations")). The Trustees believe that each of the members of the Audit and Compliance Committee also possess a combination of knowledge and experience with respect to financial accounting matters, as well as other attributes, that qualify them for service on the Committee. In addition, the Trustees have determined that each of Mr. Patterson, Mr. Stephens, Mr. Leibler and Mr. Hill meets the financial literacy requirements of the New York Stock Exchange's rules and qualifies as an "audit committee financial expert" (as such term has been defined by the Regulations) based on their review of his pertinent experience and education. Certain other Trustees, although not on the Audit and Compliance Committee, would also qualify as "audit committee financial experts." The SEC has stated that the designation or identification of a person as an audit committee financial expert pursuant to this Item 3 of Form N-CSR does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit and Compliance Committee and the Board of Trustees in the absence of such designation or identification.

Item 4. Principal Accountant Fees and Services:

The following table presents fees billed in each of the last two fiscal years for services rendered to the fund by the fund's independent auditor:

| <u>Fiscal year ended</u> | <u>Audit Fees</u> | <u>Audit-Related Fees</u> | <u>Tax Fees</u> | <u>All Other Fees</u> |
|--------------------------|-------------------|---------------------------|-----------------|-----------------------|
| September 30, 2006       | \$61,380          | \$--                      | \$4,680         | \$439                 |
| September 30, 2005       | \$42,292          | \$--                      | \$4,192         | \$-                   |

For the fiscal years ended September 30, 2006 and September 30, 2005, the fund's independent auditor billed aggregate non-audit fees in the amounts of \$5,119 and \$4,192 respectively, to the fund, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund.

Audit Fees represent fees billed for the fund's last two fiscal years.

Audit-Related Fees represent fees billed in the fund's last two fiscal years for services traditionally performed by the fund's auditor, including accounting consultation for proposed transactions or

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concerning financial accounting and reporting standards and other audit or attest services not required by statute or regulation.

Tax Fees represent fees billed in the fund's last two fiscal years for tax compliance, tax planning and tax advice services. Tax planning and tax advice services include assistance with tax audits, employee benefit plans and requests for rulings or technical advice from taxing authorities.

All Other Fees represent fees billed for services relating to expense allocation methodology.

Pre-Approval Policies of the Audit and Compliance Committee. The Audit and Compliance Committee of the Putnam funds has determined that, as a matter of policy, all work performed for the funds by the funds' independent auditors will be pre-approved by the Committee itself and thus will generally not be subject to pre-approval procedures.

The Audit and Compliance Committee also has adopted a policy to pre-approve the engagement by Putnam Management and certain of its affiliates of the funds' independent auditors, even in circumstances where pre-approval is not required by applicable law. Any such requests by Putnam Management or certain of its affiliates are typically submitted in writing to the Committee and explain, among other things, the nature of the proposed engagement, the estimated fees, and why this work should be performed by that particular audit firm as opposed to another one. In reviewing such requests, the Committee considers, among other things, whether the provision of such services by the audit firm are compatible with the independence of the audit firm.

The following table presents fees billed by the fund's independent auditor for services required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

| <u>Fiscal</u><br><u>year</u><br><u>ended</u> | <u>Audit-</u><br><u>Related</u><br><u>Fees</u> | <u>Tax</u><br><u>Fees</u> | <u>All</u><br><u>Other</u><br><u>Fees</u> | <u>Total</u><br><u>Non-Audit</u><br><u>Fees</u> |
|--|--|---------------------------|---|---|
| September 30,<br>2006                        | \$ -   | \$ -                      | \$ -                                      | \$ -  |
| September<br>30, 2005                        | \$ -   | \$ -                      | \$ -                                      | \$ -  |

### Item 5. Audit Committee of Listed Registrants

(a) The fund has a separately-designated Audit and Compliance Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit and Compliance Committee of the fund's Board of Trustees is composed of the following persons:

Robert E. Patterson (Chairperson)  
Kenneth R. Leibler  
W. Thomas Stephens  
John A. Hill

(b) Not applicable

### Item 6. Schedule of Investments:

The registrant's schedule of investments in unaffiliated issuers is included in the report to shareholders in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies:

**Proxy voting guidelines of the Putnam funds**

The proxy voting guidelines below summarize the funds' positions on various issues of concern to investors, and give a general indication of how fund portfolio securities will be voted on proposals dealing with particular issues. The funds' proxy voting service is instructed to vote all proxies relating to fund portfolio securities in accordance with these guidelines, except as otherwise instructed by the Proxy Coordinator, a member of the Office of the Trustees who is appointed to assist in the coordination and voting of the funds' proxies.

The proxy voting guidelines are just that — guidelines. The guidelines are not exhaustive and do not include all potential voting issues. Because proxy issues and the circumstances of individual companies are so varied, there may be instances when the funds may not vote in strict adherence to these guidelines. For example, the proxy voting service is expected to bring to the Proxy Coordinator's attention proxy questions that are company-specific and of a non-routine nature and that, even if covered by the guidelines, may be more appropriately handled on a case-by-case basis.

Similarly, Putnam Management's investment professionals, as part of their ongoing review and analysis of all fund portfolio holdings, are responsible for monitoring significant corporate developments, including proxy proposals submitted to shareholders, and notifying the Proxy Coordinator of circumstances where the interests of fund shareholders may warrant a vote contrary to these guidelines. In such instances, the investment professionals will submit a written recommendation to the Proxy Coordinator and the person or persons designated by Putnam Management's Legal and Compliance Department to assist in processing referral items pursuant to the funds' Proxy Voting Procedures. The Proxy Coordinator, in consultation with the funds' Senior Vice President, Executive Vice President, and/or the Chair of the Board Policy and Nominating Committee, as appropriate, will determine how the funds' proxies will be voted. When indicated, the Chair of the Board Policy and Nominating Committee may consult with other members of the Committee or the full Board of Trustees.

The following guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals that have been put forth by management and approved and recommended by a company's board of directors. Part II deals with proposals submitted by shareholders for inclusion in proxy statements. Part III addresses unique considerations pertaining to non-U.S. issuers.

The Putnam funds will disclose their proxy votes in accordance with the timetable established by SEC rules (i.e., not later than August 31 of each year for the most recent 12-month period ended June 30).

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**I. BOARD-APPROVED PROPOSALS**

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself (sometimes referred to as "management proposals"), which have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies and of the funds' intent to hold corporate boards accountable for their actions in promoting shareholder interests, the funds' proxies generally will be voted **for** the decisions reached by majority independent boards of directors, except as otherwise indicated in these guidelines. Accordingly, the funds' proxies will be voted **for** board-approved proposals, except as follows:

**Matters relating to the Board of Directors**

*Uncontested Election of Directors*

The funds' proxies will be voted **for** the election of a company's nominees for the board of directors, except as follows:

- The funds will **withhold votes** for the entire board of directors if
- the board does not have a majority of independent directors,
- the board has not established independent nominating, audit, and compensation committees,

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- the board has more than 19 members or fewer than five members, absent special circumstances,
  - the board has not acted to implement a policy requested in a shareholder proposal that received the support of a majority of the shares of the company cast at its previous two annual meetings, or
  - the board has adopted or renewed a shareholder rights plan (commonly referred to as a "poison pill") without shareholder approval during the current or prior calendar year.
  - The funds will on **case-by-case basis withhold votes** from the entire board of directors where the board has approved compensation arrangements for one or more company executives that the funds determine are unreasonably excessive relative to the company's performance.
  - The funds will **withhold votes** for any nominee for director who:
    - is considered an independent director by the company and who has received compensation from the company other than for service as a director (e.g., investment banking, consulting, legal, or financial advisory fees),
    - attends less than 75% of board and committee meetings without valid reasons for the absences (e.g., illness, personal emergency, etc.),
    - as a director of a public company (Company A), is employed as a senior executive of another public company (Company B) if a director of Company B serves as a senior executive of Company A (commonly referred to as an "interlocking directorate"), or
- 

serves on more than five unaffiliated public company boards (for the purpose of this guideline, boards of affiliated registered investment companies will count as one board).

### Commentary:

**Board independence:** Unless otherwise indicated, for the purposes of determining whether a board has a majority of independent directors and independent nominating, audit, and compensation committees, an "independent director" is a director who (1) meets all requirements to serve as an independent director of a company under the final NYSE Corporate Governance Rules (e.g., no material business relationships with the company and no present or recent employment relationship with the company (including employment of an immediate family member as an executive officer)), and (2) has not accepted directly or indirectly any consulting, advisory, or other compensatory fee from the company other than in his or her capacity as a member of the board of directors or any board committee. The funds' Trustees believe that the receipt of any amount of compensation for services other than service as a director raises significant independence issues.

**Board size:** The funds' Trustees believe that the size of the board of directors can have a direct impact on the ability of the board to govern effectively. Boards that have too many members can be unwieldy and ultimately inhibit their ability to oversee management performance. Boards that have too few members can stifle innovation and lead to excessive influence by management.

**Time commitment:** Being a director of a company requires a significant time commitment to adequately prepare for and attend the company's board and committee meetings. Directors must be able to commit the time and attention necessary to perform their fiduciary duties in proper fashion, particularly in times of crisis. The funds' Trustees are concerned about over-committed directors. In some cases, directors may serve on too many boards to make a meaningful contribution. This may be particularly true for senior executives of public companies (or other directors with substantially full-time employment) who serve on more than a few outside boards. The funds may withhold votes from such directors on a case-by-case basis where it appears that they may be unable to discharge their duties properly because of excessive commitments.

**Interlocking directorships:** The funds' Trustees believe that interlocking directorships are inconsistent with the degree of independence required for outside directors of public companies.

**Corporate governance practices:** Board independence depends not only on its members' individual relationships, but also on the board's overall attitude toward management. Independent boards are committed to

good corporate governance practices and, by providing objective independent judgment, enhancing shareholder value. The funds may withhold votes on a case-by-case basis from some or all directors who, through their lack of independence, have failed to observe good corporate governance practices or, through specific corporate action, have demonstrated a disregard for the interest of shareholders. Such instances may include cases where a board of directors has approved compensation arrangements for one or more members of management that, in the judgment of the funds' Trustees, are excessive by reasonable corporate standards relative to the company's record of performance.

#### *Contested Elections of Directors*

The funds will vote on **case-by-case basis** in contested elections of directors.

#### *Classified Boards*

The funds will vote **against** proposals to classify a board, absent special circumstances indicating that shareholder interests would be better served by this structure.

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**Commentary:** Under a typical classified board structure, the directors are divided into three classes, with each class serving a three-year term. The classified board structure results in directors serving staggered terms, with usually only a third of the directors up for re-election at any given annual meeting. The funds' Trustees generally believe that it is appropriate for directors to stand for election each year, but recognize that, in special circumstances, shareholder interests may be better served under a classified board structure.

#### *Other Board-Related Proposals*

The funds will generally vote **for** board-approved proposals that have been approved by a majority independent board, and on a **case-by-case basis** on board-approved proposals where the board fails to meet the guidelines' basic independence standards (i.e., majority of independent directors and independent nominating, audit, and compensation committees).

#### **Executive Compensation**

The funds generally favor compensation programs that relate executive compensation to a company's long-term performance. The funds will vote on a **case-by-case basis** on board-approved proposals relating to executive compensation, except as follows:

Except where the funds are otherwise withholding votes for the entire board of directors, the funds will vote **for** stock option and restricted stock plans that will result in an average **annual** dilution of 1.67% or less (based on the disclosed term of the plan and including all equity-based plans).

The funds will vote **against** stock option and restricted stock plans that will result in an average **annual** dilution of greater than 1.67% (based on the disclosed term of the plan and including all equity-based plans).

The funds will vote **against** any stock option or restricted stock plan where the company's actual grants of stock options and restricted stock under all equity-based compensation plans during the prior three (3) fiscal years have resulted in an average annual dilution of greater than 1.67% .

The funds will vote **against** stock option plans that permit the replacing or repricing of underwater options (and against any proposal to authorize such replacement or repricing of underwater options).

The funds will vote **against** stock option plans that permit issuance of options with an exercise price below the stock's current market price.

Except where the funds are otherwise withholding votes for the entire board of directors, the funds will vote **for** an employee stock purchase plan that has the following features: (1) the shares purchased under the plan are acquired for no less than 85% of their market value; (2) the offering period under the plan is 27 months or less; and (3) dilution is 10% or less.

**Commentary:** Companies should have compensation programs that are reasonable and that align shareholder and management interests over the longer term. Further, disclosure of compensation programs should provide absolute transparency to shareholders regarding the sources and amounts of, and the factors influencing, executive compensation. Appropriately designed equity-based compensation plans can be an effective way to align the interests of long-term shareholders with the interests of management. The funds may vote against executive compensation proposals on a case-by-case basis where compensation is excessive by reasonable corporate standards, or where a company fails to provide transparent disclosure of

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executive compensation. In voting on a proposal relating to executive compensation, the funds will consider whether the proposal has been approved by an independent compensation committee of the board.

### **Capitalization**

Many proxy proposals involve changes in a company's capitalization, including the authorization of additional stock, the issuance of stock, the repurchase of outstanding stock, or the approval of a stock split. The management of a company's capital structure involves a number of important issues, including cash flow, financing needs, and market conditions that are unique to the circumstances of the company. As a result, the funds will vote on a **case-by-case basis** on board-approved proposals involving changes to a company's capitalization, except that where the funds are not otherwise withholding votes from the entire board of directors:

The funds will vote **for** proposals relating to the authorization and issuance of additional common stock (except where such proposals relate to a specific transaction).

The funds will vote **for** proposals to effect stock splits (excluding reverse stock splits).

The funds will vote **for** proposals authorizing share repurchase programs.

**Commentary:** A company may decide to authorize additional shares of common stock for reasons relating to executive compensation or for routine business purposes. For the most part, these decisions are best left to the board of directors and senior management. The funds will vote on a case-by-case basis, however, on other proposals to change a company's capitalization, including the authorization of common stock with special voting rights, the authorization or issuance of common stock in connection with a specific transaction (e.g., an acquisition, merger or reorganization), or the authorization or issuance of preferred stock. Actions such as these involve a number of considerations that may affect a shareholder's investment and that warrant a case-by-case determination.

### **Acquisitions, Mergers, Reincorporations, Reorganizations and Other Transactions**

Shareholders may be confronted with a number of different types of transactions, including acquisitions, mergers, reorganizations involving business combinations, liquidations, and the sale of all or substantially all of a company's assets, which may require their consent. Voting on such proposals involves considerations unique to each transaction. As a result, the funds will vote on a **case-by-case basis** on board-approved proposals to effect these types of transactions, except as follows:

The funds will vote **for** mergers and reorganizations involving business combinations designed solely to reincorporate a company in Delaware.

**Commentary:** A company may reincorporate into another state through a merger or reorganization by setting up a "shell" company in a different state and then merging the company into the new company. While reincorporation into states with extensive and established corporate laws — notably Delaware — provides companies and shareholders with a more well-defined legal framework, shareholders must carefully consider the reasons for a reincorporation into another jurisdiction, including especially an offshore jurisdiction.

### **Anti-Takeover Measures**

Some proxy proposals involve efforts by management to make it more difficult for an outside party to take control of the company without the approval of the company's board of directors.

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These include the adoption of a shareholder rights plan, requiring supermajority voting on particular issues, the adoption of fair price provisions, the issuance of blank check preferred stock, and the creation of a separate class of stock with disparate voting rights. Such proposals may adversely affect shareholder rights, lead to management entrenchment, or create conflicts of interest. As a result, the funds will vote **against** board-approved proposals to adopt such anti-takeover measures, except as follows:

□ The funds will vote on **case-by-case basis** on proposals to ratify or approve shareholder rights plans; and

□ The funds will vote on **case-by-case basis** on proposals to adopt fair price provisions.

**Commentary:** The funds' Trustees recognize that poison pills and fair price provisions may enhance shareholder value under certain circumstances. As a result, the funds will consider proposals to approve such matters on a case-by-case basis.

### **Other Business Matters**

Many proxies involve approval of routine business matters, such as changing a company's name, ratifying the appointment of auditors, and procedural matters relating to the shareholder meeting. For the most part, these routine matters do not materially affect shareholder interests and are best left to the board of directors and senior management of the company. The funds will vote **for** board-approved proposals approving such matters, except as follows:

□ The funds will vote on a **case-by-case basis** on proposals to amend a company's charter or bylaws (except for charter amendments necessary or to effect stock splits to change a company's name or to authorize additional shares of common stock).

□ The funds will vote **against** authorization to transact other unidentified, substantive business at the meeting.

□ The funds will vote on a **case-by-case basis** on other business matters where the funds are otherwise withholding votes for the entire board of directors.

**Commentary:** Charter and bylaw amendments and the transaction of other unidentified, substantive business at a shareholder meeting may directly affect shareholder rights and have a significant impact on shareholder value. As a result, the funds do not view such items as routine business matters. Putnam Management's investment professionals and the funds' proxy voting service may also bring to the Proxy Coordinator's attention company-specific items that they believe to be non-routine and warranting special consideration. Under these circumstances, the funds will vote on a case-by-case basis.

## **II. SHAREHOLDER PROPOSALS**

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of the company's corporate governance structure or to change some aspect of its business operations. The funds generally will vote **in accordance with the recommendation of the company's board of directors** on all shareholder proposals, except as follows:

□ The funds will vote **for** shareholder proposals to declassify a board, absent special circumstances which would indicate that shareholder interests are better served by a classified board structure.

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□ The funds will vote **for** shareholder proposals to require shareholder approval of shareholder rights plans.

□ The funds will vote **for** shareholder proposals that are consistent with the funds' proxy voting guidelines for board-approved proposals.

□ The funds will vote on **case-by-case basis** on other shareholder proposals where the funds are otherwise withholding votes for the entire board of directors.

Commentary: In light of the substantial reforms in corporate governance that are currently underway, the funds' Trustees believe that effective corporate reforms should be promoted by holding boards of directors and in particular their independent directors accountable for their actions, rather than imposing additional legal restrictions on board governance through piecemeal proposals. Generally speaking, shareholder proposals relating to business operations are often motivated primarily by political or social concerns, rather than the interests of shareholders as investors in an economic enterprise. As stated above, the funds' Trustees believe that boards of directors and management are responsible for ensuring that their businesses are operating in accordance with high legal and ethical standards and should be held accountable for resulting corporate behavior. Accordingly, the funds will generally support the recommendations of boards that meet the basic independence and governance standards established in these guidelines. Where boards fail to meet these standards, the funds will generally evaluate shareholder proposals on a case-by-case basis.

### III. VOTING SHARES OF NON-U.S. ISSUERS

Many of the Putnam funds invest on a global basis, and, as a result, they may be required to vote shares held in non-U.S. issuers (i.e., issuers that are incorporated under the laws of foreign jurisdictions and that are not listed on a U.S. securities exchange or the NASDAQ stock market). Because non-U.S. issuers are incorporated under the laws of countries and jurisdictions outside the U.S., protection for shareholders may vary significantly from jurisdiction to jurisdiction. Laws governing non-U.S. issuers may, in some cases, provide substantially less protection for shareholders. As a result, the foregoing guidelines, which are premised on the existence of a sound corporate governance and disclosure framework, may not be appropriate under some circumstances for non-U.S. issuers.

In many non-U.S. markets, shareholders who vote proxies of a non-U.S. issuer are not able to trade in that company's stock on or around the shareholder meeting date. This practice is known as "share blocking." In countries where share blocking is practiced, the funds will vote proxies only with direction from Putnam Management's investment professionals.

In addition, some non-U.S. markets require that a company's shares be re-registered out of the name of the local custodian or nominee into the name of the shareholder for the meeting. This practice is known as "share re-registration." As a result, shareholders, including the funds, are not able to trade in that company's stock until the shares are re-registered back in the name of the local custodian or nominee. In countries where share re-registration is practiced, the funds will generally not vote proxies.

The funds will vote proxies of non-U.S. issuers **in accordance with the foregoing guidelines where applicable**, except as follows:

#### **Uncontested Election of Directors**

*Japan*

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For companies that have established a U.S.-style corporate structure, the funds will **withhold votes** for the entire board of directors if

the board does not have a majority of **outside directors**,

the board has not established nominating and compensation committees composed of a majority of **outside directors**, or

the board has not established an audit committee composed of a majority of **independent directors**.

The funds will **withhold votes** for the appointment of members of a company's board of statutory auditors if a majority of the members of the board of statutory auditors is not independent.

Commentary:

**Board structure:** Recent amendments to the Japanese Commercial Code give companies the option to adopt a U.S.-style corporate structure (i.e., a board of directors and audit, nominating, and compensation committees). The funds will vote **for** proposals to amend a company's articles of incorporation to adopt the U.S.-style corporate structure.

**Definition of outside director and independent director:** Corporate governance principles in Japan focus on the distinction between outside directors and independent directors. Under these principles, an outside director is a director who is not and has never been a director, executive, or employee of the company or its parent company, subsidiaries or affiliates. An outside director is "independent" if that person can make decisions completely independent from the managers of the company, its parent, subsidiaries, or affiliates and does not have a material relationship with the company (i.e., major client, trading partner, or other business relationship; familial relationship with current director or executive; etc.). The guidelines have incorporated these definitions in applying the board independence standards above.

*Korea*

- The funds will **withhold votes** for the entire board of directors if
- the board does not have a majority of outside directors,
- the board has not established a nominating committee composed of at least a majority of outside directors, or
- the board has not established an audit committee composed of at least three members and in which at least two-thirds of its members are outside directors.

Commentary: For purposes of these guideline, an "outside director" is a director that is independent from the management or controlling shareholders of the company, and holds no interests that might impair performing his or her duties impartially from the company, management or controlling shareholder. In determining whether a director is an outside director, the funds will also apply the standards included in Article 415-2(2) of the Korean Commercial Code (i.e., no employment relationship with the company for a period of two years before serving on the committee, no director or employment relationship with the company's largest shareholder, etc.) and may consider other business relationships that would affect the independence of an outside director.

*United Kingdom*

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- The funds will **withhold votes** for the entire board of directors if
  - the board does not have at least a majority of independent non-executive directors,
  - the board has not established nomination committees composed of a majority of independent non-executive directors, or
  - the board has not established compensation and audit committees composed of (1) at least three directors (in the case of smaller companies, two directors) and (2) solely of independent non-executive directors.
- The funds will **withhold votes** for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director (e.g., investment banking, consulting, legal, or financial advisory fees).

Commentary:

**Application of guidelines:** Although the U.K.'s Combined Code on Corporate Governance ("Combined Code") has adopted the "comply and explain" approach to corporate governance, the funds' Trustees believe that the guidelines discussed above with respect to board independence standards are integral to the protection of investors in U.K. companies. As a result, these guidelines will be applied in a prescriptive manner.

**Definition of independence:** For the purposes of these guidelines, a non-executive director shall be considered independent if the director meets the independence standards in section A.3.1 of the Combined Code (i.e., no material business or employment relationships with the company, no remuneration from the company for non-board services, no close family ties with senior employees or directors of the company, etc.), except that the funds do not view service on the board for more than nine years as affecting a director's independence.

**Smaller companies:** A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

#### *Canada*

In January 2004, Canadian securities regulators issued proposed policies that would impose new corporate governance requirements on Canadian public companies. The recommended practices contained in these new corporate governance requirements mirror corporate governance reforms that have been adopted by the NYSE and other U.S. national securities exchanges and stock markets. As a result, the funds will vote on matters relating to the board of directors of Canadian issuers **in accordance with the guidelines applicable to U.S. issuers**.

**Commentary:** Like the U.K.'s Combined Code, the proposed policies on corporate governance issued by Canadian securities regulators embody the "comply and explain" approach to corporate governance. Because the funds' Trustees believe that the board independence standards contained in the proxy voting guidelines are integral to the protection of investors in Canadian companies, these standards will be applied in a prescriptive manner.

#### **Other Matters**

The funds will vote **for** shareholder proposals calling for a majority of a company's directors to be independent of management.

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The funds will vote **for** shareholder proposals seeking to increase the independence of board nominating, audit, and compensation committees.

The funds will vote **for** shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

The funds will vote on **case-by-case basis** on proposals relating to (1) the issuance of common stock in excess of 20% of the company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of the company's outstanding common stock where shareholders have preemptive rights.

As adopted January 13, 2006

#### Proxy Voting Procedures of the Putnam Funds

The proxy voting procedures below explain the role of the funds' Trustees, the proxy voting service and the Proxy Coordinator, as well as how the process will work when a proxy question needs to be handled on a case-by-case basis, or when there may be a conflict of interest.

#### The role of the funds' Trustees

The Trustees of the Putnam funds exercise control of the voting of proxies through their Board Policy and Nominating Committee, which is composed entirely of independent Trustees. The Board Policy and Nominating Committee oversees the proxy voting process and participates, as needed, in the resolution of issues that need to be handled on a case-by-case basis. The Committee annually reviews and recommends, for Trustee approval, guidelines governing the funds' proxy votes, including how the funds vote on specific proposals and which matters are to be considered on a case-by-case basis. The Trustees are assisted in this process by their independent administrative staff ("Office of the Trustees"), independent legal counsel, and an independent proxy voting service. The Trustees also receive assistance from Putnam Investment Management, LLC ("Putnam Management"), the funds' investment advisor, on matters involving investment judgments. In all cases, the ultimate decision on voting proxies rests with the Trustees, acting as fiduciaries on behalf of the shareholders of the funds.

#### The role of the proxy voting service

The funds have engaged an independent proxy voting service to assist in the voting of proxies. The proxy voting service is responsible for coordinating with the funds' custodians to ensure that all proxy materials received by the custodians relating to the funds' portfolio securities are processed in a timely fashion. To the extent applicable, the proxy voting service votes all proxies in accordance with the proxy voting guidelines established by the Trustees.

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The proxy voting service will refer proxy questions to the Proxy Coordinator (described below) for instructions under circumstances where: (1) the application of the proxy voting guidelines is unclear; (2) a particular proxy question is not covered by the guidelines; or (3) the guidelines call for specific instructions on a case-by-case basis. The proxy voting service is also requested to call to the Proxy Coordinator's attention specific proxy questions that, while governed by a guideline, appear to involve unusual or controversial issues. The funds also utilize research services relating to proxy questions provided by the proxy voting service and by other firms.

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### The role of the Proxy Coordinator

Each year, a member of the Office of the Trustees is appointed Proxy Coordinator to assist in the coordination and voting of the funds' proxies. The Proxy Coordinator will deal directly with the proxy voting service and, in the case of proxy questions referred by the proxy voting service, will solicit voting recommendations and instructions from the Office of the Trustees, the Chair of the Board Policy and Nominating Committee, and Putnam Management's investment professionals, as appropriate. The Proxy Coordinator is responsible for ensuring that these questions and referrals are responded to in a timely fashion and for transmitting appropriate voting instructions to the proxy voting service.

### Voting procedures for referral items

As discussed above, the proxy voting service will refer proxy questions to the Proxy Coordinator under certain circumstances. When the application of the proxy voting guidelines is unclear or a particular proxy question is not covered by the guidelines (and does not involve investment considerations), the Proxy Coordinator will assist in interpreting the guidelines and, as appropriate, consult with one of more senior staff members of the Office of the Trustees and the Chair of the Board Policy and Nominating Committee on how the funds' shares will be voted.

For proxy questions that require a case-by-case analysis pursuant to the guidelines or that are not covered by the guidelines but involve investment considerations, the Proxy Coordinator will refer such questions, through a written request, to Putnam Management's investment professionals for a voting recommendation. Such referrals will be made in cooperation with the person or persons designated by Putnam Management's Legal and Compliance Department to assist in processing such referral items. In connection with each such referral item, the Legal and Compliance Department will conduct a conflicts of interest review, as described below under "Conflicts of Interest," and provide a conflicts of interest report (the "Conflicts Report") to the Proxy Coordinator describing the results of such review. After receiving a referral item from the Proxy Coordinator, Putnam Management's investment professionals will provide a written recommendation to the Proxy Coordinator and the person or persons designated by the Legal and Compliance Department to assist in processing referral items. Such recommendation will set forth (1) how the proxies should be voted; (2) the basis and rationale for such recommendation; and (3) any contacts the investment professionals have had with respect to the referral item with non-investment personnel of Putnam Management or with outside parties (except for routine communications from proxy solicitors). The Proxy Coordinator will then review the investment professionals' recommendation and the Conflicts Report with one of more senior staff members of the Office of the Trustees in determining how to vote the funds' proxies. The Proxy Coordinator will maintain a record of all proxy questions that have been referred to Putnam Management's investment professionals, the voting recommendation, and the Conflicts Report.

In some situations, the Proxy Coordinator and/or one of more senior staff members of the Office of the Trustees may determine that a particular proxy question raises policy issues requiring consultation with the Chair of the Board Policy and Nominating Committee, who, in turn, may decide to bring the particular proxy question to the Committee or the full Board of Trustees for consideration.

### Conflicts of interest

Occasions may arise where a person or organization involved in the proxy voting process may have a conflict of interest. A conflict of interest may exist, for example, if Putnam Management has a business relationship with (or is actively soliciting business from) either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote or that is actively lobbying for a particular outcome of a proxy vote. Any individual with knowledge of a personal conflict of interest (e.g., familial relationship with company management) relating to a particular referral item shall disclose that conflict to the Proxy Coordinator and the Legal and Compliance

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Department and otherwise remove himself or herself from the proxy voting process. The Legal and Compliance Department will review each item referred to Putnam Management's investment professionals to determine if a

conflict of interest exists and will provide the Proxy Coordinator with a Conflicts Report for each referral item that (1) describes any conflict of interest; (2) discusses the procedures used to address such conflict of interest; and (3) discloses any contacts from parties outside Putnam Management (other than routine communications from proxy solicitors) with respect to the referral item not otherwise reported in an investment professional's recommendation. The Conflicts Report will also include written confirmation that any recommendation from an investment professional provided under circumstances where a conflict of interest exists was made solely on the investment merits and without regard to any other consideration.

As adopted March 11, 2005

Item 8. Portfolio Managers of Closed-End Management Investment Companies

(a)(1) **Investment management teams.** Putnam Management's, Putnam Investments Limited's and The Putnam Advisory Company's (for funds having Putnam Investments Limited and/or The Putnam Advisory Company as sub-manager) investment professionals are organized into investment management teams, with a particular team dedicated to a specific asset class. The members of the team or teams identified in the shareholder report included in Item 1 of this report manage the fund's investments. The names of all team members can be found at [www.putnam.com](http://www.putnam.com).

The team members identified as the fund's Portfolio Leader(s) and Portfolio Member(s) coordinate team efforts related to the fund and are primarily responsible for the day-to-day management of the fund's portfolio. In addition to these individuals, each team also includes other investment professionals, whose analysis, recommendations and research inform investment decisions made for the fund.

| <b>Portfolio Leader</b>  | <b>Joined Fund</b> | <b>Employer</b>                            | <b>Positions Over Past Five Years</b>   |
|--------------------------|--------------------|--|---|
| William Kohli            | 1994               | <b>Putnam Management</b><br>1994 - Present | Director, Core Fixed Income Team  |
| <b>Portfolio Members</b> | <b>Joined Fund</b> | <b>Employer</b>                            | <b>Positions Over Past Five Years</b>   |
| Rob Bloemker             | 2005               | <b>Putnam Management</b><br>1999 - Present | Team Leader, Mortgage and Government<br>Previously, Mortgage Specialist             |
| Jeffrey Kaufman          | 2005               | <b>Putnam Management</b><br>1998 - Present | Team Leader, Emerging Markets Debt  |
| Paul Scanlon             | 2005               | <b>Putnam Management</b><br>1990 - Present | Team Leader, Core Fixed Income High Yield<br>Previously, Portfolio Manager; Analyst |
| David Waldman            | 1998               | <b>Putnam</b>                              | Director of Fixed Income Quantitative   |

**Management** Research; Senior Portfolio Manager  
1997 – Present Previously, Director of Applied Quantitative  
Research

(a)(2) **Other Accounts Managed by the Fund's Portfolio Managers.**

The following table shows the number and approximate assets of other investment accounts (or portions of investment accounts) that the fund's Portfolio Leader(s) and Portfolio Member(s) managed as of the fund's most recent fiscal year-end. The other accounts may include accounts for which the individual was not designated as a portfolio member. Unless noted, none of the other accounts pays a fee based on the account's performance.

| Portfolio<br>Leader or<br>Member | Other SEC-registered open-<br>end and closed-end funds |                  | Other accounts that pool<br>assets from more than one<br>client |                  | Other accounts (inclu<br>separate accounts,<br>managed account pro<br>and single-sponsor de<br>contribution plan offe |
|----------------------------------|--|------------------|---|------------------|---|
|                                  | Number<br>of<br>accounts                               | Assets           | Number<br>of<br>accounts  | Assets           | Number<br>of<br>accounts  |
| William Kohli                    | 5  | \$4,750,100,000  | 6   | \$457,200,000    | 2   |
| Rob Bloemker                     | 15   | \$11,612,700,000 | 12  | \$10,615,800,000 | 23*   |
| Jeff Kaufman                     | 3  | \$4,616,200,000  | 2   | \$64,700,000     | 4   |
| Paul Scanlon                     | 14   | \$9,220,000,000  | 7   | \$495,700,000    | 7   |
| Dave Waldman                     | 3  | \$4,616,200,000  | 0   | \$ -             | 1   |

\* 5 accounts, with total assets of \$1,101,900,000, pay an advisory fee based on account performance.

Potential conflicts of interest in managing multiple accounts. Like other investment professionals with multiple clients, the fund's Portfolio Leader(s) and Portfolio Member(s) may face certain potential conflicts of interest in connection with managing both the fund and the other accounts listed under "Other Accounts Managed by the Fund's Portfolio Managers" at the same time. The paragraphs below describe some of these potential conflicts, which Putnam Management believes are faced by investment professionals at most major financial firms. As described below, Putnam Management and the Trustees of the Putnam funds have adopted compliance policies and procedures that attempt to address certain of these potential conflicts.

The management of accounts with different advisory fee rates and/or fee structures, including accounts that pay advisory fees based on account performance ("performance fee accounts"), may raise potential conflicts of interest by creating an incentive to favor higher-fee accounts.

These potential conflicts may include, among others:

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□ The most attractive investments could be allocated to higher-fee accounts or performance fee accounts.

□ The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time.

□ The trading of other accounts could be used to benefit higher-fee accounts (front- running).

□ The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation.

Putnam Management attempts to address these potential conflicts of interest relating to higher-fee accounts through various compliance policies that are generally intended to place all accounts, regardless of fee structure, on the same footing for investment management purposes. For example, under Putnam Management's policies:

□ Performance fee accounts must be included in all standard trading and allocation procedures with all other accounts.

□ All accounts must be allocated to a specific category of account and trade in parallel with allocations of similar accounts based on the procedures generally applicable to all accounts in those groups (e.g., based on relative risk budgets of accounts).

□ All trading must be effected through Putnam's trading desks and normal queues and procedures must be followed (i.e., no special treatment is permitted for performance fee accounts or higher-fee accounts based on account fee structure).

□ Front running is strictly prohibited.

□ The fund's Portfolio Leader(s) and Portfolio Member(s) may not be guaranteed or specifically allocated any portion of a performance fee.

As part of these policies, Putnam Management has also implemented trade oversight and review procedures in order to monitor whether particular accounts (including higher-fee accounts or performance fee accounts) are being favored over time.

Potential conflicts of interest may also arise when the Portfolio Leader(s) or Portfolio Member(s) have personal investments in other accounts that may create an incentive to favor those accounts. As a general matter and subject to limited exceptions, Putnam Management's investment professionals do not have the opportunity to invest in client accounts, other than the Putnam funds. However, in the ordinary course of business, Putnam Management or related persons may from time to time establish "pilot" or "incubator" funds for the purpose of testing proposed investment strategies and products prior to offering them to clients. These pilot accounts may be in the form of registered investment companies, private funds such as partnerships or separate accounts established by Putnam Management or an affiliate. Putnam Management or an affiliate supplies the funding for these accounts. Putnam employees, including the fund's Portfolio Leader(s) and Portfolio Member(s), may also invest in certain pilot



accounts. Putnam Management, and to the extent applicable, the Portfolio Leader(s) and Portfolio

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Member(s) will benefit from the favorable investment performance of those funds and accounts. Pilot funds and accounts may, and frequently do, invest in the same securities as the client accounts. Putnam Management's policy is to treat pilot accounts in the same manner as client accounts for purposes of trading allocation — neither favoring nor disfavoring them except as is legally required. For example, pilot accounts are normally included in Putnam Management's daily block trades to the same extent as client accounts (except that pilot accounts do not participate in initial public offerings).

A potential conflict of interest may arise when the fund and other accounts purchase or sell the same securities. On occasions when the Portfolio Leader(s) or Portfolio Member(s) consider the purchase or sale of a security to be in the best interests of the fund as well as other accounts, Putnam Management's trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased in order to obtain the best execution and lower brokerage commissions, if any. Aggregation of trades may create the potential for unfairness to the fund or another account if one account is favored over another in allocating the securities purchased or sold — for example, by allocating a disproportionate amount of a security that is likely to increase in value to a favored account. Putnam Management's trade allocation policies generally provide that each day's transactions in securities that are purchased or sold by multiple accounts are, insofar as possible, averaged as to price and allocated between such accounts (including the fund) in a manner which in Putnam Management's opinion is equitable to each account and in accordance with the amount being purchased or sold by each account. Certain exceptions exist for specialty, regional or sector accounts. Trade allocations are reviewed on a periodic basis as part of Putnam Management's trade oversight procedures in an attempt to ensure fairness over time across accounts.

—Cross trades,— in which one Putnam account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest. Cross trades may be seen to involve a potential conflict of interest if, for example, one account is permitted to sell a security to another account at a higher price than an independent third party would pay. Putnam Management and the fund's Trustees have adopted compliance procedures that provide that any transactions between the fund and another Putnam-advised account are to be made at an independent current market price, as required by law.

Another potential conflict of interest may arise based on the different investment objectives and strategies of the fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than the fund. Depending on another account's objectives or other factors, the Portfolio Leader(s) and Portfolio Member(s) may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to the fund. In addition, investment decisions are the product of many factors in addition to basic suitability for the particular account involved. Thus, a particular security may be bought or sold for certain accounts even though it could have been bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by the Portfolio Leader(s) or Portfolio Member(s) when one

or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. As noted above, Putnam Management has implemented trade oversight and review procedures to monitor whether any account is systematically favored over time.

The fund's Portfolio Leader(s) and Portfolio Member(s) may also face other potential conflicts of interest in managing the fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the fund and other accounts.

(a)(3) **Compensation of investment professionals.** Putnam Management believes that its investment management teams should be compensated primarily based on their success in helping investors achieve their goals. The portion of Putnam Investments' total incentive compensation pool that is available to Putnam Management's Investment Division is based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time. The peer group for the fund, which is identified in the shareholder report included in Item 1, is its broad investment category as determined by Lipper Inc. The portion of the incentive compensation pool available to each investment management team varies based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time on (i) for tax-exempt funds, a tax-adjusted basis to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions a before-tax basis or (ii) for taxable funds, on a before-tax basis.

Consistent performance means being above median over one year.

- Dependable performance means not being in the 4th quartile of the peer group over one, three or five years.
- Superior performance (which is the largest component of Putnam Management's incentive compensation program) means being in the top third of the peer group over three and five years.

In determining an investment management team's portion of the incentive compensation pool and allocating that portion to individual team members, Putnam Management retains discretion to reward or penalize teams or individuals, including the fund's Portfolio Leader(s) and Portfolio Member(s), as it deems appropriate, based on other factors. The size of the overall incentive compensation pool each year is determined by Putnam Management's parent company, Marsh & McLennan Companies, Inc., and depends in large part on Putnam's profitability for the year, which is influenced by assets under management. Incentive compensation is generally paid as cash bonuses, but a portion of incentive compensation may instead be paid as grants of restricted stock, options or other forms of compensation, based on the factors described above. In addition to incentive compensation, investment team members receive annual salaries that are typically based on seniority and experience. Incentive compensation generally represents at least 70% of the total compensation paid to investment team members.

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(a)(4) **Fund ownership.** The following table shows the dollar ranges of shares of the fund owned by the professionals listed above at the end of the fund's last two fiscal years, including investments by their immediate family members and amounts invested through retirement and deferred compensation plans.

(b) Not applicable

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers:

Registrant Purchase of Equity Securities

| <u>Period</u>                        | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number (or Approximate Dollar Value ) of Shares that May Yet Be Purchased under the Plans or Programs *</u> |
|--------------------------------------|---|-------------------------------------|---|--|
| October 7-<br>October 31, 2005       | 186,364                                 | \$6.23                              | 186,364   | 9,844,944  |
| November 1 -<br>November 30,<br>2005 | 501,565                                 | \$6.05                              | 501,565   | 9,343,379  |
| December 1 -<br>December 31,<br>2005 | 501,565                                 | \$6.06                              | 501,565   | 8,841,814  |
| January 1 -<br>January 31, 2006      | 501,565                                 | \$6.19                              | 501,565   | 8,340,249  |
| February 1 -<br>February 28, 2006    | 501,575                                 | \$6.14                              | 501,575   | 7,838,674  |
| March 1 - March<br>31, 2006          | 593,946                                 | \$6.10                              | 593,946   | 7,244,728  |
| April 1 - April 30,<br>2006          | 527,325                                 | \$6.03                              | 527,325   | 6,717,403  |
| May 1 - May 31,                      | 664,716                                 | \$6.05                              | 664,716   | 6,052,687  |
| <hr/>                                |   |                                     |   |  |
| 2006                                 |   |                                     |   |  |
| June 1 - June 30,<br>2006            | 676,032                                 | \$6.04                              | 676,032   | 5,376,655  |
| July 1 - July 31,<br>2006            | 477,232                                 | \$6.05                              | 477,232   | 4,899,423  |
| August 1 - August<br>31, 2006        | 748,957                                 | \$6.20                              | 748,957   | 4,150,466  |
| September 1 -<br>September 30,       |   |                                     |   |  |

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|      |         |        |         |           |
|------|---------|--------|---------|-----------|
| 2006 | 608,102 | \$6.21 | 608,102 | 3,542,364 |
|------|---------|--------|---------|-----------|

The Board of Trustees announced a repurchase plan on October 7, 2005 for which **5,015,654** shares were approved for repurchase by the fund. The repurchase plan was approved through October 6, 2006. On March 10, 2006, the Trustees announced that the repurchase program was increased to allow repurchases of up to a total of 10,031,308 shares over the original term of the program. On September 15, 2006, the Trustees voted to extend the term of the repurchase program through October 6, 2007. This extension did not affect the number of shares eligible for repurchase under the program.

\*Information is based on the total number of shares eligible for repurchase under the program, as amended through September 15, 2006

Item 10. Submission of Matters to a Vote of Security Holders:

Not applicable

Item 11. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting: Not applicable

Item 12. Exhibits:

(a)(1) The Code of Ethics of The Putnam Funds, which incorporates the Code of Ethics of Putnam Investments, is filed herewith.

(a)(2) Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

(b) The certifications required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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Putnam Master Intermediate Income Trust

By (Signature and Title):

/s/Michael T. Healy

Michael T. Healy  
Principal Accounting Officer

Date: December 5, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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By (Signature and Title):

/s/Charles E. Porter

Charles E. Porter  
Principal Executive Officer

Date: December 5, 2006

By (Signature and Title):

/s/Steven D. Krichmar

Steven D. Krichmar  
Principal Financial Officer

Date: December 5, 2006

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