PUTNAM HIGH INCOME SECURITIES FUND
Form N-CSRS
April 27, 2007

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- 05133)

Exact name of registrant as specified in charter: Putnam High Income Securities Fund

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: August 31, 2007

Date of reporting period: September 1, 2006 February 28, 2007

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?

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

THE PRUDENT MAN RULE

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

## A time-honored tradition in money management

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

## A prudent approach to investing

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

## Funds for every investment goal

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

## A commitment to doing what s right for investors

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

## Industry-leading service

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

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# Putnam High Income Securities Fund

# 2|28|07

*Semiannual Report*

*Cover photograph: © Richard H. Johnson*

*Message from the Trustees*

# Dear Fellow Shareholder

From our present vantage point, it has become apparent that certain sectors of the U.S. economy have slowed somewhat, although the global economy continues to demonstrate healthy growth. In recent weeks, financial markets have reflected increased uncertainty about the effects of the housing market decline and tighter credit standards by mortgage lenders on the U.S. economy. However, we believe that the U.S. economy is flexible enough to adapt to these challenges, just as it has adapted to other challenges that have arisen in the course of the recent economic expansion.

As you may have heard, on February 1, 2007, Marsh & McLennan Companies, Inc. announced that it had signed a definitive agreement to sell its ownership interest in Putnam Investments Trust, the parent company of Putnam Management and its affiliates, to Great-West Lifeco Inc. Great-West Lifeco Inc. is a financial services holding company with operations in Canada, the United States, and Europe and is a member of the Power Financial Corporation group of companies. This transaction is subject to regulatory approvals and other conditions, including the approval of new management contracts by shareholders of a substantial number of Putnam funds at shareholder meetings scheduled for May 15, 2007. Proxy solicitation materials related to these meetings, which provide detailed information regarding the proposed transaction, were recently mailed. We currently expect the transaction to be completed by the middle of 2007.

Putnam s team of investment and business professionals will continue to be led by Putnam President and Chief Executive Officer Ed Haldeman. Your Trustees have been actively involved through every step of the discussions, and we will continue in our role of overseeing the Putnam funds on your behalf.



We would like to take this opportunity to announce that a new independent Trustee, Kenneth R. Leibler, has joined your fund s Board of Trustees. Mr. Leibler has had a distinguished career as a leader in the investment management industry. He is a founding partner of and advisor to the Boston Options Exchange; a Trustee of Beth Israel Deaconess Hospital in Boston; a lead director of Ruder Finn Group, a global communications and advertising firm; and a director of Northeast Utilities.

In the following pages, members of your fund s management team discuss the fund s performance and strategies for the fiscal period ended February 28, 2007, and provide their outlook for the months ahead. As always, we thank you for your support of the Putnam funds.

# Putnam High Income Securities Fund: opportunities from high-yield bonds and convertibles

The average investor may think of bonds as government-sponsored securities that offer relatively low risk and less volatility than the stock market. However, high-yield corporate bonds and convertible securities, the types of investments held by Putnam High Income Securities Fund, are different. Both are issued by companies rather than the government. Moreover, high-yield corporates and convertibles can offer greater returns than other bonds but carry a greater potential for risk, such as the risk of corporate default or periodic illiquidity.

High-yield bonds are deemed to be less than investment-grade status (rated below Baa), which means their issuing companies are considered more likely to default on their loans than more creditworthy counterparts. High-yield bond prices tend to follow individual companies fundamentals as well as interest-rate levels. While lower-rated corporate bonds may carry higher risk, they provide potentially higher levels of yield to compensate investors for that risk. That is why extensive research based on credit analysis is vital to identifying better high-yield issuers with a lower risk of default.

What sets convertible securities apart is a unique built-in option that allows the investor to exchange or convert the bond for a fixed number of shares of stock of the issuer. Convertible securities pay interest like most bonds, and the amount does not change as the underlying stock s price increases or decreases. Issuers range from large, well-known S&P 500 corporations to small, rapidly growing companies to those in cyclically depressed industries such as airlines, autos, and utilities.

Building a portfolio of high-yield bonds and convertible securities with the appropriate balance of risk and return potential requires intensive research and analysis. In the case of Putnam High Income Securities Fund, Putnam s global equity and credit research analysts conduct rigorous research to determine the true worth of the issuing company s business. The fund s portfolio team then constructs a portfolio that it believes offers the best return potential without undue risk.

*Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund s shares trade on a stock exchange at market prices, which may be lower than the fund s net asset value.*

## The busted convertible

One kind of security in which your fund may invest is the busted convertible. Busted refers to a security whose underlying stock price has fallen significantly below the conversion price. It becomes much less sensitive to the volatility of the underlying stock and is more bond-like, responding to interest-rate changes. A busted convertible may pay a higher yield than other convertibles, but may also carry a higher level of risk. (Some companies in this situation may eventually default on their bonds.)

The objective of buying a busted convertible is to take advantage of a company s eventual turnaround despite present challenges. For example, a company undergoing management turmoil may draw negative investor reactions, causing its stock price to tumble. However, if intensive research determines that the management crisis is likely to be resolved, the fund manager could buy the security at a steep discount. The goal is to sell it at a higher premium once the situation is corrected and the price of the security recovers.

Putnam High Income Securities Fund has held convertible securities from a variety of sectors and industries.

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**Putnam High Income Securities Fund** seeks high current income and, as a secondary objective, capital appreciation by investing in a portfolio of high-yielding convertible and nonconvertible securities.

### Highlights

For the six months ended February 28, 2007, Putnam High Income Securities Fund had a total return of 9.76% at net asset value (NAV) and 13.16% at market price.

The fund s primary benchmark, the Merrill Lynch All-Convertibles Speculative Quality Index, returned 10.82% . The fund s secondary benchmark, the JPMorgan Developed High Yield Index, returned 8.47% .

The average return for the fund s Lipper category, Convertible Securities Funds (closed-end), was 8.42% .

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

## Performance

It is important to note that a fund s performance at market price usually differs 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.

Putnam High Income Securities Fund (NYSE ticker: PCF), total return for periods ended 2/28/07

Since the fund s inception (7/9/87), average annual return is 10.37% at NAV and 9.53% at market price.

| | Average annual return | | Cumulative return | |
|---|---|---|---|---|
| | NAV | Market price | NAV | Market price |
| 10 years | 8.76% | 7.29% | 131.68% | 102.18% |
| 5 years | 14.03 | 11.15 | 92.81 | 69.63 |
| 3 years | 10.48 | 10.27 | 34.84 | 34.08 |
| 1 year | 14.75 | 17.24 | 14.75 | 17.24 |
| 6 months | | | 9.76 | 13.16 |

*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 period in review

Your fund delivered strong returns during the six months ended February 28, 2007. An advancing equity market over most of the period provided a favorable backdrop for both high-yield convertibles and bonds, since these securities tend to be influenced more by fundamentals supportive of common stocks and less by interest-rate trends. Solid overall security selection and a continuing emphasis on prudent risk management enabled your fund to deliver stronger results than both its secondary, high-yield bond benchmark and the average for its Lipper peer group. However, due to the strong performance of certain types of convertible securities that are represented in the fund s primary benchmark but not generally included in the fund s portfolio, the fund s results at NAV lagged those of the primary benchmark.

# Market overview

Both high-yield convertibles and high-yield bonds rallied during the semiannual period, reflecting the positive influences of continuing economic growth, a stream of positive earnings reports, historically low default rates, and signs that inflation may be in check. Higher-risk assets in general benefited from the Federal Reserve s (the Fed s) decision in August 2006 to hold the federal funds rate a key benchmark for overnight loans between banks steady at 5.25% .

Prior to the Fed s policy change, equity and high-yield securities markets had suffered from rising interest rates and concern about the potential for income-eroding inflation that these increases signaled. Once investors concluded that the hoped-for soft landing the Fed was trying to engineer appeared likely, market sentiment turned positive and equity and high-yield markets rallied. (A soft landing occurs when economic growth slows to less than inflationary levels but is still strong enough to sustain job creation and corporate profits.) This rally lasted until the final days of the period when an equity market sell-off in China sparked a chain reaction across all higher-risk asset classes, including high-yield bonds.

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Despite this downturn, high-yield convertibles and bonds ended the period with healthy returns.

The uptrend in the stock market created a supportive environment in the convertibles market for much of the period. This environment was especially favorable for speculative convertibles that are associated with the volatile stocks of relatively weak companies. These convertibles fall outside the realm of the fund s normal investment universe, although they do make up a substantial portion of its primary benchmark, the Merrill Lynch All-Convertibles Speculative Quality Index, and their strength during the period accounts for the fund s underperformance of the index.

# Strategy overview

Your fund invests mainly in a combination of convertible securities and high-yield corporate bonds, relying on our in-depth analysis of individual securities to help us identify what we consider to be the most attractive opportunities. In the convertibles market, we prefer to invest in securities with relatively short maturities. If problems develop with a company s capital structure as when a firm takes on too much debt when its business is slowing then debt with shorter maturities, including convertibles, will often be retired first as the company restructures its balance sheet. Therefore, keeping the focus on shorter-maturity convertibles may provide the fund with an added layer of security.

### Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 2/28/07.

| | |
|---|---|
| Bonds | |
| Merrill Lynch All-Convertibles Speculative Quality Index (high-yield U.S. convertible securities) | 10.82% |
| JPMorgan Developed High Yield Index (high-yield corporate bonds) | 8.47% |
| Lehman Aggregate Bond Index (broad bond market) | 3.66% |
| Lehman Global Aggregate Bond Index (international bonds) | 3.12% |
| Equities | |

| | |
|---|---|
| S&P 500 Index (broad stock market) | 8.93% |
| Russell 2000 Index (small-company stocks) | 10.76% |
| MSCI EAFE Index (international stocks) | 12.17% |

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On the high-yield bond side of the portfolio, we continued to favor the middle-quality tiers of the market while trimming exposure to higher-risk securities as opportunities arose. While we expect this strategy to prove rewarding over the long term, it detracted from results during the period, as lower-rated bonds outperformed.

Against the backdrop of positive fundamental and supply-and-demand factors, high-yield bond spreads the yield advantage offered by high-yield bonds over comparable Treasuries remained at historically low levels, meaning investors were not being compensated for taking on the additional risk carried by lower-quality bonds. For this reason, and in light of the potential for a slowdown in economic growth, we endeavored to reduce the overall risk profile of the fund s high-yield holdings.

# Your fund s holdings

Among the fund s convertible holdings, the top contributor to results during the period was a sizable out-of-benchmark position in **Pinnacle Airlines**, a regional carrier that provides service primarily for Northwest Airlines. In December, Pinnacle renewed its contract with Northwest and negotiated terms that were better than many observers were expecting. The new contract effectively

## Portfolio composition comparison*

This chart shows how the fund s weightings have changed over the last six months. Weightings are shown as a percentage of portfolio value. Holdings will vary over time.

** Excludes short-term investments held as collateral for loaned securities.*

*Amount represents less than 0.1% .*

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guaranteed that Pinnacle would continue to play a major role as a feeder airline for Northwest. As a result, the price of Pinnacle s stock appreciated dramatically toward the end of 2006, driving up the price of the firm s convertibles accordingly. Because the convertible had a high yield when initially purchased by the fund, the total return on the fund s position yield plus price appreciation was outstanding. In many respects, the fund s investment in Pinnacle provides an ideal example of what is possible when an equity-sensitive, high-yield convertible reflects developments that are highly favorable for its issuer s business prospects. Given the strong advance in the convertible s price, we took profits and sold the position prior to the end of the period.

Other notable contributors to performance during the period were real estate investment trust **Simon Property Group**, electric utility **Entergy Corporation**, and property and casualty insurer **Alleghany Corporation**. Simon Property benefited from a favorable operating environment; many of its retail tenants posted strong sales results, which translated into higher minimum rents for the mall developer and operator. Entergy, meanwhile, enjoyed improved earnings thanks to higher nuclear and fossil-fuel wholesale prices, and fewer plant outages. Lastly, Alleghany was helped by better-than-expected earnings

## Top holdings

This table shows the fund s top holdings, and the percentage of the fund s net assets that each comprised, as of 2/28/07. The fund s holdings will change over time.

| Holding (percent of fund s net assets) | Security information | Sector |
|---|---|---|
| Convertible securities | | |
| Northrop Grumman Corp. (2.3%) | Ser. B, $7.00 cum. cv. pfd. | Capital goods |
| General Motors Corp. (1.7%) | Ser. A, $1.125 cv. pfd. | Consumer cyclicals |
| Schering-Plough Corp. (1.5%) | $3.00 cv. pfd. | Health care |
| Nash Finch Co. (1.3%) | Cv. sr. sub. notes stepped-coupon 1.631% (zero %, 3/15/13) 2035 | Consumer staples |
| Crown Castle International Corp. (1.3%) | $3.125 cum. cv. pfd. | Communications services |
| Corporate bonds and notes | | |
| General Motors Corp. (0.4%) | Notes 7.2%, 2011 | Consumer cyclicals |
| NRG Energy, Inc. (0.4%) | Sr. notes 7.375%, 2016 | Utilities and power |
| CCH I, LLC/Capital Corp. (0.4%) | Sec. notes 11%, 2015 | Consumer staples |
| HCA, Inc. (0.3%) | 144A sec. notes 9.25%, 2016 | Health care |
| Baldor Electric Co. (0.3%) | Company guaranty 8.625%, 2017 | Capital goods |

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during its most recent fiscal quarter (many analysts were forecasting a quarterly loss), and strong underwriting performance within all of the company s insurance subsidiaries.

Compared to the fund s primary benchmark, the fund s underweight positions in **General Motors** and **Ford** were the principal detractors from relative performance during the period. Under most circumstances, we believe that holding the concentrated positions in these securities that would be necessary to match their representation in the benchmark would not be appropriate under the fund s investment strategy.

The fund continued to benefit from exposure to high-yield securities in the energy sector, where business fundamentals remained strong due to relatively high global demand. In fact, the overall top contributor among the fund s high-yield holdings was **XCL**, an oil and natural gas exploration and production company. XCL s securities rose significantly on news reports of potential acquirers bidding for the company. In addition, positive fundamentals drove up the value of bonds issued by natural gas companies **El Paso Corp.** and the **Williams Companies, Inc.** El Paso owns North America s largest natural gas pipeline system and is one of the biggest independent natural gas producers on the continent. Williams is also in the business of natural gas exploration, production, processing, and transportation. Natural gas demand from both electrical power-generation companies and individual consumers has continued to grow.

Our avoidance of distressed bonds (bonds rated CCC and below) was the primary detractor from high-yield bond results during the period. The lowest-rated securities rallied amid strong demand for yield and a willingness among investors to take on additional risk. Bonds issued by companies in the midst of bankruptcy proceedings, including electric utility Calpine, airline giants Delta and Northwest, and automotive component maker Delphi, were among the strongest performers during the period, but the fund did not benefit from their strength because it didn t own them. However, we continue to believe that over the long term, limiting the fund s exposure to distressed bonds is one of the best ways to provide investors with relatively stable returns.

*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.*

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### The outlook for your fund

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

In light of the exceptionally robust total return generated by the fund s convertible holdings during the period, we believe the strength of recent convertible performance may not be sustainable. Broader trends in convertible prices are influenced primarily by two key factors: credit spreads, or the difference in yield between higher- and lower-quality bonds, and the direction of the broad equity market. While we remain generally optimistic about the prospects for equity performance, credit spreads have tightened dramatically. This limits the price appreciation potential of high-yielding, lower-quality bonds in comparison to U.S. Treasury securities. Given this combination of circumstances, we believe that during the balance of the fund s 2007 fiscal year, returns from the fund s convertible holdings will be driven by yield rather than capital appreciation potential.

As we progress through the second half of fiscal 2007, our strategy in the convertibles market will be to maintain our focus on high-yielding issues that are more sensitive to movements in the underlying common stock. We will continue our efforts to avoid companies that exhibit significant credit risk. After a period of sustained economic expansion such as we have recently seen in the United States, companies that carry substantial credit risk are often in extremely poor financial condition.

In the high-yield bond market, while the business fundamentals of many issuers are solid, our approach to risk management calls for avoiding the lowest-quality segments of the market. As noted above, high-yield spreads relative to Treasuries are tight based on historical averages, indicating that high-yield bonds are selling at relatively high valuations. Ordinarily, this would be of significant concern. However, defaults remain at low levels and show no sign of spiking. Therefore, we find valuations to be reasonable, as long as the default rate does not increase. Nevertheless, as with the fund s high-yield convertible holdings, over the near term we believe returns from high-yield bonds will be driven primarily by yield rather than price appreciation potential.

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

*Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund s shares trade on a stock exchange at market prices, which may be higher or lower than the fund s net asset value.*

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## Your fund s performance

This section shows your fund s performance for periods ended February 28, 2007, the end of the first half of its current fiscal year. In accordance with regulatory requirements for mutual funds, we also include performance as of the most recent calendar quarter-end. 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 2/28/07

| | NAV | Market price |
|---|---|---|
| Annual average | | |
| Life of fund (since 7/9/87) | 10.37% | 9.53% |
| 10 years | 131.68 | 102.18 |
| Annual average | 8.76 | 7.29 |
| 5 years | 92.81 | 69.63 |
| Annual average | 14.03 | 11.15 |
| 3 years | 34.84 | 34.08 |
| Annual average | 10.48 | 10.27 |
| 1 year | 14.75 | 17.24 |
| 6 months | 9.76 | 13.16 |

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

**Fund performance as of most recent calendar quarter**
Total return for periods ended 3/31/07

| | NAV | Market price |
|---|---|---|
| Annual average | | |
| Life of fund (since 7/9/87) | 10.36% | 9.58% |
| 10 years | 136.21 | 109.08 |
| Annual average | 8.98 | 7.65 |
| 5 years | 88.20 | 72.14 |
| Annual average | 13.48 | 11.47 |
| 3 years | 35.36 | 36.06 |
| Annual average | 10.62 | 10.81 |
| 1 year | 14.41 | 18.55 |
| 6 months | 9.19 | 12.41 |

## Comparative index returns

For periods ended 2/28/07

| | Merrill Lynch All-Convertibles Speculative Quality Index | JPMorgan Developed High Yield Index | Lipper Convertible Securities Funds (closed-end) category average |
|---|---|---|---|
| Annual average | | | |
| Life of fund (since 7/9/87) | * | | 9.53% |
| 10 years | 149.11% | 92.79% | 100.96 |
| Annual average | 9.56 | 6.78 | 7.20 |
| 5 years | 84.95 | 70.25 | 48.35 |
| Annual average | 13.09 | 11.23 | 8.06 |
| 3 years | 30.28 | 28.37 | 29.42 |
| Annual average | 9.22 | 8.68 | 8.95 |
| 1 year | 15.87 | 12.08 | 12.03 |
| 6 months | 10.82 | 8.47 | 8.42 |

*Index and Lipper results should be compared to fund performance at net asset value.*

** The Merrill Lynch All-Convertibles Speculative Quality Index began operations on 12/31/92.*

*The JPMorgan Developed High Yield Index began operations on 12/31/94.*

*Over the 6-month and 1-, 3-, 5-, and 10-year periods ended 2/28/07, there were 10, 10, 10, 5, and 5 funds, respectively, in this Lipper category.*

## Fund price and distribution information

For the six-month period ended 2/28/07

| Distributions* | |
|---|---|
| Number | 6 |
| Income | $0.2754 |
| Capital gains | |

| | | |
|---|---|---|
| Total | $0.2754 | |
| Share value: | NAV | Market price |
| 8/31/06 | $8.82 | $7.87 |
| 2/28/07 | 9.37 | 8.62 |
| Current yield (end of period) | | |
| Current dividend rate[1] | 5.88% | 6.39% |

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

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



# Your fund s management

Your fund is managed by the members of the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams. David King and Robert Salvin are Portfolio Leaders of your fund. The Portfolio Leaders coordinate the team s management of the fund.

For a complete listing of the members of the Putnam Large-Cap Value 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.

## Investment team fund ownership

The table below shows how much the fund s current Portfolio Leaders have invested in the fund and in all Putnam mutual funds (in dollar ranges). Information shown is as of February 28, 2007, and February 28, 2006.

## Trustee and Putnam employee fund ownership

As of February 28, 2007, all of the Trustees 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 | $809,000 | $101,000,000 |
| Putnam employees | $ 27,000 | $459,000,000 |

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## Fund manager compensation

The total 2006 fund manager compensation that is attributable to your fund is approximately $70,000. This amount includes a portion of 2006 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 2006 compensation paid to the Group Chief Investment Officers of the fund s broader investment categories 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 2006, the calculation reflects annualized 2006 compensation or an estimate of 2007 compensation, as applicable.

## Other Putnam funds managed by the Portfolio Leaders

David King is also a Portfolio Leader of Putnam Convertible Income-Growth Trust and Putnam New Value Fund. He is also a Portfolio Member of The Putnam Fund for Growth and Income.

Robert Salvin is also a Portfolio Member of Putnam Convertible Income-Growth Trust, Putnam High Yield Advantage Fund, and Putnam High Yield Trust.

David King and Robert Salvin may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

## Changes in your fund s Portfolio Leaders

Your fund s Portfolio Leaders did not change during the year ended February 28, 2007.

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## 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 February 28, 2007, and February 28, 2006.

| | Year | $0 | $1 – $10,000 | $10,001 – $50,000 | $50,001 – $100,000 | $100,001 – $500,000 | $500,001 – $1,000,000 | $1,000,001 and over |
|---|---|---|---|---|---|---|---|---|
| Philippe Bibi | 2007 | | | | | | | |
| *Chief Technology Officer* | 2006 | | | | | | | |
| Joshua Brooks | 2007 | | | | | | | |
| *Deputy Head of Investments* | 2006 | | | | | | | |
| William Connolly | 2007 | | | | | | | |

| | |
|---|---|
| *Head of Retail Management* | 2006 |
| Kevin Cronin | 2007 |
| *Head of Investments* | 2006 |
| Charles Haldeman, Jr. | 2007 |
| *President and CEO* | 2006 |
| Amrit Kanwal | 2007 |
| *Chief Financial Officer* | 2006 |
| Steven Krichmar | 2007 |
| *Chief of Operations* | 2006 |
| Francis McNamara, III | 2007 |
| *General Counsel* | 2006 |
| Jeffrey Peters | 2007 |
| *Head of International Business* | N/A |
| Richard Robie, III | 2007 |
| *Chief Administrative Officer* | 2006 |
| Edward Shadek | 2007 |
| *Deputy Head of Investments* | 2006 |
| Sandra Whiston | 2007 |
| *Head of Institutional Management* | 2006 |

*N/A indicates the individual was not a member of Putnam  s Executive Board as of 2/28/06.*

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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

JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed-income securities issued in developed countries.

Lehman Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities.

Lehman Global Aggregate Bond Index is an unmanaged index of global investment-grade fixed-income securities.

Merrill Lynch All-Convertibles Speculative Quality Index is an unmanaged index of high-yield U.S. convertible securities.

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 represented 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 represented an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

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

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## 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 33rd 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. In recent years, the Trustees have examined the operation of the existing breakpoint structure during periods of both growth and decline in asset levels. (A breakpoint is a reduction in fee rates that applies to additional assets once specified asset levels are reached.) 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 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

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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 Committees of the Trustees, which meet on a regular monthly basis with the funds portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general 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 Convertible Securities 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):

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| One-year period | Three-year period | Five-year period |
|---|---|---|
| 75th | 23rd | 15th |

(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 11, 8, and 6 funds, respectively, in your fund s Lipper peer group.* Past performance is no guarantee of future performance.)

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.

** The percentile rankings for your fund s common share annualized total return performance in the Lipper Convertible Securities Funds (closed-end) category for the one-, five- and ten-year periods ended March 31, 2007, were 10%, 17%, and 17%, respectively. Over the one-, five- and ten-year periods ended March 31, 2007, the fund ranked 1st out of 10, 1st out of 5, and 1st out of 5 funds, respectively. Note that this more recent information was not available when the Trustees approved the continuance of your fund s management contract.*



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## 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 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 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.

## Approval of new management and sub-management contracts in connection with pending change in control

As discussed in the Message from the Trustees at the beginning of this shareholder report, on February 1, 2007, Marsh & McLennan Companies, Inc. announced that it had signed a definitive agreement to sell its ownership interest in Putnam Investments Trust, the parent company of Putnam Management and its affiliates, to Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies. This transaction is subject to regulatory approvals and other conditions, including the approval of new management contracts by shareholders of a substantial number of Putnam funds at shareholder meetings scheduled for May 15, 2007. Proxy solicitation materials related to these meetings, which provide detailed information regarding the transaction, were recently mailed. The transaction is currently expected to be completed by the middle of 2007.

At an in-person meeting on February 8-9, 2007, the Trustees considered the approval of new management contracts for each Putnam fund (and, in the case of your fund, a new sub-management contract) proposed to become effective upon the closing of the transaction, and the filing of a preliminary proxy statement. At an in-person meeting on March 8-9, 2007, the Trustees considered the approval of the final forms of the proposed new management contracts for each Putnam fund (and, in the case of your fund, the new sub-management contract) and the proxy statement. They reviewed the terms of the proposed new management contracts and the differences between the proposed new management contracts and the current management contracts. They noted that the terms of the proposed new management contracts were substantially identical to the current management contracts, except for certain changes developed at the initiative of the Trustees and



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designed largely to address inconsistencies among various of the existing contracts, which had been developed and implemented at different times in the past. They noted, in the case of your fund, that the terms of the proposed new sub-management contract were identical to the current sub-management contract, except for the effective date. In considering the approval of the proposed new management contracts (and, in the case of your fund, the new sub-management contract), the Trustees also considered, as discussed further in the proxy statement, various matters relating to the transaction. Finally, in considering the proposed new management contracts (and, in the case of your fund, the new sub-management contract), the Trustees also took into account their deliberations and conclusions (discussed above in the preceding paragraphs of the Trustee Approval of Management Contract section) in connection with the most recent annual approval of the continuance of the Putnam funds management (and, in the case of your fund, sub-management) contracts effective July 1, 2006, and the extensive materials that they had reviewed in connection with that approval process. Based upon the foregoing considerations, on March 9, 2007, the Trustees, including all of the Independent Trustees, unanimously approved the proposed new management contracts (and, in the case of your fund, the new sub-management contract) and determined to recommend their approval to the shareholders of the Putnam funds.

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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 common shares outstanding as of October 7, 2005.

## Important notice regarding delivery of shareholder documents

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

## Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2006, are available on the Putnam Individual Investor Web site, www.putnam.com/individual, and on the SEC s Web site, www.sec.gov. If you have questions about finding forms on the SEC s Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds proxy voting guidelines and procedures at no charge by calling Putnam s Shareholder Services at 1-800-225-1581.

## Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund s Forms N-Q on the SEC s Web site at 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

## A guide to financial statements

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

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

Statement of assets and liabilities shows how the fund s net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share. (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 period.

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. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund s fiscal year.

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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## The fund s portfolio 2/28/07 (Unaudited)

CONVERTIBLE PREFERRED STOCKS (40.0%)*

| | Shares | | Value |
|---|---|---|---|
| Banking (2.6%) | | | |
| Marshall & Ilsley Corp. $1.625 cv. pfd. | 58,500 | $ | 1,563,705 |
| Sovereign Capital Trust IV $2.188 cv. pfd. | 46,000 | | 2,294,250 |
| Washington Mutual Capital Trust I $2.688 cum. cv. pfd. | 29,200 | | 1,612,716 |
| | | | 5,470,671 |
| Basic Materials (3.6%) | | | |
| Bunge, Ltd. 4.875% cv. pfd. | 10,775 | | 1,210,804 |
| Freeport-McMoRan Copper & Gold, Inc. 5.50% cv. pfd. | 1,900 | | 2,568,563 |
| Huntsman Corp. $2.50 cv. pfd. | 25,500 | | 1,115,625 |
| Smurfit-Stone Container Corp. Ser. A, $1.75 cum. cv. pfd. (S) | 101,920 | | 2,484,300 |
| | | | 7,379,292 |
| Capital Goods (4.2%) | | | |
| Allied Waste Industries Ser. D, 6.25% cv. pfd. | 4,060 | | 1,380,400 |
| Northrop Grumman Corp. Ser. B, $7.00 cum. cv. pfd. | 33,465 | | 4,597,254 |
| Owens-Illinois, Inc. $2.375 cv. pfd. | 63,770 | | 2,423,260 |
| | | | 8,400,914 |
| Communication Services (2.1%) | | | |
| Cincinnati Bell, Inc. Ser. B, $3.378 cum. cv. pfd. (S) | 35,300 | | 1,623,800 |
| Crown Castle International Corp. $3.125 cum. cv. pfd. | 46,095 | | 2,627,415 |

| | | |
|---|---|---|
| | | 4,251,215 |
| Consumer Cyclicals (5.4%) | | |
| Emmis Communications Corp. Ser. A, $3.125 cum. cv. pfd. | 24,100 | 1,018,225 |
| Ford Motor Co. Capital Trust II $3.25 cum. cv. pfd. | 66,700 | 2,467,900 |
| General Motors Corp. Ser. A, $1.125 cv. pfd. | 141,300 | 3,479,513 |
| Retail Ventures, Inc. $3.312 cv. pfd. | 12,720 | 876,090 |
| Six Flags, Inc. $1.813 cum. cv. pfd. | 63,200 | 1,485,200 |
| United Rentals Trust I $3.25 cv. pfd. | 32,103 | 1,573,047 |
| | | 10,899,975 |
| Consumer Staples (2.1%) | | |
| Newell Financial Trust I $2.625 cum. cv. pfd. | 35,400 | 1,681,500 |
| Rite Aid Corp. $1.375 cum. cv. pfd. | 36,400 | 1,116,024 |
| Universal Corp. 6.75% cv. pfd. | 1,070 | 1,377,759 |
| | | 4,175,283 |
| Energy (2.1%) | | |
| Chesapeake Energy Corp. 6.25% cv. pfd. | 8,620 | 2,239,045 |
| Edge Petroleum Corp. Ser. A, $2.875 cum. cv. pfd. | 20,650 | 1,073,800 |
| Hanover Compressor Capital Trust $3.625 cum. cv. pfd. | 13,715 | 872,617 |
| | | 4,185,462 |

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CONVERTIBLE PREFERRED STOCKS (40.0%)* *continued*

| | Shares | Value |
|---|---|---|
| Financial (1.0%) | | |
| Fannie Mae Ser. 04-1, 5.375% cv. pfd. | 20 | $ 2,027,408 |
| Health Care (1.5%) | | |
| Schering-Plough Corp. $3.00 cv. pfd. | 55,300 | 3,076,063 |
| Insurance (2.5%) | | |
| Alleghany Corp. 5.75% cv. pfd. | 3,800 | 1,378,450 |
| Aspen Insurance Holdings, Ltd. $2.813 cv. pfd. (Bermuda) | 20,000 | 1,102,500 |
| Conseco, Inc. $1.375 cum. cv. pfd. | 58,300 | 1,450,213 |
| Platinum Underwriters Holdings, Ltd. Ser. A, 6.00% cv. pfd. (Bermuda) | 34,500 | 1,060,875 |
| | | 4,992,038 |

| | | | | |
|---|---|---|---|---|
| Investment Banking/Brokerage (3.1%) | | | | |
| Affiliated Managers Group, Inc. 144A $2.55 cv. pfd. | | 21,500 | | 1,190,563 |
| E*Trade Financial Corp. $1.531 cum. cv. pfd. | | 55,500 | | 1,658,063 |
| Lehman Brothers Holdings, Inc. $1.563 cv. pfd. | | 80,190 | | 2,185,178 |
| Merrill Lynch & Co., Inc. Ser. JNC, 6.75% cv. pfd. | | 30,260 | | 1,269,710 |
| | | | | 6,303,514 |
| Real Estate (3.6%) | | | | |
| Entertainment Properties Trust Ser. C, $1.437 cum. cv. pfd. (R) | | 37,230 | | 1,001,115 |
| FelCor Lodging Trust, Inc. Ser. A, $0.488 cum. cv. pfd. (R) | | 99,200 | | 2,492,400 |
| Nationwide Health Properties, Inc. 7.75% cv. pfd. (R) | | 16,100 | | 2,398,900 |
| Simon Property Group LP $3.00 cv. pfd. (R) | | 15,100 | | 1,366,550 |
| | | | | 7,258,965 |
| Technology (1.1%) | | | | |
| Lucent Technologies Capital Trust I 7.75% cum. cv. pfd. | | 2,100 | | 2,170,088 |
| Utilities & Power (5.1%) | | | | |
| AES Trust III $3.375 cv. pfd. | | 33,400 | | 1,624,075 |
| El Paso Corp. 144A 4.99% cv. pfd. | | 1,300 | | 1,650,675 |
| El Paso Energy Capital Trust I $2.375 cv. pfd. | | 38,950 | | 1,519,050 |
| Entergy Corp. $3.813 cv. pfd. | | 40,900 | | 2,520,463 |
| NRG Energy, Inc. 5.75% cv. pfd. | | 4,100 | | 1,245,888 |
| Southern Union Co. $2.50 cv. pfd. | | 30,700 | | 1,703,850 |
| | | | | 10,264,001 |
| Total convertible preferred stocks (cost $72,535,406) | | | $ | 80,854,889 |

CORPORATE BONDS AND NOTES (39.8%)*

| | | Principal amount | | Value |
|---|---|---|---|---|
| Basic Materials (4.5%) | | | | |
| Abitibi-Consolidated, Inc. debs. 8.85s, 2030 (Canada) | $ | 60,000 | $ | 55,200 |
| Abitibi-Consolidated, Inc. notes 7 3/4s, 2011 (Canada) | | 130,000 | | 127,400 |
| Abitibi-Consolidated, Inc. notes 6s, 2013 (Canada) | | 122,000 | | 107,360 |
| AK Steel Corp. company guaranty 7 3/4s, 2012 | | 345,000 | | 349,313 |
| Aleris International, Inc. 144A sr. notes 9s, 2014 | | 160,000 | | 169,600 |

CORPORATE BONDS AND NOTES (39.8%)* *continued*

| | | Principal amount | | Value |
|---|---|---|---|---|
| Basic Materials *continued* | | | | |
| Aleris International, Inc. 144A sr. sub. notes 10s, 2016 | $ | 180,000 | $ | 189,900 |
| ARCO Chemical Co. debs. 10 1/4s, 2010 | | 220,000 | | 244,200 |
| BCP Crystal US Holdings Corp. sr. sub. notes 9 5/8s, 2014 | | 105,000 | | 116,681 |
| Builders FirstSource, Inc. company guaranty FRN 9.61s, 2012 | | 115,000 | | 117,300 |
| Century Aluminum Co. company guaranty 7 1/2s, 2014 | | 80,000 | | 81,800 |
| Chaparral Steel Co. company guaranty 10s, 2013 | | 460,000 | | 514,050 |
| Chesapeake Corp. sr. sub. notes 7s, 2014 | EUR | 120,000 | | 153,747 |
| Clondalkin Industries BV 144A sr. notes 8s, 2014 (Netherlands) | EUR | 245,000 | | 345,178 |
| Cognis Holding GmbH & Co. 144A sr. notes 12.876s, 2015 (Germany) | EUR | 218,706 | | 301,261 |
| Covalence Specialty Materials Corp. 144A sr. sub. notes 10 1/4s, 2016 | $ | 405,000 | | 385,763 |
| Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 | | 520,000 | | 455,000 |
| Domtar, Inc. notes 7 1/8s, 2015 (Canada) | | 15,000 | | 15,056 |
| Domtar, Inc. notes 5 3/8s, 2013 (Canada) | | 300,000 | | 277,500 |
| Georgia-Pacific Corp. debs. 9 1/2s, 2011 | | 370,000 | | 413,475 |
| Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada) | | 40,000 | | 42,600 |
| Hercules, Inc. company guaranty 6 3/4s, 2029 | | 205,000 | | 205,000 |
| Huntsman, LLC company guaranty 11 5/8s, 2010 | | 2,000 | | 2,170 |
| Jefferson Smurfit Corp. company guaranty 8 1/4s, 2012 | | 119,000 | | 121,380 |
| Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013 | | 150,000 | | 149,250 |
| JSG Holding PLC 144A sr. notes 11 1/2s, 2015 (Ireland) | EUR | 124,931 | | 176,014 |
| Lyondell Chemical Co. company guaranty 8 1/4s, 2016 | $ | 95,000 | | 102,125 |
| Lyondell Chemical Co. company guaranty 8s, 2014 | | 155,000 | | 163,138 |
| MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland) | | 255,000 | | 270,619 |
| Metals USA, Inc. sec. notes 11 1/8s, 2015 | | 340,000 | | 377,400 |
| Momentive Performance Materials, Inc. 144A sr. notes 9 3/4s, 2014 | | 345,000 | | 361,388 |
| Nalco Co. sr. sub. notes 8 7/8s, 2013 | | 265,000 | | 282,225 |
| Nell AF S.a.r.l. 144A sr. notes 8 3/8s, 2015 (Luxembourg) | | 265,000 | | 279,575 |
| Nell AF S.a.r.l. 144A sr. notes 8 3/8s, 2015 (Luxembourg) | EUR | 50,000 | | 73,024 |
| NewPage Corp. company guaranty 10s, 2012 | $ | 220,000 | | 239,800 |
| Newpage Holding Corp. sr. notes FRN 12.389s, 2013 | | 85,000 | | 85,850 |
| Norske Skog Canada, Ltd. company guaranty Ser. D, 8 5/8s, 2011 (Canada) | | 290,000 | | 295,800 |
| Novelis, Inc. company guaranty 7 1/4s, 2015 (acquired various dates from 8/10/05 to 2/5/07, cost $162,988) | | 160,000 | | 166,400 |
| PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada) | | 48,980 | | 50,327 |
| PQ Corp. company guaranty 7 1/2s, 2013 | | 230,000 | | 231,725 |
| Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014 | EUR | 245,000 | | 343,881 |

| | | | | |
|---|---|---|---|---|
| Stone Container Corp. sr. notes 9 3/4s, 2011 | $ | 285,000 | | 295,331 |
| Stone Container Corp. sr. notes 8 3/8s, 2012 | | 40,000 | | 40,800 |
| Tube City IMS Corp. 144A sr. sub. notes 9 3/4s, 2015 | | 160,000 | | 168,000 |
| Ucar Finance, Inc. company guaranty 10 1/4s, 2012 | | 29,000 | | 30,523 |

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CORPORATE BONDS AND NOTES (39.8%)* *continued*

| | | Principal amount | | Value |
|---|---|---|---|---|
| Basic Materials *continued* | | | | |
| Wheeling-Pittsburgh Steel Corp. sr. notes Ser. A, 5s, 2011 | $ | 23,486 | $ | 18,260 |
| Wheeling-Pittsburgh Steel Corp. sr. notes Ser. B, 6s, 2010 | | 13,329 | | 10,363 |
| | | | | 9,002,752 |
| Capital Goods (3.6%) | | | | |
| Alliant Techsystems, Inc. sr. sub. notes 6 3/4s, 2016 | | 230,000 | | 230,000 |
| Allied Waste North America, Inc. company guaranty 6 7/8s, 2017 | | 295,000 | | 292,788 |
| Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008 | | 233,000 | | 244,941 |
| Allied Waste North America, Inc. sec. notes Ser. B, 5 3/4s, 2011 | | 30,000 | | 29,288 |
| American Railcar Industries, Inc. 144A sr. unsec. notes 7 1/2s, 2014 | | 40,000 | | 40,700 |
| Amsted Industries, Inc. 144A sr. notes 10 1/4s, 2011 | | 475,000 | | 508,844 |
| Baldor Electric Co. company guaranty 8 5/8s, 2017 | | 565,000 | | 593,250 |
| Blount, Inc. sr. sub. notes 8 7/8s, 2012 | | 150,000 | | 156,375 |
| Bombardier, Inc. 144A sr. notes 8s, 2014 (Canada) | | 75,000 | | 78,375 |
| Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008 | | 140,000 | | 140,175 |
| Crown Americas, LLC/Crown Americas Capital Corp. sr. notes 7 5/8s, 2013 | | 335,000 | | 345,888 |
| Crown Euro Holdings SA company guaranty 6 1/4s, 2011 (France) | EUR | 155,000 | | 211,816 |
| Graham Packaging Co., Inc. sub. notes 9 7/8s, 2014 | $ | 140,000 | | 144,200 |
| Greenbrier Cos., Inc. company guaranty 8 3/8s, 2015 | | 325,000 | | 329,875 |
| Hexcel Corp. sr. sub. notes 6 3/4s, 2015 | | 125,000 | | 124,063 |
| K&F Acquisitions, Inc. company guaranty 7 3/4s, 2014 | | 335,000 | | 345,888 |
| L-3 Communications Corp. company guaranty 7 5/8s, 2012 | | 100,000 | | 103,750 |
| L-3 Communications Corp. company guaranty 6 1/8s, 2013 | | 120,000 | | 118,500 |
| L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015 | | 75,000 | | 73,125 |
| L-3 Communications Corp. sr. sub. notes Class B, 6 3/8s, 2015 | | 215,000 | | 213,925 |
| Legrand SA debs. 8 1/2s, 2025 (France) | | 425,000 | | 495,125 |
| Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012 | | 170,000 | | 181,900 |

| | | | |
|---|---|---|---|
| Milacron Escrow Corp. sec. notes 11 1/2s, 2011 | | 325,000 | 318,500 |
| Owens-Brockway Glass Container, Inc. company guaranty 6 3/4s, 2014 | EUR | 230,000 | 313,547 |
| Owens-Brockway Glass Container, Inc. sr. sec. notes 8 3/4s, 2012 | $ | 65,000 | 68,250 |
| Owens-Illinois, Inc. debs. 7 1/2s, 2010 | | 55,000 | 56,375 |
| Ray Acquisition SCA 144A sec. notes 9 3/8s, 2015 (France) | EUR | 180,000 | 271,935 |
| RBS Global, Inc. / Rexnord Corp. 144A company guaranty 9 1/2s, 2014 | $ | 355,000 | 374,525 |
| RBS Global, Inc. / Rexnord Corp. 144A sr. notes 8 7/8s, 2016 | | 40,000 | 40,800 |
| Solo Cup Co. sr. sub. notes 8 1/2s, 2014 | | 235,000 | 203,863 |
| TD Funding Corp. 144A sr. sub. notes 7 3/4s, 2014 | | 140,000 | 143,850 |
| Tekni-Plex, Inc. 144A sec. notes 10 7/8s, 2012 | | 320,000 | 358,400 |
| Titan International, Inc. 144A sr. notes 8s, 2012 | | 140,000 | 142,800 |
| | | | 7,295,636 |



CORPORATE BONDS AND NOTES (39.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Communication Services (3.9%) | | |
| American Cellular Corp. company guaranty 9 1/2s, 2009 | $ 45,000 | $ 44,550 |
| American Cellular Corp. sr. notes Ser. B, 10s, 2011 | 320,000 | 340,400 |
| Centennial Cellular Operating Co., LLC company guaranty 10 1/8s, 2013 | 90,000 | 97,313 |
| Centennial Communications Corp. sr. notes 10s, 2013 | 145,000 | 156,600 |
| Centennial Communications Corp. sr. notes FRN 11.11s, 2013 | 40,000 | 42,200 |
| Citizens Communications Co. notes 9 1/4s, 2011 | 240,000 | 267,000 |
| Cricket Communications, Inc. 144A sr. notes 9 3/8s, 2014 | 335,000 | 353,425 |
| Digicel Group, Ltd. 144A sr. notes 8 7/8s, 2015 (Bermuda) | 160,000 | 156,200 |
| Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica) | 165,000 | 175,725 |
| Dobson Cellular Systems sec. notes 9 7/8s, 2012 | 160,000 | 174,000 |
| Dobson Communications Corp. sr. notes FRN 9.61s, 2012 | 75,000 | 77,438 |
| Idearc Inc. 144A sr. notes 8s, 2016 | 535,000 | 549,713 |
| Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom) | 100,000 | 103,750 |
| Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 11/15/08), 2012 (United Kingdom) | 280,000 | 262,500 |
| Intelsat Bermuda, Ltd. 144A sr. notes 11 1/4s, 2016 (Bermuda) | 385,000 | 436,013 |
| Intelsat Bermuda, Ltd. 144A sr. unsec. FRN 8.872s, 2015 (Bermuda) | 70,000 | 71,663 |
| Intelsat Subsidiary Holding Co., Ltd. sr. notes 8 1/2s, 2013 (Bermuda) | 70,000 | 72,975 |

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|---|---|---|
| iPCS, Inc. sr. notes 11 1/2s, 2012 | 70,000 | 77,350 |
| Level 3 Communications, Inc. sr. notes 11 1/2s, 2010 | 195,000 | 216,450 |
| Level 3 Financing, Inc. company guaranty 12 1/4s, 2013 | 100,000 | 116,750 |
| Level 3 Financing, Inc. 144A sr. notes 9 1/4s, 2014 | 200,000 | 205,250 |
| Level 3 Financing, Inc. 144A sr. notes 8 3/4s, 2017 | 115,000 | 115,431 |
| MetroPCS Wireless Inc. 144A sr. notes 9 1/4s, 2014 | 255,000 | 267,750 |
| PanAmSat Corp. company guaranty 9s, 2014 | 335,000 | 361,800 |
| Qwest Communications International, Inc. company | | |
| guaranty 7 1/2s, 2014 | 450,000 | 466,313 |
| Qwest Corp. debs. 7 1/4s, 2025 | 65,000 | 67,194 |
| Qwest Corp. notes 8 7/8s, 2012 | 430,000 | 475,150 |
| Qwest Corp. sr. notes 7 5/8s, 2015 | 150,000 | 160,125 |
| Qwest Corp. sr. unsec. notes 7 1/2s, 2014 | 90,000 | 95,513 |
| Rogers Wireless, Inc. sec. notes 6 3/8s, 2014 (Canada) | 330,000 | 338,663 |
| Rural Cellular Corp. sr. notes 9 7/8s, 2010 | 150,000 | 158,625 |
| Rural Cellular Corp. sr. sub. FRN 11.11s, 2012 | 50,000 | |