

PUTNAM MASTER INTERMEDIATE INCOME TRUST
Form N-CSRS
May 29, 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- 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

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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, 2007

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

What makes Putnam different?

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

THE PRUDENT MAN RULE

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

A time-honored tradition
in money management

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

A prudent approach to investing

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

Funds for every investment goal

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

A commitment to doing
what's right for investors

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

Industry-leading service

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

Putnam Master Intermediate Income Trust

3|31|07 *Semiannual Report*

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Message from the Trustees

Dear Fellow Shareholder

Although the global economy continues to demonstrate healthy growth, it has become evident that certain sectors of the U.S. economy have slowed somewhat. Volatility in the financial markets has been on the rise, reflecting increased uncertainty about the potential impact of problems in the housing market. However, we have also seen indications that inflation is stabilizing and the unemployment rate is declining. We consequently believe the resilience of the U.S. economy will enable it to weather this period of uncertainty.

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 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. 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.

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In the following pages, members of your fund's management team discuss the fund's performance and strategies for the fiscal period ended March 31, 2007, and provide their outlook for the months ahead. As always, we thank you for your support of the Putnam funds.

Putnam Master Intermediate Income Trust: seeking broad diversification across global bond markets

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

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

The fund's 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 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. 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 use of derivatives involves special risks and may result in losses. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

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.

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.

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 six months ended March 31, 2007, Putnam Master Intermediate Income Trust posted total returns of 3.96% at net asset value (NAV) and 9.65% at market price.

The fund's benchmark, the Lehman Government/Credit Bond Index, returned 2.52% .

The average return for the fund's Lipper category, Flexible Income Funds (closed-end), was 4.84% .

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 Master Intermediate Income Trust (NYSE ticker: PIM), total return for periods ended 3/31/07

Since the fund's inception (4/29/88), average annual return is 7.80% at NAV and 6.89% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price
10 years	6.45%	6.82%	86.87%	93.35%
5 years	8.82	8.49	52.59	50.29
3 years	5.90	4.62	18.77	14.51
1 year	8.80	15.43	8.80	15.43
6 months	□	□	3.96	9.65

Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes.

Report from the fund managers

The period in review

The six-month period ended March 31, 2007, was favorable for most sectors of the fixed-income market, especially those associated with higher credit risk, such as the emerging-market and high-yield bond sectors. Investor demand for higher yield, combined with the global economy's ongoing strength, supported higher prices in both of these sectors. Because your fund invests in a variety of fixed-income securities and markets, its results at net asset value (NAV) were ahead of the return of its U.S.-based benchmark index. However, the fund lagged its competitors because it was more defensively positioned, with smaller allocations to high-yield and emerging-market bonds than most other closed-end funds with similar investment objectives. The fund's relatively defensive posture helped its performance at the end of February, when financial markets reacted unfavorably to volatility in the Chinese stock market and worries over financial problems for sub-prime mortgage lenders in the United States. The fund continued to benefit from its holdings in securitized bonds, and our currency strategies had a positive effect on performance over the course of the semiannual period.

Market overview

Over the past six months, the global economy remained strong and inflation, though at the higher end of what has been perceived as an acceptable range, was considered to be under control. This resulted in a generally benign environment for fixed-income investments. While yields of 10-year U.S. Treasury bonds declined only slightly, yields of high-yield and emerging-market bonds declined dramatically. Furthermore, at the end of February, the spread, which is the difference in yield between high-yield bonds and Treasuries of similar maturity, briefly moved to historically low levels. Since prices of fixed-income investments move in the opposite direction from their yields, the

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steep decline in yields of high-yield and emerging-market bonds meant these bonds saw substantial price appreciation. Also contributing to these favorable market conditions were improved balance sheets for many high-yield bond issuers, low default rates, investor demand for higher yields, and ample liquidity within the financial marketplace. Despite the shrinking yield advantage for high-yield and emerging-market bonds relative to Treasuries, investors have continued to demonstrate a high level of confidence in both markets.

The rally in bonds was interrupted by two brief sell-offs: The first was in December, when surprisingly strong economic statistics led investors to conclude that the Federal Reserve (the Fed) would not, as they had hoped, be cutting rates to stimulate growth over the near term. Beginning at its August 2006 meeting, the Fed had decided to pause in raising short-term interest rates, while retaining its stated bias toward hiking rates in the future to restrain inflation. As of March 31, 2007, the federal funds rate — the overnight lending rate that banks charge each other, which guides other short-term rates — remained where it had been since the August 2006 meeting, at 5.25%. The second brief period of volatility came from worries in late February over what actions Chinese officials might take to calm their stock market, and after Wall Street firms

Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 3/31/07.

Bonds

Lehman Government/Credit Bond Index (U.S. Treasury and agency securities and corporate bonds)	2.52%
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JPMorgan Global Diversified Emerging Markets Bond Index (global emerging-market bonds)	6.34%
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Citigroup Non-U.S. World Government Bond Index (international government bonds)	3.20%
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JPMorgan Global High Yield Index (global high-yield corporate bonds)	7.55%
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Equities

S&P 500 Index (broad stock market)	7.38%
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Russell 2000 Growth Index (small-company growth stocks)	11.46%
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Russell 2000 Value Index (small-company value stocks)	10.62%
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began to clamp down on liquidity for sub-prime lenders following a dramatic increase in default rates among sub-prime mortgage loans.

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, cash (and equivalent) 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.

We then draw from these strategies, systematically building an array of investments that seeks to carefully balance risk and return.

Though market fundamentals have been generally strong, we have become concerned about a trend of higher valuation levels in the fixed-income market. Reflecting these concerns, we have adopted an increasingly conservative posture regarding both duration — a measure of the portfolio's 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 "on-hold" status, the global trend in monetary policy is toward higher rates. Therefore, we have

Comparison of top sector weightings

This chart shows how the fund's top 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 4 and 5 for more information about each sector.

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 overall credit quality than we have in past years. We accomplished this 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. We have also maintained some 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 six-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

Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each represented, as of 3/31/07. 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 (6.1%)	5.5%, 2037
Federal National Mortgage Association pass-through certificates TBA (6.1%)	5.5%, 2037
Federal National Mortgage Association pass-through certificates TBA (1.3%)	6.0%, 2021
Credit sector	
Pemex Project Funding Master Trust company guaranty (0.9%)	5.75%, 2015
VTB Capital SA 144A notes (Luxembourg) (0.5%)	7.5%, 2011
Freeport-McMoRan Copper & Gold, Inc (0.5%)	7.11%, 2014
Government sector	
U.S. Treasury Notes (5.7%)	4.25%, 2013
U.S. Treasury Notes (4.1%)	3.25%, 2008

Ireland (Republic of) bonds (1.6%)

5%, 2013

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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 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. As part of our defensive posture, we have increased credit quality within the structured securities portion of the portfolio.

Our country selection in the area of **European government bonds** also contributed positively to performance. The portfolio had limited exposure to bonds from **Portugal** and **Greece**, countries that have been experiencing higher inflation and large deficits. In contrast, we emphasized issues from **France** and **Germany**, countries with tight fiscal management, whose securities appear to offer better relative value.

While we have gradually reduced the fund's weighting in **emerging-market securities** over the past three years, holdings in this area nevertheless helped performance for the period. In light of the current environment of significantly higher commodity prices, we emphasized bonds from **Russia** and **Peru**, which have high levels of commodity exports. The fund's moderate market exposure to **Hungary** detracted from relative performance even though the securities that made up our position were sold at a profit.

The fund's position in **senior-secured bank loans** contributed positively to performance, although we have reduced the size of the position as valuations have risen in this sector. 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 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.

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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.

With U.S. economic growth remaining reasonably strong, and inflation staying within bounds for the moment, we believe that the Fed will keep short-term interest rates stable for the remainder of this year, despite some predictions from market watchers that a faltering housing market and high commodity prices will force the Fed to cut rates during 2007. However, Europe has been a surprisingly strong growth engine for the global economy over the past year, and we think that the European Central Bank (ECB) will be aggressive with its rate moves in order to keep inflation there under control. Eventually, upward rate moves by the ECB and the Japanese central bank could force the Fed to raise rates in the United States. The Treasury yield curve, a graphical representation of interest-rate levels across the maturity spectrum, has become more positively sloped recently, meaning that longer-term rates are beginning to trend upward on concerns that inflationary pressures may be building. With

these factors in mind, we are increasing our efforts to position the fund defensively with regard to both duration and credit. 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 use of derivatives involves special risks and may result in losses. 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

This section shows your fund's performance for periods ended March 31, 2007, the end of the first half of its current fiscal year. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

Fund performance

Total return for periods ended 3/31/07

	NAV	Market price
Annual average		
Life of fund (since 4/29/88)	7.80%	6.89%
10 years	86.87	93.35
Annual average	6.45	6.82
5 years	52.59	50.29
Annual average	8.82	8.49
3 years	18.77	14.51
Annual average	5.90	4.62
1 year	8.80	15.43
6 months	3.96	9.65

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

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Comparative index returns

For periods ended 3/31/07

	Lehman Government/ Credit Bond Index	Citigroup Non- U.S. World Government Bond Index	JPMorgan Global High Yield Index	Lipper Flexible Income Funds (closed-end) category average [□]
Annual average (Life of fund, since 4/29/88)	7.53%	6.59%	□*	7.53%
10 years	87.87	69.82	98.69%	75.08
Annual average	6.51	5.44	7.11	5.69
5 years	31.18	62.16	68.19	53.00
Annual average	5.58	10.15	10.96	8.73
3 years	8.96	8.37	28.55	20.52
Annual average	2.90	2.71	8.73	6.38
1 year	6.38	8.31	11.71	8.83
6 months	2.52	3.20	7.55	4.84

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 6-month and 1-, 3-, 5-, 10-year, and life-of-fund periods ended 3/31/07, there were 8, 7, 7, 7, 7, and 3 funds, respectively, in this Lipper category.

Fund price and distribution information

For the six-month period ended 3/31/07

Distributions*

Number	6
Income	\$0.180
Capital gains	□

Total	\$0.180	
Share value:	NAV	Market price
9/30/06	\$7.08	\$6.15
3/31/07	7.16	6.56
Current yield (end of period)		
Current dividend rate ¹	5.03%	5.49%

* 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.

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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, Kevin Murphy, and Paul Scanlon 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.

Investment team fund ownership

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 March 31, 2007, and March 31, 2006.

N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 3/31/06.

Trustee and Putnam employee fund ownership

As of March 31, 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
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Trustees	\$33,000	\$ 98,000,000
Putnam employees	\$ 7,000	\$458,000,000

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Fund manager compensation

The total 2006 fund manager compensation that is attributable to your fund is approximately \$500,000. 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 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 2006, the calculation reflects annualized 2006 compensation or an estimate of 2007 compensation, as applicable.

Other Putnam funds managed by the Portfolio Leader and Portfolio Members

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

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

Kevin Murphy is also a Portfolio Member of Putnam Diversified Income Trust, Putnam Income Fund, Putnam Premier Income Trust, and Putnam Utilities Growth and Income Fund.

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.

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

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Changes in your fund's Portfolio Leader and Portfolio Members

During the year ended March 31, 2007, Kevin Murphy became a Portfolio Member of your fund and Portfolio Member David Waldman left your fund's management team. Kevin Murphy joined the fund in March 2007. Since 1999, he has been employed by Putnam Management, currently as a Team Leader, High Grade Credit, and previously as an Investment Strategist.

Putnam fund ownership by Putnam's Executive Board

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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 March 31, 2007, and March 31, 2006.

		\$1	\$10,001	\$50,001	\$100,001	\$500,001	\$1,000,001
Year	\$0	\$10,000	\$50,000	\$100,000	\$500,000	\$1,000,000	and over
Philippe Bibi	2007						□
<i>Chief Technology Officer</i>	2006						□
Joshua Brooks	2007						□
<i>Deputy Head of Investments</i>	2006						□
William Connolly	2007						□
<i>Head of Retail Management</i>	2006						□
Kevin Cronin	2007						□
<i>Head of Investments</i>	2006						□
Charles Haldeman, Jr.	2007						□
<i>President and CEO</i>	2006						□
Amrit Kanwal	2007						
<i>Chief Financial Officer</i>	2006				□		
Steven Krichmar	2007						□
<i>Chief of Operations</i>	2006						
Francis McNamara, III	2007						□
<i>General Counsel</i>	2006						□
Jeffrey Peters	2007						□
<i>Head of International Business</i>	N/A						
Richard Robie, III	2007						
<i>Chief Administrative Officer</i>	2006						
Edward Shadek	2007						□

<i>Deputy Head of Investments</i>	2006	□
Sandra Whiston	2007	□
<i>Head of Institutional Management</i>	2006	

N/A indicates the individual was not a member of Putnam's Executive Board as of 3/31/06.

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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

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.

Russell 2000 Growth Index is an unmanaged index of those companies in the small-cap Russell 2000 Index chosen for their growth orientation.

Russell 2000 Value Index is an unmanaged index of those companies in the small-cap Russell 2000 Index chosen for their value orientation.

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 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 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.

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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 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 Flexible Income Funds (closed-end)) for the one-, three- and five-year

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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
78th	45th	45th

(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.

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

* 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 March 31, 2007, were 50%, 50%, and 50%, respectively. Over the one-, five- and ten-year periods ended March 31, 2007, the fund ranked 4th out of 7, 4th out of 7, and 4th 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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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 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. The transaction is currently expected to be completed by the middle of 2007.

At an in-person meeting on February 8th, 2007, the Trustees considered the approval of new management contracts for each Putnam fund 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 8th, 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

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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 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.

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.

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^{31/07} (Unaudited)

U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (15.6%)*

	Principal amount	Value
Federal Home Loan Mortgage Corporation Pass-Through Certificates 6s, July 1, 2021	\$ 69,284	\$ 70,445
Federal National Mortgage Association Pass-Through Certificates		
8s, October 1, 2025	5,384	5,721
6 1/2s, June 1, 2036	50,067	51,088
6 1/2s, October 1, 2018	16,186	16,632
6s, with due dates from July 1, 2019 to January 1, 2022	10,288,102	10,460,508
6s, TBA, May 1, 2037	800,000	805,500
6s, TBA, April 1, 2037	800,000	805,875
5 1/2s, April 1, 2036	45,508	45,046
5 1/2s, with due dates from March 1, 2020 to January 1, 2021	924,235	926,593
5 1/2s, TBA, May 1, 2037	40,400,000	39,956,545
5 1/2s, TBA, April 1, 2037	40,400,000	39,967,595
5s, May 1, 2021	112,170	110,619
4 1/2s, with due dates from July 1, 2020 to June 1, 2034	9,519,094	9,148,779
Total U.S. government and agency mortgage obligations (cost \$102,481,890)		\$ 102,370,946

U.S. TREASURY OBLIGATIONS (11.0%)*

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	Principal amount	Value
<hr/>		
U.S. Treasury Notes		
6 1/2s, February 15, 2010	\$ 7,500,000	\$ 7,887,305
4 1/4s, August 15, 2013	38,008,000	37,366,615
3 1/4s, August 15, 2008	27,242,000	26,695,032
<hr/>		
Total U.S. treasury obligations (cost \$73,460,745)		\$ 71,948,952

CORPORATE BONDS AND NOTES (14.4%)*

	Principal amount	Value
<hr/>		
Basic Materials (1.2%)		
Abitibi-Consolidated, Inc. notes 7 3/4s, 2011 (Canada)	\$ 145,000	\$ 138,475
Builders FirstSource, Inc. company guaranty FRN 9.61s, 2012	95,000	96,425
Chaparral Steel Co. company guaranty 10s, 2013	486,000	541,890
Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s, 2014 (Germany)	EUR 148,000	214,917
Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 ☐☐	\$ 285,000	277,163

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

	Principal amount	Value
<hr/>		
Basic Materials <i>continued</i>		
Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 ☐☐	\$ 775,000	\$ 781,781
Covalence Specialty Materials Corp. 144A sr. sub. notes 10 1/4s, 2016	116,000	116,000
Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 ☐☐	444,000	411,384
Freeport-McMoRan Copper & Gold, Inc. sr. unsec. 8 3/8s, 2017	841,000	908,280
Freeport-McMoRan Copper & Gold, Inc. sr. unsec. 8 1/4s, 2015	422,000	453,650
Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)	358,000	380,375
MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	93,000	98,813
Momentive Performance Materials, Inc. 144A sr. notes 9 3/4s, 2014	430,000	442,900
Mosaic Co. (The) 144A sr. notes 7 5/8s, 2016	224,000	236,320
Mosaic Co. (The) 144A sr. notes 7 3/8s, 2014	136,000	141,780
Nalco Co. sr. sub. notes 8 7/8s, 2013	640,000	680,000

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NewPage Corp. company guaranty 10s, 2012		126,000	137,813
Norske Skog Canada, Ltd. company guaranty Ser. D, 8 5/8s, 2011 (Canada)		237,000	240,555
Novelis, Inc. company guaranty 7 1/4s, 2015 (acquired 1/26/07, cost \$266,738) □		223,000	235,823
PQ Corp. company guaranty 7 1/2s, 2013		63,000	63,630
Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014	EUR	300,000	422,422
Steel Dynamics, Inc. 144A sr. notes 6 3/4s, 2015	\$	365,000	365,913
Stone Container Corp. sr. notes 8 3/8s, 2012		240,000	240,600
			7,626,909

Capital Goods (0.8%)

Alliant Techsystems, Inc. sr. sub. notes 6 3/4s, 2016		129,000	129,323
Blount, Inc. sr. sub. notes 8 7/8s, 2012		311,000	321,885
Crown Americas, LLC/Crown Americas Capital Corp. sr. notes 7 5/8s, 2013		145,000	149,169
L-3 Communications Corp. company guaranty 6 1/8s, 2013		2,370,000	2,334,450
L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015		854,000	829,448
Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012		150,000	159,938
Milacron Escrow Corp. sec. notes 11 1/2s, 2011		29,000	28,130
Owens-Brockway Glass company guaranty 7 3/4s, 2011		181,000	186,883
Owens-Brockway Glass Container, Inc. sr. sec. notes 8 3/4s, 2012		867,000	912,518
			5,051,744

Communication Services (0.7%)

American Cellular Corp. company guaranty 9 1/2s, 2009		195,000	191,588
Cincinnati Bell, Inc. company guaranty 7s, 2015		578,000	573,665
Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica)		170,000	179,350

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

	Principal amount	Value
<i>Communication Services continued</i>		
Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom)	\$ 223,000	\$ 232,478
Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 11/15/08), 2012 (United Kingdom) □□	866,000	818,370
iPCS, Inc. sr. notes 11 1/2s, 2012	300,000	330,000
Qwest Communications International, Inc. company guaranty 7 1/2s, 2014	353,000	363,590
Qwest Corp. notes 8 7/8s, 2012	1,501,000	1,658,605

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Qwest Corp. sr. notes 7 5/8s, 2015	409,000	436,608
Qwest Corp. sr. unsec. notes 7 1/2s, 2014	75,000	79,125
Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010	75,000	77,250
		4,940,629

Consumer Cyclical (2.7%)

Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012	585,000	610,594
Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012	165,000	170,363
Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014	134,000	133,665
CanWest Media, Inc. company guaranty 8s, 2012 (Canada)	337,021	348,817
Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s, 2010	605,000	632,981
Dex Media, Inc. notes 8s, 2013	111,000	116,273
FelCor Lodging LP company guaranty 8 1/2s, 2008 (R)	515,000	551,694
Ford Motor Credit Corp. notes 7 7/8s, 2010	245,000	245,911
Ford Motor Credit Corp. notes 7 3/8s, 2009	195,000	194,642
Ford Motor Credit Corp. sr. notes 9 7/8s, 2011	621,000	654,560
Ford Motor Credit Corp. sr. unsec. notes 8s, 2016	160,000	154,123
Ford Motor Credit Corp. sr. unsec. FRN 8.11s, 2012	126,000	123,225
Ford Motor Credit Corp. 144A sr. unsec. notes 9 3/4s, 2010	444,000	467,684
Goodyear Tire & Rubber Co. (The) sr. notes 9s, 2015	448,000	491,680
Goodyear Tire & Rubber Co. (The) 144A sr. notes 8 5/8s, 2011	240,000	258,000
Hanesbrands, Inc. 144A sr. notes FRN 8.735s, 2014	85,000	86,594
Host Marriott LP sr. notes Ser. M, 7s, 2012 (R)	725,000	738,594
Jostens IH Corp. company guaranty 7 5/8s, 2012	718,000	730,565
K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	138,000	132,825
K. Hovnanian Enterprises, Inc. company guaranty 7 3/4s, 2013	134,000	121,940
Levi Strauss & Co. sr. notes 9 3/4s, 2015	651,000	714,473
Levi Strauss & Co. sr. notes 8 7/8s, 2016	285,000	304,950
Meritage Homes Corp. company guaranty 6 1/4s, 2015	194,000	172,660
Meritor Automotive, Inc. notes 6.8s, 2009	71,000	71,355
MGM Mirage, Inc. company guaranty 8 1/2s, 2010	468,000	500,175
MGM Mirage, Inc. company guaranty 6s, 2009	1,009,000	1,010,261
Movie Gallery, Inc. sr. unsec. notes 11s, 2012	190,000	174,325
NTK Holdings, Inc. sr. disc. notes zero %, 2014	104,000	75,400
Oxford Industries, Inc. sr. notes 8 7/8s, 2011	460,000	476,100

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

Principal amount	Value
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Consumer Cyclicals *continued*

Park Place Entertainment Corp.

sr. sub. notes 7 7/8s, 2010	\$ 395,000	\$ 412,775
Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	247,000	254,410
PRIMEDIA, Inc. company guaranty 8 7/8s, 2011	146,000	150,015
PRIMEDIA, Inc. sr. notes 8s, 2013	542,000	560,970
R.H. Donnelley Corp. sr. disc. notes Ser. A-2, 6 7/8s, 2013	67,000	65,158
R.H. Donnelley Corp. sr. notes 6 7/8s, 2013	268,000	260,630
Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	450,000	477,000
Scientific Games Corp. company guaranty 6 1/4s, 2012	626,000	613,480
Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	735,000	773,588
Standard Pacific Corp. sr. notes 7 3/4s, 2013	101,000	96,960
Station Casinos, Inc. sr. notes 6s, 2012	318,000	308,063
Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014	70,000	72,975
Texas Industries, Inc. sr. unsec. notes 7 1/4s, 2013	161,000	165,830
THL Buildco, Inc. (Nortek Holdings, Inc.)		
sr. sub. notes 8 1/2s, 2014	410,000	398,725
Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015	117,000	118,170
United Auto Group, Inc. 144A sr. sub. notes 7 3/4s, 2016	345,000	348,450
Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	661,000	669,263
Vertis, Inc. 144A sub. notes 13 1/2s, 2009	170,000	160,650
Wimar Opco, LLC. 144A sr. sub. notes 9 5/8s, 2014	1,000,000	1,003,750
Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp.		
1st mtge. 6 5/8s, 2014	555,000	549,450
		17,924,741

Consumer Staples (2.3%)

Affinity Group, Inc. sr. sub. notes 9s, 2012	545,000	559,988
AMC Entertainment, Inc. company guaranty 11s, 2016	251,000	285,826
AMC Entertainment, Inc. sr. sub. notes 8s, 2014	205,000	208,588
Archibald Candy Corp. company guaranty 10s, 2007 (In default) (F) ☐	90,153	4,711
Avis Budget Car Rental, LLC 144A sr. notes 7 3/4s, 2016	285,000	290,700
Cablevision Systems Corp. sr. notes Ser. B, 8s, 2012	167,000	169,505
CCH I Holdings, LLC company guaranty 12 1/8s, 2015	8,000	7,780
CCH I, LLC/Capital Corp. sec. notes 11s, 2015	1,347,000	1,397,513
CCH II, LLC/Capital Corp. sr. notes Ser. B, 10 1/4s, 2010	259,000	272,921
CCH, LLC/Capital Corp. sr. notes 10 1/4s, 2010	86,000	90,730
Church & Dwight Co., Inc. company guaranty 6s, 2012	444,000	432,900
Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/09), 2014 ☐☐	990,000	905,850
Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	825,000	838,406
CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011	595,000	609,875
CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012	1,068,000	1,059,990
Dean Foods Co. company guaranty 7s, 2016	134,000	134,503

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Del Monte Corp. company guaranty 6 3/4s, 2015	320,000	316,400
Del Monte Corp. sr. sub. notes 8 5/8s, 2012	560,000	582,400

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

	Principal amount	Value
<i>Consumer Staples continued</i>		
DirecTV Holdings, LLC company guaranty 6 3/8s, 2015	\$ 718,000	\$ 682,100
Echostar DBS Corp. company guaranty 6 5/8s, 2014	2,119,000	2,132,244
Interpublic Group of Companies, Inc. notes 6 1/4s, 2014	118,000	110,920
Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013	741,000	805,875
Playtex Products, Inc. company guaranty 9 3/8s, 2011	170,000	175,738
Playtex Products, Inc. sec. notes 8s, 2011	770,000	804,650
Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012	450,000	465,750
Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	471,000	501,026
Rental Services Corp. 144A bonds 9 1/2s, 2014	70,000	74,550
United Rentals NA, Inc. sr. sub. notes 7s, 2014	352,000	351,120
Young Broadcasting, Inc. company guaranty 10s, 2011	376,000	370,360
Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	293,000	273,223
		14,916,142

Energy (2.9%)

Arch Western Finance, LLC sr. notes 6 3/4s, 2013	1,347,000	1,325,111
Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands)	403,000	420,128
CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	812,000	789,670
Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	269,000	280,433
Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	1,031,000	1,077,395
Chesapeake Energy Corp. sr. notes 7s, 2014	279,000	287,370
Complete Production Services, Inc. 144A sr. notes 8s, 2016	515,000	527,875
Comstock Resources, Inc. sr. notes 6 7/8s, 2012	510,000	494,700
EXCO Resources, Inc. company guaranty 7 1/4s, 2011	725,000	726,813
Forest Oil Corp. sr. notes 8s, 2011	540,000	562,950
Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)	584,000	559,910
Hornbeck Offshore Services, Inc. sr. notes Ser. B, 6 1/8s, 2014	517,000	489,211
Massey Energy Co. sr. notes 6 5/8s, 2010	774,000	781,740
Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014	348,000	348,000
Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	655,000	623,888
Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011	424,317	434,545
Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014	355,000	370,734

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Pemex Finance, Ltd. bonds 9.69s, 2009 (Cayman Islands)	507,500	531,779
Pemex Project Funding Master Trust company guaranty 5 3/4s, 2015	5,838,000	5,849,676
PetroHawk Energy Corp. company guaranty 9 1/8s, 2013	864,000	920,160
Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	670,000	681,725
Pride International, Inc. sr. notes 7 3/8s, 2014	826,000	846,650
		18,930,463

Financial (1.1%)

Bosphorus Financial Services, Ltd. 144A sec. FRN 7.16s, 2012 (Cayman Islands)	1,445,000	1,459,524
Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	310,000	311,550
Finova Group, Inc. notes 7 1/2s, 2009	431,000	118,525

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

	Principal amount	Value
<i>Financial continued</i>		
General Motors Acceptance Corp. FRN 6.31s, 2007	\$ 350,000	\$ 349,999
General Motors Acceptance Corp. notes 7 3/4s, 2010	90,000	92,378
General Motors Acceptance Corp. notes 7s, 2012	40,000	40,202
General Motors Acceptance Corp. notes 6 7/8s, 2012	68,000	67,726
General Motors Acceptance Corp. notes 6 3/4s, 2014	305,000	299,843
General Motors Acceptance Corp. sr. unsub. notes 5.85s, 2009	33,000	32,575
UBS Luxembourg SA for Sberbank unsec. sub. notes stepped-coupon 6.23s (7.429s, 2/11/10), 2015 (Luxembourg) ☐☐	1,400,000	1,416,100
VTB Capital SA 144A notes 7 1/2s, 2011 (Luxembourg)	3,010,000	3,224,463
		7,412,885

Health Care (1.0%)

Community Health Systems, Inc. sr. sub. notes 6 1/2s, 2012	53,000	54,590
DaVita, Inc. company guaranty 6 5/8s, 2013	153,000	153,000
HCA, Inc. notes 6 3/8s, 2015	212,000	180,995
HCA, Inc. notes 5 3/4s, 2014	260,000	221,975
HCA, Inc. 144A sec. notes 9 1/4s, 2016	645,000	695,794
HCA, Inc. 144A sec. sr. notes 9 5/8s, 2016 ☐☐	550,000	594,000
MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012	595,000	541,450
Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	740,000	720,575
Service Corporation International sr. notes 7s, 2017	170,000	171,275
Service Corporation International sr. notes 6 3/4s, 2016	535,000	532,325

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Stewart Enterprises, Inc. sr. notes 6 1/4s, 2013	724,000	704,090
Tenet Healthcare Corp. notes 7 3/8s, 2013	390,000	362,213
Tenet Healthcare Corp. sr. notes 9 7/8s, 2014	299,000	301,990
US Oncology, Inc. company guaranty 9s, 2012	420,000	448,350
Vanguard Health Holding Co. II, LLC		
sr. sub. notes 9s, 2014	388,000	392,850
Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)	305,000	343,125
Ventas Realty LP/Capital Corp. company guaranty 6 3/4s, 2010 (R)	201,000	206,528
Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)	173,000	176,460
		6,801,585

Technology (0.6%)

Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012	334,000	337,758
Freescale Semiconductor, Inc. 144A sr. notes 9 1/8s, 2014 ☐☐	383,000	380,128
Freescale Semiconductor, Inc. 144A sr. notes 8 7/8s, 2014	768,000	768,960
Freescale Semiconductor, Inc. 144A		
sr. sub. notes 10 1/8s, 2016	384,000	384,960
Iron Mountain, Inc. company guaranty 8 5/8s, 2013	700,000	719,250
New ASAT Finance, Ltd. company guaranty 9 1/4s, 2011 (Cayman Islands)	13,000	11,440
SunGard Data Systems, Inc. company guaranty 9 1/8s, 2013	340,000	364,650
Xerox Corp. sr. notes 9 3/4s, 2009	EUR 140,000	210,216

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CORPORATE BONDS AND NOTES (14.4%)* *continued*

	Principal amount	Value
<i>Technology continued</i>		
Xerox Corp. sr. notes 7 5/8s, 2013	\$ 278,000	\$ 291,553
Xerox Corp. unsec. sr. notes 6 3/4s, 2017	153,000	160,102
		3,629,017

Utilities & Power (1.1%)

AES Corp. (The) sr. notes 8 7/8s, 2011	54,000	57,645
AES Corp. (The) 144A sec. notes 8 3/4s, 2013	460,000	487,600
CMS Energy Corp. sr. notes 8.9s, 2008	600,000	622,500
CMS Energy Corp. sr. notes 7 3/4s, 2010	180,000	190,800
Colorado Interstate Gas Co. sr. notes 5.95s, 2015	174,000	175,086
Edison Mission Energy sr. unsec. notes 7 3/4s, 2016	146,000	152,205
Edison Mission Energy sr. unsec. notes 7 1/2s, 2013	172,000	177,590
El Paso Natural Gas Co. sr. notes Ser. A, 7 5/8s, 2010	365,000	379,600

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El Paso Production Holding Co. company guaranty 7 3/4s, 2013	993,000	1,037,685
Ferrellgas LP/Finance sr. notes 6 3/4s, 2014	520,000	509,600
Mission Energy Holding Co. sec. notes 13 1/2s, 2008	749,000	816,410
NRG Energy, Inc. sr. notes 7 3/8s, 2016	235,000	241,463
Orion Power Holdings, Inc. sr. notes 12s, 2010	655,000	756,525
SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	517,000	529,523
Teco Energy, Inc. notes 7.2s, 2011	185,000	196,100
Teco Energy, Inc. notes 7s, 2012	280,000	295,400
Teco Energy, Inc. sr. notes 6 3/4s, 2015	32,000	33,640
Utilicorp United, Inc. sr. notes 9.95s, 2011	18,000	19,710
Williams Cos., Inc. (The) notes 8 1/8s, 2012	150,000	163,125
Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010	172,000	174,365
Williams Partners LP/ Williams Partners Finance Corp. 144A bonds 7 1/4s, 2017	145,000	153,338
		7,169,910

Total corporate bonds and notes (cost \$92,795,729) \$ 94,404,025

FOREIGN GOVERNMENT BONDS AND NOTES (12.7%)*

	Principal amount	Value
Argentina (Republic of) FRB 5.475s, 2012	\$ 8,133,750	\$ 7,710,524
Austria (Republic of) 144A notes Ser. EMTN, 3.8s, 2013	EUR 1,390,000	1,829,674
Brazil (Federal Republic of) bonds 6s, 2017	\$ 1,490,000	1,499,685
Canada (Government of) bonds Ser. WH31, 6s, 2008	CAD 3,680,000	3,260,409
Colombia (Republic of) notes 10s, 2012	\$ 3,697,000	4,349,521
France (Government of) bonds 4s, 2013	EUR 4,730,000	6,303,274
Germany (Federal Republic of) bonds Ser. 97, 6s, 2007	EUR 5,500,000	7,380,871
Ireland (Republic of) bonds 5s, 2013	EUR 7,500,000	10,510,981
Japan (Government of) CPI Linked bonds Ser. 8, 1s, 2016	JPY 1,114,545,000	9,296,297
Mexican (Government of) bonds Ser. M 10, 8s, 2015	MXN 17,460,000	1,628,967
Russia (Ministry of Finance) debts. Ser. V, 3s, 2008	\$ 2,445,000	2,374,829
South Africa (Republic of) notes 7 3/8s, 2012	1,495,000	1,624,318
South Africa (Republic of) notes 6 1/2s, 2014	1,330,000	1,408,470
Spain (Government of) bonds 5.4s, 2011	EUR 1,000,000	1,404,856

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FOREIGN GOVERNMENT BONDS AND NOTES (12.7%)* *continued*

	Principal amount	Value
Spain (Kingdom of) bonds 5s, 2012	EUR 800,000	\$ 1,114,837
Sweden (Government of) debts. Ser. 1041, 6 3/4s, 2014	SEK 30,690,000	5,146,945
Turkey (Republic of) notes 11s, 2013	\$ 6,105,000	7,463,363
Ukraine (Government of) 144A sr. unsub. 6.58s, 2016	1,495,000	1,515,930

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United Mexican States notes 6 5/8s, 2015	4,530,000	4,892,400
Venezuela (Republic of) notes 10 3/4s, 2013	2,150,000	2,612,250

Total foreign government bonds and notes (cost \$78,558,889)		\$ 83,328,401
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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)*

	Principal amount	Value
<hr/>		
Amresco Commercial Mortgage Funding I 144A		
Ser. 97-C1, Class G, 7s, 2029	\$ 434,000	\$ 432,789
Banc of America Commercial Mortgage, Inc. Ser. 01-1, Class G, 7.324s, 2036	325,000	344,199
Banc of America Commercial Mortgage, Inc. 144A Ser. 01-1, Class J, 6 1/8s, 2036	163,000	163,822
Ser. 01-1, Class K, 6 1/8s, 2036	367,000	309,373
Banc of America Large Loan 144A		
FRB Ser. 05-MIB1, Class K, 7.32s, 2022	645,000	644,439
FRB Ser. 05-ESHA, Class K, 7.12s, 2020	712,000	711,379
FRB Ser. 06-LAQ, Class M, 6.97s, 2021	548,000	548,141
FRB Ser. 06-LAQ, Class L, 6.87s, 2021	517,000	517,946
Banc of America Funding Corp. IFB Ser. 06-4, Class A4, Interest Only (IO), 0.18s, 2036	1,014,698	1,910
Banc of America Mortgage Securities IFB Ser. 06-2, Class A4, IO, 0.08s, 2036	992,729	6,388
Bayview Commercial Asset Trust Ser. 07-1, Class A, IO, 1.211s, 2037	4,181,335	549,722
Bear Stearns Commercial Mortgage Securities, Inc. FRB Ser. 00-WF2, Class F, 8.453s, 2032	410,000	457,411
Bear Stearns Commercial Mortgage Securities, Inc. 144A FRB Ser. 05-LXR1, Class J, 6.97s, 2018	696,000	696,000
Broadgate Financing PLC sec. FRB Ser. D, 6.127s, 2023 (United Kingdom)	GBP 456,000	893,412
Commercial Mortgage Pass-Through Certificates 144A		
FRB Ser. 05-F10A, Class A1, 5.42s, 2017	\$ 992,341	992,327
Countrywide Alternative Loan Trust		
IFB Ser. 06-6CB, Class 1A3, IO, zero %, 2036	6,773,696	16,934
Ser. 06-OA10, Class XBI, IO, 2.608s, 2046	5,821,874	236,514
CRESI Finance Limited Partnership 144A FRB Ser. 06-A, Class C, 5.92s, 2017	251,000	250,999
CS First Boston Mortgage Securities Corp. 144A		
FRB Ser. 05-TFLA, Class L, 7.17s, 2020	699,000	699,000
FRB Ser. 05-TFLA, Class K, 6.62s, 2020	388,000	388,000
Ser. 98-C1, Class F, 6s, 2040	966,000	932,115
Ser. 02-CP5, Class M, 5 1/4s, 2035	354,000	311,714
Deutsche Mortgage & Asset Receiving Corp.		
Ser. 98-C1, Class X, IO, 0.549s, 2031	14,250,252	151,409

COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)* *continued*

	Principal amount	Value
DLJ Commercial Mortgage Corp. Ser. 98-CF2, Class B4, 6.04s, 2031	\$ 286,492	\$ 292,537
DLJ Commercial Mortgage Corp. 144A Ser. 98-CF2, Class B5, 5.95s, 2031	915,958	871,342
DLJ Mortgage Acceptance Corp. 144A Ser. 97-CF1, Class B2, 8.16s, 2030	275,000	258,500
Ser. 97-CF1, Class B1, 7.91s, 2030	257,923	258,052
European Loan Conduit 144A FRB Ser. 22A, Class D, 6.433s, 2014 (Ireland)	GBP 507,000	997,523
European Prime Real Estate PLC 144A FRB Ser. 1-A, Class D, 6.441s, 2014 (United Kingdom)	GBP 352,406	692,041
Fannie Mae		
IFB Ser. 06-70, Class SM, 9.605s, 2036	\$ 281,813	304,494
IFB Ser. 06-62, Class PS, 7.98s, 2036	791,622	886,080
IFB Ser. 06-76, Class QB, 7.68s, 2036	1,906,183	2,025,428
IFB Ser. 06-70, Class SJ, 7.68s, 2036	131,276	147,059
Ser. 04-W8, Class 3A, 7 1/2s, 2044	361,900	381,483
Ser. 04-W2, Class 5A, 7 1/2s, 2044	1,217,751	1,281,180
Ser. 04-T2, Class 1A4, 7 1/2s, 2043	313,126	329,708
Ser. 03-W4, Class 4A, 7 1/2s, 2042	95,404	99,656
Ser. 03-W3, Class 1A3, 7 1/2s, 2042	203,191	212,675
Ser. 02-T19, Class A3, 7 1/2s, 2042	256,999	269,067
Ser. 03-W2, Class 1A3, 7 1/2s, 2042	4,442	4,649
Ser. 02-W1, Class 2A, 7 1/2s, 2042	393,400	409,882
Ser. 02-14, Class A2, 7 1/2s, 2042	1,988	2,077
Ser. 01-T10, Class A2, 7 1/2s, 2041	247,329	257,620
Ser. 02-T4, Class A3, 7 1/2s, 2041	1,192	1,242
Ser. 01-T8, Class A1, 7 1/2s, 2041	3,278	3,404
Ser. 01-T7, Class A1, 7 1/2s, 2041	1,003,051	1,042,152
Ser. 01-T3, Class A1, 7 1/2s, 2040	159,997	166,414
Ser. 01-T1, Class A1, 7 1/2s, 2040	491,620	511,502
Ser. 99-T2, Class A1, 7 1/2s, 2039	197,286	207,779
Ser. 00-T6, Class A1, 7 1/2s, 2030	95,271	99,463
Ser. 02-W7, Class A5, 7 1/2s, 2029	172,303	180,101
Ser. 01-T4, Class A1, 7 1/2s, 2028	454,777	479,912
Ser. 02-W3, Class A5, 7 1/2s, 2028	994	1,039
IFB Ser. 06-63, Class SP, 7.38s, 2036	2,067,829	2,282,614
IFB Ser. 06-60, Class TK, 7.32s, 2036	575,704	619,920
Ser. 04-W12, Class 1A3, 7s, 2044	367,756	382,864
Ser. 01-T10, Class A1, 7s, 2041	979,541	1,009,851
Ser. 07-16, Class TS, IO, 5 1/2s, 2009	5,841,093	125,034
IFB Ser. 05-74, Class CS, 5.39s, 2035	633,766	644,019
IFB Ser. 05-74, Class CP, 5.243s, 2035	555,891	572,751

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IFB Ser. 06-27, Class SP, 5.06s, 2036	791,000	818,098
IFB Ser. 06-8, Class HP, 5.06s, 2036	920,838	940,251
IFB Ser. 06-8, Class WK, 5.06s, 2036	1,441,547	1,461,108
IFB Ser. 05-106, Class US, 5.06s, 2035	1,353,618	1,394,520
IFB Ser. 05-99, Class SA, 5.06s, 2035	664,190	674,533
Ser. 07-39, Class A, IO, 5s, 2037	2,488,000	92,388
IFB Ser. 05-114, Class SP, 4.95s, 2036	389,855	369,875

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)* *continued*

	Principal amount	Value
Fannie Mae		
IFB Ser. 06-60, Class CS, 4.583s, 2036	\$ 912,866	\$ 880,642
IFB Ser. 05-95, Class CP, 4.089s, 2035	104,092	104,002
IFB Ser. 05-95, Class OP, 3.923s, 2035	360,000	340,065
IFB Ser. 05-83, Class QP, 3.562s, 2034	219,131	206,805
IFB Ser. 02-36, Class QH, IO, 2.73s, 2029	60,163	241
IFB Ser. 06-90, Class SE, IO, 2.48s, 2036	2,346,005	220,030
IFB Ser. 03-66, Class SA, IO, 2.33s, 2033	1,122,625	87,530
IFB Ser. 07-W2, Class 3A2, IO, 1.96s, 2037	1,774,815	115,794
IFB Ser. 05-113, Class AI, IO, 1.91s, 2036	773,225	59,208
IFB Ser. 05-113, Class DI, IO, 1.91s, 2036	6,254,025	373,533
IFB Ser. 06-60, Class DI, IO, 1 3/4s, 2035	2,275,284	125,252
IFB Ser. 07-30, Class WI, IO, 1.44s, 2037	2,737,000	152,082
IFB Ser. 07-22, Class S, IO, 1.43s, 2037	19,259,023	1,176,464
IFB Ser. 07-W2, Class 2A2, IO, 1.43s, 2037	2,287,985	123,350
IFB Ser. 06-128, Class SH, IO, 1.43s, 2037	1,288,126	71,877
IFB Ser. 06-56, Class SM, IO, 1.43s, 2036	1,639,647	90,390
IFB Ser. 06-12, Class SD, IO, 1.43s, 2035	4,184,854	302,983
IFB Ser. 06-123, Class CI, IO, 1.42s, 2037	2,456,422	159,755
IFB Ser. 05-95, Class CI, IO, 1.38s, 2035	1,401,569	90,468
IFB Ser. 05-84, Class SG, IO, 1.38s, 2035	2,400,622	156,744
IFB Ser. 05-104, Class NI, IO, 1.38s, 2035	1,632,452	109,864
IFB Ser. 04-92, Class S, IO, 1.38s, 2034	1,922,487	102,734
IFB Ser. 05-83, Class QI, IO, 1.37s, 2035	364,809	26,868
IFB Ser. 05-83, Class SL, IO, 1.35s, 2035	4,217,936	222,437
IFB Ser. 06-114, Class IS, IO, 1.33s, 2036	1,361,503	77,010
IFB Ser. 06-20, Class IG, IO, 1.33s, 2036	8,143,980	341,113
IFB Ser. 06-109, Class SH, IO, 1.3s, 2036	1,161,688	84,319
IFB Ser. 06-45, Class SM, IO, 1.28s, 2036	1,991,064	84,310
IFB Ser. 06-8, Class JH, IO, 1.28s, 2036	4,847,223	267,905
IFB Ser. 06-20, Class IB, IO, 1.27s, 2036	3,489,833	139,317
IFB Ser. 05-95, Class OI, IO, 1.27s, 2035	204,194	15,253
IFB Ser. 06-98, Class SQ, IO, 1 1/4s, 2036	14,249,127	774,769
IFB Ser. 06-85, Class TS, IO, 1.24s, 2036	2,746,889	133,501

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Ser. 03-W17, Class 12, IO, 1.153s, 2033	2,590,173	106,715
IFB Ser. 07-30, Class LI, IO, 1.12s, 2037	1,889,000	109,890
IFB Ser. 07-W2, Class 1A2, IO, 1.11s, 2037	6,108,575	290,967
IFB Ser. 07-15, Class CI, IO, 1.06s, 2037	4,496,062	243,503
IFB Ser. 06-123, Class BI, IO, 1.06s, 2037	5,969,791	316,529
IFB Ser. 06-115, Class JI, IO, 1.06s, 2036	3,302,328	175,892
IFB Ser. 06-123, Class LI, IO, 1s, 2037	2,211,759	112,966
Ser. 03-W10, Class 1A, IO, 0.932s, 2043	3,673,751	54,185
Ser. 03-W10, Class 3A, IO, 0.928s, 2043	4,418,529	74,450
IFB Ser. 05-74, Class SE, IO, 0.78s, 2035	2,119,077	68,981
IFB Ser. 05-87, Class SE, IO, 0.73s, 2035	9,165,929	296,502
Ser. 02-T18, IO, 0.524s, 2042	7,127,368	90,545
Ser. 06-84, Class OP, Principal Only (PO), zero %, 2036	77,111	74,914
Ser. 05-113, Class DO, PO, zero %, 2036	961,191	771,660
Ser. 363, Class 1, PO, zero %, 2035	2,062,358	1,573,572
Ser. 361, Class 1, PO, zero %, 2035	2,745,267	2,252,702

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)* *continued*

	Principal amount	Value
Fannie Mae		
Ser. 04-38, Class AO, PO, zero %, 2034	\$ 348,733	\$ 254,193
Ser. 04-61, Class CO, PO, zero %, 2031	517,000	423,158
Ser. 99-51, Class N, PO, zero %, 2029	73,603	61,148
Ser. 07-31, Class TS, IO, zero %, 2009	3,667,000	78,496
Ser. 07-15, Class IM, IO, zero %, 2009	1,422,967	27,001
FRB Ser. 05-117, Class GF, zero %, 2036	296,025	276,446
Federal Home Loan Mortgage Corp.		
Structured Pass-Through Securities		
Ser. T-59, Class 1A3, 7 1/2s, 2043	400,508	423,109
Ser. T-58, Class 4A, 7 1/2s, 2043	6,409	6,723
Ser. T-41, Class 3A, 7 1/2s, 2032	960,494	1,002,829
Ser. T-60, Class 1A2, 7s, 2044	1,845,931	1,919,894
Ser. T-57, Class 1AX, IO, 0.005s, 2043	2,355,290	27,792
FFCA Secured Lending Corp. 144A Ser. 00-1, Class X, IO, 1.366s, 2020	5,608,490	303,996
Freddie Mac		
IFB Ser. 3153, Class UK, 7 1/2s, 2036	204,552	234,576
IFB Ser. 3182, Class PS, 7.32s, 2032	218,382	242,313
IFB Ser. 3081, Class DC, 5.22s, 2035	541,601	551,322
IFB Ser. 3114, Class GK, 5.12s, 2036	360,660	367,059
IFB Ser. 2979, Class AS, 4.767s, 2034	238,350	236,779
IFB Ser. 3065, Class DC, 3.9s, 2035	825,563	782,402
IFB Ser. 3050, Class SA, 3.575s, 2034	596,709	551,208
IFB Ser. 2828, Class TI, IO, 1.73s, 2030	769,072	49,022

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IFB Ser. 3287, Class SD, IO, 1.43s, 2037	1,605,000	98,340
IFB Ser. 3028, Class ES, IO, 1.43s, 2035	3,962,972	269,136
IFB Ser. 3042, Class SP, IO, 1.43s, 2035	924,999	58,645
IFB Ser. 3045, Class DI, IO, 1.41s, 2035	9,778,641	472,178
IFB Ser. 3054, Class CS, IO, 1.38s, 2035	876,281	38,612
IFB Ser. 3107, Class DC, IO, 1.38s, 2035	4,202,457	299,771
IFB Ser. 3066, Class SI, IO, 1.38s, 2035	2,699,636	185,542
IFB Ser. 2950, Class SM, IO, 1.38s, 2016	644,155	37,651
IFB Ser. 3031, Class BI, IO, 1.37s, 2035	745,346	54,401
IFB Ser. 3114, Class TS, IO, 1.33s, 2030	4,893,709	157,348
IFB Ser. 3240, Class S, IO, 1.3s, 2036	3,816,158	228,495
IFB Ser. 3065, Class DI, IO, 1.3s, 2035	588,360	42,914
IFB Ser. 3174, Class BS, IO, 1.2s, 2036	3,836,551	148,872
IFB Ser. 3152, Class SY, IO, 1.16s, 2036	3,312,032	206,671
IFB Ser. 3081, Class DI, IO, 1.16s, 2035	759,438	41,435
IFB Ser. 3199, Class S, IO, 1.13s, 2036	2,826,828	153,488
IFB Ser. 3284, Class LI, IO, 1.12s, 2037	2,417,000	135,879
IFB Ser. 3281, Class AI, IO, 1.11s, 2037	4,503,042	253,570
IFB Ser. 3240, Class GS, IO, 1.06s, 2036	2,309,078	124,302
IFB Ser. 3288, Class SJ, IO, 0.81s, 2037	2,225,000	85,871
IFB Ser. 3284, Class CI, IO, 0.8s, 2037	5,361,000	222,374
IFB Ser. 3016, Class SQ, IO, 0.79s, 2035	1,757,398	50,799
IFB Ser. 3284, Class WI, IO, 0.78s, 2037	8,936,000	394,427
IFB Ser. 2815, Class S, IO, 0.68s, 2032	1,715,987	46,675
Ser. 3174, PO, zero %, 2036	135,861	116,562

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)* *continued*

	Principal amount	Value
Freddie Mac		
Ser. 236, PO, zero %, 2036	\$ 675,372	\$ 547,281
Ser. 3045, Class DO, PO, zero %, 2035	747,774	596,858
Ser. 215, PO, zero %, 2031	144,556	114,540
Ser. 2235, PO, zero %, 2030	180,298	143,957
FRB Ser. 3022, Class TC, zero %, 2035	119,005	122,180
FRB Ser. 2986, Class XT, zero %, 2035	76,568	75,761
FRB Ser. 3046, Class WF, zero %, 2035	140,271	135,683
FRB Ser. 3054, Class XF, zero %, 2034	77,431	75,386
GE Capital Commercial Mortgage Corp. 144A		
Ser. 00-1, Class F, 7.515s, 2033	170,000	181,049
Ser. 00-1, Class G, 6.131s, 2033	596,000	546,753
GMAC Commercial Mortgage Securities, Inc. 144A		
Ser. 99-C3, Class G, 6.974s, 2036	529,968	545,673
Government National Mortgage Association		
IFB Ser. 05-66, Class SP, 3.1s, 2035	505,702	471,826

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IFB Ser. 07-1, Class SL, IO, 2.04s, 2037	775,841	50,826
IFB Ser. 07-1, Class SM, IO, 2.03s, 2037	775,841	50,604
IFB Ser. 05-68, Class SN, IO, 1.88s, 2034	2,481,691	136,880
IFB Ser. 07-9, Class AI, IO, 1.18s, 2037	2,235,000	104,967
IFB Ser. 05-65, Class SI, IO, 1.03s, 2035	1,874,873	71,874
IFB Ser. 05-68, Class SI, IO, 0.98s, 2035	6,559,770	289,042
IFB Ser. 06-14, Class S, IO, 0.93s, 2036	1,921,301	69,365
IFB Ser. 05-68, Class S, IO, 0.88s, 2035	3,728,214	146,380
Ser. 98-2, Class EA, PO, zero %, 2028	73,766	60,650
GS Mortgage Securities Corp. II 144A FRB		
Ser. 03-FL6A, Class L, zero%, 2015	214,000	214,000
LB Commercial Conduit Mortgage Trust 144A		
Ser. 99-C1, Class G, 6.41s, 2031	253,101	262,961
Lehman Brothers Floating Rate Commercial Mortgage		
Trust 144A FRB Ser. 03-LLFA, Class L, 9.07s, 2014	876,000	876,088
Lehman Mortgage Trust		
IFB Ser. 06-5, Class 2A2, IO, 1.83s, 2036	2,296,946	106,187
IFB Ser. 07-2, Class 2A13, IO, 1.37s, 2037	2,153,000	126,171
IFB Ser. 06-9, Class 2A2, IO, 1.3s, 2037	2,616,065	128,705
IFB Ser. 06-7, Class 2A5, IO, 1.23s, 2036	4,219,319	224,930
IFB Ser. 06-7, Class 2A4, IO, 1.23s, 2036	4,720,554	178,840
IFB Ser. 06-6, Class 1A2, IO, 1.18s, 2036	1,917,503	74,432
IFB Ser. 06-6, Class 1A3, IO, 1.18s, 2036	2,561,434	125,918
IFB Ser. 06-5, Class 1A3, IO, 0.08s, 2036	831,979	4,191
IFB Ser. 06-4, Class 1A3, IO, 0.08s, 2036	1,178,851	10,330
IFB Ser. 06-7, Class 1A3, IO, 0.03s, 2036	1,936,185	11,925
Mach One Commercial Mortgage Trust 144A		
Ser. 04-1A, Class J, 5.45s, 2040	594,000	503,902
Ser. 04-1A, Class K, 5.45s, 2040	212,000	172,300
Ser. 04-1A, Class L, 5.45s, 2040	96,000	71,753
Merrill Lynch Capital Funding Corp. Ser. 06-4,		
Class XC, IO, 0.06s, 2049	56,824,553	854,588
Merrill Lynch Mortgage Investors, Inc. Ser. 96-C2,		
Class JS, IO, 2.274s, 2028	1,643,175	160,081

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)* *continued*

	Principal amount	Value
Mezz Cap Commercial Mortgage Trust 144A Ser. 04-C1,		
Class X, IO, 7.437s, 2037	\$ 1,016,268	\$ 336,004
Morgan Stanley Capital I Ser. 98-CF1, Class E,		
7.35s, 2032	1,252,000	1,314,595
Morgan Stanley Capital I 144A Ser. 04-RR, Class F7,		
6s, 2039		