

PUTNAM MASTER INTERMEDIATE INCOME TRUST
Form N-30D
November 18, 2002

Putnam
Master
Intermediate
Income Trust

ANNUAL REPORT ON PERFORMANCE AND OUTLOOK

9-30-02

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

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

Dear Fellow Shareholder:

In an environment that was somewhat challenging for higher-yielding bonds but still far more settled than the stock market, Putnam Master Intermediate Income Trust was able to deliver positive results for the fiscal year ended September 30, 2002. It also outperformed the Lipper average for its category. However, because of its portfolio focus toward lower-rated issues, the fund lagged its primary benchmark, the Lehman Government Credit Index.

During periods such as this, in which wary investors place more emphasis on safety than on returns, funds such as yours cannot be expected to perform as well as those with more conservative orientations. However, in a period in which other asset classes, such as stocks, saw significant losses, the fund's solid positive return illustrated the value of diversifying into bond funds.

The following report provides a detailed review of the fund's strategy and results for the period. The managers also offer their views of the fund's prospects for the fiscal year that just began.

Respectfully yours,

/S/JOHN A. HILL

/S/GEORGE PUTNAM, III

John A. Hill
Chairman of the Trustees
November 20, 2002

George Putnam, III
President of the Funds

REPORT FROM FUND MANAGEMENT

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

The year ended September 30, 2002, was, on balance, a highly favorable period for the bond market. With significant volatility in the U.S. and foreign equity markets, concerns about global terrorism, corporate scandals in the U.S., and a cyclical economic slowdown causing lackluster profits, investors have flocked to bonds. High-quality bonds have benefited the most, as nervous investors have generally avoided investments with risk attached. However, while the lower-quality sectors

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have underperformed high-quality bonds, these sectors -- such as high-yield corporate bonds and emerging-markets bonds -- still have generally outperformed equities by a large margin. By and large, investors who have diversified their portfolios into fixed-income securities have been rewarded.

Total return for 12 months ended 9/30/02

NAV	Market price
4.21%	14.81%

Past performance does not indicate future results. Performance based on market prices for the shares will vary from performance based on the portfolio's net asset value. Performance information for longer periods begins on page 7.

Putnam Master Intermediate Income Trust is a multi-sector portfolio that may invest in high-yield corporate, investment-grade corporate, emerging markets, foreign investment-grade, and high-quality U.S. government bonds, such as Treasuries and mortgage-backed securities (MBS). Over the reporting period, these sectors had mixed results for the reasons described above. The fund has significant holdings in high-yield corporate bonds, which hurt overall performance and caused it to underperform its primary benchmark, the Lehman Government Credit Index. Fund holdings in U.S. government and MBS, international bonds, and emerging-markets bonds all helped boost returns during the period. The fund's performance was ahead of the CSFB High Yield Index, which tracks global high-yield bonds, but it lagged the SSB Non-U.S. World Government Bond Index, which tracks international government securities (these indexes are used as references only). Within its Lipper category, the fund outperformed its category average (see page 7 for details).

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

Russia	4.0%
Canada	2.9%
Mexico	2.6%
Sweden	2.6%
Germany	2.5%

Footnote reads:

*Based on net assets as of 9/30/02. Holdings will vary over time.

The fund's return at market price was sharply higher than its return at net asset value because of the dramatic flight to quality that occurred toward the end of the period. When stock market prices plummeted in the third quarter, investors flocked to bonds, which helped boost the fund's market price considerably.

* UNPREDICTABLE YEAR DROVE INVESTORS TOWARD QUALITY

Beginning with the terrorist attacks that shook the financial markets a year ago, the past fiscal year has been unusually challenging. Immediately following September 11, investors sought safety in

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high-quality bonds and shunned all risky investments. However, in the fourth quarter of 2001, investors were buoyed by evidence of economic strengthening, U.S. military success in Afghanistan, and consequential rising equity prices. High-quality bonds ended up having a turbulent quarter, marked by a sharp sell-off in November. High-yield bonds and emerging-markets bonds (except for trouble spots such as Argentina) had solid returns during the fourth quarter. In fact, it was the strongest quarterly performance for high-yield bonds in many years.

With renewed optimism to start 2002, U.S. investors, in particular, were blindsided by a wave of corporate scandals. Beginning with Enron, these scandals included former investment darlings such as Global Crossing, Qwest, Tyco, and WorldCom. Each time, just as investors were catching their breath, it seemed that another large, well-known company was being accused of malfeasance.

Fund Profile

Putnam Master Intermediate Income Trust seeks high current income and relative stability by investing in the intermediate-maturity, investment-grade, and high-yield bond sectors, as well as in foreign bond markets. The fund is designed for investors seeking high current income, asset class diversification, or both.

The economy was also unpredictable. In the first quarter of 2002, many analysts were forecasting slow growth that would begin to pick up by midyear. In fact, sagging consumer confidence, continued rounds of layoffs, and steep declines in the stock market -- exemplified by an exceptionally poor third quarter, in which the Dow Jones Industrial Average and the S&P 500 Index each lost more than 17% -- resulted in a change in the forecast, calling for slow growth well into 2003. While many had predicted in early 2002 that the Federal Reserve Board could raise rates sometime this year, by the end of the fund's fiscal year, it appeared possible that the Fed could ease at least once more before beginning to tighten again. (This belief was confirmed on November 6, 2002, when the Fed reduced short-term rates by one half of one percentage point.)

The result of this uncertainty and risk aversion has been a surging U.S. Treasury market that brought the yield on the 10-year Treasury bond to the 3.60%-3.65% range by the end of the period -- a level not seen since the late 1950s.

* MANAGEMENT EMPHASIZED HIGH-YIELD BONDS DURING FISCAL YEAR

During 2000 and 2001, bonds outperformed other asset classes. This two-year rally and the general feeling that the economy would begin to strengthen in 2002 caused your fund's management team to believe that bonds with greater yield spreads over Treasuries would outperform in 2002. The high-yield market typically anticipates an economic recovery, and with a peak in default rates occurring in January 2002, it appeared that high-yield bonds were poised to have a strong year -- especially given the strong performance this sector had in the fourth quarter of 2001. However, the high-yield rally never materialized; rather, it was eclipsed by sharp declines in the equity markets and general uncertainty and risk aversion among investors.

"We all need bonds
in our investment mix, now more than ever."

-- Bloomberg Personal Finance, September 2002

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In spite of the disappointing performance in the fund's high-yield holdings, we remain confident in their potential and expect to keep the fund's weighting in high-yield bonds at its current level of approximately 50% of total net assets. Our high-yield strategy is supported by a number of positive trends: yield spreads relative to Treasuries are wide; default rates, having peaked earlier in the year, are improving; and demand is growing. Yields are high -- often exceeding 10% -- and there is potential for price appreciation. Finally, large companies are now entering the high-yield universe, having been recently downgraded from investment-grade status. Many of these "fallen angels" have strong cash flows and manageable amounts of debt and offer attractive yields relative to their credit-risk profile.

* OTHER FUND SECTORS WERE AFFECTED BY INVESTOR AVERSION TO RISK

The remaining sectors of the fund's portfolio -- including emerging markets, international developed markets, and U.S. Treasury and MBS -- had varying performance, depending on the level of risk attached to the sector.

Despite a difficult year for the emerging-markets sector, the fund's emerging-markets holdings actually boosted performance. In particular, the fund benefited from strong performance among our holdings in Russia, Bulgaria, and Mexico, which have benefited from rising oil prices and greater economic stability.

In developed international markets, the fund's holdings of high-quality government bonds and mortgage-backed securities performed well. We emphasized Germany, the U.K., and Canada. In addition, all non-U.S. dollar-denominated holdings benefited from a declining dollar during the fiscal year.

[GRAPHIC OMITTED: TOP 10 HOLDINGS]

TOP THREE HOLDINGS PER SECTOR

HIGH-YIELD BONDS

HMH Properties, Inc.
Company guaranty, Series B, 7.875%, 2008
Lodging/tourism

Allied Waste North America, Inc.
Company guaranty, Series B, 10%, 2009
Capital goods

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

FOREIGN BONDS

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

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

Russia (Federation of)
unsubordinated notes, 10%, 2007

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U.S. INVESTMENT-GRADE SECURITIES

Federal National Mortgage Association
pass-through certificates, 7.25%, 1/15/10

U.S. Treasury Notes
4.375%, 8/15/12

Federal National Mortgage Association
pass-through certificates, 6.5%, due dates
from 6/1/29 to 9/1/32

These holdings represented 20.8% of the fund's net assets as of 9/30/02. Portfolio holdings will vary over time.

The fund's U.S. investment-grade holdings, which accounted for approximately one-quarter of total net assets, included U.S. Treasuries, government agency securities, and MBS. These performed well during the year, with Treasuries benefiting from the flight to quality and MBS benefiting from attractive yield spreads over Treasuries. There has been some concern that MBS yields may decline as a result of high refinancing rates, so we will continue to monitor this situation and take necessary action, such as trimming back our holdings, if appropriate.

* OUTLOOK POSITIVE FOR LOWER-RATED SECTORS, UNCERTAIN FOR TREASURIES

By the end of 2002, if current trends continue, bonds will have had three consecutive years of strong performance. Short-term interest rates are at lows not seen for nearly half a century, and may even be reduced further. The yield curve is extremely steep, meaning that there is a large difference between short-term and long-term yields. These trends suggest that the bond market is poised for change, and that the change will probably come in the form of higher bond yields. With the market in such a "hair-trigger" state, it probably would not take much more than a hint of stronger growth, greater optimism, or a sustained rally in stocks, to cause yields to rise. This would cause bond prices to drop, which could also produce negative total returns for the fund. And, in fact, we have already seen a sharp rise in yields in October as a result of an increase in optimism about the economy. In such an environment, we have seen that, historically, bonds with greater credit risk and higher coupons have tended to outperform higher-quality, more interest-rate sensitive bonds.

The views expressed here are exclusively those of Putnam Management. They are not meant as investment advice. Although the described holdings were viewed favorably as of 9/30/02, there is no guarantee the fund will continue to hold these securities in the future. International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

This fund is managed by the Putnam Core Fixed-Income Team. The members of this team are D. William Kohli (Portfolio Leader), David Waldman (Portfolio Member), Kevin Cronin, Carl Bell, Rob Bloemker, Andrea Burke, James Prusko, Michael Salm, and John Van Tassel.

PUTNAM'S POLICY ON CONFIDENTIALITY

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In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' addresses, telephone numbers, Social Security numbers, and the names of their financial advisors. We use this information to assign an account number and to help us maintain accurate records of transactions and account balances.

It is our policy to protect the confidentiality of your information, whether or not you currently own shares of our funds, and in particular, not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use.

Under certain circumstances, we share this information with outside vendors who provide services to us, such as mailing and proxy solicitation. In those cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. We may also share this information with our Putnam affiliates to service your account or provide you with information about other Putnam products or services. It is also our policy to share account information with your financial advisor, if you've listed one on your Putnam account.

If you would like clarification about our confidentiality policies or have any questions or concerns, please don't hesitate to contact us at 1-800-225-1581, Monday through Friday, 8:30 a.m. to 7:00 p.m., or Saturdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

PERFORMANCE SUMMARY

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

TOTAL RETURN FOR PERIODS ENDED 9/30/02

	NAV	Market price	Lehman Govt. Credit Index	SSB Non-U.S. World Govt. Bond Index	CSFB High Yield Index
1 year	4.21%	14.81%	9.24%	10.45%	2.84%
5 years	12.23	23.74	46.45	19.12	3.03
Annual average	2.33	4.35	7.93	3.56	0.60
10 years	73.61	81.31	104.90	64.51	80.26
Annual average	5.67	6.13	7.44	5.10	6.07
Life of fund (since 4/29/88)					
Annual average	7.10	6.70	8.64	6.31	7.88

Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return, net asset

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value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions.

LIPPER INFORMATION:

The average annualized return for the 12 funds in the Lipper Flexible Income Funds category over the 12 months ended 9/30/02 was 1.46%. Over the 5- and 10-year periods ended 9/30/02, annualized returns for the category were 1.01% and 5.52%, respectively.

PRICE AND DISTRIBUTION INFORMATION 12 MONTHS ENDED 9/30/02

Distributions from common shares		

Number		12

Income		\$0.529

Capital gains		--

Return of capital 1		0.011

Total		\$0.540

Share value:	NAV	Market price

9/30/01	\$6.54	\$6.05

9/30/02	6.26	6.38

Current return (end of period)		

Current dividend rate 2	8.63%	8.46%

1 See page 47 for details.

2 Income portion of most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

TERMS AND DEFINITIONS

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

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

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

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COMPARATIVE BENCHMARKS

Lehman Government Credit Index* is an unmanaged index of U.S. fixed-income securities.

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

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

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

Footnote reads:

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

A GUIDE TO THE FINANCIAL STATEMENTS

These sections of the report, as well as the accompanying Notes, preceded by the Report of independent accountants, constitute the fund's financial statements.

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

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

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

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

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

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funds, a separate table is provided for each share class.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of assets and liabilities of Putnam Master Intermediate Income Trust, including the fund's portfolio, as of September 30, 2002, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the three-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2002 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Putnam Master Intermediate Income Trust as of September 30, 2002, the results of its operations for the year then ended, changes in its net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the three-year period then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts
November 5, 2002

THE FUND'S PORTFOLIO
September 30, 2002

CORPORATE BONDS AND NOTES (48.0%) (a)
PRINCIPAL AMOUNT

Advertising and Marketing Services (0.2%)

\$902,089 Interact Operating Co. notes 14s, 2003 (PIK)
440,000 Lamar Media Corp. company guaranty 9 5/8s, 2006
600,000 Lamar Media Corp. sr. sub. notes 9 1/4s, 2007

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Automotive (1.1%)

	341,992	Collins & Aikman Products, Inc. bank term loan FRN Ser. B, 7s, 2005 (acquired 12/20/01, cost \$339,425) (RES)
	495,000	Collins & Aikman Products, Inc. company guaranty 11 1/2s, 2006
	980,000	Collins & Aikman Products, Inc. company guaranty 10 3/4s, 2011
	400,000	Dana Corp. notes 9s, 2011
	360,000	Dana Corp. notes 6 1/4s, 2004
EUR	40,000	Dana Corp. sr. notes 9s, 2011
	\$185,000	Dana Corp. 144A sr. notes 10 1/8s, 2010
	115,000	Delco Remy International, Inc. company guaranty 11s, 2009
	215,000	Delco Remy International, Inc. company guaranty 10 5/8s, 2006
	110,000	Delco Remy International, Inc. sr. notes 8 5/8s, 2007
	450,000	Dura Operating Corp. company guaranty Ser. B, 8 5/8s, 2012
	545,000	Dura Operating Corp. company guaranty Ser. D, 9s, 2009
	510,000	Exide Corp. sr. notes 10s, 2005 (In default) (NON)
	260,000	Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)
	810,000	Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)
	270,000	Ford Motor Credit Corp. notes 7 7/8s, 2010
	190,000	Ford Motor Credit Corp. notes 7 3/8s, 2009
	190,000	Ford Motor Credit Corp. notes 7 1/4s, 2011
	140,000	Hayes Lemmerz International, Inc. 144A company guaranty 11 7/8s, 2006 (In default) (NON)
	600,000	Lear Corp. company guaranty Ser. B, 8.11s, 2009
	1,070,000	Lear Corp. company guaranty Ser. B, 7.96s, 2005
EUR	215,000	Lear Corp. sr. notes 8 1/8s, 2008
	\$260,000	Tenneco Automotive, Inc. company guaranty Ser. B, 11 5/8s, 2009

Basic Materials (6.1%)

	850,000	Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)
	190,000	Airgas, Inc. company guaranty 9 1/8s, 2011
	370,000	AK Steel Corp. company guaranty 7 7/8s, 2009
	1,020,000	AK Steel Corp. 144A company guaranty 7 3/4s, 2012
	120,400	Anker Coal Group, Inc. company guaranty Ser. B, 14 1/4s, 2007 (In default) (NON)
	166,927	Appleton Papers, Inc. bank term loan FRN 5.058s, 2006 (acquired 6/4/02, cost \$184,131) (RES)
	1,050,000	Appleton Papers, Inc. company guaranty Ser. B, 12 1/2s, 2008
	780,000	Armco, Inc. sr. notes 9s, 2007
	980,000	Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)
	610,000	Better Minerals & Aggregates Co. company guaranty 13s, 2009
	530,000	Compass Minerals Group, Inc. company guaranty 10s, 2011
	900,000	Doe Run Resources Corp. company guaranty Ser. B(a), 11 1/4s, 2005 (In default) (NON)
	130,000	Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005 (In default) (NON)
	300,000	Doe Run Resources Corp. company guaranty FRN Ser. B, 8.119s, 2003 (In default) (NON)
	1,660,000	Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008
	260,000	Ferro Corp. sr. notes 9 1/8s, 2009
	810,000	Four M Corp. sr. notes Ser. B, 12s, 2006
	170,000	Georgia Gulf Corp. company guaranty 10 3/8s, 2007
	350,000	Georgia-Pacific Corp. deb. 9 1/2s, 2011
	1,305,000	Georgia-Pacific Corp. notes 8 1/8s, 2011
	110,000	Georgia-Pacific Corp. notes 7 1/2s, 2006
	250,000	Haynes International, Inc. sr. notes 11 5/8s, 2004
	1,440,000	Hercules, Inc. company guaranty 11 1/8s, 2007

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246,022 Huntsman Corp. bank term loan FRN Ser. A, 6.048s, 2002
(acquired various dates 3/1/02 to 3/28/02, cost \$180,927) (RES)

140,000 Huntsman Corp. bank term loan FRN Ser. B, 5.298s, 2004
(acquired 7/17/02, cost \$121,450) (RES)

230,000 Huntsman Corp. bank term loan FRN Ser. C, 5.355s, 2005
(acquired various dates 3/6/02 to 7/17/02, cost \$188,986) (RES)

1,625,000 Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009

1,020,000 Huntsman ICI Holdings sr. disc. notes zero %, 2009

360,000 IMC Global, Inc. company guaranty Ser. B, 11 1/4s, 2011

525,000 IMC Global, Inc. company guaranty Ser. B, 10 7/8s, 2008

1,160,000 ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011

60,000 Kaiser Aluminum & Chemical Corp. sr. notes Ser. B,
10 7/8s, 2006 (In default) (NON)

1,685,000 Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s,
2003 (In default) (NON)

20,000 LTV Corp. company guaranty 8.2s, 2007 (In default) (NON)

200,000 Lyondell Chemical Co. bonds 11 1/8s, 2012

320,000 Lyondell Chemical Co. company guaranty 9 1/2s, 2008

1,570,000 Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007

190,000 Lyondell Chemical Co. sec. notes Ser. B, 9 7/8s, 2007

765,000 Lyondell Chemical Co. sr. sub. notes 10 7/8s, 2009

EUR 580,000 MDP Acquisitions PLC sr. notes 10 1/8s, 2012 (Ireland)

\$25,000 MDP Acquisitions PLC 144A sr. notes 9 5/8s, 2012 (Ireland)

EUR 210,000 Messer Griesheim Holdings AG sr. notes 10 3/8s, 2011 (Germany)

\$535,000 Millenium America, Inc. company guaranty 9 1/4s, 2008

230,000 Millenium America, Inc. company guaranty 7s, 2006

380,000 Millenium America, Inc. 144A sr. notes 9 1/4s, 2008

430,000 Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008

330,000 Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007

90,000 Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011

460,000 Noveon, Inc. company guaranty Ser. B, 11s, 2011

1,000,000 OM Group, Inc. company guaranty 9 1/4s, 2011

605,000 Oregon Steel Mills, Inc. 144A 1st mtge. 10s, 2009

347,000 P&L Coal Holdings Corp. company guaranty Ser. B, 9 5/8s, 2008

1,170,000 Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)

509,465 PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)

256,488 Pioneer Companies, Inc. FRN 5.298s, 2006

510,000 Polymer Group, Inc. company guaranty Ser. B, 8 3/4s,
2008 (In default) (NON)

805,000 Potlatch Corp. company guaranty 10s, 2011

1,160,000 Premium Standard Farms, Inc. sr. notes 9 1/4s, 2011

273,625 Riverwood International Corp. bank term loan FRN Ser. C,
4.586s, 2007 (acquired 4/24/02, cost \$275,000) (RES)

275,000 Riverwood International Corp. bank term loan FRN Ser. C,
4.36s, 2008 (acquired 4/24/02, cost \$275,000) (RES)

2,190,000 Riverwood International Corp. company guaranty 10 7/8s, 2008

810,000 Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009

250,000 Silgan Holdings, Inc. bank term loan FRN 3.85s, 2007
(acquired 6/25/02, cost \$249,953) (RES)

390,000 Smurfit-Stone Container Corp. 144A sr. notes 8 1/4s, 2012

960,000 Steel Dynamics, Inc. 144A sr. notes 9 1/2s, 2009

325,000 Sterling Chemicals Holdings sr. disc. notes 13 1/2s,
2008 (In default) (NON)

430,000 Sterling Chemicals, Inc. company guaranty Ser. B, 12 3/8s,
2006 (In default) (NON)

930,000 Stone Container Corp. sr. notes 9 3/4s, 2011

350,000 Stone Container Corp. sr. notes 9 1/4s, 2008

310,000 Stone Container Corp. 144A company guaranty 11 1/2s,
2006 (Canada)

570,000 Stone Container Corp. 144A sr. notes 8 3/8s, 2012

800,000 Tembec Industries, Inc. company guaranty 8 5/8s, 2009 (Canada)

80,000 Tembec Industries, Inc. company guaranty 7 3/4s, 2012 (Canada)

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50,000 Texas Petrochemical Corp. sr. sub. notes 11 1/8s, 2006
200,000 Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006
205,000 United States Steel, LLC sr. notes 10 3/4s, 2008
510,000 WCI Steel, Inc. sr. notes Ser. B, 10s, 2004
38,500 Weirton Steel Corp. sr. notes FRN 10s, 2008
780,000 Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007 (In default) (NON)
410,000 WHX Corp. sr. notes 10 1/2s, 2005

Building Materials (0.5%)

1,075,000 American Standard Companies, Inc. company guaranty 7 5/8s, 2010
80,000 American Standard Companies, Inc. company guaranty 7 1/8s, 2003
230,000 Atrium Companies, Inc. company guaranty Ser. B, 10 1/2s, 2009
320,000 Building Materials Corp. company guaranty 8s, 2008
890,000 Dayton Superior Corp. company guaranty 13s, 2009
200,000 NCI Building Systems, Inc. bank term loan FRN Ser. B, 5.08s,
2008 (acquired 9/4/02, cost \$200,000) (RES)
1,510,000 Owens Corning notes 7 1/2s, 2005 (In default) (NON)

Capital Goods (4.6%)

485,000 ABB Finance, Inc. company guaranty Ser. E MTN, 6 3/4s, 2004
250,000 Advanced Glass Fiber Yarns bank term loan FRN Ser. A, 1.86s,
2004 (acquired 9/12/02, cost \$175,000) (RES)
230,000 Advanced Glass Fiber Yarns sr. sub. notes 9 7/8s, 2009 (In default) (NON)
700,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007
468,929 Alliant Techsystems, Inc. bank term loan FRN Ser. C, 4.063s,
2009 (acquired 5/7/02, cost \$468,929) (RES)
46,601 Allied Waste Industries, Inc. bank term loan FRN 4.855s, 2007
(acquired 2/27/02, cost \$46,019) (RES)
781,521 Allied Waste Industries, Inc. bank term loan FRN 4.61s, 2006
(acquired various dates 10/18/01 to 2/27/02, cost \$766,751) (RES)
3,585,000 Allied Waste North America, Inc. company guaranty Ser. B, 10s, 2009
285,000 Allied Waste North America, Inc. company guaranty Ser. B,
8 7/8s, 2008
1,020,000 Allied Waste North America, Inc. company guaranty Ser. B,
8 1/2s, 2008
75,000 Allied Waste North America, Inc. company guaranty Ser. B,
7 7/8s, 2009
20,000 Allied Waste North America, Inc. company guaranty Ser. B,
7 5/8s, 2006
330,000 Allied Waste North America, Inc. 144A structured notes 8.2s,
2006 (issued by Credit and Repackaged Securities, Ltd.)
(Cayman Islands)
640,000 Applied Extrusion Technologies, Inc. company guaranty Ser. B,
10 3/4s, 2011
200,000 Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007
1,320,000 Argo-Tech Corp. 144A company guaranty 8 5/8s, 2007
535,000 BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008
135,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011
1,120,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008
560,000 Berry Plastics Corp. company guaranty 10 3/4s, 2012
1,060,000 Blount, Inc. company guaranty 13s, 2009
555,000 Briggs & Stratton company guaranty 8 7/8s, 2011
270,000 Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008
1,000,000 Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008
800,000 Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012
232,312 Flowserve Corp. bank term loan FRN Ser. C, 4.707s, 2009

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(acquired 4/30/02, cost \$233,312) (RES)
580,000 Flowserve Corp. company guaranty 12 1/4s, 2010
310,000 Fonda Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007
750,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009
530,000 High Voltage Engineering Corp. sr. notes 10 3/4s, 2004
340,000 IESI Corp. 144A sr. sub. notes 10 1/4s, 2012
460,000 Insilco Holding Co. sr. disc. notes stepped-coupon zero %
(14s, 8/15/03), 2008 (STP)
510,000 Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005
440,000 JLG Industries, Inc. 144A sr. sub. notes 8 3/8s, 2012
430,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007
330,000 L-3 Communications Corp. company guaranty Ser. B, 8s, 2008
1,150,000 L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008
140,000 L-3 Communications Corp. 144A structured notes 8 1/2s, 2006
(issued by Credit and Repackaged Securities, Ltd.)
(Cayman Islands)
1,570,000 Laidlaw, Inc. notes 7.65s, 2006 (Canada) (In default) (NON)
320,000 Manitowoc Company, Inc. (The) 144A sr. sub. notes 10 1/2s, 2012
410,000 Moog, Inc. sr. sub. notes Ser. B, 10s, 2006
1,060,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006
199,500 Mueller Industries, Inc. bank term loan FRN 4.561s, 2008
(acquired 6/21/02, cost \$199,500) (RES)
870,000 Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006
210,000 Navistar International Corp. sr. notes Ser. B, 8s, 2008
1,135,000 Owens-Brockway Glass company guaranty 8 7/8s, 2009
410,000 Owens-Illinois, Inc. deb. 7 1/2s, 2010
390,000 Owens-Illinois, Inc. sr. notes 8.1s, 2007
410,000 Pliant Corp. company guaranty 13s, 2010
145,000 Pliant Corp. sr. sub. notes 13s, 2010
660,000 Roller Bearing Company of America company guaranty Ser. B,
9 5/8s, 2007
93,516 SPX Corp. bank term loan FRN Ser. B, 4.063s, 2009
(acquired 7/23/02, cost \$93,516) (RES)
155,859 SPX Corp. bank term loan FRN Ser. C, 4.313s, 2010
(acquired 7/23/02, cost \$155,859) (RES)
1,070,000 Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010
299,250 Terex Corp. bank term loan FRN Ser. B, 3.87s, 2009
(acquired 6/26/02, cost \$299,250) (RES)
85,000 Terex Corp. company guaranty 8 7/8s, 2008
425,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011
260,000 Terex Corp. company guaranty Ser. D, 8 7/8s, 2008
370,000 Trimas Corp. 144A sr. sub. notes 9 7/8s, 2012
200,000 Trimas Corp. bank term loan FRN 4.563s, 2009
(acquired 6/5/02, cost \$200,000) (RES)
396,107 United Defense Industries, Inc. bank term loan FRN Ser. B,
4.57s, 2009 (acquired various dates 10/19/01 to 7/1/02,
cost \$196,107) (RES)
120,000 Waste Management, Inc. sr. notes 7 3/8s, 2010

Commercial and Consumer Services (0.9%)

226,550 Coinmach Corp. bank term loan FRN Ser. B, 4.718s, 2009
(acquired 1/31/02, cost \$226,267) (RES)
1,380,000 Coinmach Corp. sr. notes 9s, 2010
1,150,000 Iron Mountain, Inc. company guaranty 8 5/8s, 2013
270,000 Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada)
390,000 Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011
655,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006
1,220,000 Sequa Corp. sr. notes 9s, 2009
160,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008

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290,000 United Rentals (North America), Inc. company guaranty Ser. B,
10 3/4s, 2008

Communication Services (2.7%)

790,000 Airgate PCS, Inc. sr. sub. notes stepped-coupon zero %
(13 1/2s, 10/1/04), 2009 (STP)

640,000 Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011

280,000 Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011

1,383,000 Alamosa PCS Holdings, Inc. company guaranty stepped-coupon
zero % (12 7/8s, 2/15/05), 2010 (STP)

1,090,000 American Cellular Corp. company guaranty 9 1/2s, 2009

1,105,000 American Tower Corp. sr. notes 9 3/8s, 2009

400,000 Arch Communications, Inc. sr. notes 13 3/4s, 2008 (In default) (NON)

550,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda)
(In default) (NON)

460,000 Birch Telecommunications, Inc. sr. notes 14s, 2008 (In default) (NON)

94,805 Call-Net Enterprises, Inc. company guaranty 10 5/8s, 2008
(Canada) (In default) (NON)

775,631 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON)

850,000 Crown Castle International Corp. sr. disc. notes stepped-coupon
zero % (10 3/8s, 5/15/04), 2011 (STP)

765,000 Crown Castle International Corp. sr. notes 9 3/8s, 2011

90,000 Crown Castle International Corp. sr. notes 9s, 2011

2,430,000 Cybernet Internet Services International, Inc. 144A sr. disc. notes
stepped-coupon zero % (13s, 8/15/04), 2009 (Denmark) (STP)

940,000 Dobson/Sygnnet Communications, Inc. sr. notes 12 1/4s, 2008

850,000 Equinix, Inc. sr. notes 13s, 2007 (In default) (NON)

1,250,000 Firstworld Communication Corp. sr. disc. notes stepped-coupon
zero % (13s, 4/15/03), 2008 (In default) (NON) (STP)

580,000 Flag, Ltd. 144A sr. notes 8 1/4s, 2008 (Bermuda) (In default) (NON)

1,500,000 Globix Corp. sr. notes 12 1/2s, 2010 (In default) (NON)

160,000 Horizon PCS, Inc. company guaranty 13 3/4s, 2011

1,000,000 Hughes Electronics bank term loan FRN Ser. L, 4.82s, 2002
(acquired 3/15/02, cost \$1,000,000) (RES)

60,000 Intermedia Communications, Inc. sr. notes Ser. B, 8.6s,
2008 (In default) (NON)

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

760,000 IWO Holdings, Inc. company guaranty 14s, 2011

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

650,000 MCI WorldCom, Inc. sr. notes 7 3/4s, 2007 (In default) (NON)

530,000 MCI WorldCom, Inc. sr. notes 6.4s, 2005 (In default) (NON)

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

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

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

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

221,000 Millicom International Cellular SA sr. disc. notes 13 1/2s,
2006 (Luxembourg)

110,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon zero %
(9.95s, 2/15/03), 2008 (STP)

1,090,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon zero %
(9 3/4s, 10/31/02), 2007 (STP)

600,000 Nextel Communications, Inc. sr. notes 12s, 2008

1,225,000 Nextel Communications, Inc. sr. notes 9 1/2s, 2011

2,265,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009

200,000 Nextel Communications, Inc. 144A sr. disc. notes 10.65s, 2007

280,000 Nextel Partners, Inc. sr. disc. notes stepped-coupon zero %

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(14s, 2/1/04), 2009 (STP)

520,000 Nextel Partners, Inc. sr. notes 12 1/2s, 2009

340,000 Nextel Partners, Inc. sr. notes 11s, 2010

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

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

620,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005 (In default) (NON)

490,000 PanAmSat Corp. bank term loan FRN Ser. B, 5.314s, 2009
(acquired 2/21/02, cost \$489,388) (RES)

880,000 PanAmSat Corp. 144A sr. notes 8 3/4s, 2012

530,000 PSINet, Inc. sr. notes 11 1/2s, 2008 (In default) (NON)

130,000 PSINet, Inc. sr. notes Ser. B, 10s, 2005 (In default) (NON)

130,000 Qwest Capital Funding, Inc. company guaranty 7.9s, 2010

560,000 Qwest Capital Funding, Inc. company guaranty 7 3/4s, 2006

1,570,000 Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011

1,420,000 Qwest Capital Funding, Inc. company guaranty 7s, 2009

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

450,000 Qwest Communications International, Inc. sr. notes Ser. B, 7 1/2s, 2008

490,000 Qwest Communications International, Inc. sr. notes Ser. B, 7 1/4s, 2008

108,864 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010 (In default) (NON)

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

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

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

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

620,000 SBA Communications Corp. sr. notes 10 1/4s, 2009

1,000,000 Startec Global Communications Corp. sr. notes 12s, 2008 (In default) (NON)

280,000 Tele1 Europe BV sr. notes 13s, 2009 (Netherlands)

93,000 Telecorp PCS, Inc. company guaranty 10 5/8s, 2010

250,000 Time Warner Telecom, Inc. sr. notes 10 1/8s, 2011

340,000 Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008

80,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011

595,000 Triton PCS, Inc. company guaranty 8 3/4s, 2011

255,000 Triton PCS, Inc. company guaranty zero %, 2008

510,000 TSI Telecommunication Services, Inc. company guaranty Ser. B,
12 3/4s, 2009

1,670,000 UbiquiTel Operating Co. company guaranty stepped-coupon
zero % (14s, 4/15/05), 2010 (STP)

900,000 US UnWired, Inc. company guaranty stepped-coupon Ser. B,
zero % (13 3/8s, 11/1/04), 2009 (STP)

390,000 US West, Inc. notes 5 5/8s, 2008

950,000 WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero %
(11 1/4s, 2/1/03), 2008 (In default) (NON) (STP)

10,000 Williams Communications Group, Inc. sr. notes 11 7/8s,
2010 (In default) (NON)

220,000 Williams Communications Group, Inc. sr. notes 11.7s,
2008 (In default) (NON)

200,000 Williams Communications Group, Inc. sr. notes 10.7s,
2007 (In default) (NON)

250,000 WorldCom, Inc. notes 8 1/4s,
2010 (In default) (NON)

Conglomerates (0.5%)

165,000 Tyco International Group SA company guaranty 6 3/4s,
2011 (Luxembourg)

2,310,000 Tyco International Group SA company guaranty 6 3/8s,
2006 (Luxembourg)

225,000 Tyco International Group SA company guaranty 6 3/8s,
2005 (Luxembourg)

645,000 Tyco International Group SA notes 6 3/8s, 2011 (Luxembourg)

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Consumer Cyclical (0.8%)

DEM	Amount	Description
	503,128	Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON)
	1,519,975	Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON)
	\$720,000	Icon Health & Fitness 144A sr. sub. notes 11 1/4s, 2012
	250,000	Jostens, Inc. bank term loan FRN Ser. C, 4.548s, 2009 (acquired 7/30/02, cost \$250,000) (RES)
	870,000	Jostens, Inc. sr. sub. notes 12 3/4s, 2010
	1,681,000	Samsonite Corp. sr. sub. notes 10 3/4s, 2008
	248,777	Sealy Mattress Co. bank term loan FRN Ser. B, 3 7/8s, 2004 (acquired 12/17/01, cost \$249,554) (RES)
	248,869	Sealy Mattress Co. bank term loan FRN Ser. C, 4 1/8s, 2005 (acquired 12/17/01, cost \$249,647) (RES)
	248,894	Sealy Mattress Co. bank term loan FRN Ser. D, 4 3/8s, 2005 (acquired 12/17/01, cost \$249,672) (RES)
	701,000	Sealy Mattress Co. company guaranty stepped-coupon Ser. B, zero % (10 7/8s, 12/15/02), 2007 (STP)
	880,000	Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007

Consumer Staples (8.4%)

	50,000	Acme Communications, Inc. sr. disc. notes Ser. B, 12s, 2005
	1,020,000	Acme Television company guaranty 10 7/8s, 2004
	207,530	Adams Outdoor Advertising bank term loan FRN Ser. B, 5.36s, 2008 (acquired 8/1/01, cost \$208,052) (RES)
	40,000	Adelphia Communications Corp. notes Ser. B, 9 7/8s, 2005 (In default) (NON)
	215,000	Adelphia Communications Corp. sr. notes 10 7/8s, 2010 (In default) (NON)
	50,000	Adelphia Communications Corp. sr. notes 9 3/8s, 2009 (In default) (NON)
	365,000	Adelphia Communications Corp. sr. notes 7 7/8s, 2009 (In default) (NON)
	341,000	Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 (In default) (NON)
	145,000	Adelphia Communications Corp. sr. notes Ser. B, 8 3/8s, 2008 (In default) (NON)
	790,000	Adelphia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009 (In default) (NON)
	1,565,000	Affinity Group Holdings sr. notes 11s, 2007
	680,000	AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011
	640,000	AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009
	496,875	American Seafood Group, LLC bank term loan FRN Ser. B, 5.112s, 2009 (acquired 4/11/02, cost \$496,378) (RES)
	506,483	AMF Bowling Worldwide bank term loan FRN Ser. B, 6.482s, 2008 (acquired 3/1/02, cost \$505,217) (RES)
	1,090,000	Archibald Candy Corp. company guaranty 10 1/4s, 2004 (In default) (NON)
	410,000	Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009
	235,000	Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007
	720,000	Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007
	10,263	Australis Media, Ltd. sr. disc. notes 15 3/4s, 2003 (Australia) (In default) (NON)
	660,000	Benedek Communications Corp. sr. disc. notes 13 1/4s, 2006 (In default) (NON)
	230,000	British Sky Broadcasting PLC company guaranty 8.2s, 2009 (United Kingdom)
	1,660,000	British Sky Broadcasting PLC company guaranty 6 7/8s, 2009 (United Kingdom)
	900,000	Century Cable Holdings bank term loan FRN 6 3/4s, 2009 (acquired 6/11/02, cost \$407,677) (RES)

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1,680,000 Chancellor Media Corp. company guaranty 8s, 2008
 299,250 Charter Communications Holdings, LLC/Capital Corp. bank term
 loan FRN Ser. B, 4.61s, 2008 (acquired 10/22/01, cost \$293,250) (RES)
 1,330,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.
 notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)
 610,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.
 notes stepped-coupon zero % (11 3/4s, 1/15/05), 2010 (STP)
 840,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 11 1/8s, 2011
 440,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 10 3/4s, 2009
 210,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 10s, 2011
 550,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 10s, 2009
 1,015,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 9 5/8s, 2009
 355,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 8 5/8s, 2009
 90,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
 8 1/4s, 2007
 1,600,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008
 150,000 Constellation Brands, Inc. company guaranty 8 1/2s, 2009
 500,000 Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008
 860,000 Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012
 570,000 Cott Beverages USA, Inc. company guaranty 8s, 2011
 150,000 CSC Holdings, Inc. sr. notes 7 7/8s, 2007
 360,000 Cumulus Media, Inc. bank term loan FRN Ser. B, 4.81s,
 2007 (acquired 3/20/02, cost \$360,000) (RES)
 210,000 Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011
 150,000 Diamond Cable Communications PLC sr. disc. notes 11 3/4s,
 2005 (United Kingdom) (In default) (NON)
 2,550,000 Diamond Cable Communications PLC sr. disc. notes 10 3/4s,
 2007 (United Kingdom) (In default) (NON)
 2,742,000 Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B,
 zero % (12 5/8s, 3/1/03), 2008 (In default) (NON) (STP)
 1,370,000 Doane Pet Care Co. sr. sub. deb. 9 3/4s, 2007
 390,000 Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009
 380,000 Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008
 3,170,000 Echostar Broadband Corp. sr. notes 10 3/8s, 2007
 1,175,000 Echostar DBS Corp. sr. notes 9 3/8s, 2009
 1,540,000 Echostar DBS Corp. 144A sr. notes 9 1/8s, 2009
 400,000 Emmis Communications Corp. bank term loan FRN Ser. C,
 4 3/8s, 2009 (acquired 6/20/02, cost \$399,500) (RES)
 235,000 Emmis Communications Corp. company guaranty Ser. B,
 8 1/8s, 2009
 309,000 Emmis Communications Corp. sr. disc. notes stepped-coupon
 zero % (12 1/2s, 3/15/06), 2011 (STP)
 498,750 Fleming Companies, Inc. bank term loan FRN 4.063s, 2008
 (acquired 6/18/02, cost \$200,000) (RES)
 440,000 Fleming Companies, Inc. company guaranty 10 1/8s, 2008
 10,000 Fleming Companies, Inc. company guaranty Ser. D, 10 5/8s, 2007
 515,000 Fleming Companies, Inc. sr. notes 9 1/4s, 2010
 405,000 Fleming Companies, Inc. 144A sr. sub. notes 9 7/8s, 2012
 290,000 French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007
 160,000 French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007
 10,000 Granite Broadcasting Corp. sr. sub. notes 10 3/8s, 2005
 570,000 Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005
 700,000 Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008
 320,000 Gray Television, Inc. company guaranty 9 1/4s, 2011
 80,000 Hasbro, Inc. notes 7.95s, 2003
 445,000 Insight Communications Company, Inc. sr. disc. notes stepped-

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coupon zero % (12 1/4s, 2/15/06), 2011 (STP)

250,000 Insight Midwest LP/Insight Capital, Inc. bank term loan FRN 4.563s, 2009 (acquired 1/9/01, cost \$249,625) (RES)

95,000 Insight Midwest LP/Insight Capital, Inc. sr. notes 9 3/4s, 2009

650,000 International Cabletel, Inc. sr. disc. notes 11 1/2s, 2006 (In default) (NON)

30,000 Iron Age Holdings Corp. sr. disc. notes stepped-coupon zero % (12 1/8s, 5/1/03), 2009 (STP)

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

280,000 Kroger Co. company guaranty 6.8s, 2011

1,320,000 LIN Holdings Corp. sr. disc. notes stepped-coupon zero % (10s, 3/1/03), 2008 (STP)

120,000 LIN Holdings Corp. 144A sr. disc. notes stepped-coupon zero % (10s, 3/1/03), 2008 (STP)

300,000 MGM Studios bank term loan FRN 4.8s, 2008 (acquired 6/10/02, cost \$300,000) (RES)

298,500 National Dairy bank term loan FRN Ser. B, 4.06s, 2009 (acquired 4/30/02, cost \$299,250) (RES)

1,115,000 North Atlantic Trading Co. company guaranty Ser. B, 11s, 2004

170,000 NTL Communications Corp. sr. notes Ser. B, 11 7/8s, 2010 (In default) (NON)

500,000 NTL Communications Corp. sr. notes stepped-coupon Ser. B, zero % (12 3/8s, 10/1/03), 2008 (In default) (NON) (STP)

430,000 NTL, Inc. sr. notes Ser. A, 12 3/4s, 2005 (In default) (NON)

220,000 NTL, Inc. sr. notes Ser. B, 10s, 2007 (In default) (NON)

500,000 Olympus Cable bank term loan FRN Ser. B, 6 3/4s, 2010 (acquired 6/20/02, cost \$435,750) (RES)

400,000 ONO Finance PLC sr. notes 14s, 2011 (United Kingdom)

180,000 ONO Finance PLC sr. notes 13s, 2009 (United Kingdom)

15,000 Pegasus Communications Corp. sr. notes Ser. B, 12 1/2s, 2007

60,000 Pegasus Communications Corp. sr. notes Ser. B, 9 3/4s, 2006

400,000 Pegasus Satellite sr. notes 12 3/8s, 2006

199,000 Playtex Products, Inc. bank term loan FRN 4.0569s, 2009 (acquired 6/3/02, cost \$199,000) (RES)

550,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011

650,000 Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom)

150,000 Premier Parks, Inc. sr. disc. notes stepped-coupon zero % (10s, 4/1/03), 2008 (STP)

1,000,000 Premier Parks, Inc. sr. notes 9 3/4s, 2007

1,896,149 Quorum Broadcast Holdings, LLC 144A notes stepped-coupon zero % (15s, 5/15/06), 2009

950,000 RAB Enterprises, Inc. company guaranty 10 1/2s, 2005

150,000 Rayovac Corp. bank term loan FRN Ser. B, 5.61s, 2009 (acquired 9/26/02, cost \$149,850) (RES)

352,000 RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero % (9.8s, 2/15/03), 2008 (STP)

710,000 Regal Cinemas, Inc. company guaranty Ser. B, 9 3/8s, 2012

270,000 Revlon Consumer Products sr. notes 9s, 2006

260,000 Revlon Consumer Products sr. notes 8 1/8s, 2006

200,000 Revlon Consumer Products sr. sub. notes 8 5/8s, 2008

545,000 Rite Aid Corp. notes 7 1/8s, 2007

498,750 Roundy's, Inc. bank term loan FRN 4.412s, 2009 (acquired 6/3/02, cost \$498,750) (RES)

550,000 Sbarro, Inc. company guaranty 11s, 2009

470,000 Scotts Co. (The) company guaranty 8 5/8s, 2009

381,176 Shoppers Drug Mart bank term loan FRN Ser. F, 3 7/8s, 2009 (acquired various dates 5/22/02 to 5/29/02, cost \$372,426) (RES)

800,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON)

300,000 Sinclair Broadcast Group, Inc. bank term loan FRN Ser. B, 4.11s, 2010 (acquired 7/12/02, cost \$300,000) (RES)

1,010,000 Sinclair Broadcast Group, Inc. company guaranty 9s, 2007

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340,000 Sinclair Broadcast Group, Inc. company guaranty 8 3/4s, 2011
 90,000 Sinclair Broadcast Group, Inc. sr. sub. notes 8 3/4s, 2007
 250,000 Six Flags, Inc. bank term loan FRN Ser. B, 4.06s, 2009
 (acquired 7/3/02, cost \$250,000) (RES)
 200,000 Six Flags, Inc. sr. notes 9 1/2s, 2009
 910,000 Six Flags, Inc. sr. notes 8 7/8s, 2010
 200,000 Southland Corp. deb. Ser. A, 4 1/2s, 2004
 1,437,000 Southland Corp. deb. Ser. B, 4s, 2004
 436,730 Suiza Foods Corp. bank term loan FRN Ser. B, 4.05s, 2008
 (acquired 12/10/01, cost \$439,641) (RES)
 1,270,000 TeleWest Communications PLC deb. 11s, 2007 (United Kingdom)
 260,000 TeleWest Communications PLC deb. 9 5/8s, 2006 (United Kingdom)
 200,000 TeleWest Communications PLC sr. notes Ser. S, 9 7/8s,
 2010 (United Kingdom)
 80,000 TeleWest Communications PLC 144A sr. notes 11 1/4s,
 2008 (United Kingdom)
 60,000 Tricon Global Restaurants, Inc. sr. notes 8 7/8s, 2011
 1,060,000 Tricon Global Restaurants, Inc. sr. notes 7.65s, 2008
 560,000 Tricon Global Restaurants, Inc. sr. notes 7.45s, 2005
 1,749,000 United Pan-Europe NV sr. disc. notes 12 1/2s, 2009
 (Netherlands) (In default) (NON)
 1,770,000 United Pan-Europe NV sr. disc. notes stepped-coupon zero %
 (13 3/4s, 2/1/05), 2010 (Netherlands) (In default) (NON) (STP)
 130,000 United Pan-Europe NV 144A bonds 10 7/8s, 2009
 (Netherlands) (In default) (NON)
 895,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B, 10 1/4s,
 2009 (In default) (NON)
 1,490,000 XM Satellite Radio Holdings, Inc. sec. notes 14s, 2010
 1,101,000 Young Broadcasting, Inc. company guaranty 10s, 2011
 82,000 Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007

Energy (3.3%)

710,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007
 640,000 BRL Universal Equipment sec. notes 8 7/8s, 2008
 580,000 Chesapeake Energy Corp. company guaranty 8 3/8s, 2008
 10,000 Chesapeake Energy Corp. company guaranty 8 1/8s, 2011
 155,000 Chesapeake Energy Corp. sr. notes Ser. B, 8 1/2s, 2012
 1,035,000 Chesapeake Energy Corp. 144A sr. notes 9s, 2012
 875,000 Comstock Resources, Inc. company guaranty 11 1/4s, 2007
 790,000 Conoco Funding Co. company guaranty 6.35s, 2011
 130,000 Denbury Resources, Inc. company guaranty Ser. B, 9s, 2008
 695,000 Dresser, Inc. company guaranty 9 3/8s, 2011
 530,000 El Paso Energy Partners LP company guaranty Ser. B, 8 1/2s, 2011
 400,000 Encore Acquisition Co. 144A sr. sub. notes 8 3/8s, 2012
 300,000 Forest Oil Corp. sr. notes 8s, 2011
 445,000 Forest Oil Corp. sr. notes 8s, 2008
 145,000 Hornbeck Offshore Services, Inc. sr. notes 10 5/8s, 2008
 580,000 Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009
 220,000 Magnum Hunter Resources, Inc. company guaranty 9.6s, 2012
 480,000 Mission Resources Corp. company guaranty Ser. C, 10 7/8s, 2007
 700,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011
 540,000 Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009
 1,245,000 Petronas Capital, Ltd. 144A company guaranty 7s, 2012 (Malaysia)
 2,260,000 Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010
 115,000 Pioneer Natural Resources Co. company guaranty 6 1/2s, 2008
 380,000 Plains All American Pipeline LP/Plains All American Finance Corp.
 144A sr. notes 7 3/4s, 2012
 670,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011
 800,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007

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270,000 Seven Seas Petroleum, Inc. sr. notes Ser. B, 12 1/2s, 2005 (In default) (NON)
 160,000 Stone Energy Corp. company guaranty 8 3/4s, 2007
 710,000 Stone Energy Corp. sr. sub. notes 8 1/4s, 2011
 330,000 Swift Energy Co. sr. sub. notes 10 1/4s, 2009
 470,000 Swift Energy Co. sr. sub. notes 9 3/8s, 2012
 740,000 Trico Marine Services, Inc. 144A sr. notes 8 7/8s, 2012
 670,000 Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012
 550,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009
 370,000 Westport Resources Corp. company guaranty 8 1/4s, 2011
 500,000 XCL, Ltd. 144A company guaranty 13 1/2s, 2004 (In default) (NON)
 195,000 XTO Energy, Inc. sr. notes 7 1/2s, 2012
 310,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009

Financial (2.0%)

 820,000 AMRESCO, Inc. sr. sub. notes Ser. 97-A, 10s, 2004 (In default) (NON)
 460,000 Chevy Chase Savings Bank, Inc. sub. deb. 9 1/4s, 2005
 110,000 Comdisco, Inc. notes 7 1/4s, 2001 (In default) (NON)
 350,000 Comdisco, Inc. notes 5.95s, 2002 (In default) (NON)
 790,000 Conesco, Inc. 144A company guaranty 10 3/4s, 2009 (In default) (NON)
 120,000 Crescent Real Estate Equities LP FRN 7 1/2s, 2007 (R)
 1,010,000 Crescent Real Estate Equities LP 144A sr. notes 9 1/4s, 2009 (R)
 2,857,000 Finova Group, Inc. notes 7 1/2s, 2009
 1,010,000 GS Escrow Corp. sr. notes 7 1/8s, 2005
 299,250 Hilb, Rogal & Hamilton Co. bank term loan FRN 4.563s, 2007
 (acquired 6/20/02, cost \$299,250) (RES)
 302,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005 (In default) (NON)
 710,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008
 420,000 Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008 (In default) (NON)
 DKK 10,923,355 Nykredit mtge. 6s, 2032 (Denmark)
 \$620,000 Ocwen Federal Bank sub. deb. 12s, 2005
 200,000 Ocwen Financial Corp. notes 11 7/8s, 2003
 770,000 Resource America, Inc. 144A sr. notes 12s, 2004
 2,065,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006
 630,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003
 450,000 Veridian Corp. bank term loan FRN 5.31s, 2008
 (acquired 9/20/02, cost \$450,000) (RES)
 540,000 Western Financial Bank sub. deb. 9 5/8s, 2012

Gaming & Lottery (3.7%)

 470,000 Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon
 Ser. B, zero % (13 1/2s, 3/1/03), 2010 (In default) (NON) (STP)
 340,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009
 650,000 Argosy Gaming Co. company guaranty 10 3/4s, 2009
 160,000 Argosy Gaming Co. sr. sub. notes 9s, 2011
 500,000 Borgata Resorts bank term loan FRN 5.789s, 2007
 (acquired 6/5/02, cost \$498,750) (RES)
 120,000 Boyd Gaming Corp. sr. sub. notes 9 1/2s, 2007
 750,000 Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012
 310,000 Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010
 299,024 Fitzgeralds Gaming Corp. company guaranty Ser. B, 12 1/4s,
 2004 (In default) (NON)
 650,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008
 1,030,000 Hollywood Casino Corp. company guaranty 11 1/4s, 2007
 450,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007
 940,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009
 720,000 International Game Technology sr. notes 8 3/8s, 2009

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1,710,000 International Game Technology sr. notes 7 7/8s, 2004
 1,200,000 Majestic Investor Holdings/Capital Corp. company guaranty
 11.653s, 2007
 80,000 Mandalay Resort Group sr. notes 9 1/2s, 2008
 50,000 Mandalay Resort Group sr. sub. notes 9 3/8s, 2010
 1,230,000 Mandalay Resort Group sr. sub. notes Ser. B, 10 1/4s, 2007
 1,970,000 MGM Mirage, Inc. company guaranty 8 1/2s, 2010
 275,000 Mikohn Gaming Corp. company guaranty Ser. B, 11 7/8s, 2008
 490,000 Mirage Resorts, Inc. notes 6 3/4s, 2008
 220,000 Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006
 970,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009
 200,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011
 700,000 Mohegan Tribal Gaming Authority sr. sub. notes 8s, 2012
 940,000 Park Place Entertainment Corp. sr. notes 7 1/2s, 2009
 860,000 Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008
 140,000 Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008
 1,025,000 Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010
 565,000 Resorts International Hotel and Casino, Inc. company guaranty
 11 1/2s, 2009
 298,715 Scientific Gaming bank term loan FRN Ser. B, 6 1/8s, 2007
 (acquired 10/13/00, cost \$297,969) (RES)
 710,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008
 40,000 Station Casinos, Inc. sr. sub. notes 9 7/8s, 2010
 210,000 Station Casinos, Inc. 144A sr. sub. notes 9 3/4s, 2007
 410,000 Trump Atlantic City Associates company guaranty 11 1/4s, 2006
 40,000 Trump Atlantic City Associates company guaranty Ser. B,
 11 1/4s, 2006
 90,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003
 1,725,000 Venetian Casino Resort, LLC 144A 2nd mtge. 11s, 2010
 199,500 Venetian Casino, Inc. bank term loan FRN 4.8s, 2008
 (acquired 6/3/02, cost \$199,500) (RES)

Health Care (4.3%)

716,400 Accredo Health, Inc. bank term loan FRN Ser. B, 4.57s, 2009
 (acquired 3/20/02, cost \$715,684) (RES)
 291,000 Advanced Medical Optics, Inc. bank term loan FRN 5.11s, 2008
 (acquired 6/17/02, cost \$290,636) (RES)
 340,000 ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006
 290,000 ALARIS Medical Systems, Inc. 144A company guaranty 9 3/4s, 2006
 1,010,000 ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero %
 (11 1/8s, 8/1/03), 2008 (STP)
 1,560,700 Alderwoods Group, Inc. company guaranty 12 1/4s, 2009
 14,800 Alderwoods Group, Inc. company guaranty 11s, 2007
 565,000 Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011
 560,000 AmerisourceBergen Corp. sr. notes 8 1/8s, 2008
 360,000 Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007
 870,000 Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)
 400,000 Community Health Systems, Inc. bank term loan FRN Ser. B,
 4.32s, 2010 (acquired 7/11/02, cost \$400,000) (RES)
 136,258 Concentra Operating Corp. bank term loan FRN Ser. B, 5.755s,
 2006 (acquired 1/15/02, cost \$136,563) (RES)
 68,129 Concentra Operating Corp. bank term loan FRN Ser. C, 6.005s,
 2007 (acquired 1/15/02, cost \$68,278) (RES)
 760,000 Conmed Corp. company guaranty 9s, 2008
 397,153 DaVita, Inc. bank term loan FRN Ser. B, 4.955s, 2009
 (acquired 4/26/02, cost \$396,657) (RES)
 500,000 Extencicare Health Services, Inc. 144A sr. notes 9 1/2s, 2010
 37,719 Genesis Health Ventures, Inc. sec. notes FRN 6.86s, 2007
 605,000 Hanger Orthopedic Group, Inc. company guaranty 10 3/8s, 2009

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145,000 Hanger Orthopedic Group, Inc. sr. sub. notes 11 1/4s, 2009
 1,500,000 HCA, Inc. med. term notes 8.85s, 2007
 560,000 HCA, Inc. notes 8 3/4s, 2010
 1,370,000 HCA, Inc. notes 7s, 2007
 610,000 Healthsouth Corp. sr. notes 8 1/2s, 2008
 245,000 Healthsouth Corp. sr. notes 8 3/8s, 2011
 1,025,000 Healthsouth Corp. 144A notes 7 5/8s, 2012
 73,000 Insight Health Services Corp. company guaranty Ser. B, 9 7/8s, 2011
 1,000,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s, 2007 (In default) (NON)
 380,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s, 2008 (In default) (NON)
 277,091 Kinetic Concepts, Inc. bank term loan FRN Ser. C, 4.8s, 2005 (acquired 11/15/01, cost \$277,437) (RES)
 735,000 Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007
 895,000 Magellan Health Services, Inc. sr. sub. notes 9s, 2008
 270,000 Magellan Health Services, Inc. 144A sr. notes 9 3/8s, 2007
 760,000 Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)
 560,000 Mediq, Inc. deb. stepped-coupon zero % (13s, 6/1/03), 2009 (In default) (NON) (STP)
 770,000 MedQuest, Inc. 144A sr. sub. notes 11 7/8s, 2012
 1,590,000 Multicare Companies, Inc. sr. sub. notes 9s, 2007 (In default) (NON)
 570,000 Omnicare, Inc. company guaranty Ser. B, 8 1/8s, 2011
 1,280,000 PacificCare Health Systems, Inc. company guaranty 10 3/4s, 2009
 885,000 Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012
 75,000 Service Corp. International notes 7.7s, 2009
 1,655,000 Service Corp. International notes 6s, 2005
 380,000 Service Corp. International 144A notes 7.7s, 2009
 720,000 Stewart Enterprises, Inc. notes 10 3/4s, 2008
 1,710,000 Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009
 989,091 Triad Hospitals, Inc. bank term loan FRN Ser. B, 4.82s, 2008 (acquired 4/24/01, cost \$988,102) (RES)
 480,000 Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009
 560,000 Vanguard Health Systems, Inc. company guaranty 9 3/4s, 2011
 690,000 Ventas Realty LP/Capital Corp. company guaranty 9s, 2012

Homebuilding (1.0%)

430,000 Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011
 290,000 D.R. Horton, Inc. company guaranty 8 1/2s, 2012
 630,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011
 530,000 Del Webb Corp. sr. sub. deb. 9 3/8s, 2009
 450,000 K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007
 40,000 K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012
 130,000 K. Hovnanian Enterprises, Inc. company guaranty 8s, 2012
 735,000 KB Home sr. sub. notes 9 1/2s, 2011
 250,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010
 510,000 Lennar Corp. sr. notes 7 5/8s, 2009
 80,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008
 640,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010
 140,000 Ryland Group, Inc. sr. sub. notes 8 1/4s, 2008
 185,000 Schuler Homes, Inc. company guaranty 10 1/2s, 2011
 40,000 Schuler Homes, Inc. company guaranty 9s, 2008
 240,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010
 100,000 Standard Pacific Corp. sr. notes 8 1/2s, 2009
 260,000 Toll Corp. company guaranty 8 1/8s, 2009
 250,000 Toll Corp. sr. sub. notes 8 1/4s, 2011
 570,000 WCI Communities, Inc. company guaranty 9 1/8s, 2012

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Lodging/Tourism (1.4%)

1,290,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)
 477,000 Felcor Lodging LP company guaranty 8 1/2s, 2008 (R)
 3,990,000 HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008
 660,000 ITT Corp. notes 6 3/4s, 2005
 1,080,000 John Q. Hammons Hotels LP/John Q. Hammons Hotels
 Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012
 700,000 Lodgian Financing Corp. company guaranty 12 1/4s,
 2009 (In default) (NON)
 330,000 Meristar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)
 170,000 Meristar Hospitality Corp. company guaranty 9s, 2008 (R)
 520,000 RFS Partnership LP company guaranty 9 3/4s, 2012
 490,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes 7 7/8s, 2012

Publishing (1.4%)

300,000 Belo Corp. sr. notes 7 1/8s, 2007
 670,000 Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011
 80,000 Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009
 360,000 Hollinger International Publishing, Inc. company guaranty 9 1/4s, 2007
 1,832,034 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK)
 530,000 Key3media Group, Inc. company guaranty 11 1/4s, 2011
 490,000 Mail-Well I Corp. 144A company guaranty 9 5/8s, 2012
 680,000 Perry-Judd company guaranty 10 5/8s, 2007
 1,360,000 PRIMEDIA, Inc. company guaranty 8 7/8s, 2011
 350,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008
 770,000 PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006
 350,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero %
 (13 3/4s, 7/15/06), 2011 (Canada) (STP)
 450,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)
 399,000 Reader's Digest Association, Inc. (The) bank term loan FRN
 Ser. B, 4.258s, 2008 (acquired 5/15/02, cost \$399,000) (RES)
 690,000 Vertis, Inc. 144A sr. notes 10 7/8s, 2009
 100,000 Von Hoffman Corp. 144A sr. sub. notes 10 3/8s, 2007
 920,000 Von Hoffman Press, Inc. company guaranty 10 1/4s, 2009
 114,851 Von Hoffman Press, Inc. 144A sr. sub. notes 13 1/2s, 2009

Retail (1.0%)

480,000 Amazon.com, Inc. sr. sub. notes stepped-coupon zero %
 (10s, 5/1/03), 2008 (STP)
 570,000 Asbury Automotive Group, Inc. company guaranty 9s, 2012
 890,000 Autonation, Inc. company guaranty 9s, 2008
 320,000 JC Penney Company, Inc. notes Ser. A MTN, 7.05s, 2005
 1,315,000 JC Penney Company, Inc. 144A notes 9s, 2012
 930,000 Kmart Corp. 144A notes 9 7/8s, 2008 (In default) (NON)
 390,000 NBTY, Inc. sr. sub. notes Ser. B, 8 5/8s, 2007
 1,580,000 Saks, Inc. company guaranty 8 1/4s, 2008
 515,000 United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012

Technology (0.9%)

190,000 Amkor Technologies, Inc. sr. notes 9 1/4s, 2006
 390,000 Amkor Technologies, Inc. structured notes 12.58s, 2005

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432,000 CSG Systems International, Inc. bank term loan FRN Ser. B, 4.507s, 2008 (acquired 3/4/02, cost \$433,080) (RES)

95,000 Fairchild Semiconductor International, Inc. company guaranty 10 3/8s, 2007

1,000,000 Lucent Technologies, Inc. notes 7 1/4s, 2006

940,000 Micron Technology, Inc. notes 6 1/2s, 2005

1,050,000 Nortel Networks Corp. notes 6 1/8s, 2006 (Canada)

330,000 ON Semiconductor Corp. 144A company guaranty 12s, 2008

480,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)

270,000 SCG Holding & Semiconductor Corp. company guaranty 12s, 2009

150,000 Seagate Technology Hdd Holdings bank term loan FRN Ser. B, 3 3/4s, 2007 (acquired 5/9/02, cost \$150,000) (RES)

620,000 Seagate Technology Hdd Holdings 144A sr. notes 8s, 2009

144,297 Telex Communications Group, Inc. sr. sub. notes Ser. A, zero %, 2006

600,000 Titan Corp. (The) bank term loan FRN Ser. B, 4.782s, 2009 (acquired various dates 5/14/02 to 6/3/02, cost \$600,750) (RES)

95,000 Unisys Corp. sr. notes 8 1/8s, 2006

310,000 Unisys Corp. sr. notes 7 7/8s, 2008

190,000 Unisys Corp. sr. notes 7 1/4s, 2005

185,000 Xerox Cap Europe PLC company guaranty 5 7/8s, 2004 (United Kingdom)

405,000 Xerox Corp. notes 5 1/2s, 2003

825,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009

40,000 Xerox Credit Corp. sr. notes 6.1s, 2003

Textiles (0.3%)

560,000 Galey & Lord, Inc. company guaranty 9 1/8s, 2008 (In default) (NON)

320,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008

EUR 120,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008

\$430,000 Russell Corp. 144A sr. notes 9 1/4s, 2010

220,000 Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003

1,160,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2005

600,000 William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011

Transportation (1.1%)

60,000 Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada)

980,000 Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008

320,000 Continental Airlines, Inc. pass-through certificates Ser. D, 7.568s, 2006

930,000 CSX Corp. notes 6 1/4s, 2008

390,000 Delta Airlines, Inc. pass-through certificates Ser. 00-1, Class C, 7.779s, 2005

290,000 Delta Airlines, Inc. pass-through certificates Ser. C, 7.779s, 2012

199,500 Ingram Industries bank term loan FRN 4.32s, 2008 (acquired 6/17/02, cost \$199,500) (RES)

16,000 International Shipholding Corp. sr. notes 9s, 2003

740,000 Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008

360,000 Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009

540,000 Northwest Airlines, Inc. company guaranty 7 5/8s, 2005

850,000 Northwest Airlines, Inc. sr. notes 9 7/8s, 2007

274,615 NWA Trust sr. notes Ser. A, 9 1/4s, 2012

790,000 RailAmerica Transportation company guaranty 12 7/8s, 2010

140,000 Transportation Manufacturing Operations, Inc. company guaranty 11 1/4s, 2009

190,000 Travel Centers of America, Inc. company guaranty 12 3/4s, 2009

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620,000 United AirLines, Inc. deb. 9 1/8s, 2012
 1,450,000 US Air, Inc. pass-through certificates Ser. 93A2, 9 5/8s, 2003

Utilities & Power (1.7%)

150,000	AES Corp. (The) sr. notes 9 3/8s, 2010
510,000	AES Corp. (The) sr. notes 8 7/8s, 2011
560,000	AES Corp. (The) sr. notes 8 3/4s, 2008
670,000	Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada)
390,000	Calpine Corp. sr. notes 10 1/2s, 2006
460,000	Calpine Corp. sr. notes 8 3/4s, 2007
1,170,000	Calpine Corp. sr. notes 8 5/8s, 2010
1,255,000	Calpine Corp. sr. notes 8 1/2s, 2011
700,000	Calpine Corp. sr. notes 7 7/8s, 2008
600,000	CMS Energy Corp. sr. notes 8.9s, 2008
320,000	CMS Energy Corp. sr. notes 8 1/2s, 2011
350,000	CMS Panhandle Holding Corp. sr. notes 6 1/2s, 2009
615,000	Consumers Energy bank term loan FRN 6.342s, 2004 (acquired 9/17/02, cost \$350,400) (RES)
370,000	Edison Mission Energy sr. notes 10s, 2008
380,000	Edison Mission Energy sr. notes 9 7/8s, 2011
448,875	Michigan Electric Transmission Co./Michigan Electric Transmission, Inc. bank term loan FRN Ser. B, 4.411s, 2007 (acquired various dates 4/22/02 to 5/3/02, cost \$248,875) (RES)
1,650,000	Midland Funding II Corp. deb. Ser. A, 11 3/4s, 2005
565,000	Mission Energy Holding Co. sec. notes 13 1/2s, 2008
360,000	Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005 (In default) (NON)
920,000	Southern California Edison Co. notes 8.95s, 2003
90,000	Southern California Edison Co. notes 6 3/8s, 2006
795,000	Western Resources, Inc. 1st mtge. 7 7/8s, 2007
300,000	Western Resources, Inc. bank term loan FRN 4.82s, 2005 (acquired 6/4/02, cost \$300,000) (RES)
595,000	Western Resources, Inc. sr. notes 9 3/4s, 2007
1,116,000	York Power Funding 144A notes 12s, 2007 (Cayman Islands) (In default) (NON)

Total Corporate Bonds and Notes (cost \$359,012,459)

FOREIGN GOVERNMENT BONDS AND NOTES (17.1%) (a) PRINCIPAL AMOUNT

USD	1,145,000	Brazil (Federal Republic of) notes 11s, 2012
CAD	8,510,000	Canada (Government of) bonds 6s, 2011
CAD	3,680,000	Canada (Government of) bonds Ser. WH31, 6s, 2008
EUR	345,000	Colombia (Republic of) notes Ser. E MTN, 11 1/2s, 2011
EUR	640,000	Colombia (Republic of) unsub. bonds Ser. 15A, 11 3/8s, 2008
USD	1,030,000	Ecuador (Republic of) bonds Ser. REGS, 12s, 2012
EUR	14,330,000	Germany (Federal Republic of) bonds Ser. 95, 7 3/8s, 2005
EUR	3,400,000	Italy (Government of) treasury bonds 5 1/2s, 2010
USD	360,000	Malaysia (Government of) bonds 7 1/2s, 2011
NZD	6,007,000	New Zealand (Government of) bonds 8s, 2006
NZD	5,804,000	New Zealand (Government of) bonds Ser. 709, 7s, 2009
USD	12,655,000	Russia (Federation of) unsub. 10s, 2007
USD	11,690,000	Russia (Federation of) unsub. 8 1/4s, 2010

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USD	2,625,000	South Africa (Republic of) notes 7 3/8s, 2012
EUR	1,000,000	Spain (Government of) bonds 5.4s, 2011
EUR	1,690,000	Spain (Government of) bonds 4.8s, 2006
SEK	52,800,000	Sweden (Government of) bonds Ser. 1037, 8s, 2007
SEK	91,230,000	Sweden (Government of) bonds Ser. 1044, 3 1/2s, 2006
USD	1,070,000	Turkey (Republic of) bonds 11 3/4s, 2010
USD	660,000	Turkey (Republic of) sr. unsub. bonds 12 3/8s, 2009
GBP	4,030,000	United Kingdom Treasury bonds 7 1/4s, 2007
USD	14,190,000	United Mexican States notes Ser. A, 9 7/8s, 2010

Total Foreign Government Bonds and Notes (cost \$95,239,859)

U.S. GOVERNMENT AND AGENCY OBLIGATIONS (16.2%) (a) PRINCIPAL AMOUNT

U.S. Government Agency Mortgage Obligations (12.1%)

\$49,446	Federal Home Loan Mortgage Corporation 6s, June 1, 2032
	Federal National Mortgage Association Pass-Through Certificates
384	8 1/2s, March 1, 2006
37,567	8s, with due dates from October 1, 2025 to July 1, 2028
140,260	7 1/2s, December 1, 2029
41,225,000	7 1/4s, January 15, 2010
7,642,237	6 1/2s, with due dates from June 1, 2029 to September 1, 2032
289,120	6 1/2s, with due dates from August 1, 2010 to March 1, 2015
5,700,000	TBA, 6 1/2s, October 1, 2032
169,648	6s, July 1, 2032
	Government National Mortgage Association Pass-Through Certificates
15,970	8s, July 15, 2023
1,277,510	7 1/2s, with due dates from July 15, 2029 to January 15, 2030
2,391,130	7s, with due dates from January 15, 2025 to June 15, 2031
206,231	6 1/2s, May 15, 2029
7,200,000	TBA, 6 1/2s, October 1, 2032

U.S. Treasury Obligations (4.1%)

	U.S. Treasury Notes
16,490,000	4 3/8s, August 15, 2012
1,705,000	3 1/4s, August 15, 2007
6,250,000	1 7/8s, September 30, 2004

Total U.S. Government and Agency Obligations (cost \$97,230,453)

COLLATERALIZED MORTGAGE OBLIGATIONS (8.0%) (a) PRINCIPAL AMOUNT

	Amortizing Residential Collateral Trust
\$28,955,455	Ser. 02-BC1, Class A, Interest Only (IO), 6s, 2005
2,270,000	Ser. 02-BC1, Class M2, FRN, 2.91s, 2032
4,100,000	Amresco Commercial Mortgage Funding I Ser. 97-C1, Class F, 7.64s, 2029
235,000	Banc of America Commercial Mortgage, Inc. Ser. 02-PB2, Class K, 6.29s, 2035
125,000	Chase Commercial Mortgage Securities Corp. Ser. 00-3, Class G, 6.887s, 2019

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1,660,000 Commercial Mortgage Acceptance Corp. Ser. 97-ML1, Class D,
 7.043s, 2030
 30,544,479 Commercial Mortgage Asset Trust Ser. 99-C1, Class X, IO,
 1.16s, 2020
 425,000 CS First Boston Mortgage Securities Corp. 144A Ser. 02-CKN2,
 Class H, 6.122s, 2037
 30,249,992 Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, Class X,
 IO, 1.07s, 2031
 Euro Loan Conduit 144A
 330,556 FRN Ser. 7A, Class D, 5.73s, 2006 (United Kingdom)
 330,556 FRN Ser. 7A, Class E, 5.73s, 2006 (United Kingdom)
 Fannie Mae
 542,947 Ser. 98-51, Class SG, 26.1s, 2022
 4,777,474 Ser. 02-36, Class SJ, 15 1/2s, 2029
 931,400 Ser. 01-58, Class HI, IO, 6 1/2s, 2026
 7,980,270 Ser. 02-9, Class MS, IO, 6.29s, 2032
 10,351,123 Ser. 02-36, Class QH, IO, 6.24s, 2029
 2,776,020 Ser. 02-29, Class SL, IO, 6.21s, 2029
 3,888,736 Ser. 02-47, Class NS, IO, 6.19s, 2032
 8,337,632 Ser. 02-34, Class SB, IO, 6.13s, 2032
 1,997,528 Ser. 02-39, Class SB, IO, 6.13s, 2032
 3,927,636 Ser. 318, Class 2, IO, 6s, 2032
 1,598,980 Ser. 01-74, Class MI, IO, 6s, 2015
 553,247 Ser. 99-51, Class N, Principal Only (PO), zero %, 2029
 528,426 Ser. 99-52, Class MO, PO, zero %, 2026
 223,433 Ser. 97-92, PO, zero %, 2025
 651,160 Ser. 96-5, Class PB, PO, zero %, 2024
 582,500 Ser. 93-159, Class D, PO, zero %, 2023
 17,513,606 FFCA Secured Lending Corp. Ser. 00-1, Class X, IO, 1.72s, 2020
 Freddie Mac
 407,866 Ser. 2154, Class SA, 24.83s, 2029
 658,096 Ser. 2398, Class DT, 20.589s, 2032
 920,468 Ser. 2413, Class SH, 20.199s, 2032
 1,309,500 Ser. 2412, Class GS, 16.302s, 2032
 363,057 Ser. 1717, Class L, 6 1/2s, 2024
 Freddie Mac
 4,429,704 Ser. 2448, Class SE, IO, 6.28s, 2029
 2,707,400 Ser. 2448, Class SM, IO, 6.18s, 2032
 7,376,352 Ser. 212, Class IO, IO, 6s, 2031
 838,992 Ser. 2044, Class SG, IO, 4.66s, 2023
 72,454 Ser. 2351, Class EO, PO, zero %, 2031
 1,851,951 Ser. 215, Class PO, PO, zero %, 2031
 269,844 Federal Home Loan Mortgage Corp. Ser. 57, Class A, PO,
 zero %, 2023
 Government National Mortgage Association
 1,119,100 Ser. 02-49, Class QS, FRN, 16.1s, 2029
 8,490,550 Ser. 02-47, Class SM, IO, 4.15s, 2032
 5,897,680 Ser. 01-43, Class SJ, IO, 5.78s, 2029
 696,035 Ser. 98-2, Class EA, PO, zero %, 2028
 64,744 Ser. 99-42, PO, zero %, 2027
 1,075,000 Granite Mortgages PLC FRN Ser. 01-1, Class 1C, 3.26s,
 2041 (United Kingdom)
 5,065,000 Holmes Financing PLC Ser. 1, Class 2C, 3.01s, 2040
 LB-UBS Commercial Mortgage Trust
 535,000 Ser. 01-C3, Class A2, 6.37s, 2011
 655,000 Ser. 01-C3, Class J, 6.16s, 2036
 Merrill Lynch Mortgage Investors, Inc.
 13,712,744 Ser. 96-C2, IO, 1.9s, 2028
 1,070,000 Ser. 96-C2, Class E, 6.96s, 2028
 5,616,143 Mortgage Capital Funding, Inc. Ser. 97-MC2, Class X, IO,
 1.55s, 2027
 31,686 Prudential Home Mortgage Securities Ser. 93-57, Class A4,

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5.9s, 2023
 223,049 Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026
 1,821,922 Wells Fargo Mortgage Backed Securities Trust Ser. 01-31,
 Class A5, 16.6s, 2032

Total Collateralized Mortgage Obligations (cost \$51,240,486)

ASSET-BACKED SECURITIES (4.9%) (a)
 PRINCIPAL AMOUNT

\$426,509 Arc Net Interest Margin Trust Ser. 02-5A, Class A, 7 3/4s, 2032
 579,441 Arc Net Interest Margin Trust 144A Ser. 02-1A, Class A, 7 3/4s, 2032
 450,729 Asset Backed Funding Corp. NIM Trust Ser. 02-WF1, Class Note,
 9.32s, 2032
 1,845,000 Bank One Issuance Trust Ser. 02-C1, Class C1, FRN, 2.78s, 2009
 Bayview Financial Acquisition Trust
 1,010,900 Ser. 01-DA, Class M3, FRN, 3.21s, 2031
 995,000 Ser. 02-CA, Class A, IO, 14s, 2004
 1,257,997 CDC Mortgage Capital Trust Ser. 02-HE1, Class M, FRN, 3.06s, 2033
 Chase Funding Net Interest Margin
 400,946 Ser. 02-1, Class Note, 8 1/2s, 2035
 790,481 Ser. 02-2, Class Note, 8 1/2s, 2035
 315,527 Ser. 02-C1, Class Note, 8 1/2s, 2035
 Conesco Finance Securitizations Corp.
 3,055,000 Ser. 00-4, Class A6, 8.31s, 2032
 1,100,000 Ser. 00-6, Class M2, 8.2s, 2032
 1,030,000 Ser. 01-4, Class B1, 9.4s, 2033
 3,659,943 Ser. 02-1, Class A, 6.681s, 2032
 790,000 Consumer Credit Reference Index Securities Ser. 02-1A,
 Class A, FRB, 3.99s, 2007
 2,464,354 Greenpoint Manufactured Housing Ser. 00-3, Class IA, 8.45s, 2031
 335,000 Home Equity Asset Trust Ser. 02-1N, Class A, 8s, 2032
 1,260,000 LNR CDO, Ltd. Ser. 02-1A, Class FFL, 4.589s, 2012
 1,046,356 Madison Avenue Manufactured Housing Contract Ser. 02-A,
 Class B1, FRN, 5.06s, 2032
 608,760 Mid-State Trust Ser. 10, Class B, 7.54s, 2036
 Morgan Stanley Dean Witter Capital I
 640,000 Ser. 02-AM2, Class B1, FRN, 4.21s, 2032
 390,000 Ser. 01-NC3, Class B1, FRN, 4.26s, 2031
 1,660,000 Ser. 01-NC4, Class B1, FRN, 4.35s, 2032
 753,000 Ser. 02-NC3, Class M2, FRN, 3.1s, 2032
 Morgan Stanley Dean Witter Capital I 144A
 347,673 Ser. 01-AM1N, Class Note, 12 3/4s, 2032
 778,114 Ser. 01-NC4N, Class Note, 8 1/2s, 2032
 957,575 Option One Mortgage Securities Corp. Ser. 02-2A, Class CFTS,
 8.83s, 2032
 811,467 Option One Mortgage Securities Corp. 144A Ser. 02-1, Class CTFs,
 6 3/4s, 2032
 1,688,157 Pass-Through Amortizing Credit Card Trust Ser. 02-1A, Class A4FL,
 7.339s, 2012
 390,000 TIAA Commercial Real Estate Securitization Ser. 02-1A, Class IV,
 6.84s, 2037

Total Asset-Backed Securities (cost \$30,541,261)

BRADY BONDS (2.0%) (a)
 PRINCIPAL AMOUNT

\$11,210,000 Brazil (Federal Republic of) govt. guaranty FRB 3 1/8s, 2012

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5,218,600 Bulgaria (Republic of) deb. FRB Ser. IAB, 2.688s, 2011

4,452,300 Venezuela (Republic of) deb. FRB Ser. DL, 2 7/8s, 2007

Total Brady Bonds (cost \$15,891,147)

PREFERRED STOCKS (1.2%) (a) NUMBER OF SHARES

393 AmeriKing, Inc. \$3.25 cum. pfd. (PIK)
9,200 Brand Scaffold Services, Inc. 144A \$3.625 pfd.
44,800 California Federal Bancorp, Inc. Ser. A, \$2.281 pfd.
23,604 Chevy Chase Capital Corp. Ser. A, \$5.188 pfd.
3,150 Chevy Chase Savings Bank, Inc. \$3.25 pfd.
23,612 CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd.
877 Delta Financial Corp. Ser. A, \$10.00 cum. pfd.
19,200 Diva Systems Corp. Ser. C, 6.00% cum. pfd.
1,181 Dobson Communications Corp. 12.25% pfd. (PIK)
320 First Republic Capital Corp. 144A 10.50% pfd.
11,765 Fitzgeralds Gaming Corp. zero % cum. pfd.
510 Granite Broadcasting Corp. 12.75% cum. pfd.
41 Leiner Health Products Ser. C, zero % pfd.
376 Nextel Communications, Inc. Ser. E, 11.125% pfd. (PIK)
1,188 North Atlantic Trading Co. 12.00% pfd. (PIK)
287 Paxson Communications Corp. 13.25% cum. pfd. (PIK)
1,241 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$11,646,891)

COMMON STOCKS (0.7%) (a) NUMBER OF SHARES

2,305 Alderwoods Group, Inc. (NON)
28,107 Arch Wireless, Inc. (NON)
14,080 Aurora Foods, Inc. (NON)
4,556 Call-Net Enterprises, Inc. Class B (Canada) (NON)
149,352 Celcaribe SA (Colombia) (NON)
3,445,121 Contifinancial Corp. Liquidating Trust Units
15,321 Covad Communications Group, Inc. 144A (NON)
840 Delta Funding Residual Exchange Co., LLC (NON)
840 Delta Funding Residual Management, Inc. (NON)
20,520 Dorskocil Manufacturing Company, Inc. (NON)
22,904 Fitzgeralds Gaming Corp. (NON)
6,936 Genesis Health Ventures, Inc. (NON)
120,000 Loewen Group International, Inc. (NON)
1,400 Mariner Health Care, Inc. (NON)
870,000 Morrison Knudsen Corp. (NON)
49,759 Pioneer Companies, Inc. (NON)
327 Premium Holdings (L.P.) 144A
715 PSF Group Holdings, Inc. 144A Class A
167 Quorum Broadcast Holdings, Inc. Class E (acquired 5/15/01,
cost \$166,516) (RES) (NON)
167,520 Regal Entertainment Group 144A (acquired 5/9/02,
cost \$1,327,636) (NON) (RES)
10,704 Safety Components International, Inc. (NON)
740 Sun Healthcare Group, Inc. (NON)
1,335 Vast Solutions, Inc. Class B1 (NON)
1,335 Vast Solutions, Inc. Class B2 (NON)
1,335 Vast Solutions, Inc. Class B3 (NON)

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1,696 Washington Group International, Inc. (NON)

Total Common Stocks (cost \$11,466,954)

CONVERTIBLE BONDS AND NOTES (0.2%) (a)
PRINCIPAL AMOUNT

\$37,000 American Tower Corp. cv. bonds 2 1/4s, 2009
 980,000 American Tower Corp. cv. notes 5s, 2010
 550,000 DaVita, Inc. cv. sub. notes 7s, 2009
 111,000 Hexcel Corp. cv. sub. notes 7s, 2003
 310,000 Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010
 310,000 Rogers Communications cv. deb. 2s, 2005 (Canada)

Total Convertible Bonds and Notes (cost \$1,677,340)

UNITS (0.1%) (a)
NUMBER OF UNITS

600 Australis Media, Ltd. units 15 3/4s, 2003 (Australia) (In default) (NON)
 295 MDP Acquisitions PLC 144A units 15 1/2s, 2013 (Ireland) (PIK)
 360 Solutia, Inc. 144A units 11 1/4s, 2009
 500 XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)

Total Units (cost \$1,733,121)

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

51 Anker Coal Group, Inc. 14.25% cv. pfd.
 55 Genesis Health Ventures, Inc. \$6.00 cv. pfd. (PIK)
 608 Hercules Trust II units 6.50% cum. cv. pfd.
 520 Interact Systems, Inc. 144A 14.00% cv. pfd. (In default) (NON)
 3,800 LTV Corp. 144A \$4.125 cv. pfd. (In default) (NON)
 43 Paxson Communications Corp. 144A 9.75% cv. pfd. (PIK)
 6,847 Telex Communications, Inc. zero % cv. pfd. (NON)
 630 Weirton Steel Corp. Ser. C, zero % cv. pfd.

Total Convertible Preferred Stocks (cost \$877,035)

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

EXPIRATION
DATE

4 Anker Coal Group, Inc. 144A	10/28/0
460 Birch Telecommunications, Inc. 144A (PIK)	6/15/08
1,500 Comunicacion Cellular 144A (Colombia)	11/15/0
1,020 Dayton Superior Corp.	6/15/09
90 Decrane Aircraft Holdings Co.	9/30/08
809 Diva Systems Corp.	5/15/06
8,173 Diva Systems Corp. 144A	3/1/08
6,915 Genesis Health Ventures, Inc.	10/1/02
1,050 Horizon PCS, Inc.	10/1/10
520 Interact Systems, Inc.	8/1/03
520 Interact Systems, Inc. 144A	12/15/0

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910 iPCS, Inc. 144A	7/15/10
590 IWO Holdings, Inc.	1/15/11
544 Leap Wireless International, Inc. 144A	4/15/10
1,322 Mariner Health Care, Inc.	5/1/04
390 Mikohn Gaming Corp. 144A	8/15/08
400 ONO Finance PLC 144A (United Kingdom)	2/15/11
960 Paxson Communications Corp. 144A	6/30/03
410 Pliant Corp. 144A	6/1/10
185 Sterling Chemicals Holdings	8/15/08
1,851 Sun Healthcare Group, Inc.	2/28/05
270 Telex Communications Group, Inc.	3/30/07
1,830 Travel Centers of America, Inc. 144A	5/1/09
1,670 Ubiquitel, Inc. 144A	4/15/10
680 Veraldo Holdings, Inc. 144A	4/15/08
30 Versatel Telecom NV (Netherlands)	5/15/08
1,046 Washington Group International, Inc. Ser. A	1/25/06
1,196 Washington Group International, Inc. Ser. B	1/25/06
647 Washington Group International, Inc. Ser. C	1/25/06
590 XM Satellite Radio Holdings, Inc. 144A	3/15/10

Total Warrants (cost \$636,863)

SHORT-TERM INVESTMENTS (2.8%) (a)
PRINCIPAL AMOUNT

\$1,355,000	U.S. Treasury Bills zero %, December 12, 2002 (SEG)
3,998	Short-term investments held as collateral for loaned securities with yields ranging from 1.73% to 2.00% and due dates ranging from October 1, 2002 to November 19, 2002 (d)
16,075,000	Interest in \$138,000,000 joint tri-party repurchase agreement dated September 30, 2002 with Goldman Sachs & Co. due October 1, 2002 with respect to various U.S. Government obligations -- maturity value of \$16,075,871 for an effective yield of 1.95%

Total Short-Term Investments (cost \$17,429,104)

Total Investments (cost \$694,622,973)

(a) Percentages indicated are based on net assets of \$627,620,416.

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

(NON) Non-income-producing security.

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

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at September 30, 2002 was \$24,951,224 or 4.0% of net assets.

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

(SEG) This security was pledged and segregated with the custodian to cover margin requirements for future contracts at September 30, 2002.

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(R) Real Estate Investment Trust.

(d) See footnote 1 to the financial statements.

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

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

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates shown at September 30, 2002, which are subject to change based on the terms of the security.

DIVERSIFICATION BY COUNTRY

Distribution of investments by country of issue at September 30, 2002:
(as percentage of Market Value)

Brazil	0.8%
Bulgaria	0.7
Canada	2.8
Germany	2.5
Italy	0.6
Mexico	2.5
New Zealand	0.9
Russia	4.0
Sweden	2.5
United Kingdom	2.2
United States	74.7
Venezuela	0.5
Other	5.3

Total	100.0%

Forward Currency Contracts to Buy at September 30, 2002
(aggregate face value \$44,520,941)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/Depreciation)
Australian Dollars	\$15,988,698	\$15,991,827	12/18/02	\$(3,129)
British Pounds	6,500,190	6,443,655	12/18/02	56,535
Canadian Dollars	7,250,596	7,277,579	12/18/02	(26,983)
Euro	1,193,600	1,186,972	12/18/02	6,628
Japanese Yen	10,674,291	10,904,640	12/18/02	(230,349)
South Korean Won	2,275,309	2,314,499	12/18/02	(39,190)
Swiss Franc	401,534	401,769	12/18/02	(235)

				\$ (236,723)

Forward Currency Contracts to Sell at September 30, 2002
(aggregate face value \$36,643,845)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/Depreciation)
Australian Dollars	\$1,168,878	\$1,171,200	12/18/02	\$2,322
British Pounds	1,517,088	1,505,862	12/18/02	(11,226)

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Danish Krone	543,282	545,246	12/18/02	1,964
Euro	6,593,363	6,540,269	12/18/02	(53,094)
Japanese Yen	5,813,287	5,815,661	12/18/02	2,374
New Zealand Dollars	5,807,955	5,822,460	12/18/02	14,505
Swedish Krona	15,374,229	15,243,147	12/18/02	(131,082)
				\$ (174,237)

Futures Contracts Outstanding at September 30, 2002

	Total Value	Aggregate Face Value	Expiration Date	Unrealized Appreciation/ (Depreciation)
3 Month Eurodollar (long)	\$ 1,715,350	\$ 1,670,492	Sep-03	\$ 44,858
3 Month Eurodollar (short)	1,720,863	1,677,870	Jun-03	(42,993)
3 Month Euroyen (long)	6,566,875	6,567,322	Dec-02	(447)
3 Month Euroyen (short)	6,561,617	6,563,470	Dec-03	1,853
Euro-Bobl (long)	14,202,225	14,096,705	Dec-02	105,520
Euro-Bund 10yr (long)	29,580,626	29,359,809	Dec-02	220,817
Interest Rate Swap 10yr (long)	1,698,281	1,646,548	Dec-02	51,733
Japanese Government Bond 10yr (long)	5,767,335	5,782,963	Dec-02	(15,628)
Japanese Government Bond 10yr (long)	4,843,871	4,858,720	Dec-02	(14,849)
US Treasury Bond (short)	1,942,250	1,857,178	Dec-02	(85,072)
US Treasury Note 10yr (long)	36,278,375	34,937,507	Dec-02	1,340,868
US Treasury Note 10yr (short)	51,114,656	49,110,462	Dec-02	(2,004,194)
US Treasury Note 5yr (short)	43,998,281	43,087,444	Dec-02	(910,837)
				\$ (1,308,371)

TBA Sales Commitments at September 30, 2002

(Proceeds receivable \$20,340,308)

Agency	Principal Amount	Settlement Date	Market Value
FHLMC, 6s, October 2032	\$48,000	10/15/02	\$49,350
FNMA, 6 1/2s, October 2032	12,187,000	10/15/02	12,625,002
FNMA, 6s, October 2032	163,000	10/15/02	167,381
GNMA, 6 1/2s, October 2032	7,200,000	10/23/02	7,510,464
			\$20,352,197

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Swap Contracts Outstanding at September 30, 2002

	Notional Amount	Termination Date	Unrealized Appreciation
Agreement with Lehman Brothers Special Financing, Inc. dated August 13, 2002 to receive semiannually the notional amount multiplied by 3.614% and pay quarterly the notional amount multiplied by three month USD LIBOR BBA adjusted by a specified spread.	\$4,915,360	8/15/05	\$64,883
Agreement with Merrill Lynch Capital Services, Inc. dated November 17, 2000 to pay semi-annually the notional amount multiplied by the LIBOR-BBA and receive quarterly the notional amount multiplied by 6.68%	6,500,000	11/21/05	792,918
Agreement with Merrill Lynch Capital Services, Inc. dated September 27, 2002 to receive semi-annually the notional amount multiplied by the six month JPY-LIBOR-BBA and pay monthly the notional amount multiplied by 0.399%	19,863,404	10/01/07	181,680
Agreement with Deutsche Bank AG dated August 8, 2002 to pay quarterly the notional amount multiplied by the three month LIBOR-BBA and receive semi-annually the notional amount multiplied by 3.7575%	23,100,000	8/12/05	408,870
			\$1,448,351

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

STATEMENT OF ASSETS AND LIABILITIES September 30, 2002

Assets

Investments in securities, at value, including \$3,497 of securities on loan (identified cost \$694,622,973) (Note 1)	\$636,041,577
Cash	2,637,811

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Foreign currency (cost \$2,286,626) (Note 1)	2,334,937
-----	-----
Dividends, interest and other receivables	12,487,525
-----	-----
Receivable for securities sold	27,982,582
-----	-----
Receivable for open forward currency contracts (Note 1)	131,190
-----	-----
Receivable for closed forward currency contracts (Note 1)	315,146
-----	-----
Receivable for open swap contracts (Note 1)	1,448,351
-----	-----
Total assets	683,379,119
-----	-----
Liabilities	
-----	-----
Payable for variation margin (Note 1)	108,343
-----	-----
Distributions payable to shareholders	4,483,878
-----	-----
Payable for securities purchased	28,853,644
-----	-----
Payable for compensation of Manager (Note 2)	1,172,417
-----	-----
Payable for investor servicing and custodian fees (Note 2)	77,934
-----	-----
Payable for compensation of Trustees (Note 2)	63,797
-----	-----
Payable for administrative services (Note 2)	2,522
-----	-----
Payable for open forward currency contracts (Note 1)	542,150
-----	-----
Payable for closed forward currency contracts (Note 1)	4,648
-----	-----
Collateral on securities loaned, at value (Note 1)	3,996
-----	-----
TBA sale commitments, at value (proceeds receivable \$20,340,308) (Note 1)	20,352,197
-----	-----
Other accrued expenses	93,177
-----	-----
Total liabilities	55,758,703
-----	-----
Net assets	\$627,620,416
-----	-----
Represented by	
-----	-----
Paid-in capital (Note 1)	\$844,245,095
-----	-----
Distributions in excess of net investment income (Note 1)	(5,846,674)
-----	-----
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(151,807,162)
-----	-----
Net unrealized depreciation of investments and assets and liabilities in foreign currencies	(58,970,843)
-----	-----
Total -- Representing net assets applicable to capital shares outstanding	\$627,620,416
-----	-----
Computation of net asset value	
-----	-----

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Net asset value per share (\$627,620,416 divided by 100,182,745 shares)

\$6.26

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

STATEMENT OF OPERATIONS
Year ended September 30, 2002

Investment income:

Interest	\$56,570,870
Dividends	1,197,484
Securities lending	368
Total investment income	57,768,722

Expenses:

Compensation of Manager (Note 2)	4,689,847
Investor servicing and custodian fees (Note 2)	679,112
Compensation of Trustees (Note 2)	21,420
Administrative services (Note 2)	14,385
Other	308,974
Total expenses	5,713,738
Expense reduction (Note 2)	(37,382)
Net expenses	5,676,356
Net investment income	52,092,366
Net realized loss on investments (Notes 1 and 3)	(48,921,266)
Net realized loss on futures contracts (Note 1)	(1,134,246)
Net realized gain on written options (Notes 1 and 3)	630
Net realized loss on foreign currency transactions (Note 1)	(67,721)
Net unrealized depreciation of assets and liabilities in foreign currencies during the year	(378,871)
Net unrealized appreciation of investments, futures, swap contracts and TBA sales commitments during the year	24,622,776
Net loss on investments	(25,878,698)
Net increase in net assets resulting from operations	\$26,213,668

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

STATEMENT OF CHANGES IN NET ASSETS

	Year ended September 30	
	2002	2001
Decrease in net assets		
Operations:		
Net investment income	\$52,092,366	\$58,649,683
Net realized loss on investments and foreign currency transactions	(50,122,603)	(30,897,824)
Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies	24,243,905	(26,007,032)
Net increase in net assets resulting from operations	26,213,668	1,744,827
Distributions to shareholders: (Note 1)		
From net investment income	(52,982,343)	(45,980,550)
From return of capital	(1,087,264)	(14,497,458)
Increase from issuance of common shares in connection with reinvestment of distributions	315,588	--
Total decrease in net assets	(27,540,351)	(58,733,181)
Net assets		
Beginning of year	655,160,767	713,893,948
End of year (including distributions in excess of net investment income of \$5,846,674 and \$9,436,074, respectively)	\$627,620,416	\$655,160,767
Number of fund shares		
Shares outstanding at beginning of year	100,133,127	100,133,127
Shares issued in connection with reinvestment of distributions	49,618	--
Shares outstanding at end of year	100,182,745	100,133,127

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

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FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

Per-share operating performance	Year ended September 30				
	2002	2001	2000	1999	1998
Net asset value, beginning of period	\$6.54	\$7.13	\$7.57	\$8.14	\$8.79
Investment operations:					
From net investment income (a)	.52	.58	.63	.58	.71
From net realized and unrealized loss on investments	(.26)	(.57)	(.43)	(.47)	(.67)
Total from investment operations	.26	.01	.20	.11	.04
Less distributions:					
From net investment income	(.53)	(.46)	(.64)	(.56)	(.69)
From return of capital	(.01)	(.14)	--	(.12)	--
Total distributions	(.54)	(.60)	(.64)	(.68)	(.69)
Net asset value, end of period	\$6.26	\$6.54	\$7.13	\$7.57	\$8.14
Market value, end of period	\$6.380	\$6.050	\$6.438	\$6.438	\$7.750
Total return at market value (%) (b)	14.81	3.06	10.72	(9.09)	3.91
Ratios and supplemental data					
Net assets, end of period (in thousands)	\$627,620	\$655,161	\$713,894	\$757,533	\$814,342
Ratio of expenses to average net assets (%) (c)	.87	.90	.87	.93	.92
Ratio of net investment income to average net assets (%)	7.97	8.50	8.60	7.39	8.13
Portfolio turnover (%)	193.33(e)	111.45	116.71	133.72	179.84

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

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

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- (c) Includes amounts paid through expense offset arrangements (Note 2).
- (d) Portfolio turnover excludes the impact of assets received from the acquisition of Putnam Intermediate Government Income Trust.
- (e) Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.

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

NOTES TO FINANCIAL STATEMENTS September 30, 2002

Note 1 Significant Accounting Policies

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

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

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

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B) Joint trading account The fund may transfer uninvested cash balances, including cash collateral received under security lending arrangements, into a joint trading account along with the cash of other registered investment companies and certain other accounts managed by Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. These balances may be invested in issuers of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

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

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

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

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

F) Forward currency contracts The fund may engage in forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts are used to protect against a decline in value relative to the U.S. dollar of the currencies in which its portfolio securities are denominated or quoted

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(or an increase in the value of a currency in which securities a fund intends to buy are denominated, when a fund holds cash reserves and short-term investments). The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is "marked-to-market" daily and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position.

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

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities.

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

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

I) TBA purchase commitments The fund may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed unit price at a future date beyond customary settlement time. Although the unit price has been established, the principal value has not been finalized. However, the amount of the commitments will not fluctuate more than .01% from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount

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sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the fund's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities, according to the procedures described under "Security valuation" above.

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

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

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

K) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A., the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At September 30, 2002, the value of securities loaned amounted to \$3,497. The fund received cash collateral of \$3,996, which is pooled with collateral of other Putnam funds into 24 issuers of high-grade short-term investments.

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

At September 30, 2002, the fund had a capital loss carryover of

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approximately \$99,088,000 available to the extent allowed by tax law to offset future capital gains, if any. The amount of the carryover and the expiration dates are:

Loss Carryover	Expiration
\$7,035,000	September 30, 2003
2,793,000	September 30, 2004
1,555,000	September 30, 2005
10,040,000	September 30, 2007
25,641,000	September 30, 2008
24,593,000	September 30, 2009
27,431,000	September 30, 2010

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending September 30, 2003 approximately \$51,672,000 of losses recognized during the period November 1, 2001 to September 30, 2002.

M) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include temporary and permanent differences of losses on wash sale transactions, foreign currency gains and losses, post-October loss deferrals, dividends payable, defaulted bond interest, realized and unrealized gains and losses on certain futures contracts, market discount and interest on payment-in-kind securities. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. For the year ended September 30, 2002, the fund reclassified \$4,479,377 to decrease distributions in excess of net investment income and \$117,010 to increase paid-in-capital, with an increase to accumulated net realized losses of \$4,596,387.

The tax basis components of distributable earnings and the federal tax cost as of period end was as follows:

Unrealized appreciation	\$29,412,762
Unrealized depreciation	(90,819,318)

Net unrealized depreciation	(61,406,556)
Undistributed ordinary income	--
Capital loss carryforward	(99,087,669)
Post-October loss	(51,672,313)
Cost for federal income tax purposes	\$697,448,133

Note 2

Management fee, administrative services and other transactions

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

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

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

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the year ended September 30, 2002, the fund's expenses were reduced by \$37,382 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$1,002 has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

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

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

Note 3

Purchases and sales of securities

During the year ended September 30, 2002, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$653,389,671 and \$578,743,896, respectively. Purchases and sales of U.S. government obligations aggregated \$1,024,740,791 and \$1,058,213,278, respectively.

Written option transactions during the year are summarized as follows:

	Contract Amounts	Premiums Received

Written options outstanding at beginning of year	--	\$--

Options opened	4,378,034	19,712

Options expired	(4,378,000)	(7,982)

Options closed	(34)	(11,730)

Written options		

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Jameson A. Baxter	92,227,867	2,155,423
Charles B. Curtis	92,209,003	2,174,287
John A. Hill	92,230,983	2,152,307
Ronald J. Jackson	92,233,808	2,149,482
Paul L. Joskow	92,233,968	2,149,322
Elizabeth T. Kennan	92,227,257	2,156,033
Lawrence J. Lasser	92,225,330	2,157,960
John H. Mullin, III	92,233,968	2,149,322
Robert E. Patterson	92,231,922	2,151,368
George Putnam, III	92,203,881	2,179,409
A.J.C. Smith	92,204,930	2,178,360
W. Thomas Stephens	92,233,327	2,149,963
W. Nicholas Thorndike	92,222,852	2,160,438

All tabulations are rounded to nearest whole number.

TRUSTEES

Name, Address, 1 Date of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee 2	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Trustee
Jameson A. Baxter (9/6/43), Trustee since 1994	President, Baxter Associates, Inc. (a management consulting and private investments firm)	Director of ASHTA Chemicals, Inc Banta Corporation (a printing and digital imaging firm), International Corporation (manufacturer of engine control products), Ryerson Tull, (a steel service corporation), Advocate Health Care, and the National Center for Nonprofit Boards. Chairman Emeritus of the Board of Trustees, Mount Holyoke College. Also held various positions in investment banking and corporate finance, including Vice President and principal of the Regency Group and consultant to First Boston Corp.
Charles B. Curtis (4/27/40), Trustee since 2001	President and Chief Operating Officer, Nuclear Threat Initiative (a private foundation dedicated to reducing the threat of weapons of mass destruction), also serves as Senior Advisor to the United Nations Foundation	Member of the Council on Foreign Relations, the Electric Power Research Institute Advisory Council, the Board of Directors of the Gas Technology Institute, the University of Chicago Board of Governors for Argonne National Laboratory, the Board of Directors of the Environment and Natural Resources Program Steering Committee, John F. Kennedy School of Government, Harvard University. Prior to 2002, Mr. Curtis was a member of the Board of Directors of the Gas Technology Institute. Until 2001, Mr. Curtis was a Member of

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John A. Hill (1/31/42),
Trustee since 1985 and
Chairman since 2000

Vice-Chairman and
Managing Director,
First Reserve
Corporation
(a registered investment
advisor investing in
companies in the
world-wide energy
industry on behalf of
institutional investors)

the Department of Defense's Policy
Board and Director of EG&G
Technical Services, Inc. (fossil
research and development support
and prior to May 1997, Mr. Curti
was Deputy Secretary of Energy.

Director of Devon Energy
Corporation (formerly known as
Snyder Oil Corporation),
TransMontaigne Oil Company,
Continuum Health Partners of
New York, Sarah Lawrence College
and various private companies owned
by First Reserve Corporation.
Trustee of TH Lee, Putnam
Investment Trust (a closed-end
investment company). Prior to
acquiring First Reserve in 1983,
Mr. Hill held executive position
with several advisory firms and
various positions with the federal
government, including Associate
Director of the Office of Manage-
ment and Budget and Deputy
Director of the Federal Energy
Administration.

Ronald J. Jackson
(12/17/43),
Trustee since 1996

Private investor

Former Chairman, President, and
Chief Executive Officer of Fisher
Price, Inc. (a toy manufacturer).
Previously served as President and
Chief Executive Officer of Strid
Rite, Inc. and Kenner Parker Toy
Also held financial and marketing
positions with General Mills, Pa
Brothers, and Talbots. President
the Kathleen and Ronald J. Jacks
Foundation (charitable trust).
Member of the Board of Overseers
WGBH (public television and radi
Member of the Board of Overseers
the Peabody Essex Museum.

Paul L. Joskow (6/30/47),
Trustee since 1997

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

Director, National Grid Group
(a UK-based holding company
with interests in electric power
natural gas distribution, and
telecommunications networks), and
the Whitehead Institute for
Biomedical Research (a non-profit
research institution). President
Yale University Council. Prior to
February 2002, March 2000, and
September 1998, Dr. Joskow was a
Director of State Farm Indemnity
Company (an automobile insurance
company), Director of New England
Electric System (a public utility
holding company) and a consultant
to National Economic Research
Associates, respectively.

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Elizabeth T. Kennan
(2/25/38),
Trustee since 1992

Chairman, Cambus-
Kenneth Bloodstock (a
limited liability company
involved in thoroughbred
horse breeding and
farming), President
Emeritus of Mount
Holyoke College

Director, Northeast Utilities, a
Talbots (a distributor of women'
apparel). Trustee of Centre Coll
Prior to 2001, Dr. Kennan was a
member of the Oversight Committe
of Folger Shakespeare Library.
Prior to September 2000, June 20
and November 1999, Dr. Kennan
was a Director of Chastain Real
Estate, Bell Atlantic, and Kentu
Home Life Insurance, respectivel
Prior to 1995, Dr. Kennan was a
Trustee of Notre Dame University
For 12 years, she was on the fac
of Catholic University.

John H. Mullin, III
(6/15/41),
Trustee since 1997

Chairman and CEO
of Ridgeway Farm
(a limited liability
company engaged in
timber and farming)

Director Alex. Brown Realty, Inc
Sonoco Products, Inc. (a packagi
company), The Liberty Corporatio
(a company engaged in the
broadcasting industry), and Prog
Energy, Inc. (a utility company,
formerly known as Carolina Power
& Light). Trustee Emeritus of
Washington & Lee University. Pri
to October 1997, January 1998, a
May 2001, Mr. Mullin was a Direc
of Dillon, Read and Co. Inc.,
The Ryland Group, Inc., and
Graphic Packaging International
Corp., respectively.

Robert E. Patterson
(3/15/45),
Trustee since 1984

Senior Partner of Cabot
Properties, LLP and
Chairman of Cabot
Properties, Inc.

Chairman of the Joslin Diabetes
Center, Trustee of SEA Education
Association, and Director of
Brandywine Trust Company (a trus
company). Prior to February 1998
Mr. Patterson was Executive Vice
President and Director of
Acquisitions of Cabot Partners
Limited Partnership. Prior to
December 2001, Mr. Patterson was
President and Trustee of Cabot
Industrial Trust (publicly trade
estate investment trust). Prior
1990, Mr. Patterson was Executiv
Vice President of Cabot, Cabot &
Forbes Realty Advisors, the
predecessor of Cabot Partners, a
prior to that was Senior Vice
President of the Beal Companies.

W. Thomas Stephens
(9/2/42),
Trustee since 1997

Corporate Director

Director of Qwest Communications
(communications company), Xcel
Energy Incorporated (public util
company), TransCanada Pipelines,
Norske Canada, Inc. (paper
manufacturer) and Mail-Well
(printing and envelope company).
Prior to July 2001 and October 1
Mr. Stephens was Chairman of Mai

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<p>W. Nicholas Thorndike (3/28/33), Trustee since 1992</p>	<p>Director of various corporations and charitable organizations, including Courier Corporation (a book manufacturer) and Providence Journal Co. (a newspaper publisher)</p>	<p>Well and MacMillan-Bloedel (fore products company). Prior to 1996 Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville. Trustee of Northeastern Universi Honorary Trustee of Massachusett General Hospital. Prior to September 2000, April 2000, and December 2001, Mr. Thorndike was a Director of Bradley Real Estat Inc., a Trustee of Eastern Utili Associates, and a Trustee of Cab Industrial Trust, respectively. Previously served as Chairman of Board and managing partner of Wellington Management/Thorndike Doran Paine & Lewis, and Chairma and Director of Ivest Fund.</p>
<p>Lawrence J. Lasser* (11/1/42), Trustee since 1992 Vice President since 1981</p>	<p>President and Chief Executive Officer of Putnam Investments Trust and Putnam Investment Management, LLC</p>	<p>Director of Marsh & McLennan Companies, Inc. and the United W of Massachusetts Bay. Member of Board of Governors of the Invest Company Institute, Trustee of th Museum of Fine Arts, Boston, a Trustee and Member of the Financ and Executive Committees of Beth Israel Deaconess Medical Center, Boston, and a Member of the CareGroup Board of Managers Investment Committee, the Council on Foreign Relations, and the Commercial Club of Boston.</p>
<p>George Putnam, III* (8/10/51), Trustee since 1984 and President since 2000</p>	<p>President, New Generation Research, Inc. (a publisher of financial advisory and other research services relating to bankrupt and distressed companies) and New Generation Advisers, Inc. (a registered investment adviser)</p>	<p>Director of The Boston Family Office, L.L.C. (registered inves advisor), Trustee of the SEA Education Association, Trustee o St. Mark's School, and Trustee o Shore Country Day School. Previously, Mr. Putnam was an attorney with the firm of Decher Price & Rhoads.</p>
<p>A.J.C. Smith (4/13/34),* Trustee since 1986</p>	<p>Director of Marsh & McLennan Companies, Inc.</p>	<p>Director of Trident Corp. (a lim partnership with over 30 institu investors). Trustee of the Carne Hall Society, the Educational Broadcasting Corporation and the National Museums of Scotland. Chairman of the Central Park Conservancy. Member of the Board of Overseers of the Joan and Sanford I. Weill Graduate School of Medical Sciences of Cornell University. Fellow of the Facult Actuaries in Edinburgh, the Canadian Institute of Actuaries,</p>

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the Conference of Actuaries.
 Associate of the Society of Actuaries
 Member of the American Actuaries
 the International Actuarial
 Association and the International
 Association of Consulting Actuaries
 Prior to May 2000 and November
 1999, Mr. Smith was Chairman and
 CEO, respectively, of Marsh &
 McLennan Companies, Inc.

 1 The address of each Trustee is One Post Office Square, Boston, MA 02109.
 As of September 30, 2002, there were 103 Putnam Funds.

2 Each Trustee serves for an indefinite term, until his or her resignation,
 death, or removal.

*Trustees who are or may be deemed to be "interested persons" (as defined
 in the Investment Company Act of 1940) of the fund, Putnam Management or
 Putnam Retail Management. Messrs. Putnam, III, Lasser, and Smith are
 deemed "interested persons" by virtue of their positions as officers or
 shareholders of the fund, or officers of Putnam Management, Putnam
 Retail Management, or Marsh & McLennan Companies, Inc., the parent
 company of Putnam Management and Putnam Retail Management.
 George Putnam, III, is the President of your Fund and each of the
 other Putnam Funds. Lawrence J. Lasser has been the President, Chief
 Executive Officer, and a Director of Putnam Investments Trust and Putnam
 Management since 1985, having begun his career there in 1969. Mr. Lasser
 currently also serves as a Director of Marsh & McLennan Companies, Inc.,
 the parent company of Putnam Management. A.J.C. Smith is a Director of
 Marsh & McLennan Companies, Inc.

OFFICERS

Name, Address, 1 Date of Birth, Position(s) Held with Fund	Inception of Service with the Putnam Funds	Principal Occupation(s) During P
Charles E. Porter (7/26/38), Executive Vice President, Treasurer & Principal Financial Officer	Since 1989	Managing Director, Putnam Invest Trust and Putnam Management
Patricia C. Flaherty (12/1/46), Senior Vice President	Since 1993	Senior Vice President, Putnam Investments Trust and Putnam Man
Michael T. Healy (1/24/58), Assistant Treasurer and Principal Accounting Officer	Since 2000	Managing Director, Putnam Investments Trust
Karnig H. Durgarian (1/13/56), Vice President and	Since 2002	Senior Managing Director of Putn Investments Trust

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Principal Executive Officer

Steven D. Krichmar (6/27/58), Vice President and Principal Financial Officer	Since 2002	Managing Director of Putnam Inve Trust
Gordon H. Silver (7/3/47), Vice President	Since 1990	Senior Managing Director, Putnam Investments Trust and Putnam Man
Brett C. Browchuk (2/27/63), Vice President	Since 1994	Managing Director, Putnam Invest Trust and Putnam Management
Ian C. Ferguson (7/3/57), Vice President	Since 1997	Senior Managing Director, Putnam Investments Trust and Putnam Man
Richard G. Leibovitch (10/31/63), Vice President	Since 1999	Managing Director of Putnam Inve Trust and Putnam Management. Pri February 1999, Managing Director J.P. Morgan.
Richard A. Monaghan (8/25/54), Vice President	Since 1998	Managing Director, Putnam Invest Trust, Putnam Management and Put Retail Management
John R. Verani (6/11/39), Vice President	Since 1988	Senior Vice President, Putnam Investments Trust and Putnam Man
Stephen M. Oristaglio (8/21/55), Vice President	Since 1998	Senior Managing Director of Putn Management. Prior to July 1998, Managing Director, Swiss Bank Co
Kevin M. Cronin (6/13/61), Vice President	Since 2000	Managing Director of Putnam Management

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

FUND INFORMATION

ABOUT PUTNAM INVESTMENTS

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

INVESTMENT MANAGER

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

MARKETING SERVICES

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Putnam Retail Management
One Post Office Square
Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

INDEPENDENT ACCOUNTANTS

KPMG LLP

TRUSTEES

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

OFFICERS

George Putnam, III
President

Charles E. Porter
Executive Vice President, Treasurer
and Principal Financial Officer

Patricia C. Flaherty
Senior Vice President

Karnig H. Durgarian
Vice President and Principal
Executive Officer

Steven D. Krichmar
Vice President and
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Kevin M. Cronin
Vice President

Richard G. Leibovitch
Vice President

Richard A. Monaghan
Vice President

John R. Verani
Vice President

Call 1-800-225-1581 weekdays from 9 a.m. to 5 p.m. Eastern Time, or
visit our Web site (www.putnaminvestments.com) anytime for up-to-date
information about the fund's NAV.

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PUTNAM INVESTMENTS

The Putnam Funds
One Post Office Square
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