

PUTNAM PREMIER INCOME TRUST  
Form N-30D  
March 15, 2002

Putnam  
Premier  
Income  
Trust

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

1-31-02

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

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

Dear Shareholder:

If there is any such thing as normalcy in the securities markets, it certainly has not been much in evidence over the past two years as equity investors stampeded in droves to the relative safety of bonds. Bonds have flourished in this shower of attention and handily outperformed stocks.

Emerging signals now suggest that the economic downturn will neither be as deep nor as prolonged as was feared in the aftermath of the September 11th attacks. The challenges presented by the shift from recession to recovery are being closely assessed by Putnam Premier Income Trust's management team. The team presents its in-depth analysis of performance and prospects in the following report.

As you will note in this report, we are now simply listing the name of the team responsible for the fund's management rather than individual team members. This change reflects Putnam's belief that mutual funds are more effectively overseen by teams than by individuals.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill  
Chairman of the Trustees  
March 13, 2002

George Putnam, III  
President of the Funds

REPORT FROM FUND MANAGEMENT

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

In a period marked by a transition from recession to hopes for a global economic recovery, Putnam Premier Income Trust weathered the uncertainties well, benefiting from its diverse range of bond holdings in several different fixed-income sectors and geographic regions. The fund's performance at net asset value was mixed relative to its comparative benchmark indices, outperforming the CSFB High Yield Index and the Salomon Smith Barney Non-World Government Bond Index, while

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underperforming the Lehman Government Bond Index. The fund's higher return at market price, which outperformed all three benchmarks, reflected increased demand for fixed-income investments growing out of the general flight to safety produced by the volatility and uncertainty of the period.

Total return for 6 months ended 1/31/02

NAV	Market price
2.05%	4.89%

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 6.

### \* A CHALLENGING AND VOLATILE PERIOD FOR GLOBAL BOND MARKETS

Financial markets faced an exceptionally challenging and volatile semiannual period as weaker-than-expected data trends and tragedy in the United States raised economic and geopolitical uncertainty to new heights. Prior to September 11th, global yields declined as investors scrutinized key indicators for signs of a rebound in economic activity. After September 11th, yield curves in the major bond-market sectors steepened, as shorter-maturity issues rallied strongly due to the decreased appetite for risk and increased preference for liquidity.

[GRAPHIC OMITTED: horizontal bar chart SECTOR ALLOCATIONS]

### SECTOR ALLOCATIONS\*

High yield	47.6%
U.S. investment grade	28.7%
Foreign	23.7%

Footnote reads:

\* Based on net assets as of 1/31/02. Holdings will vary over time.

Following military advances in Afghanistan, investors became less risk averse. In addition, a better-than-expected rebound in consumer activity prompted a selloff in global sovereigns, which erased some of the gains achieved during the period. Central banks around the world cut rates actively during the period and the Federal Reserve Board led the pack with an additional 2.0% in rate reductions. As the period came to a close, improving economic fundamentals reinforced investor expectations for a modest recovery. Meanwhile, the Federal Reserve's decision to leave interest rates unchanged at their January 30-31 meeting suggested the worst of the U.S. slowdown may have passed. This was the first Fed meeting in over a year that has not resulted in an interest-rate cut.

### \* INVESTMENT-GRADE SECTORS PERFORMED WELL

Investment-grade bond markets continued to benefit from increased demand resulting from lower short-term interest rates and poor performance in equities. However, more robust economic reports, which seemed to indicate a turning point, progressively placed pressure on

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investment-grade bond returns after the initial trauma following September 11th had subsided. Your fund's performance overall benefited from allocations to the U.S. investment-grade sectors, especially Treasuries and mortgage-backed securities.

### \* HIGH-YIELD SECTOR REMAINED VOLATILE

Volatility remained the norm for the high-yield market, which surged and receded with each change in investor sentiment. High-yield bonds typically track trends in the equity markets. However, despite declining equity markets amid weaker-than-expected economic data and poor earnings announcements, high-yield bonds held up relatively well in the beginning of the period. Investor demand continued to be stimulated by positive relative returns and steeper yield curves as world central banks initiated an additional round of easings. However, September 11th erased all high-yield returns earned since January, as investors penalized the asset class for its lack of liquidity, credit risk, and sensitivity to the worsening economic environment. This cut into the fund's gains at the time.

### Fund Profile

Putnam Premier Income Trust is designed for investors seeking a high level of current income consistent with preservation of capital. The fund maintains flexibility across fixed-income sectors to seek maximum current income without undue risk to capital. The fund is designed for investors seeking a higher level of income who can accept a moderately higher level of risk.

Beginning in October and continuing through the end of the period, the rapid dissipation of investors' gloomiest economic scenarios helped the high-yield market recover most of the ground lost following the attacks. One sector, telecommunications, weighed down market returns during the period as the ongoing inability of telecom companies to show profits or find additional financing led to increasing defaults. Better-than-expected economic data helped fuel an early January high-yield rally, although rating downgrades, defaults, and rumors of restructuring began to pressure returns for the latter part of the month.

### \* INTERNATIONAL BONDS HELD UP WELL AMID THE SLOWING GLOBAL ECONOMY

Global bonds in developed markets rose modestly for the semi-annual period. Following the terrorist attacks on September 11th, fears of a U.S.-led economic downturn in the global economy precipitated a round of coordinated monetary easing from world central banks. Global bonds benefited from this environment of heightened economic and geopolitical uncertainty, and your fund's performance benefited in turn. As 2001 came to an end, global bonds in developed markets quickly lost steam as investors grew more optimistic about economic recovery and equity markets bounced back from their post-September 11th lows. Within developed markets, the fund's exposure to Germany was a positive contributor to performance.

Emerging-market bonds advanced broadly in 2001, although returns were weighted down by the lack of structural reform in Argentina that eventually culminated in default. Within the emerging-markets sector, the fund's overweighted position in Russia, as well as our avoidance of Argentina, contributed positively to performance.

### \* MANAGEMENT SEES A MODEST RECOVERY IN 2002

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We believe there will be continued low inflation and a modest recovery in the first half of 2002. The stimulative effect of the Fed's aggressive monetary easing policy, combined with the government's fiscal policy, appears to have helped the economy stabilize; however, business and consumer spending is expected to remain relatively weak in 2002, leading to only a modest recovery by historical standards.

[GRAPHIC OMITTED: TOP SECTOR HOLDINGS]

### TOP SECTOR HOLDINGS\*

#### Top three high-yield holdings

Allied Waste Industries, Inc., company guaranty, Series B, 10.0%, 2009

HMH Properties, Inc, company guaranty, Series B, 7.875%, 2008

Echostar Broadband Corp., senior notes 10.375%, 2007

#### Top three U.S. government holdings

U.S. Treasury Bonds 7.5%, 11/15/16

Federal National Mortgage Association, TBA, 6.5%, 2/1/17

U.S. Treasury Bonds 5.375%, 2/15/31

#### Top three international holdings

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

France (Government of) bonds 5.5%, 2010

Brazil (Federal Republic of) bonds, 8.0%, 2014

#### Footnote reads:

\*These holdings represent 18.8% of the fund's net assets as of 1/31/02. Portfolio holdings will vary over time.

The Fed's decision to keep interest rates unchanged at its January 30 meeting signals a pause, if not an end, to its year-long aggressive rate-cutting campaign. Nonetheless, we believe that continued low inflation will likely allow the Fed more time before it feels the need to raise rates. We will continue to monitor the fixed-income universe closely, identifying securities with positive fundamentals and attractive valuations.

We remain cautiously optimistic on the high-yield market. Our economists' expectations of only a modest economic recovery beginning in the second quarter do not diminish the attractiveness of high-yield bonds as valuations remain compelling in this sector. The current yield spread (the difference between the yield on high-yield bonds and that on Treasuries) remains above the historical average, reflecting modest recovery expectations and a continued high default rate. Credit dynamics in the high-yield market should also improve this year.

"For the second consecutive year, investors in most bond mutual funds enjoyed solid returns in 2001, a respite from the miserable returns in stocks over that period."

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-- The Wall Street Journal, January 7, 2002

Internationally, we continue to find value in developed markets, while we are neutral with regard to emerging markets. Fortunately, Argentina's default has had little impact on the rest of the emerging-markets sector thus far. As investors in the global bond markets look toward an improving environment this year, we will continue to maintain the fund's diversity, take advantage of opportunities as they arise, and maintain strict risk controls.

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 1/31/02, 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. Government securities guarantee principal and interest; mutual funds that invest in these securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

### NEWS FROM THE TRUSTEES

In July 2001, we welcomed Charles B. Curtis to Putnam's Board of Trustees. He brings an impressive list of credentials that include several key positions in Washington and directorships in education and energy-related industries. We look forward to the contributions Charles will make to the continued success of the Putnam funds.

### PUTNAM'S POLICY ON DUPLICATE MAILINGS

In response to investors' requests, the SEC has modified mailing regulations for proxy statements, semiannual and annual reports, and prospectuses. Putnam is now able to send a single copy of these materials to customers who share the same address. This change will automatically apply to all shareholders except those who notify us. If you would prefer to receive your own copy, please call Putnam at 1-800-225-1581.

### 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 1/31/02

	NAV	Market price
6 months	2.05%	4.89%
1 year	1.50	4.48
5 years	17.81	25.57
Annual average	3.33	4.66
10 years	94.47	100.05
Annual average	6.88	7.18
Life of fund (since 2/29/88)		
Annual average	7.81	7.00

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### COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 1/31/02

	Lehman Government Bond Index	Salomon Bros. Non- U.S. World Govt. Bond Index	CSFB High Yield Index	Consumer price index
6 months	3.06%	-1.79%	1.30%	0.11%
1 year	6.86	-5.70	0.73	1.08
5 years	43.67	2.00	17.55	11.42
Annual average	7.52	0.40	3.29	2.19
10 years	103.73	58.72	106.26	28.60
Annual average	7.37	4.73	7.51	2.55
Life of fund (since 2/29/88)				
Annual average	8.07	5.56	8.46	3.11

Past performance does not indicate future results. More recent returns may be less or more than those shown. They do not take into account any adjustment for taxes payable on reinvested distributions. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions. Securities indexes assume reinvestment of all distributions and interest payments and do not take into account brokerage fees or taxes. Securities in the fund do not match those in the indexes, and performance of the fund will differ. It is not possible to invest in an index.

### PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 1/31/02

Distributions (number)	6	
Income	\$0.2700	
Capital gains	--	
Total	\$0.2700	
Share value:	NAV	Market price
7/31/01	\$6.68	\$6.290
1/31/02	6.53	6.320
Current return (end of period)		
Current dividend rate 1	8.27%	8.54%

1 Income portion of most recent distribution,

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annualized and divided by NAV or market price  
at end of period.

TOTAL RETURN FOR PERIODS ENDED 12/31/01 (most recent calendar quarter)

	NAV	Market price
6 months	2.51%	-0.73%
1 year	4.11	7.32
5 years	17.52	25.25
Annual average	3.28	4.61
10 years	93.49	93.71
Annual average	6.82	6.84
Life of fund (since 2/29/88)		
Annual average	7.80	6.60

Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares. Performance does not reflect taxes on reinvested distributions.

### 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 price, or value, of one share of a mutual fund, without a sales charge. NAVs fluctuate with market conditions. The NAV is calculated by dividing the net value of all of the fund's assets by the number of outstanding shares.

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

### COMPARATIVE BENCHMARKS

Lehman Government Bond Index\* is an unmanaged list of U.S. Treasury and agency securities.

Credit Suisse First Boston (CSFB) High Yield Index\* is an unmanaged list of lower-rated higher-yielding U.S. corporate bonds.

Salomon Brothers Non-U.S. World Government Bond Index\* is an unmanaged list of bonds issued by 10 countries.

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

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cannot invest directly in an index.

### A GUIDE TO THE FINANCIAL STATEMENTS

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

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

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

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

### THE FUND'S PORTFOLIO January 31, 2002 (Unaudited)

CORPORATE BONDS AND NOTES (48.9%) (a)  
PRINCIPAL AMOUNT

Advertising and Marketing Services (0.2%)

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\$ 790,000 Adams Outdoor Advertising bank term loan  
FRB Ser. B, 5.41s, 2008 (acquired 8/1/01,



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cost \$789,012) (RES)  
1,110,500 Interact Operating Co. notes 14s, 2003 (PIK)  
585,000 Lamar Media Corp. company guaranty 9 5/8s, 2006  
420,000 Lamar Media Corp. sr. sub. notes 9 1/4s, 2007

### Aerospace and Defense (1.2%)

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1,735,000 Argo-Tech Corp. company guaranty 8 5/8s, 2007  
120,000 Argo-Tech Corp. company guaranty Ser. D,  
8 5/8s, 2007  
1,290,000 BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008  
960,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008  
1,180,000 Decrane Aircraft Holdings Co. company guaranty  
Ser. B, 12s, 2008  
1,030,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009  
1,310,000 L-3 Communications Corp. sr. sub. notes  
8 1/2s, 2008  
440,000 L-3 Communications Corp. sr. sub. notes Ser. B,  
10 3/8s, 2007  
1,000,000 L3 Communications Corp. Structured notes  
(Issued by Counts Trust) Ser. 2001-5, 8.82s, 2009  
570,000 Moog, Inc. sr. sub. notes Ser. B, 10s, 2006  
2,140,000 Sequa Corp. sr. notes 9s, 2009  
500,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008

### Agriculture (0.2%)

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1,620,000 Premium Standard Farms, Inc. 144A sr. notes  
9 1/4s, 2011

### Airlines (0.6%)

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100,000 Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada)  
1,390,000 Airbus Industries 144A notes Ser. D, 12.266s, 2020  
580,000 American Airlines, Inc. bonds Ser. 01-2, Class B,  
8.608s, 2011  
290,000 American Airlines, Inc. 144A pass-through  
certificates Ser. 01-2, Class A-2, 7.858s, 2011  
1,360,000 Calair, LLC 144A company guaranty 8 1/8s, 2008  
450,000 Continental Airlines, Inc. pass-through certificates  
Ser. D, 7.568s, 2006  
330,000 Northwest Airlines, Inc. company guaranty  
8 3/8s, 2004  
770,000 Northwest Airlines, Inc. company guaranty  
7 5/8s, 2005  
377,446 NWA Trust sr. notes Ser. A, 9 1/4s, 2012  
780,000 US Air, Inc. pass-through certificates Ser. 93A3,  
10 3/8s, 2013

### Automotive (1.3%)

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460,000 Aftermarket Technology Corp. sr. sub. notes  
12s, 2004  
1,070,000 Aftermarket Technology Corp. sr. sub. notes  
Ser. D, 12s, 2004  
486,505 Collins & Aikman Products, Inc. bank term loan

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	FRN Ser. B, 7s, 2005 (acquired 12/20/01, cost \$481,640) (RES)
	670,000 Collins & Aikman Products, Inc. company guaranty 11 1/2s, 2006
	900,000 Collins & Aikman Products, Inc. 144A sr. notes 10 3/4s, 2011
	160,000 Dana Corp. notes 7s, 2029
	490,000 Dana Corp. notes 6 1/4s, 2004
	1,720,000 Dana Corp. 144A sr. notes 9s, 2011
	220,000 Delco Remy International, Inc. 144A company guaranty 11s, 2009
	70,000 Delco Remy International, Inc. company guaranty 10 5/8s, 2006
	1,970,000 Dura Operating Corp. 144A company guaranty Ser. D, 9s, 2009
EUR	140,000 Dura Operating Corp. sr. sub. notes Ser. B, 9s, 2009
\$	730,000 Exide Corp. sr. notes 10s, 2005
	200,000 Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)
	910,000 Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)
	280,000 Hayes Lemmerz International, Inc. company guaranty Ser. B, 9 1/8s, 2007 (In default) (NON)
	280,000 Hayes Lemmerz International, Inc. company guaranty Ser. B, 8 1/4s, 2008 (In default) (NON)
	350,000 Hayes Lemmerz International, Inc. 144A company guaranty 11 7/8s, 2006 (In default) (NON)
	880,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009
	1,210,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005
	350,000 Lear Corp. Structured Notes 8.46s, 2006 (issued by STEERS Credit Linked Trust 2001) (acquired 5/17/01, cost \$350,000) (RES)
	490,000 Tenneco, Inc. company guaranty 11 5/8s, 2009 (Malaysia)
	270,000 Venture Holdings Trust 144A sr. notes Ser. B, 9 1/2s, 2005

### Banking (1.1%)

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	700,000 Chevy Chase Savings Bank, Inc. sub. debs. 9 1/4s, 2005
	850,000 Colonial Capital II 144A company guaranty 8.92s, 2027
	110,000 Dime Capital Trust I bank guaranty Ser. A, 9.33s, 2027
	1,500,000 GS Escrow Corp. sr. notes 7 1/8s, 2005
	2,150,000 Hanvit Bank 144A sub. notes 11 3/4s, 2010 (South Korea)
	165,000 North Fork Capital Trust I company guaranty 8.7s, 2026
	115,000 Peoples Heritage Capital Trust company guaranty Ser. B, 9.06s, 2027
	715,000 Provident Capital Trust company guaranty 8.6s, 2026
	410,000 Riggs Capital Trust 144A bonds 8 5/8s, 2026
	2,980,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006
	505,000 Webster Capital Trust I 144A bonds 9.36s, 2027

### Beverage (0.3%)

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210,000	Constellation Brands, Inc. company guaranty 8 1/2s, 2009
860,000	Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008
1,190,000	Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012

### Broadcasting (3.7%)

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1,440,000	Acme Television company guaranty 10 7/8s, 2004
423,000	Allbritton Communications Co. sr. sub. notes Ser. B, 8 7/8s, 2008
800,000	Belo Corp. sr. notes 7 1/8s, 2007
530,000	Belo Corp. sr. unsub. notes 8s, 2008
860,000	Benedek Communications Corp. sr. disc. notes 13 1/4s, 2006 (In default) (NON)
1,980,000	British Sky Broadcasting PLC company guaranty 6 7/8s, 2009 (United Kingdom)
2,040,000	Chancellor Media Corp. company guaranty 8s, 2008
3,586,000	Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B, zero % (12 5/8s, 3/1/03), 2008 (STP)
4,250,000	Echostar Broadband Corp. sr. notes 10 3/8s, 2007
1,990,000	Echostar DBS Corp. sr. notes 9 3/8s, 2009
1,160,000	Echostar DBS Corp. 144A sr. notes 9 1/8s, 2009
160,000	Emmis Communications Corp. bank term loan FRN Ser. A, 4.506s, 2009 (acquired 1/31/02, cost \$159,400) (RES)
875,069	Emmis Communications Corp. bank term loan FRN Ser. B, 5 1/2s, 2009 (acquired 1/2/01, cost \$873,757) (RES)
200,000	Emmis Communications Corp. company guaranty Ser. B, 8 1/8s, 2009
560,000	Emmis Communications Corp. sr. disc. notes stepped-coupon zero % (12 1/2s, 3/15/06), 2011 (STP)
986,308	Fox Family Worldwide, Inc. sr. disc. notes stepped-coupon zero % (10 1/4s, 11/1/02), 2007 (STP)
1,830,000	Fox Family Worldwide, Inc. sr. notes 9 1/4s, 2007
1,110,000	Fox/Liberty Networks, LLC sr. notes 8 7/8s, 2007
130,000	Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005
960,000	Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008
85,000	Knology Holdings, Inc. sr. disc. notes stepped-coupon zero % (11 7/8s, 10/15/02), 2007 (STP)
1,740,000	LIN Holdings Corp. sr. disc. notes stepped-coupon zero % (10s, 3/1/03), 2008 (STP)
170,000	LIN Holdings Corp. 144A sr. disc. notes stepped- coupon zero % (10s, 3/1/03), 2008 (STP)
440,000	LIN Television Corp. company guaranty 8 3/8s, 2008
270,000	News America, Inc. sr. notes 6 5/8s, 2008
20,000	Pegasus Communications Corp. sr. notes 12 1/2s, 2007
1,200,000	Pegasus Satellite sr. notes 12 3/8s, 2006
2,658,731	Quorum Broadcast Holdings, LLC notes stepped-coupon zero % (15s, 5/15/06), 2009 (acquired 5/15/01, cost \$1,056,491) (RES) (STP)
502,000	RCN Corp. sr. disc. notes stepped-coupon Ser. B,

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zero % (9.8s, 2/15/03), 2008 (STP)  
510,000 Sinclair Broadcast Group, Inc. bank term loan  
FRN 5.93s, 2009 (acquired 10/23/01,  
cost \$500,756) (RES)  
1,370,000 Sinclair Broadcast Group, Inc. company guaranty 9s,  
2007  
100,000 Sinclair Broadcast Group, Inc. sr. sub. notes  
8 3/4s, 2007  
440,000 Sinclair Broadcast Group, Inc. 144A sr. sub. notes  
8 3/4s, 2011  
2,080,000 XM Satellite Radio Holdings, Inc. sec. notes 14s,  
2010  
2,420,000 Young Broadcasting, Inc. 144A sr. sub notes 10s,  
2011  
166,000 Young Broadcasting, Inc. company guaranty Ser. B,  
8 3/4s, 2007

### Building Materials (0.6%)

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2,050,000 American Standard Companies, Inc. company  
guaranty 7 5/8s, 2010  
100,000 American Standard Companies, Inc. company  
guaranty 7 1/8s, 2003  
390,000 Atrium Companies, Inc. company guaranty Ser. B,  
10 1/2s, 2009  
450,000 Building Materials Corp. company guaranty 8s, 2008  
1,020,000 Dayton Superior Corp. company guaranty 13s, 2009  
570,000 NCI Building Systems, Inc. sr. sub. notes Ser. B,  
9 1/4s, 2009  
590,000 Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008  
460,000 Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007  
120,000 Nortek, Inc. 144A sr. sub. notes Ser. B, 9 7/8s, 2011

### Cable Television (3.3%)

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1,270,000 Adelphia Communications Corp. sr. notes  
10 7/8s, 2010  
1,770,000 Adelphia Communications Corp. sr. notes  
10 1/4s, 2011  
80,000 Adelphia Communications Corp. sr. notes  
10 1/4s, 2006  
50,000 Adelphia Communications Corp. sr. notes  
7 7/8s, 2009  
2,380,000 Adelphia Communications Corp. sr. notes Ser. B,  
9 7/8s, 2007  
530,000 Adelphia Communications Corp. sr. notes Ser. B,  
8 3/8s, 2008  
1,710,000 Adelphia Communications Corp. sr. notes Ser. B,  
7 3/4s, 2009  
860,000 Century Communications Corp. sr. notes  
8 7/8s, 2007  
960,000 Charter Communications Holdings, LLC bank  
term loan FRN Ser. B, 4.52s, 2008  
(acquired 10/22/01, cost \$938,400) (RES)  
180,000 Charter Communications Holdings, LLC sr. disc.  
notes stepped-coupon zero % (13 1/2s, 1/15/06),  
2011 (STP)  
1,860,000 Charter Communications Holdings, LLC sr. disc.

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notes stepped-coupon zero % (11 3/4s, 5/15/06),  
 2011 (STP)  
 320,000 Charter Communications Holdings, LLC sr. disc.  
 notes stepped-coupon zero % (9.92s, 4/1/04),  
 2011 (STP)  
 2,200,000 Charter Communications Holdings, LLC sr. notes  
 11 1/8s, 2011  
 500,000 Charter Communications Holdings, LLC sr. notes  
 10 3/4s, 2009  
 850,000 Charter Communications Holdings, LLC sr. notes  
 10s, 2009  
 2,320,000 Charter Communications Holdings, LLC sr. notes  
 8 5/8s, 2009  
 710,000 Charter Communications Holdings, LLC sr. notes  
 8 1/4s, 2007  
 970,000 Charter Communications Holdings, LLC/Capital  
 Corp. 144A sr. disc. notes stepped-coupon  
 zero % (12 1/8s, 1/15/07), 2012 (STP)  
 290,000 CSC Holdings, Inc. debs. 7 5/8s, 2018  
 280,000 CSC Holdings, Inc. sr. sub. debs. 10 1/2s, 2016  
 2,015,000 CSC Holdings, Inc. sr. sub. debs. 9 7/8s, 2013  
 3,225,000 Diamond Cable Communication PLC sr. disc.  
 notes stepped-coupon zero % (10 3/4s, 2/15/02),  
 2007 (United Kingdom) (STP)  
 1,340,000 Diamond Cable Communications PLC sr. disc.  
 notes 13 7/8s, 2005 (United Kingdom)  
 330,000 Diamond Cable Communications PLC sr. disc.  
 notes 13 1/4s, 2004 (United Kingdom)  
 830,000 Insight Communications Company, Inc. sr. disc.  
 notes stepped-coupon zero % (12 1/4s, 2/15/06),  
 2011 (STP)  
 210,000 Insight Midwest LP/Insight Capital, Inc. bank term  
 loan 5 1/2s, 2009 (acquired 11/5/01,  
 cost \$209,606) (RES)  
 990,000 Insight Midwest LP/Insight Capital, Inc. 144A  
 sr. notes 10 1/2s, 2010  
 969,000 International Cabletel, Inc. sr. disc. notes  
 11 1/2s, 2006  
 1,520,000 NTL, Inc. sr. notes Ser. A, 12 3/4s, 2005  
 1,720,000 NTL Communications Corp. sr. notes Ser. B, 11 7/8s,  
 2010  
 680,000 NTL Communications Corp. sr. notes stepped-  
 coupon Ser. B, zero % (12 3/8s, 10/1/03), 2008 (STP)  
 250,000 ONO Finance PLC sr. notes 13s, 2009  
 (United Kingdom)  
 560,000 ONO Finance PLC 144A sr. notes 14s, 2011  
 (United Kingdom)  
 200,000 Rogers Cablesystems, Ltd. debs. 10 1/8s, 2012  
 (Canada)  
 170,000 Rogers Cablesystems, Ltd. notes 11s, 2015  
 (Canada)  
 780,000 Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s,  
 2005 (Canada)  
 910,000 Rogers Cablesystems, Ltd. sr. sub. notes 8.8s,  
 2007 (Canada)  
 930,000 Supercanal Holdings SA 144A sr. notes 11 1/2s,  
 2005 (Argentina) (In default) (NON)  
 780,000 TeleWest Communications PLC debs. 11s, 2007  
 (United Kingdom)  
 300,000 TeleWest Communications PLC debs. 9 5/8s, 2006  
 (United Kingdom)  
 360,000 TeleWest Communications PLC Structured Notes

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10 7/8s, 2005 (issued by DLJ International Capital  
(United Kingdom))

1,880,000 United Pan-Europe NV sr. disc. notes 12 1/2s,  
2009 (Netherlands)

2,820,000 United Pan-Europe NV sr. disc. notes stepped-  
coupon zero % (13 3/4s, 2/1/05), 2010  
(Netherlands) (STP)

350,000 United Pan-Europe NV sr. disc. notes stepped-  
coupon zero % (12 1/2s, 8/1/04), 2009  
(Netherlands) (STP)

### Chemicals (2.7%)

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1,180,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)

420,000 Airgas, Inc. 144A sr. sub. notes 9 1/8s, 2011

2,490,000 ARCO Chemical Co. debs. 9.8s, 2020

510,000 Avecia Group PLC company guaranty 11s,  
2009 (United Kingdom)

740,000 Compass Minerals Group, Inc. 144A sr. sub.  
notes 10s, 2011

2,280,000 Equistar Chemicals LP/Equistar Funding Corp.  
company guaranty 10 1/8s, 2008

370,000 Ferro Corp. sr. notes 9 1/8s, 2009

240,000 Georgia Gulf Corp. company guaranty  
10 3/8s, 2007

2,180,000 Hercules, Inc. 144A company guaranty  
11 1/8s, 2007

2,835,000 Huntsman ICI Chemicals, Inc. company guaranty  
10 1/8s, 2009

500,000 IMC Global, Inc. 144A sr. notes, 11 1/4s, 2011

1,130,000 IMC Global, Inc. 144A sr. notes, 10 7/8s, 2008

2,070,000 ISP Chemco, Inc. company guaranty Ser. B,  
10 1/4s, 2011

700,000 ISP Chemco, Inc. 144A sr. sub. notes 10 1/4s, 2011

830,000 Lyondell Petrochemical Co. notes Ser. A,  
9 5/8s, 2007

310,000 Messer Griesheim Holdings AG sr. notes 10 3/8s,  
2011 (Germany)

1,700,000 Millenium America, Inc. company guaranty 9 1/4s,  
2008

510,000 Noveon, Inc. company guaranty Ser. B, 11s, 2011

960,000 OM Group, Inc. 144A sr. sub. notes 9 1/4s, 2011

609,379 PCI Chemicals & Pharmaceuticals sr. notes 10s,  
2008 (Canada)

203,127 Pioneer Companies, Inc. FRN 5.381s, 2006

330,000 Polymer Group, Inc. company guaranty Ser. B,  
9s, 2007 (In default) (NON)

160,000 Polymer Group, Inc. company guaranty Ser. B,  
8 3/4s, 2008

1,210,000 Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009

930,000 Sterling Chemicals, Inc. company guaranty Ser. B,  
12 3/8s, 2006 (In default) (NON)

1,085,000 Sterling Chemicals Holdings sr. disc. notes 13 1/2s,  
2008 (In default) (NON)

280,000 Texas Petrochemical Corp. sr. sub. notes Ser. B,  
11 1/8s, 2006

### Commercial and Consumer Services (0.5%)

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320,000 Coinmach Corp. bank term loan FRN Ser. B,  
4.631s, 2009 (acquired 1/31/02, cost \$319,600) (RES)  
2,150,000 Coinmach Corp. sr. notes Ser. D, 11 3/4s, 2005  
1,920,000 Coinmach Corp. 144A sr. notes 9s, 2010

### Communications Equipment (0.2%)

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1,510,000 PanAmSat Corp. 144A sr. notes 8 1/2s, 2012  
420,000 Telex Communications, Inc. company guaranty  
10 1/2s, 2007 (In default) (NON)

### Components (--%)

---

210,000 Seagate Technology, Inc. 144A company guaranty  
12 1/2s, 2007 (Cayman Islands)

### Construction (0.2%)

---

1,700,000 Better Minerals & Aggregates Co. company  
guaranty 13s, 2009  
1,250,000 Morrison Knudsen Corp. 144A sr. notes 11s,  
2010 (In default) (NON)

### Consumer (0.7%)

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837,025 Derby Cycle Corp. (The) sr. notes 10s, 2008  
(In default) (NON)  
EUR 2,195,093 Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008  
(In default) (NON)  
\$ 1,600,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010  
2,520,000 Samsonite Corp. sr. sub. notes 10 3/4s, 2008  
663,154 Sealy Corp. bank term loan FRN Ser. B, 4.063s,  
2004 (acquired 12/17/01, cost \$664,826) (RES)  
335,649 Sealy Corp. bank term loan FRN Ser. C, 4.313s,  
2005 (acquired 12/17/01, cost \$336,470) (RES)  
499,446 Sealy Corp. bank term loan FRN Ser. D, 4.563s,  
2005 (acquired 12/17/01, cost \$500,628) (RES)  
1,000,000 Sealy Mattress Co. company guaranty stepped-  
coupon Ser. B, zero % (10 7/8s, 12/15/02),  
2007 (STP)  
450,000 Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007

### Consumer Finance (0.3%)

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400,000 Conseco Finance Trust III, Inc. bonds 8.796s, 2027  
630,000 Conseco Financial Corp. sr. sub. notes 10 1/4s, 2002  
2,636,000 Finova Group, Inc. notes 7 1/2s, 2009  
260,000 Ford Motor Credit Corp. notes 7 3/8s, 2009  
550,000 Nationwide Credit, Inc. sr. notes Ser. A,  
10 1/4s, 2008  
910,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B,  
11s, 2006

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### Consumer Goods (0.5%)

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760,000 Albecca, Inc. company guaranty 10 3/4s, 2008  
580,000 Armkel, LLC/Armkel Finance 144A sr. sub. notes  
9 1/2s, 2009  
460,000 Elizabeth Arden, Inc. sec. notes Ser. B, 11 3/4s, 2011  
260,000 French Fragrances, Inc. company guaranty Ser. D,  
10 3/8s, 2007  
840,000 Leiner Health Products sr. sub. notes 9 5/8s,  
2007 (In default) (NON)  
760,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011  
630,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)  
370,000 Revlon Consumer Products sr. notes 9s, 2006  
360,000 Revlon Consumer Products sr. notes 8 1/8s, 2006  
540,000 Revlon Consumer Products sr. sub. notes  
8 5/8s, 2008  
670,000 Scotts Co. (The) company guaranty 8 5/8s, 2009

### Consumer Services (0.1%)

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400,000 United Rentals (North America), Inc. 144A  
company guaranty Ser. B, 10 3/4s, 2008

### Containers (0.8%)

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1,238,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007  
260,000 Applied Extrusion Technologies, Inc. company  
guaranty Ser. B, 10 3/4s, 2011  
1,320,000 Owens-Brockway Glass 144A sec. notes 8 7/8s, 2009  
1,000,000 Owens-Illinois, Inc. debs. 7.8s, 2018  
460,000 Owens-Illinois, Inc. sr. notes 7.15s, 2005  
570,000 Pliant Corp. company guaranty 13s, 2010  
1,490,000 Tekni-Plex, Inc. company guaranty Ser. B,  
12 3/4s, 2010  
690,298 U.S. Can Corp. bank term loan FRN Ser. B, 6.14s,  
2008 (acquired 10/17/01, cost \$638,094) (RES)  
550,000 U.S. Can Corp. company guaranty Ser. B, 12 3/8s,  
2010

### Electric Utilities (1.3%)

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670,000 AES Corp. (The) notes 8 3/4s, 2008  
2,750,000 AES Corp. (The) sr. notes 9 3/8s, 2010  
1,550,000 Calpine Canada Energy Finance company guaranty  
8 1/2s, 2008 (Canada)  
1,190,000 CMS Energy Corp. sr. notes 8.9s, 2008  
440,000 CMS Energy Corp. sr. notes 8 1/2s, 2011  
470,000 CMS Energy Corp. sr. notes Ser. B, 6 3/4s, 2004  
520,000 Edison Mission Energy sr. notes 10s, 2008  
1,050,000 Mission Energy Holding Co. 144A sec. notes  
13 1/2s, 2008  
696,671 Northeast Utilities notes Ser. A, 8.58s, 2006  
208,267 Northeast Utilities notes Ser. B, 8.38s, 2005  
500,000 Pacific Gas & Electric Co. 144A sr. notes 7 3/8s,  
2005 (In default) (NON)  
1,270,000 Southern California Edison Co. notes 8.95s, 2003



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130,000 Southern California Edison Co. notes 6 3/8s, 2006  
982,500 TNP Enterprises, Inc. bank term loan FRN 4.539s,  
2005 (acquired 4/4/00, cost \$981,517) (RES)

### Electronics (--%)

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349,164 United Defense Industries, Inc. bank term loan  
FRN 5.18s, 2009 (acquired 10/19/01,  
cost \$349,286) (RES)

### Energy (0.6%)

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760,000 BRL Universal Equipment sec. notes 8 7/8s, 2008  
130,000 BRL Universal Equipment 144A sec. notes  
8 7/8s, 2008  
665,000 Dresser, Inc. company guaranty 9 3/8s, 2011  
410,000 Grant Prideco, Inc. company guaranty Ser. B,  
9 5/8s, 2007  
450,000 Hanover Equipment Trust 144A sec. notes  
8 3/4s, 2011  
140,000 Hanover Equipment Trust 144A sec. notes  
8 1/2s, 2008  
520,000 Key Energy Services, Inc. 144A sr. notes Ser. B,  
8 3/8s, 2008  
760,000 Parker Drilling Corp. company guaranty Ser. D,  
9 3/4s, 2006  
1,110,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007

### Entertainment (1.2%)

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280,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011  
230,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009  
1,805,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008  
390,000 Premier Parks, Inc. sr. notes 9 3/4s, 2007  
1,580,000 Premier Parks, Inc. sr. notes 9 1/4s, 2006  
1,004,285 Regal Cinemas, Inc. bank term loan FRN Ser. A,  
9.22s, 2006 (acquired various dates 3/1/01  
through 6/4/01, cost \$902,012) (RES)  
787,090 Regal Cinemas, Inc. bank term loan FRN Ser. B,  
6s, 2006 (acquired various dates 3/1/01  
through 3/26/01, cost \$874,337) (RES)  
650,000 Regal Cinemas, Inc. bank term loan FRN Ser. B,  
5.881s, 2008 (acquired 1/31/02, cost \$648,375) (RES)  
301,593 Regal Cinemas, Inc. bank term loan FRN Ser. C,  
6 1/4s, 2006 (acquired various dates from  
3/1/01 through 3/26/01, cost \$265,043) (RES)  
1,000 Regal Cinemas, Inc. sr. sub. notes 9 1/2s,  
2008 (In default) (NON)  
730,000 Regal Cinemas, Inc. 144A sr. sub. notes 9 3/8s, 2012  
1,120,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s,  
2005 (In default) (NON)  
1,240,000 Six Flags Corp. sr. notes 8 7/8s, 2006  
420,000 Six Flags, Inc. 144A sr. notes 9 1/2s, 2009  
1,310,000 Six Flags, Inc. 144A sr. notes 8 7/8s, 2010

### Financial (0.7%)

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1,915,000 Advanta Corp. 144A company guaranty Ser. B,  
8.99s, 2026  
1,005,000 AMRESKO, Inc. sr. sub. notes Ser. 97-A, 10s,  
2004 (In default) (NON)  
150,000 Comdisco, Inc. notes 7 1/4s, 2001 (In default) (NON) (DEF)  
110,000 Comdisco, Inc. notes 6 3/8s, 2049 (In default) (NON)  
760,000 Comdisco, Inc. notes 5.95s, 2002 (In default) (NON)  
530,000 Conseco, Inc. sr. notes 10 3/4s, 2008  
350,000 Green Tree Financial notes Ser. A, 6 1/2s, 2002  
420,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005  
510,000 Ocwen Capital Trust I company guaranty  
10 7/8s, 2027  
545,000 Ocwen Federal Bank sub. debs. 12s, 2005  
160,000 Ocwen Financial Corp. notes 11 7/8s, 2003  
1,030,000 Resource America, Inc. 144A sr. notes 12s, 2004  
880,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003  
470,000 Willis Corroon Corp. 144A company guaranty  
9s, 2009

### Food (0.9%)

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940,000 Archibald Candy Corp. company guaranty 10 1/4s,  
2004 (In default) (NON)  
1,470,000 Aurora Foods, Inc. bank term loan FRN Ser. B2,  
6.18s, 2010 (acquired 1/11/02, cost \$1,466,325) (RES)  
420,000 Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007  
1,015,000 Aurora Foods, Inc. 144A sr. sub. notes Ser. D,  
9 7/8s, 2007  
310,000 Del Monte Corp. company guaranty Ser. B,  
9 1/4s, 2011  
1,150,000 Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007  
560,000 Eagle Family Foods company guaranty Ser. B,  
8 3/4s, 2008  
900,000 Premier International Foods PLC sr. notes 12s,  
2009 (United Kingdom)  
1,570,000 RAB Enterprises, Inc. company guaranty 10 1/2s,  
2005  
350,000 Smithfield Foods, Inc. sr. notes Ser. B, 8s, 2009  
973,000 Suiza Foods Corp. bank term loan FRN Ser. B,  
4.91s, 2008 (acquired 12/10/01, cost \$979,487) (RES)  
1,220,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B,  
10 1/4s, 2009 (In default) (NON)

### Gaming & Lottery (3.7%)

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650,000 Aladdin Gaming Holdings, LLC sr. disc. notes  
stepped-coupon Ser. B, zero % (13 1/2s, 3/1/03),  
2010 (In default) (NON) (STP)  
790,000 Ameristar Casinos, Inc. company guaranty  
10 3/4s, 2009  
900,000 Argosy Gaming Co. company guaranty  
10 3/4s, 2009  
130,000 Argosy Gaming Co. sr. sub. notes 9s, 2011  
2,201,778 Autotote Corp. bank term loan FRN 6.308s,  
2007 (acquired 10/13/00, cost \$2,196,273) (RES)  
760,000 Autotote Corp. company guaranty Ser. B,  
12 1/2s, 2010

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413,718 Fitzgeralds Gaming Corp. company guaranty  
Ser. B, 12 1/4s, 2004 (In default) (NON)  
920,000 Harrah's Entertainment, Inc. company guaranty  
7 1/2s, 2009  
800,000 Harrah's Operating Co., Inc. company guaranty  
8s, 2011  
900,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008  
1,360,000 Hollywood Casino Corp. company guaranty  
11 1/4s, 2007  
250,000 Hollywood Park, Inc. company guaranty Ser. B,  
9 1/4s, 2007  
1,250,000 Horseshoe Gaming Holdings company guaranty  
8 5/8s, 2009  
1,010,000 International Game Technology sr. notes 8 3/8s, 2009  
2,300,000 International Game Technology sr. notes 7 7/8s, 2004  
220,000 Isle of Capri Casinos, Inc. company guaranty  
8 3/4s, 2009  
2,020,000 Majestic Investor Holdings/Majestic Investor  
Capital Corp. 144A company guaranty  
11.653s, 2007  
110,000 Mandalay Resort Group sr. notes 9 1/2s, 2008  
1,080,000 Mandalay Resort Group sr. sub. notes Ser. B,  
10 1/4s, 2007  
810,000 Mandalay Resort Group 144A sr. sub. notes  
9 3/8s, 2010  
2,340,000 MGM Mirage company guaranty 8 1/2s, 2010  
550,000 Mikohn Gaming Corp. company guaranty Ser. B,  
11 7/8s, 2008  
700,000 Mohegan Tribal Gaming sr. notes 8 1/8s, 2006  
1,090,000 Mohegan Tribal Gaming sr. sub. notes 8 3/4s, 2009  
160,000 Mohegan Tribal Gaming sr. sub. notes 8 3/8s, 2011  
1,040,000 Park Place Entertainment Corp. sr. notes 7 1/2s,  
2009  
1,470,000 Park Place Entertainment Corp. sr. sub. notes  
8 7/8s, 2008  
820,000 Penn National Gaming, Inc. company guaranty  
Ser. B, 11 1/8s, 2008  
1,020,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008  
170,000 Station Casinos, Inc. sr. sub. notes 9 7/8s, 2010  
280,000 Station Casinos, Inc. 144A sr. sub. notes 9 3/4s, 2007  
570,000 Trump Atlantic City Associates company guaranty  
Ser. B, 11 1/4s, 2006  
60,000 Trump Atlantic City Associates 144A company  
guaranty 11 1/4s, 2006  
770,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s,  
2003  
3,200,000 Trump Castle Funding, Inc. sub. notes 10 1/4s, 2003  
1,090,000 Venetian Casino, Inc. company guaranty  
12 1/4s, 2004  
450,000 Wheeling Island Gaming, Inc. 144A sr. notes  
10 1/8s, 2009

### Health Care (1.5%)

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510,000 Beverly Enterprises, Inc. 144A sr. notes 9 5/8s, 2009  
487,000 Clarent Hospital Corp. sr. notes 11 1/2s, 2005  
648,000 Concentra Operating Corp. bank term loan FRN  
Ser. B, 5.131s, 2006 (acquired 1/15/02,  
cost \$650,025) (RES)  
324,000 Concentra Operating Corp. bank term loan

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FRN Ser. C, 5.381s, 2007 (acquired 1/15/02,  
cost \$325,012) (RES)  
52,800 Genesis Health Ventures, Inc. sec. notes  
FRN 7.59s, 2007  
1,060,000 HCA, Inc. debs. 7.19s, 2015  
750,000 HCA, Inc. med. term notes 7.69s, 2025  
1,590,000 HCA, Inc. med. term notes 6.63s, 2045  
520,000 HCA, Inc. notes 8 3/4s, 2010  
350,000 HCA, Inc. notes 8.36s, 2024  
1,530,000 HCA, Inc. notes 7s, 2007  
580,000 Healthsouth Corp. sr. sub. notes 10 3/4s, 2008  
1,260,000 Integrated Health Services, Inc. sr. sub. notes  
Ser. A, 9 1/2s, 2007 (In default) (NON)  
620,000 Integrated Health Services, Inc. sr. sub. notes  
Ser. A, 9 1/4s, 2008 (In default) (NON)  
190,000 Lifepoint Hospital Holdings company guaranty  
Ser. B, 10 3/4s, 2009  
2,500,000 Mariner Post-Acute Network, Inc. sr. sub. notes  
Ser. B, 9 1/2s, 2007 (In default) (NON)  
510,000 Mariner Post-Acute Network, Inc. sr. sub. notes  
stepped-coupon Ser. B, zero % (10 1/2s, 11/1/02),  
2007 (In default) (NON) (STP)  
2,690,000 Multicare Companies, Inc. sr. sub. notes 9s,  
2007 (In default) (NON)  
1,503,000 Tenet Healthcare Corp. sr. notes Ser. B, 8 1/8s, 2008  
140,000 Triad Hospitals, Inc. 144A sr. notes Ser. B, 8 3/4s, 2009  
2,390,000 Triad Hospitals Holdings company guaranty Ser. B,  
11s, 2009  
780,000 Vanguard Health Systems, Inc. 144A sr. sub.  
notes 9 3/4s, 2011

### Homebuilding (0.9%)

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760,000 Beazer Homes USA, Inc. company guaranty  
8 5/8s, 2011  
120,000 D.R. Horton, Inc. company guaranty 8s, 2009  
880,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011  
550,000 Del Webb Corp. sr. sub. debs. 9 3/8s, 2009  
630,000 K. Hovnanian Enterprises, Inc. company guaranty  
10 1/2s, 2007  
1,270,000 KB Home sr. sub. notes 9 1/2s, 2011  
330,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010  
720,000 Lennar Corp. sr. notes 7 5/8s, 2009  
120,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008  
920,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010  
180,000 Ryland Group, Inc. sr. sub. notes 8 1/4s, 2008  
470,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010  
680,000 Toll Corp. company guaranty 8 1/8s, 2009  
170,000 Toll Corp. sr. sub. notes 8 1/4s, 2011

### Lodging/Tourism (1.1%)

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1,224,000 Felcor Lodging LP company guaranty 9 1/2s, 2008  
510,000 Felcor Lodging LP 144A company guaranty  
9 1/2s, 2008  
709,000 Felcor Lodging LP 144A sr. notes 8 1/2s, 2011  
4,720,000 HMH Properties, Inc. company guaranty Ser. B,  
7 7/8s, 2008

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920,000 ITT Corp. notes 6 3/4s, 2005  
200,000 John Q. Hammons Hotels, Inc. 1st mtge. 8 7/8s, 2004  
630,000 Meristar Hospitality Corp. 144A sr. notes 9 1/8s, 2011  
260,000 Meristar Hospitality Corp. 144A sr. notes 9s, 2008  
410,000 MeriStar Hospitality Operating Partnership/MeriStar  
Hospitality Finance Corp. 144A sr. notes  
10 1/2s, 2009 (R)  
490,000 Starwood Hotels & Resorts Worldwide, Inc. bank  
term loan FRN 4.624s, 2003 (acquired 11/14/01,  
cost \$483,569) (RES)

### Machinery (0.2%)

---

540,000 Briggs & Stratton company guaranty 8 7/8s, 2011  
40,000 Case Corp. notes 7 1/4s, 2016  
220,000 Terex Corp. company guaranty 8 7/8s, 2008  
460,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011  
370,000 Terex Corp. company guaranty Ser. D, 8 7/8s, 2008

### Manufacturing (0.6%)

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2,250,000 Blount, Inc. company guaranty 13s, 2009  
269,428 Flowserve Corp. bank term loan FRN 5.793s,  
2006 (acquired 10/24/01, cost \$269,596) (RES)  
960,000 Flowserve Corp. company guaranty 12 1/4s, 2010  
650,000 Insilco Holding Co. sr. disc. notes stepped-coupon  
zero % (14s, 8/15/03), 2008 (STP)  
200,000 Jackson Products, Inc. company guaranty Ser. B,  
9 1/2s, 2005  
220,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007  
2,160,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006  
930,000 Roller Bearing Company of America company  
guaranty Ser. B, 9 5/8s, 2007

### Medical Services (0.8%)

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1,037,600 Alderwoods Group, Inc. company guaranty  
12 1/4s, 2009  
4,200 Alderwoods Group, Inc. company guaranty  
12 1/4s, 2004  
20,900 Alderwoods Group, Inc. company guaranty 11s,  
2007  
780,000 AmerisourceBergen Corp. sr. notes 8 1/8s, 2008  
300,000 Coventry Health Care, Inc. 144A sr. notes 8 1/8s, 2012  
516,086 Magellan Health Services, Inc. bank term loan FRN  
5.813s, 2004 (acquired 1/10/02, cost \$516,731) (RES)  
2,050,000 Magellan Health Services, Inc. sr. sub. notes 9s, 2008  
180,000 Magellan Health Services, Inc. 144A sr. notes  
9 3/8s, 2007  
1,070,000 Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)  
940,000 Mediq, Inc. debs. stepped-coupon zero %  
(13s, 6/1/03), 2009 (STP)  
800,000 Omnicare, Inc. 144A sr. sub. notes Ser. B, 8 1/8s, 2011  
190,000 Service Corp. International debs. 7 7/8s, 2013  
120,000 Service Corp. International notes 7.7s, 2009  
1,130,000 Service Corp. International notes 6s, 2005

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1,010,000 Stewart Enterprises, Inc. 144A sr. sub. notes  
10 3/4s, 2008  
1,345,000 Sun Healthcare Group, Inc. sr. sub. notes Ser. B,  
9 1/2s, 2007 (In default) (NON)  
1,080,000 Sun Healthcare Group, Inc. 144A sr. sub. notes 9 3/8s,  
2008 (In default) (NON)

### Medical Technology (0.7%)

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360,000 ALARIS Medical Systems, Inc. company guaranty  
9 3/4s, 2006  
1,130,000 ALARIS Medical Systems, Inc. sec. notes Ser. B,  
11 5/8s, 2006  
350,000 ALARIS Medical, Inc. sr. disc. notes stepped-coupon  
zero % (11 1/8s, 8/1/03), 2008 (STP)  
400,000 Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011  
510,000 Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007  
1,270,000 Conmed Corp. company guaranty 9s, 2008  
670,000 Hanger Orthopedic Group, Inc. sr. sub. notes 11 1/4s,  
2009  
580,000 Insight Health Services Corp. 144A sr. sub. notes  
9 7/8s, 2011  
388,987 Kinetic Concepts, Inc. bank term loan FRN Ser. C,  
5.56s, 2005 (acquired 11/5/01, cost \$389,473) (RES)  
1,015,000 Kinetic Concepts, Inc. company guaranty Ser. B,  
9 5/8s, 2007

### Metals (0.7%)

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1,480,000 AK Steel Corp. company guaranty 7 7/8s, 2009  
650,000 AK Steel Corp. sr. notes 9 1/8s, 2006  
510,450 Anker Coal Group, Inc. company guaranty Ser. B,  
14 1/4s, 2007 (PIK)  
740,000 Centaur Mining & Exploration company guaranty 11s,  
2007 (Australia) (In default) (NON)  
1,250,000 Doe Run Resources Corp. company guaranty Ser. B,  
11 1/4s, 2005  
180,000 Doe Run Resources Corp. company guaranty,  
11 1/4s, 2005  
420,000 Doe Run Resources Corp. company guaranty FRN  
Ser. B, 9.38s, 2003  
80,000 Kaiser Aluminum & Chemical Corp. sr. notes Ser. B,  
10 7/8s, 2006  
2,360,000 Kaiser Aluminum & Chemical Corp. sr. sub. notes  
12 3/4s, 2003  
1,680,000 LTV Corp. company guaranty 11 3/4s,  
2009 (In default) (NON)  
600,000 National Steel Corp. 1st mtge. Ser. D, 9 7/8s, 2009  
406,000 Oregon Steel Mills 1st mtge. 11s, 2003  
484,000 P&L Coal Holdings Corp. company guaranty  
Ser. B, 9 5/8s, 2008  
1,100,000 United States Steel, LLC 144A company guaranty  
10 3/4s, 2008  
710,000 WCI Steel, Inc. sr. notes Ser. B, 10s, 2004  
100,000 Weirton Steel Corp 144A sr. notes 10 3/4s,  
2005 (In default) (NON)  
1,290,000 Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s,  
2007 (In default) (NON)

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570,000 WHX Corp. sr. notes 10 1/2s, 2005

### Oil & Gas (2.3%)

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990,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B,  
8 7/8s, 2007

530,000 Chesapeake Energy Corp. company guaranty  
8 3/8s, 2008

1,890,000 Chesapeake Energy Corp. company guaranty 144A  
8 1/8s, 2011

590,000 El Paso Energy Partners L..P. 144A company guaranty  
Ser. B, 8 1/2s, 2011

400,000 Forest Oil Corp. company guaranty 10 1/2s, 2006

730,000 Forest Oil Corp. sr. notes 8s, 2008

420,000 Forest Oil Corp. 144A sr. notes 8s, 2011

800,000 Leviathan Gas Corp. company guaranty Ser. B,  
10 3/8s, 2009

980,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011

130,000 Nuevo Energy Co. sr. sub. notes Ser. B, 9 1/2s, 2008

760,000 Nuevo Energy Co. sr. sub. notes Ser. B, 9 3/8s, 2010

840,000 Ocean Energy, Inc. company guaranty Ser. B,  
8 3/8s, 2008

2,050,000 Pemex Master Trust 144A bonds 8 5/8s, 2022

3,500,000 Pioneer Natural Resources Co. company guaranty  
9 5/8s, 2010

400,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011

120,000 Port Arthur Finance Corp. company guaranty  
12 1/2s, 2009

420,000 Seven Seas Petroleum, Inc. sr. notes Ser. B,  
12 1/2s, 2005

810,000 Snyder Oil Corp. sr. sub. notes 8 3/4s, 2007

310,000 Stone Energy Corp. company guaranty 8 3/4s, 2007

550,000 Stone Energy Corp. 144A sr. sub. notes 8 1/4s, 2011

80,000 Triton Energy, Ltd. sr. notes 9 1/4s, 2005  
(Cayman Islands)

570,000 Triton Energy, Ltd. sr. notes 8 7/8s, 2007  
(Cayman Islands)

1,560,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009

430,000 Vintage Petroleum, Inc. sr. sub. notes 9s, 2005

510,000 Westport Resources Corp. 144A sr. sub. notes  
8 1/4s, 2011

440,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s,  
2009

### Paper & Forest Products (1.8%)

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1,080,000 Appleton Papers, Inc. 144A sr. sub. notes 12 1/2s,  
2008

550,000 Bowater Canada Finance 144A notes 7.95s,  
2011 (Canada)

1,305,000 Doman Industries, Ltd. sr. notes 8 3/4s, 2004  
(Canada)

1,125,000 Four M Corp. sr. notes Ser. B, 12s, 2006

110,000 Gaylord Container Corp. sr. notes Ser. B,  
9 3/4s, 2007

230,000 Gaylord Container Corp. sr. notes Ser. B,  
9 3/8s, 2007

265,000 Gaylord Container Corp. sr. sub. notes 9 7/8s, 2008

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240,000 Georgia-Pacific Corp. notes 8 7/8s, 2031  
840,000 Georgia-Pacific Corp. notes 8 1/8s, 2011  
210,000 Georgia-Pacific Corp. notes 7 1/2s, 2006  
220,000 Norske Skog Canada, Ltd. 144A sr. notes 8 5/8s,  
2011 (Canada)  
1,410,000 Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)  
1,200,000 Potlatch Corp. 144A sr. sub. notes 10s, 2011  
2,320,000 Riverwood International Corp. company  
guaranty 10 7/8s, 2008  
670,000 Riverwood International Corp. company guaranty  
10 5/8s, 2007  
614,690 Stone Container Corp. bank term loan FRN Ser. F,  
5 1/4s, 2006 (acquired various dates from  
5/3/00 to 5/15/01, cost \$614,075) (RES)  
838,034 Stone Container Corp. bank term loan FRN  
Ser. H, 5.438s, 2006 (acquired 7/17/00,  
cost \$837,098) (RES)  
180,000 Stone Container Corp. sr. notes 12.58s, 2016  
1,090,000 Stone Container Corp. sr. notes 9 3/4s, 2011  
490,000 Stone Container Corp. sr. notes 9 1/4s, 2008  
460,000 Stone Container Corp. 144A company guaranty  
11 1/2s, 2006 (Canada)  
1,450,000 Tembec Industries, Inc. company guaranty 8 5/8s,  
2009 (Canada)  
850,000 Tembec Industries, Inc. company guaranty 8 1/2s,  
2011 (Canada)

### Power Producers (0.9%)

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530,000 Calpine Corp. sr. notes 10 1/2s, 2006  
1,080,000 Calpine Corp. sr. notes 8 5/8s, 2010  
1,560,000 Calpine Corp. sr. notes 8 1/2s, 2011  
1,050,000 Calpine Corp. sr. notes 7 7/8s, 2008  
30,000 Calpine Corp. sr. notes 7 3/4s, 2009  
1,740,000 Midland Funding II Corp. debs. Ser. B, 13 1/4s, 2006  
120,000 Midland Funding II Corp. debs. Ser. A, 11 3/4s, 2005  
141,112 Midland Funding II Corp. debs. Ser. C-94, 10.33s, 2002  
1,270,000 Tiverton/Rumford Power Associates, LP 144A  
pass-through certificates 9s, 2018  
1,651,000 York Power Funding 144A notes 12s, 2007  
(Cayman Islands) (In default) (NON)

### Publishing (1.1%)

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2,155,000 Affinity Group Holdings sr. notes 11s, 2007  
760,000 Garden State Newspapers, Inc. sr. sub. notes  
8 5/8s, 2011  
290,000 Garden State Newspapers, Inc. sr. sub. notes  
Ser. B, 8 3/4s, 2009  
502,000 Hollinger International Publishing, Inc. company  
guaranty 9 1/4s, 2007  
1,760,000 Hollinger Participation Trust 144A sr. notes  
12 1/8s, 2010 (Canada) (PIK)  
740,000 Key3media Group, Inc. company guaranty  
11 1/4s, 2011  
1,000,000 Perry-Judd company guaranty 10 5/8s, 2007  
1,420,000 PRIMEDIA, Inc. company guaranty 8 7/8s, 2011  
470,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008



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1,070,000 PRIMEDIA, Inc. company guaranty Ser. B,  
8 1/2s, 2006  
600,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon  
zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)  
640,000 Quebecor Media, Inc. sr. notes 11 1/8s,  
2011 (Canada)

### Railroads (0.3%)

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1,020,000 Kansas City Southern Railway Co. company  
guaranty 9 1/2s, 2008  
1,100,000 RailAmerica Transportation Corp. company  
guaranty 12 7/8s, 2010  
200,000 Transportation Manufacturing Operations, Inc.  
company guaranty 11 1/4s, 2009

### Real Estate (0.1%)

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980,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008

### Regional Bells (0.1%)

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860,000 Madison River Capital Corp. sr. notes 13 1/4s, 2010

### Restaurants (0.4%)

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500,000 Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009  
910,000 Sbarro, Inc. company guaranty 11s, 2009  
50,000 Tricon Global Restaurants, Inc. sr. notes 8 7/8s, 2011  
1,470,000 Tricon Global Restaurants, Inc. sr. notes 7.65s, 2008  
830,000 Tricon Global Restaurants, Inc. sr. notes 7.45s, 2005

### Retail (0.8%)

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670,000 Amazon.com, Inc. sr. sub. notes stepped-coupon  
zero % (10s, 5/1/03), 2008 (STP)  
1,050,000 Autonation, Inc. company guaranty 9s, 2008  
20,000 Fleming Companies, Inc. 144A sr. sub. notes  
10 5/8s, 2007  
330,000 Fleming Companies, Inc. company guaranty Ser. B,  
10 1/2s, 2004  
800,000 Fleming Companies, Inc. 144A sr. notes 10 1/8s, 2008  
360,000 Great Atlantic & Pacific Tea Co. notes 7 3/4s, 2007  
40,000 Iron Age Holdings Corp. sr. disc. notes stepped-  
coupon zero % (12 1/8s, 5/1/03), 2009 (STP)  
420,000 K mart Corp. notes 9 3/8s, 2006 (In default) (NON)  
700,000 K mart Corp. pass-through certificates Ser. 95K4,  
9.35s, 2020  
460,000 K mart Corp. 144A notes 9 7/8s, 2008 (In default) (NON)  
90,000 Mothers Work, Inc. sr. notes 12 5/8s, 2005  
850,000 Petco Animal Supplies, Inc. 144A sr. sub. notes  
10 3/4s, 2011  
2,700,000 Saks, Inc. company guaranty 8 1/4s, 2008  
80,000 Southland Corp. debs. Ser. A, 4 1/2s, 2004  
190,000 Southland Corp. sr. sub. debs. 5s, 2003  
310,000 Tommy Hilfiger USA, Inc. company guaranty

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6 1/2s, 2003

## Semiconductor (0.2%)

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1,050,000 Fairchild Semiconductor International, Inc. sr. sub.  
notes 10 1/8s, 2007  
1,000,000 Micron Technology, Inc. notes 6 1/2s, 2005

## Shipping (0.2%)

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110,000 International Shipholding Corp. sr. notes 9s, 2003  
320,000 Kitty Hawk, Inc. company guaranty 9.95s,  
2004 (In default) (NON)  
960,000 Navistar International Corp. sr. notes Ser. B,  
8s, 2008  
670,000 Navistar International Corp. 144A sr. notes Ser. B,  
9 3/8s, 2006  
180,000 Newport News Shipbuilding, Inc. sr. notes  
8 5/8s, 2006  
260,000 Travel Centers of America, Inc. company guaranty  
12 3/4s, 2009

## Software (--%)

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630,000 Telehub Communications Corp. company guaranty  
stepped-coupon zero % (13 7/8s, 7/31/02),  
2005 (STP)

## Specialty Printing (0.1%)

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385,349 Von Hoffman Press, Inc. 144A sr. sub. notes  
13 1/2s, 2009  
370,000 Von Hoffman Press, Inc. 144A sr. sub. notes  
10 3/8s, 2007

## Technology (0.3%)

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260,000 Amkor Technology, Inc. 144A. notes 9 1/4s, 2008  
540,000 Amkor Technologies, Inc. Structured Note 12.58s,  
2005 (issued by STEERS Credit Linked  
Trust 2000)  
100,000 Lucent Technologies, Inc. debs. 6 1/2s, 2028  
2,750,000 Lucent Technologies, Inc. debs. 6.45s, 2029  
520,000 SCG Holding & Semiconductor Corp. company  
guaranty 12s, 2009  
765,000 Telecommunications Techniques, Inc. company  
guaranty 9 3/4s, 2008  
240,000 Viasystems, Inc. sr. notes Ser. B, 9 3/4s, 2007

## Technology Services (0.8%)

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3,080,000 Cybernet Internet Services International, Inc. 144A

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sr. disc. notes stepped-coupon 13s (13s, 8/15/04),  
 2009 (Denmark) (STP)  
 1,180,000 Equinix, Inc. sr. notes 13s, 2007  
 280,000 Exodus Communications, Inc. sr. notes 11 5/8s,  
 2010 (In default) (NON)  
 475,000 Exodus Communications, Inc. sr. notes 10 3/4s,  
 2009 (In default) (NON)  
 2,000,000 Firstworld Communication Corp. sr. disc. notes  
 stepped-coupon zero % (13s, 4/15/03), 2008 (STP)  
 2,100,000 Globix Corp. sr. notes 12 1/2s, 2010  
 1,250,000 Intira Corp. bonds stepped-coupon zero %  
 (13s, 2/1/05), 2010 (acquired 1/3/00,  
 cost \$666,138) (RES) (STP)  
 305,000 Iron Mountain, Inc. company guaranty 8 3/4s, 2009  
 370,000 Iron Mountain, Inc. company guaranty 8 1/8s,  
 2008 (Canada)  
 2,400,000 Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011  
 230,000 PSINet, Inc. sr. notes 11 1/2s, 2008 (In default) (NON)  
 1,660,000 PSINet, Inc. sr. notes 11s, 2009 (In default) (NON)  
 160,000 PSINet, Inc. sr. notes Ser. B, 10s, 2005 (In default) (NON)  
 3,440,000 Xerox Credit Corp. 144A sr. notes 9 3/4s, 2009  
 50,000 Xerox Credit Corp. sr. notes 6.1s, 2003

### Telecommunications (2.4%)

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1,490,000 360Networks, Inc. sr. notes 13s, 2008 (Canada)  
 (In default) (NON)  
 1,510,000 American Cellular Corp. 144A sr. sub. notes  
 9 1/2s, 2009  
 2,950,000 American Tower Corp. sr. notes 9 3/8s, 2009  
 550,000 Arch Communications, Inc. sr. notes 13 3/4s,  
 2008 (In default) (NON)  
 410,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s,  
 2010 (Bermuda)  
 710,000 Call-Net Enterprises, Inc. sr. notes 8s, 2008 (Canada)  
 1,355,000 Celcaribe SA sr. notes 13 1/2s, 2004 (Colombia)  
 530,000 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010  
 (In default) (NON)  
 820,000 Crown Castle International Corp. sr. disc. notes  
 stepped-coupon zero % (10 3/8s, 5/15/04),  
 2011 (STP)  
 490,000 Crown Castle International Corp. sr. notes 10 3/4s,  
 2011  
 1,300,000 Crown Castle International Corp. 144A sr. notes  
 9 3/8s, 2011  
 1,220,000 Dobson/Sygnet Communications, Inc. sr.  
 notes 12 1/4s, 2008  
 2,270,000 Econophone, Inc. company guaranty 13 1/2s,  
 2007 (In default) (NON)  
 580,000 Esprit Telecom Group PLC sr. notes 11 1/2s, 2007  
 (United Kingdom) (In default) (NON)  
 830,000 Flag, Ltd. 144A sr. notes 8 1/4s, 2008 (Bermuda)  
 140,000 FLAG Telecom Holdings, Ltd. sr. notes 11 5/8s,  
 2010 (Bermuda)  
 130,000 Global Crossing Holdings, Ltd. company guaranty  
 9 5/8s, 2008 (Bermuda)  
 230,000 Global Crossing Holdings, Ltd. company guaranty  
 9 1/2s, 2009 (Bermuda)  
 3,230,000 Global Crossing Holdings, Ltd. company guaranty  
 9 1/8s, 2006 (Bermuda)

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166,000 Level 3 Communications, Inc. sr. disc. notes stepped-coupon zero % (10 1/2s, 12/1/03), 2008 (STP)

1,110,000 Level 3 Communications, Inc. sr. notes 9 1/8s, 2008

420,000 Loral Cyberstar, Inc. company guaranty 10s, 2006

1,650,000 McCaw International, Ltd. sr. disc. notes stepped-coupon zero % (13s, 4/15/02), 2007 (STP)

310,000 Metrocall, Inc. sr. sub. notes 11s, 2008 (In default) (NON)

250,000 Metrocall, Inc. sr. sub. notes 10 3/8s, 2007 (In default) (NON)

260,000 Metrocall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON)

810,000 Millicom International Cellular SA sr. disc. notes 13 1/2s, 2006 (Luxembourg)

2,010,000 Nextel Communications, Inc. sr. notes 12s, 2008

2,310,000 Nextel Communications, Inc. sr. notes 9 1/2s, 2011

1,560,000 Nextel Partners, Inc. sr. notes 11s, 2010

270,000 Nextel Partners, Inc. sr. notes 11s, 2010

840,000 NorthEast Optic Network, Inc. sr. notes 12 3/4s, 2008

990,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005 (In default) (NON)

1,660,000 Price Communications Wireless, Inc. 144A sr. notes 9 1/8s, 2006

180,000 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010 (In default) (NON)

760,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)

1,025,000 RSL Communications, Ltd. company guaranty 12 1/4s, 2006 (Bermuda) (In default) (NON)

150,000 RSL Communications PLC 144A company guaranty 10 1/2s, 2008 (United Kingdom) (In default) (NON)

16,848 Rural Cellular Corp. bank term loan FRN 5.48s, 2008 (acquired 11/5/01, cost \$16,384) (RES)

252,717 Rural Cellular Corp. bank term loan FRN Ser. C, 5.73s, 2009 (acquired 11/5/01, cost \$245,767) (RES)

420,000 Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008

1,190,000 SBA Communications Corp. sr. notes 10 1/4s, 2009

1,340,000 Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon zero % (11 1/8s, 4/15/04), 2009 (STP)

1,820,000 Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12 7/8s, 3/15/05), 2010 (STP)

1,380,000 Startec Global Communications Corp. sr. notes 12s, 2008 (In default) (NON)

50,000 USA Mobile Communications, Inc. sr. notes 9 1/2s, 2004 (In default) (NON)

1,490,000 Viatel, Inc. sr. disc. notes stepped-coupon zero % (12 1/2s, 4/15/03), 2008 (STP)

1,950,000 Viatel, Inc. sr. notes 11 1/4s, 2008 (In default) (NON)

1,280,000 WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero % (11 1/4s, 2/1/03), 2008 (STP)

2,000,000 Western Wireless Corp. bank term loan FRN 4.755s, 2008 (acquired 4/24/00, cost \$1,997,500) (RES)

140,000 Williams Communications Group, Inc. sr. notes 11 7s, 2010

180,000 Williams Communications Group, Inc. sr. notes 11.7s, 2008

280,000 Williams Communications Group, Inc. sr. notes 10.7s, 2007

1,250,000 World Access, Inc. sr. notes Ser. B, 13 1/4s, 2008 (In default) (NON)

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### Telephone (2.2%)

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290,000	Airgate PCS, Inc. sr. sub. notes stepped-coupon zero % (13 1/2s, 10/1/04), 2009 (STP)
890,000	Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011
160,000	Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011
510,000	Alamosa PCS Holdings, Inc. company guaranty stepped-coupon zero % (12 7/8s, 2/15/05), 2010 (STP)
780,000	Birch Telecommunications, Inc. sr. notes 14s, 2008
1,450,000	Horizon PCS, Inc. company guaranty stepped-coupon zero % (14s, 10/1/05), 2010 (STP)
740,000	Horizon PCS, Inc. 144A sr. notes 13 3/4s, 2011
220,000	Hyperion Telecommunications Corp., Inc. sr. disc. notes Ser. B, 13s, 2003
1,700,000	Hyperion Telecommunications Corp., Inc. sr. sub. notes 12s, 2007
1,420,000	ICG Services, Inc. sr. disc. notes stepped-coupon zero % (10s, 2/15/03), 2008 (In default) (NON) (STP)
2,870,000	ICG Services, Inc. sr. disc. notes stepped-coupon zero % (9 7/8s, 5/1/03), 2008 (STP)
1,190,000	Intermedia Communications, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12 1/4s, 3/1/04), 2009 (STP)
90,000	Intermedia Communications, Inc. sr. notes Ser. B, 8.6s, 2008
630,000	Intermedia Communications, Inc. sr. notes Ser. B, 8 1/2s, 2008
1,270,000	Ipcs, Inc. sr. disc. notes stepped-coupon zero % (14s, 7/15/05), 2010 (STP)
1,060,000	IWO Holdings, Inc. company guaranty 14s, 2011
2,085,000	KMC Telecommunications Holdings, Inc. sr. disc. notes stepped-coupon zero % (12 1/2s, 2/15/03), 2008 (STP)
1,420,000	Leap Wireless International, Inc. company guaranty 12 1/2s, 2010
340,000	McLeodUSA, Inc. sr. notes 11 3/8s, 2009
1,180,000	McLeodUSA, Inc. sr. notes 9 1/2s, 2008
140,000	McLeodUSA, Inc. sr. notes 8 3/8s, 2008
1,300,000	McLeodUSA, Inc. sr. notes 8 1/8s, 2009
450,000	Metromedia Fiber Network, Inc. sr. notes 10s, 2009
1,070,000	Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s, 2008
1,260,000	Microcell Telecommunications sr. disc. notes Ser. B, 14s, 2006 (Canada)
1,050,000	Nextlink Communications, Inc. sr. disc. notes stepped-coupon zero % (12 1/4s, 6/1/04), 2009 (In default) (NON) (STP)
240,000	Nextlink Communications, Inc. sr. disc. notes stepped-coupon zero % (12 1/8s, 12/1/04), 2009 (In default) (NON) (STP)
330,000	Nextlink Communications, Inc. sr. notes 9 5/8s, 2007 (In default) (NON)
390,000	Tele1 Europe B.V. sr. notes 13s, 2009 (Netherlands)
1,820,000	Telecorp PCS, Inc. company guaranty 10 5/8s, 2010
70,000	Telecorp PCS, Inc. company guaranty stepped-coupon zero % (11 5/8s, 4/15/04), 2009 (STP)
580,000	Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008

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1,340,000 Tritel PCS, Inc. company guaranty 10 3/8s, 2011  
130,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011  
90,000 Triton PCS, Inc. company guaranty zero %, 2008  
1,080,000 Triton PCS, Inc. 144A sr. sub. notes 8 3/4s, 2011  
2,310,000 UbiquiTel Operating Co. company guaranty  
stepped-coupon zero % (14s, 4/15/05), 2010 (STP)  
1,250,000 US UnWired, Inc. company guaranty stepped-  
coupon Ser. B, zero % (13 3/8s, 11/1/04), 2009 (STP)  
660,000 Versatel Telecom B.V. sr. notes 13 1/4s,  
2008 (Netherlands)  
320,000 Versatel Telecom B.V. sr. notes 13 1/4s,  
2008 (Netherlands)  
1,935,000 Voicestream Wireless Corp. sr. notes 10 3/8s, 2009  
5,406,000 WinStar Communications, Inc. sr. disc. notes  
stepped-coupon zero % (14 3/4s, 4/15/05),  
2010 (In default) (NON) (STP)  
1,280,000 WinStar Communications, Inc. sr. notes 12 3/4s,  
2010 (In default) (NON)  
70,000 WinStar Communications, Inc. sr. notes 12 1/2s,  
2008 (In default) (NON)

### Textiles (0.3%)

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780,000 Galey & Lord, Inc. company guaranty 9 1/8s, 2008  
1,060,000 Kasper A.S.L., Ltd. sr. notes 12 3/4s, 2004  
(In default) (NON)  
1,290,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008  
1,200,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2008  
680,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2005  
630,000 William Carter Holdings Co. company guaranty  
Ser. B, 10 7/8s, 2011

### Tobacco (0.2%)

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1,560,000 North Atlantic Trading Co. company guaranty  
Ser. B, 11s, 2004

### Waste Management (0.9%)

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907,671 Allied Waste Industries, Inc. bank term loan, FRN  
4.664s, 2006 (acquired various dates 10/18/01  
through 10/22/01, cost \$888,866) (RES)  
5,735,000 Allied Waste Industries, Inc. company guaranty  
Ser. B, 10s, 2009  
30,000 Allied Waste Industries, Inc. 144A sr. notes 8 1/2s,  
2008  
2,430,000 Browning-Ferris debs. 7.4s, 2035

### Water Utilities (0.1%)

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380,000 Azurix Corp. sr. notes Ser. B, 10 3/4s, 2010  
310,000 Azurix Corp. sr. notes Ser. B, 10 3/8s, 2007

Total Corporate Bonds and Notes

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(cost \$527,280,457)

FOREIGN GOVERNMENT BONDS AND NOTES (16.3%) (a)  
PRINCIPAL AMOUNT

\$	2,498,943	Argentina (Republic of) bonds 2.89s, 2018 (In default) (NON)
AUD	2,180,000	Australia (Government of) bonds Ser. 513, 6 1/2s, 2013
\$	3,645,000	Brazil (Federal Republic of) bonds 12 1/4s, 2030
	2,630,000	Brazil (Federal Republic of) notes 11s, 2012
	3,040,000	Brazil (Federal Republic of) unsub. notes 11s, 2040
CAD	2,725,000	Canada (Government of) bonds 5 1/2s, 2010
CAD	930,000	Canada (Government of) bonds Ser. WL43, 5 3/4s, 2029
\$	2,160,000	Colombia (Republic of) bonds 11 3/4s, 2020
	1,310,000	Ecuador (Republic of) bonds Ser. REGS, 12s, 2012
	360,000	Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 5s (6s, 8/15/02), 2030 (STP)
EUR	17,220,000	France (Government of) bonds 5 1/2s, 2010
EUR	1,080,000	France (Government of) debts. 4s, 2009
EUR	650,000	Germany (Federal Republic of) bonds 5s, 2012
EUR	1,642,300	Germany (Federal Republic of) bonds Ser. 00, 5 1/2s, 2031
EUR	17,845,000	Germany (Federal Republic of) bonds Ser. 95, 7 3/8s, 2005
EUR	7,300,000	Germany (Federal Republic of) bonds Ser. 99, 4s, 2009
EUR	4,950,000	Italy (Government of) sr. unsub. 4 1/4s, 2002
EUR	5,010,000	Italy (Government of) treasury bonds 5 1/4s, 2011
EUR	2,540,000	Italy (Government of) treasury bonds 4 3/4s, 2006
EUR	5,325,000	Italy (Government of) treasury bonds 3 1/4s, 2004
NZD	6,155,000	New Zealand (Government of) bonds Ser. 709, 7s, 2009
\$	1,635,000	Philippines (Republic of) bonds 9 7/8s, 2019
	3,260,000	Philippines (Republic of) notes 10 5/8s, 2025
	3,665,000	Russia (Federation of) bonds 12 3/4s, 2028
	5,670,000	Russia (Federation of) unsub. 8 1/4s, 2010
	8,635,000	Russia (Federation of) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP)
	11,677,500	Russia (Federation of) 144A unsub. 2 1/4, 2030
EUR	760,000	Spain (Government of) bonds 6s, 2029
EUR	2,360,000	Spain (Government of) bonds 4.8s, 2006
SEK	108,140,000	Sweden (Government of) bonds Ser. 1044, 3 1/2s, 2006
\$	1,070,000	Turkey (Republic of) bonds 11 3/4s, 2010
	725,000	Turkey (Republic of) notes 11 1/2s, 2012
GBP	4,420,000	United Kingdom Treasury bonds 10s, 2003
GBP	4,100,000	United Kingdom Treasury bonds 8 1/2s, 2005
GBP	860,000	United Kingdom Treasury bonds 5s, 2012
GBP	2,855,000	United Kingdom Treasury 144A bonds Ser. 85, 9 3/4s, 2002
\$	2,620,000	United Mexican States bonds 11 3/8s, 2016
	4,235,000	United Mexican States bonds Ser. MTN, 8.3s, 2031
	2,080,000	United Mexican States notes 7 1/2s, 2012
	5,770,000	United Mexican States notes Ser. A, 9 7/8s, 2010
	1,055,000	Venezuela (Republic of) bonds 9 1/4s, 2027

Total Foreign Government Bonds and Notes

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(cost \$147,406,805)

U.S. GOVERNMENT AND AGENCY OBLIGATIONS (13.4%) (a)  
PRINCIPAL AMOUNT

U.S. Government Agency Mortgage Obligations (4.9%)

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\$		101,010 Federal Home Loan Mortgage Corporation Pass-Through Certificates 7 1/2s, March 1, 2026 Federal National Mortgage Association
	6,784,500	TBA, 6 1/2s, February 1, 2032
	35,000,000	TBA, 6 1/2s, February 1, 2017
	1,413,778	Federal National Mortgage Association Pass- Through Certificates 7 1/2s, with due dates from August 1, 2029 to May 1, 2031
	590,187	Government National Mortgage Association Pass-Through Certificates 8s, December 15, 2022

U.S. Treasury Obligations (8.5%)

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		U.S. Treasury Bonds
	51,795,000	7 1/2s, November 15, 2016 (SEG)
	14,195,000	5 3/8s, February 15, 2031
		U.S. Treasury Notes
	2,000,000	5s, August 15, 2011
	660,000	3 1/2s, November 15, 2006

Total U.S. Government and Agency Obligations  
(cost \$125,095,220)

COLLATERALIZED MORTGAGE OBLIGATIONS (10.9%) (a)  
PRINCIPAL AMOUNT

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\$		80,000 Amresco Commercial Mortgage Funding I Ser. 97-C1, Class F, 7.64s, 2029
	5,247,202	Banc of America Commercial Mortgage, Inc. Ser. 01-PB1, Class XC, Interest Only (IO), 0.833s, 2035
	8,778,867	Bank of America Mortgage Securities Ser. 01-10, Class 1A11, IO, 6.79s, 2031
	1,780,901	Blackstone Hotel Acquisition Co. jr. mtge. loan FRN 9.794s, 2003 (United Kingdom)
	760,000	Chase Commercial Mortgage Securities Corp. Ser. 00-3, Class G, 6.887s, 2019
	10,897,684	Citicorp Mortgage Securities, Inc. Ser. 01-15, Class A3A, IO, 5.64s, 2031 Commercial Mortgage Acceptance Corp.
	2,305,000	Ser. 97-ML1, Class D, 6.975s, 2010
	6,874,110	Ser. 97-ML1, IO, 0.952s, 2017
	75,589,253	Commercial Mortgage Asset Trust Ser. 99-C1, Class X, IO, 0.974s, 2020
	2,685,000	Countrywide Home Loan Ser. 98-3, Class A5, 6 3/4s, 2028
	4,100,000	Countrywide Mortgage Backed Securities, Inc. Ser. 93-C, Class A8, 6 1/2s, 2024



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	2,948,000	Criimi Mae Commercial Mortgage Trust Ser. 98-C1, Class A2, 7s, 2011
	3,474,000	Criimi Mae Commercial Mortgage Trust 144A Ser. 98-C1, Class B, 7s, 2011
	720,000	CS First Boston Mortgage Securities Corp. Ser. 01-CF2, Class E, 7.29s, 2011
	755,000	Ser. 01-CF2, Class G, 6.93s, 2011
	69,095,021	Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, Class X, IO, 1.231s, 2023 Euro Loan Conduit 144A
GBP	700,000	FRN Ser. 7A, Class E, 8.493s, 2006 (United Kingdom)
GBP	700,000	FRN Ser. 7A, Class D, 6.743s, 2006 (United Kingdom) Fannie Mae
\$	384,360	Ser. 93-245, Class SD, 18.435s, 2023
	89,123	Ser. 99-28, Class SC, 15.379s, 2028
	640,513	Ser. 98-63, Class S, 14.448s, 2026
	31,214,994	Ser. 00-T6, IO, 8.7s, 2030 Fannie Mae
	7,684	Ser. 92-15, Class L, IO, 1037.606s, 2022
	3,132,333	Ser. 01-55, Class CZ, 6 1/2s, 2031
	1,304,000	Ser. 01-58, Class HI, IO, 6 1/2s, 2026
	4,915,000	Ser. 01-62, Class PI, IO, 6 1/2s, 2025
	1,394,200	Ser. 98-1, Class SA, IO, 10 1/2s, 2024
	7,113,216	Ser. 93-251, Class Z, 6 1/2s, 2023
	3,523,070	Ser. 318, Class 2, IO, 6s, 2032
	3,270,300	Ser. 01-72, Class NI, IO, 6s, 2021
	2,497,495	Ser. 01-62, Class BI, IO, 6s, 2026
	1,513,560	Ser. 93-159, Class D, Principal Only (PO), zero %, 2023
	1,482,580	Ser. 96-5, Class PB, PO, zero %, 2024
	568,606	Ser. 97-92, PO, zero %, 2025
	1,115,115	Ser. 99-52, Class MO, PO, zero %, 2026
	24,932,035	FFCA Secured Lending Corp. Ser. 00-1, Class X, IO, 1.714s, 2027 Freddie Mac
	759,351	Ser. 2149, Class ST, 22.43s, 2029
	1,597,833	Ser. 2319, Class S, 21.78s, 2031
	2,139,570	Ser. 2360, Class SC, 16.328s, 2031
	792,664	Ser. 2286, Class LR, 15.533s, 2024
	664,000	Ser. 2028, Class SG, IO, 10.4s, 2023
	1,440,830	Ser. 1717, Class L, 6 1/2s, 2024
	1,744,135	Ser. 2044, Class SG, IO, 3.76s, 2023
	2,390,666	Ser. 2389, Class EI, IO, 6s, 2021
	8,766,098	Ser. 212, IO, 6s, 2031
	13,084,056	Ser. 216, IO, 6s, J2032
	2,110,927	Ser. 211, IO, 6s, July 1, 2029
	563,170	Ser. 2337, PO, zero %, 2031
	4,696,648	Ser. 215, PO, zero %, 2031
	399,197	Ser. 2317, PO, zero %, 2031
	263,998	Ser. 2302, Class LO, PO, zero %, 2031
	324,312	Ser. 2304, PO, zero %, 2031
	616,352	Ser. 2078, Class KC, PO, zero %, 2023
	637,887	Ser. 2190, PO, zero %, 2014
	1,146,134	Ser. 2351, Class EO, PO, zero %, 2031
	770,000	GE Capital Commercial Mortgage Corp. Ser. 01-1, Class G, 7.04s, 2011
	1,575,000	GE Capital Mortgage Services, Inc. Ser. 98-11, Class 2A4, 6 3/4s, 2028 Government National Mortgage Association
	1,271,788	Ser. 98-2, Class EA, PO, zero %, 2028

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	581,785	Ser. 99-42, PO, zero %, 2027
	1,495,000	Granite Mortgages PLC FRN Ser. 01-1, Class 1C, 3.79s, 2041 (United Kingdom)
	7,365,000	Holmes Financing PLC FRB Ser. 1, Class 2C, 2.977s, 2040 (United Kingdom)
		Merrill Lynch Mortgage Investors, Inc.
	18,963,012	Ser. 96-C2, IO, 1.893s, 2028
	2,344,273	Ser. 98-C2, IO, 1.538s, 2030
	1,615,000	Ser. 1995-C3, Class D, 7.782s, 2025
	1,495,000	Ser. 96-C2, Class E, 6.96s, 2028
	9,804,275	Mortgage Capital Funding, Inc. Ser. 97-MC2, Class X, IO, 1.572s, 2007
	103,817	Prudential Home Mortgage Securities Ser. 93-57, Class A4, 5.9s, 2023
	24,630,688	Residential Funding Mortgage Securities, Inc. Ser. 01-S26, Class A9, IO, 5.64s, 2031
GBP	1,700,000	Residential Mortgage Securities 144A FRB Ser. 8, Class M, 6.88s, 2038
\$	1,031,002	Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026
	3,495,000	Starwood Asset Receivables Trust FRB Ser. 00-1, Class E, 4.68s, 2002

Total Collateralized Mortgage Obligations  
(cost \$100,006,598)

BRADY BONDS (3.2%) (a)  
PRINCIPAL AMOUNT

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\$	18,386,183	Brazil (Federal Republic of) bonds 8s, 2014
	1,130,000	Brazil (Federal Republic of) govt. guaranty FRB 3 1/4s, 2012
	1,850,000	Bulgaria (Government of) coll., Ser. A, FLIRB, 4.563s, 2012
	2,993,900	Bulgaria (Government of) debs. Ser. PDI, FRB, 4.563s, 2011
	695,800	Bulgaria (Government of) debs. Ser. RPDI, FRB, 4.563s, 2011
	1,730,000	Bulgaria (Government of) Ser. A, FRB, 4.563s, 2024
	2,560,000	Peru (Republic of) FLIRB, 3 3/4s, 2017
	4,420,000	United Mexican States bonds Ser. B, 6 1/4s, 2019
	2,857,100	Venezuela (Republic of) debs. Ser. DL, FRB, 4 3/4s, 2007

Total Brady Bonds (cost \$27,610,348)

PREFERRED STOCKS (2.3%) (a)  
NUMBER OF SHARES

---

	39,751	AmeriKing, Inc. \$3.25 cum. pfd. (PIK)
	43,276	Brand Scaffold Services, Inc. 144A \$3.625 pfd.
	74,000	California Federal Bancorp, Inc. Ser. A, \$2.281 pfd.
	39,305	Chevy Chase Capital Corp. Ser. A, \$5.188 pfd. (PIK)
	3,805	Chevy Chase Savings Bank, Inc. \$3.25 pfd.
	340,000	CSBI Capital Trust I 144A company guaranty Ser. A, 11.75% pfd.
	28,919	CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd. (PIK)
	1,885	Delta Financial Corp. Ser. A, \$10.00 cum. pfd.
	69,460	Diva Systems Corp. Ser. C, \$6.00 cum. pfd.
	20,000	Doane Pet Care Co. \$7.125 pfd.

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2,857 Dobson Communications Corp. 13.00% pfd.  
540 First Republic Capital Corp. 144A 10.50% pfd.  
570 Fresenius Medical Capital Trust II 7.875% company  
guaranty pfd. (Germany)  
2,662 Granite Broadcasting Corp. 12.75% cum. pfd. (PIK)  
1,598 ICG Holdings, Inc. 14.25% pfd. (Canada)  
(In default) (NON)  
815 ICG Holdings, Inc. 144A 14.00% pfd. (Canada)  
(In default) (NON) (PIK)  
1,582 Intermedia Communications, Inc. Ser. B,  
13.50% pfd. (PIK)  
1,038 Nextel Communications, Inc. 144A Ser. E,  
\$11.125 pfd. (PIK)  
404 Paxson Communications Corp. 13.25% cum. pfd. (PIK)  
1,518 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$25,893,232)

### ASSET-BACKED SECURITIES (1.6%) (a) PRINCIPAL AMOUNT

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\$ 4,265,000 Conseco Finance Securitizations Corp.  
Ser. 00-4, Class A6, 8.31s, 2032  
1,535,000 Ser. 00-6, Class M2, 8.2s, 2032  
1,436,000 Ser. 01-4, Class B1, 9.4s, 2010  
2,153,013 First Plus 144A Ser. 98-A, Class A, 8 1/2s, 2023  
385,000 Green Tree Financial Corp. Ser. 95-F, Class B2,  
7.1s, 2021  
888,642 Mid-State Trust Ser. 10, Class B, 7.54s, 2027  
545,000 Morgan Stanley Dean Witter Capital I Ser. 01-NC3,  
Class B1, 4.38s, 2031  
2,318,000 Morgan Stanley Dean Witter Capital I Ser. 01-NC4,  
Class B1, FRN, 4.42s, 2032  
1,740,000 Option One Mortgage Loan Trust Ser. 02-1, 6 3/4s,  
2032

Total Asset-Backed Securities (cost \$15,076,562)

### CONVERTIBLE BONDS AND NOTES (0.7%) (a) PRINCIPAL AMOUNT

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\$ 950,000 American Tower Corp. cv. notes 5s, 2010  
1,300,000 DaVita, Inc. cv. sub. notes 7s, 2009  
110,000 Echostar Communications Corp. 144A cv. sub.  
notes 5 3/4s, 2008  
1,610,000 Exide Corp. 144A cv. sr. sub. notes 2.9s, 2005  
800,000 Healthsouth Corp. cv. sub. debs. 3 1/4s, 2003  
158,000 Hexcel Corp. cv. sub. notes 7s, 2003  
2,950,000 Nextel Communications, Inc. cv. sr. notes  
5 1/4s, 2010  
150,000 Rogers Communications cv. debs. 2s, 2005 (Canada)  
1,280,000 Solecron Corp. cv. notes zero %, 2020  
40,000 Spectrasite Holdings, Inc. cv. sr. notes 6 3/4s, 2010  
1,160,000 Telewest Finance Corp. cv. sub. notes 6s, 2005  
(United Kingdom)

Total Convertible Bonds and Notes  
(cost \$7,155,836)

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COMMON STOCKS (0.6%) (a)  
NUMBER OF SHARES

---

3,074	Alderwoods Group, Inc. (NON)
525	AmeriKing, Inc. (NON)
45,677	Arch Wireless, Inc. (NON)
19,924	Aurora Foods, Inc. (NON)
277,865	Celcaribe SA (Colombia)
22,903	Clarent Hospital Corp.
3,220,535	Contifinancial Corp. Liquidating Trust units
24,951	Covad Communications Group, Inc. 144A (NON)
1,885	Delta Funding Residual Exchange Co., LLC (NON)
1,885	Delta Funding Residual Management, Inc. (NON)
28,440	Doskocil Manufacturing
243,039	Focal Communications Corp. (NON)
13,645	Genesis Health Ventures, Inc.
20,238	Intira Corp.
2,830	MPower Holdings Corp. 144A
39,407	Pioneer Cos., Inc. (NON)
1,186	Premium Holdings (L.P.) 144A
2,502	PSF Holdings, LLC Class A
234	Quorum Broadcast Holdings, Inc. Class E
124	RSL Communications, Ltd. Class A (NON)
39,603	Safety Components International, Inc.
36,750	Specialty Foods Acquisition Corp. (NON)
2,169	Vast Solutions, Inc. Class B1 (NON)
2,169	Vast Solutions, Inc. Class B2 (NON)
2,169	Vast Solutions, Inc. Class B3 (NON)
	Total Common Stocks (cost \$15,843,337)

UNITS (0.1%) (a)  
NUMBER OF UNITS

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847	Hercules Trust II units 6.50% cum. cv. pfd.
1,420	Pegasus Shipping 144A units company guaranty stepped-coupon zero % (14 1/2s, 6/20/03), 2008 (Bermuda) (STP)
960	XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)
7,615	XCL, Ltd. 144A units 9.50% cv. cum. pfd. (In default) (NON) (PIK)
	Total Units (cost \$3,114,794)

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

---

218	Anker Coal Group, Inc. \$14.25 cv. pfd.
77	Genesis Health Ventures, Inc. \$6.00 cv. pfd. (PIK)
1,900	Interact Systems, Inc. 144A 14.00% cv. pfd. (In default) (NON)
6,800	LTV Corp. (The) 144A \$4.125 cv. pfd. (In default) (NON)
68	Paxson Communications Corp. 144A 9.75% cv. pfd. (PIK)

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200 World Access, Inc. 144A Ser. D, zero % cv. pfd.  
 1,503 XCL, Ltd. 144A Ser. A, 9.50% cum. cv. pfd.  
 (In default) (NON) (PIK)

Total Convertible Preferred Stocks  
 (cost \$1,581,118)

WARRANTS (0.1%) (a) (NON)  
 NUMBER OF WARRANTS

EXPIRATION  
 DATE

NUMBER OF WARRANTS	WARRANTS (0.1%) (a) (NON)	EXPIRATION DATE
16	Anker Coal Group, Inc. 144A	10/28/0
810	Bestel SA de CV (Mexico)	5/15/05
780	Birch Telecommunications, Inc. 144A (PIK)	6/15/08
530	Colo.com, Inc. 144A	3/15/10
1,420	Dayton Superior Corp.	6/15/09
160	Decrane Aircraft Holdings Co.	9/30/08
19,981	Delta Financial Corp.	12/21/1
2,520	Destia Communications 144A	7/15/07
2,919	Diva Systems Corp.	5/15/06
8,326	Diva Systems Corp. 144A	3/1/08
11,700	Genesis Health Ventures, Inc.	10/1/02
1,015	Globalstar Telecommunications	2/15/04
1,450	Horizon PCS, Inc.	10/1/10
20,856	ICG Communications, Inc.	10/15/0
25,863	Imperial Credit Industries, Inc.	8/1/08
1,900	Interact Systems, Inc.	8/1/03
1,900	Interact Systems, Inc. 144A	12/15/0
121,649	Intira Corp. Class B	9/29/10
1,270	iPCS, Inc. 144A	7/15/10
820	IWO Holdings, Inc.	1/15/11
1,600	Jostens, Inc.	5/1/10
2,175	KMC Telecommunications Holdings, Inc. 144A	4/15/08
2,185	Knology Holdings, Inc.	10/22/0
758	Leap Wireless International, Inc. 144A	4/15/10
4,144	Loral Space & Communications, Ltd.	12/27/0
3,590	McCaw International, Ltd.	4/15/07
940	Mediq, Inc. 144A	6/1/09
550	Mikohn Gaming Corp. 144A	8/15/08
560	ONO Finance PLC 144A (United Kingdom)	2/15/11
990	Orbital Imaging Corp. 144A	3/1/05
1,310	Orion Network Systems	1/15/07
12,880	Pagemart, Inc. 144A	12/31/0
1,600	Paxson Communications Corp. 144A	6/30/03
570	Pliant Corp. 144A	6/1/10
810	Raintree Resort 144A	12/1/04
1,640	Startec Global Communications Corp.	5/15/08
680	Sterling Chemicals Holdings	8/15/08
630	Telehub Communications Corp. 144A	7/31/05
690	Travel Centers of America	5/1/09
2,310	Ubiquitel, Inc. 144A	4/15/10
5,820	UIH Australia/Pacific, Inc. 144A	5/15/06
22,322	United Artists Theatre	3/2/08
1,190	Veraldo Holdings, Inc. 144A	4/15/08
50	Versatel Telecom NV (Netherlands)	5/15/08
800	XM Satellite Radio Holdings, Inc. 144A	3/15/10

Total Warrants (cost \$3,378,806)

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SHORT-TERM INVESTMENTS (3.1%) (a)  
PRINCIPAL AMOUNT

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\$ 10,223,000 Citicorp for an effective yield of 1.92%,  
February 1, 2002  
18,776,000 Interest in \$750,000,000 joint tri-party repurchase  
agreement dated January 31, 2002 with S.B.C.  
Warburg, Inc. due February 1, 2002 with respect  
to various U.S. Government obligations --  
maturity value of \$18,777,001 for an effective  
yield of 1.92%

Total Short-Term Investments (cost \$28,998,455)

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Total Investments (cost \$1,028,441,568) (b)

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(a) Percentages indicated are based on net assets of \$920,789,198.

(b) The aggregate identified cost on a tax basis is \$1,033,464,431,  
resulting in gross unrealized appreciation and depreciation of  
\$29,869,504 and \$131,057,454, respectively, or net unrealized  
depreciation of \$101,187,950.

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

(NON) Non-income-producing security.

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

(RES) Restricted, excluding 144A securities, as to public resale. The  
total market value of restricted securities held at January 31, 2002 was  
\$23,619,424 or 2.6% of net assets.

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

(SEG) A portion of this security was pledged and segregated with the  
custodian to cover margin requirements for futures contracts at January  
31, 2002.

(R) Real Estate Investment Trust.

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).

FLIRB represents Front Loaded Interest Reduction Bond.

The rates shown on Floating Rate Bonds (FRB) and Floating Rate  
Notes (FRN) are the current interest rates shown at January 31, 2002,  
which are subject to change based on the terms of the security.

DIVERSIFICATION BY COUNTRY

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Distribution of investments by country of issue at January 31, 2002:  
(as percentage of Market Value)

Brazil	2.4%
Canada	2.0
France	1.7
Germany	2.7
Italy	1.6
Mexico	2.2
Russia	2.3
Sweden	1.0
United Kingdom	4.2
United States	75.9
Other	4.0
-----	
Total	100.0%

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Forward Currency Contracts to Buy at January 31, 2002 (Unaudited)  
(Aggregate face value \$61,530,388)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/ (Depreciation)
Australian Dollars	\$16,242,520	\$16,580,131	3/20/02	\$ (337,611)
British Pounds	6,419,437	6,542,551	3/20/02	(123,114)
Canadian Dollars	3,433,108	3,410,368	3/20/02	22,740
Danish Krone	974,577	1,000,119	3/20/02	(25,542)
Euro	9,287,788	9,631,281	3/20/02	(343,493)
Japanese Yen	22,323,760	23,868,407	3/20/02	(1,544,647)
Swiss Francs	479,350	497,531	3/20/02	(18,181)
				-----
				\$ (2,369,848)

-----  
Forward Currency Contracts to Sell at January 31, 2002 (Unaudited)  
(Aggregate face value \$62,302,099)

	Market Value	Aggregate Face Value	Delivery Date	Unrealized Appreciation/ (Depreciation)
Australian Dollars	\$ 111,214	\$ 111,178	3/20/02	\$ (36)
British Pounds	21,453,007	21,678,013	3/20/02	225,006
Canadian Dollars	1,123,243	1,121,688	3/20/02	(1,555)
Euro	25,951,671	26,807,176	3/20/02	855,505
Japanese Yen	1,099,936	1,095,684	3/20/02	(4,252)
New Zealand Dollars	2,478,853	2,465,449	3/20/02	(13,404)
Swedish Krona	8,928,913	9,022,911	3/20/02	93,998
				-----
				\$1,155,262

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Futures Contracts Outstanding at January 31, 2002 (Unaudited)

	Total Value	Aggregate Face Value	Expiration Date	Unrealized Appreciation/ (Depreciation)
Euro Bund (Long)	\$ 9,378,955	\$ 9,400,902	Mar-02	\$ (21,947)

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Euro Dollar 90 day (Long)	11,029,650	11,021,796	Mar-02	7,854
Euro Dollar 90 day (Long)	11,233,015	11,227,645	Jun-02	5,370
Euro Dollar 90 day (Short)	11,093,475	11,092,130	Mar-02	(1,345)
Euro Dollar 90 day (Short)	10,997,450	10,986,145	Jun-02	(11,305)
Euro-Bobl 5 yr. (Long)	25,206,770	25,663,925	Mar-02	(457,155)
Euro-Bor 90 day (Long)	9,440,760	9,439,894	Mar-02	866
Euro-Bor 90 day (Short)	9,533,307	9,531,597	Mar-02	(1,710)
Japanese Government Bonds 10 yr. (Long)	712,299	720,914	Mar-02	(8,615)
U.S. Treasury Bond (Long)	35,789,625	36,298,356	Mar-02	(508,731)
U.S. Treasury Bond (Long)	26,257,000	26,298,141	Mar-02	(41,141)
				\$(1,037,859)

Swap Contracts outstanding at January 31, 2002 (Unaudited)

	Notional Amount	Termination Date	Unrealized Appreciation
-----			
Agreement with Merrill Lynch Capital Services dated November 17, 2000 to pay quarterly the notional amount multiplied by the U.S. 3-Month LIBOR and receive semi-annually the notional amount multiplied by 6.68%	\$9,000,000	11/21/05	\$647,996
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The accompanying notes are an integral part of these financial statements.

STATEMENT OF ASSETS AND LIABILITIES  
January 31, 2002 (Unaudited)

Assets

Investments in securities, at value (identified cost \$1,028,441,568) (Note 1)	\$ 932,276,481
Foreign currency (cost \$936,319) (Note 1)	903,028
Dividends, interest and other receivables	19,383,860
Receivable for securities sold	71,883,106
Receivable for open swap contracts (Note 1)	647,996
Receivable for open forward currency contracts (Note 1)	1,197,249



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Receivable for closed forward currency contracts (Note 1)	96,403
Total assets	1,026,388,123
Liabilities	
Payable to subcustodian (Note 2)	7,270,837
Payable for variation margin (Note 1)	101,506
Distributions payable to shareholders	6,334,809
Payable for securities purchased	87,260,872
Payable for compensation of Manager (Note 2)	1,594,860
Payable for investor servicing and custodian fees (Note 2)	151,629
Payable for compensation of Trustees (Note 2)	37,098
Payable for administrative services (Note 2)	1,174
Payable for open forward currency contracts (Note 1)	2,411,835
Payable for closed forward currency contracts (Note 1)	319,189
Other accrued expenses	115,116
Total liabilities	105,598,925
Net assets	\$ 920,789,198
Represented by	
Paid-in capital (Notes 1 and 4)	\$ 1,206,785,512
Distributions in excess of net investment income (Note 1)	(12,373,898)
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(175,813,048)
Net unrealized depreciation of investments and assets and liabilities in foreign currencies	(97,809,368)
Total -- Representing net assets applicable to capital shares outstanding	\$ 920,789,198
Computation of net asset value	
Net asset value per share (\$920,789,198 divided by 140,989,259 shares)	\$6.53

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

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### STATEMENT OF OPERATIONS

Six months ended January 31, 2002 (Unaudited)

#### Investment income:

Interest (net of foreign tax of \$352)	\$ 42,627,913
Dividends	1,121,001
Securities lending	305
<b>Total investment income</b>	<b>43,749,219</b>

#### Expenses:

Compensation of Manager (Note 2)	3,218,172
Investor servicing and custodian fees (Note 2)	407,804
Compensation of Trustees (Note 2)	14,524
Administrative services (Note 2)	7,195
Other	308,198
<b>Total expenses</b>	<b>3,955,893</b>
Expense reduction (Note 2)	(27,312)
<b>Net expenses</b>	<b>3,928,581</b>
<b>Net investment income</b>	<b>39,820,638</b>
Net realized loss on investments (Notes 1 and 3)	(27,589,132)
Net realized gain on futures contracts (Note 1)	1,711,451
Net realized gain on written options (Notes 1 and 3)	11,167
Net realized loss on foreign currency transactions (Note 1)	(4,727,606)
Net unrealized appreciation of assets and liabilities in foreign currencies during the period	1,609,389
Net unrealized appreciation of investments, futures contracts swap contracts and written options during the period	5,894,136
<b>Net loss on investments</b>	<b>(23,090,595)</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 16,730,043</b>

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

### STATEMENT OF CHANGES IN NET ASSETS

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	Six months ended January 31 2002*	Year ended July 31 2001
-----		
Decrease in net assets		
-----		
Operations:		
-----		
Net investment income	\$ 39,820,638	\$ 86,175,133
-----		
Net realized loss on investments and foreign currency transactions	(30,594,120)	(48,500,270)
-----		
Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies	7,503,525	(21,624,960)
-----		
Net increase in net assets resulting from operations	16,730,043	16,049,893
-----		
Distributions to shareholders (Note 1):		
-----		
From net investment income	(38,066,180)	(72,307,750)
-----		
From return of capital	--	(15,103,540)
-----		
Total decrease in net assets	(21,336,137)	(71,361,400)
-----		
Net assets		
-----		
Beginning of period	942,125,335	1,013,486,740
-----		
End of period (including distributions in excess of net investment income of \$12,373,898 and \$14,128,356, respectively)	\$920,789,198	\$ 942,125,335
-----		
Number of fund shares		
-----		
Shares outstanding at beginning and end of period	140,989,259	140,989,259
-----		

\* Unaudited

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

FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

	Six months ended January 31 (Unaudited)	Year ended July 31
Per-share operating performance		

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	2002	2001	2000	1999	1998
Net asset value, beginning of period	\$6.68	\$7.19	\$7.62	\$8.71	\$8.88
Investment operations:					
Net investment income (a)	.28	.61	.63	.64	.74
Net realized and unrealized gain (loss) on investments	(.16)	(.50)	(.39)	(.99)	(.18)
Total from investment operations	.12	.11	.24	(.35)	.56
Less distributions:					
From net investment income	(.27)	(.51)	(.65)	(.62)	(.66)
In excess of net investment income	--	--	(.02)	--	--
From net realized gain on investments	--	--	--	(.12)	(.07)
From return of capital	--	(.11)	--	--	--
Total distributions	(.27)	(.62)	(.67)	(.74)	(.73)
Net asset value, end of period	\$6.53	\$6.68	\$7.19	\$7.62	\$8.71
Total return at market value (%) (b)	4.89*	8.56	(1.51)	(7.24)	8.06
Ratios and supplemental data					
Market value, end of period	\$6.32	\$6.29	\$6.38	\$7.19	\$8.50
Net assets, end of period (in thousands)	\$920,789	\$942,125	\$1,013,487	\$1,073,980	\$1,221,188
Ratio of expenses to average net assets (%) (c)	.43*	.85	.83	.86	.89
Ratio of net investment income to average net assets (%)	4.29*	8.87	8.48	8.05	8.34
Portfolio turnover (%)	72.06(d)*	231.58	133.80	165.79	209.50

\* Not annualized.

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

(b) Total return assumes dividend reinvestment.

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- (c) Includes amounts paid through expense offset arrangements (Note 2).
- (d) Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.

### NOTES TO FINANCIAL STATEMENTS January 31, 2002 (Unaudited)

#### Note 1

##### Significant accounting policies

Putnam Premier Income Trust (the "fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The fund's investment objective is to seek high current income consistent with the preservation of capital by allocating its investments among the U.S. government sector, the high yield sector and the international sector of the fixed-income securities market.

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. 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.

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 one or more repurchase agreements and/or short-term money market instruments.

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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. The premium in excess of the call price, if any, is amortized to the call date; thereafter, the remaining excess premium is amortized to maturity.

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 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 (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

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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. 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 0.01% from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities 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

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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 January 31, 2002, the fund had no securities out on loan

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 July 31, 2001, the fund had a capital loss carryover of approximately \$109,681,000 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
-----	-----
\$39,893,000	July 31, 2007
44,858,000	July 31, 2008
24,930,000	July 31, 2009



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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. 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.

### 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% of any amount over \$1.5 billion.

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.

Under the subcustodian contract between the subcustodian bank and PFTC, the subcustodian bank has a lien on the securities of the fund to the extent permitted by the fund's investment restrictions to cover any advances made by the subcustodian bank for the settlement of securities purchased by the fund. At January 31, 2002, the payable to the subcustodian bank represents the amount due for cash advance for the settlement of a security purchased.

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 six months ended January 31, 2002, the fund's expenses were reduced by \$27,312 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$1,045 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

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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 six months ended January 31, 2002, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$296,478,571 and \$357,984,245, respectively. Purchases and sales of U.S. government obligations aggregated \$593,124,911 and \$549,533,392, respectively.

Written option transactions during the period are summarized as follows:

	Contract Amounts	Premiums Received
-----		
Written options outstanding at beginning of period	\$1,664,000	\$33,280
-----		
Options opened	6,126,000	11,167
-----		
Options expired	(6,126,000)	(11,167)
-----		
Options closed	(1,664,000)	(33,280)
-----		
Written options outstanding at end of period	\$--	\$--
-----		

### Note 4

#### Share repurchase program

The Trustees authorized the fund to repurchase up to 7,000,000 of its shares in the open market. Repurchases will only be made when the fund's shares are trading at less than net asset value and at such times and amounts as is believed to be in the best interest of the fund's shareholders. Any repurchases of shares will have the effect of increasing the net asset value per share of remaining shares outstanding. For the six months ended January 31, 2002, the fund did not repurchase any shares. As of January 31, 2002, 511,000 shares have been repurchased since the inception of the program.

### Note 5

#### New accounting pronouncement

As required, effective January 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. This Guide requires that the fund amortize premium and accrete discount on all fixed-income securities, and classify as interest income gains and losses realized on paydowns on mortgage-backed securities. Prior to January 1, 2001, the fund did not amortize premium and accrete discounts for certain fixed income securities and characterized as realized gains and losses paydowns on mortgage backed securities. Adopting these accounting principles will not affect the fund's net asset value, but will change the classification of certain

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amounts between interest income and realized and unrealized gain/loss in the Statement of operations. The adoption of this principle is not material to the financial statements.

Amendment to Bylaws  
(Unaudited)

On March 9, 2001, the Trustees amended the fund's Bylaws to require advance notice of shareholder Trustee nominations and shareholder proposals fixing the number of Trustees. Shareholders wishing to propose one or more nominees for election as Trustees or wishing to make a proposal fixing the number of Trustees at an annual meeting of shareholders must provide written notice to the fund (including all required information) so that such notice is received in good order by the fund not less than sixty (60) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting. An exception applies in the case of the annual meeting which was held in calendar year 2001, to the effect that the notice described above to be timely must be received in good order by the fund not less than thirty (30) days prior to that anniversary date. A further exception to the notice deadline applies in the event the date of the annual meeting is substantially advanced or delayed from that anniversary date. Copies of these amendments to the Bylaws have been filed with the Securities and Exchange Commission and are available from its public reference facilities.

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FUND INFORMATION

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### 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  
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### MARKETING SERVICES

Putnam Retail Management  
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### CUSTODIAN

Putnam Fiduciary Trust Company

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Call 1-800-225-1581 weekdays from 9 a.m. to 5 p.m. Eastern Time, or  
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information about the fund's NAV.

PUTNAM INVESTMENTS

The Putnam Funds  
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