

PUTNAM HIGH INCOME BOND FUND

Form N-CSR

May 04, 2004

Putnam  
High Income  
Bond Fund

Item 1. Report to Stockholders:  
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The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

2-29-04

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

From the Trustees

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

John A. Hill and  
George Putnam, III

Dear Fellow Shareholder:

In the first months of 2004, we have continued to see the same positive conditions in financial markets that arose during the recovery of 2003. The U.S. economy and corporate profits have grown impressively based on a solid foundation of rising productivity, low inflation, and low interest rates. With both consumer spending and business capital investment contributing to the expansion, the economy also shows greater equilibrium than has been the case in recent years. These favorable economic conditions have contributed to strong returns in both the stock and bond markets over the reporting period.

Experience teaches us that a run of good news like this does not give reason to be complacent. Rather, in such an environment, active research plays an even more important role in evaluating potential risks. Uncertainties include the possibilities of a rise in interest rates and the adverse effects of a weaker U.S. dollar. Putnam's investment management teams are focused on analyzing these and similar issues. They are also working to identify new opportunities, which may be less abundant than they were in last year's broad rally.

The first half of your fund's fiscal year occurred during a highly favorable period for both convertible and high-yield bonds. Because of the stock market's strong performance during the six-month period, the fund's convertible bond holdings had especially robust returns -- returns that we consider unlikely to recur over the near term. The fund was held back somewhat by its allocation to high-yield bonds, which, despite a strong showing, underperformed convertible bonds. Nevertheless, we believe this diversification is advantageous for shareholders over the long term, as it is designed to reduce volatility.

Respectfully yours,

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/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill  
Chairman of the Trustees

George Putnam, III  
President of the Funds

April 21, 2004

Report from Fund Management

Fund highlights

- \* For the semiannual period ending February 29, 2004, Putnam High Income Bond Fund had total returns of 14.77% at net asset value (NAV) and 12.29% at market price.
- \* Due to management's selection of several strong-performing securities, especially in the convertible portion of the portfolio, the fund at NAV outperformed the 12.75% return of its benchmark, the Merrill Lynch All-Convertible Index.
- \* The fund's return at NAV slightly outperformed the average return of 14.51% for the Lipper Convertible Securities Funds (closed-end) category. Comparisons in this category can be problematic, however, because at period-end it consisted of only 14 funds.
- \* We believe the fund's slightly lower return at market price could be due, in part, to investor concerns that the stronger-than-normal performance in these markets during the past 18 months may be nearing an end. (Market price returns generally reflect changes in investor demand as well.)
- \* See the Performance Summary that begins on page 7 for complete fund performance, comparative performance, and Lipper data.

Performance commentary

Over the past six months, the extraordinarily favorable environment for convertible and high-yield corporate bonds continued the trend of the previous nine months. After three years of negative returns, the stock market rallied strongly, helping to boost convertible securities. Default rates continued to decline, credit quality improved as companies retired or refinanced debt, and investor demand for convertible and high-yield bonds was strong. We focused on fundamental research to select individual securities, many of which performed well. This strategy helped the fund to out perform its benchmark index and its Lipper category average, which contained only convertible securities, based on results at NAV.

FUND PROFILE

Putnam High Income Bond Fund seeks to provide high current income in a portfolio of high-yielding convertible and nonconvertible securities with potential for capital appreciation. The fund invests, under normal circumstances, at least 80% of its net assets in bonds rated below investment grade.

Market overview

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Since convertible securities are tied to the equity markets by their ability to convert to the underlying common stocks of their issuing companies, the stock market is an important driver of convertible bond performance. High-yield bonds can also benefit from an improving stock market, because rising equity valuations help improve debt/equity ratios in corporate balance sheets. Of course, the contrary is also true -- a declining stock market can have a negative effect on both convertible and high-yield bonds.

The fund's fiscal year began in the midst of an economic recovery. Key economic indicators such as productivity, manufacturing growth, capital spending, and consumer confidence became increasingly positive while inflation remained in check. These favorable economic reports helped propel the stock market higher, bolstering the returns of your fund's convertible holdings. Moreover, the more volatile sectors in the stock market, including technology and telecommunications, saw the strongest performance.

The best-performing portion of the convertible market contained bonds with underlying equities that had had significant price declines (known as "busted convertibles") during the three-year bear market from 2000 to 2002, and these securities recovered strongly in 2003.

The narrowing of credit yield spreads (the difference in yield between high-rated and low-rated bonds) continued to indicate that, as news about the economy grew more positive, investors seeking higher yields were becoming more willing to take on credit risk. The fact that short-term interest rates have been at historically low levels provided investors with more incentive to seek higher yields.

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### MARKET SECTOR PERFORMANCE 6 MONTHS ENDED 2/29/04

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#### Bonds

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Merrill Lynch All-Convertible Index (convertible securities)	12.75%
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JP Morgan Chase Global High Yield Index (global high-yield corporate bonds)	10.92%
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Lehman Aggregate Bond Index (broad bond market)	4.92%
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Lehman Global Aggregate Bond Index (international bonds)	10.00%
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#### Equities

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S&P 500 Index (broad stock market)	14.59%
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Russell 2000 Index (stocks of small and midsize companies)	18.34%
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MSCI EAFE Index (international stocks)	25.22%
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These indexes provide an overview of performance in different market sectors for the six months ended 2/29/04.

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#### Strategy overview

While most of the fund's convertible holdings appreciated during the

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period, those with greater equity sensitivity -- i.e., those that generally perform better when the prices of the underlying stocks appreciate (and worse when the stocks decline) -- had the strongest performance. We continued to focus primarily on "busted convertibles," which are securities that have seen large price declines (in both the convertible and the underlying stock price). Some of the fund's busted convertibles benefited from dramatic corporate turnarounds, causing their prices to recover to a greater extent than we had anticipated.

We also increased the number of "mandatory" convertibles in the fund. Unlike a traditional convertible, which converts to the underlying stock only if that stock reaches a certain price, mandatory convertibles automatically convert to stock after a specified period of time. As a result, these securities are more sensitive to the stock market's performance than traditional convertibles, and, because of the strong stock market in 2003, the fund's higher allocation to mandatory convertibles was beneficial for performance.

In the high-yield portion of the fund, we maintained diversity across industry sectors and holdings, which is designed to help protect the fund against increased market volatility. As yields have declined throughout the market, we continued to focus on selectively adding lower-rated, higher-yielding bonds to the portfolio.

[GRAPHIC OMITTED: horizontal bar chart PORTFOLIO COMPOSITION COMPARED]

### PORTFOLIO COMPOSITION COMPARED

	as of 8/31/03	as of 2/29/04
Convertible securities	49.9%	49.4%
Corporate bonds and notes	43.6%	40.2%
Short-term investments	3.8%	8.0%
Common stocks	2.0%	1.7%
Preferred stocks	0.3%	0.4%
Other	0.4%	0.3%

Footnote reads:

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

### How fund holdings affected performance

Within the busted convertible part of the convertible market, the fund invested in a significant position in Northrop Grumman, the defense contractor. As the post-9/11 terrorism concerns have receded, the stock prices of several defense companies have declined to pre-9/11 levels. The Northrop Grumman issue came with an attractive yield, is backed by a large, solid company, and exemplifies the types of holdings we have been seeking for the fund.

The increase in the fund's holdings of mandatory convertibles toward the end of the period, while not large, contributed positively to returns.

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The credit quality of these securities tends to be higher than that of busted convertibles, and in this environment, with the potential for interest rates to rise sometime this year, we feel mandatory convertibles provide attractive risk-return characteristics because of their equity sensitivity -- contingent, of course, on continued positive stock market performance.

[GRAPHIC OMITTED: TOP HOLDINGS]

### TOP HOLDINGS

#### Convertible Securities

- 1 Northrop Grumman Corp.  
Series B, \$7.00 cumulative convertible preferred  
Capital goods
- 2 Service Corp. International  
Convertible subordinated notes, 6.75%, 2008  
Consumer cyclicals
- 3 United States Cellular Corp.  
Convertible liquid yield option notes,  
zero coupon, 2015  
Communications services
- 4 Host Marriott Financial Trust  
\$3.375 convertible preferred  
Financial
- 5 FelCor Lodging Trust, Inc.  
Series A, \$1.95 cumulative convertible preferred  
Financial

#### Corporate Bonds

- 1 Dow Jones TRAC-X NA HY T1  
144A notes, 7.375%, 2009  
Other
- 2 CSC Holdings, Inc.  
Senior notes, 7.875%, 2007  
Consumer staples
- 3 Finova Group, Inc.  
Notes, 7.5%, 2009  
Financial
- 4 Qwest Corp.  
144A notes, 8.875%, 2012  
Communications services
- 5 Six Flags, Inc.  
Senior notes, 8.875%, 2010  
Consumer staples

#### Footnote reads:

These holdings represent 10.8% of the fund's net assets as of 2/29/04.  
The fund's holdings will change over time.

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One example of a troubled holding that performed well was Silicon Graphics, a technology company specializing in three-dimensional graphics and animation, desktop workstations, and Web servers. Early in 2004, the company restructured its convertible bonds, resulting in securities that were much more sensitive to its underlying stock price. Shortly after this restructuring, the company's stock more than doubled, boosting the value of the fund's Silicon Graphics holdings significantly. We sold approximately two-thirds of the position shortly before the end of the period and realized an attractive gain for the fund.

In the high-yield portion of the fund, nearly all of the holdings in the portfolio contributed positively to returns. Among the fund's larger positions, cable television company Charter Communications was one of the top performers. While the firm faced competitive and financial pressures, the company met expectations and management's moves to refinance debt eased investor concerns about the company's liquidity.

In addition, finance company Finova Group provided solid returns. The company had encountered significant difficulties a few years ago, particularly in its airplane leasing business. The firm has worked to liquidate assets and manage its sizeable portfolio of loans, and was helped by a significant loan in 2001 from noted investor Warren Buffett through a joint venture. The company repaid the loan earlier this year, ahead of schedule, and prospects for the airline sector have improved more than expected.

Our sizeable stake in the chemicals sector, where we were more heavily weighted than the index, also boosted returns, including investments in Huntsman International, a major producer of basic chemicals and petrochemicals like ethylene and propylene, and Millennium America (a subsidiary of Millennium Chemicals\*), which owns three specialty chemical businesses. Although energy prices were high, leading to skepticism about the sector's prospects, this cyclical sector benefited from the improving economy.

Among the fund's few detractors during the period were high-yield bonds issued by Solutia, a diversified specialty chemical company. The firm made news when it settled a high-profile PCB contamination lawsuit in Alabama, and appeared to be on its way to working out balance sheet problems. However, the company surprised the market by filing for bankruptcy. We eliminated the bonds from the portfolio, although we still hold a small warrant position, which gives the fund's management the option to purchase the company's stock in the future.

Please note that all holdings discussed in this report are subject to review in accordance with the fund's investment strategy and may vary in the future.

The fund's management teams

The fund is managed by the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams. The members of the Large-Cap Value Team are David King (Portfolio Leader), Mike Abata, Bart Geer, Deborah Kuenstner, Cole Lannum, Christopher Miller, Jeanne Mockard, and Hugh Mullin. The members of the Core Fixed-Income High-Yield Team are Norm Boucher, Jeffrey Kaufman, Geoffrey Kelley, Stephen Peacher, Neil Reiner, Paul Scanlon, Rosemary Thomsen, and Joseph Towell.

\* After the close of the reporting period, Lyondell Chemical Co., another fund holding, agreed to acquire Millennium Chemicals Inc. This

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transaction would also involve a third fund holding, Equistar Chemicals LP, which is currently 70% owned by Lyondell and 30% owned by Millennium. Announcement of this merger had a substantial impact on Millennium's stock price; however, thus far it has had little impact on the prices of these bonds or their credit profiles.

The outlook for your fund

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

The fund's returns over this six-month period have been much higher than the historical average for these types of securities because of optimal conditions. There has been tremendous stimulus in the form of tax cuts, a weaker dollar, increased government spending, and interest rates that have been at historically low levels for some time. Meanwhile, there have been few clear signs from the Federal Reserve Board that significant tightening will occur in 2004. The increased willingness among investors to accept risk has helped boost the capital markets, which has also provided economic stimulus.

While we believe it is not likely that the performance of the past six months will be repeated in the near future, that doesn't necessarily mean, in our view, that the environment for these markets will turn negative. The economy is still in a relatively early stage of its recovery, and this economic backdrop has historically been conducive to solid performance for these types of securities. We are cautiously optimistic about the fund's prospects for the remainder of 2004, and we believe that solid returns from individual securities can be attained. We will seek to uncover those opportunities, and, as always, monitor economic and market developments and make necessary adjustments to the portfolio as we see fit.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice. Lower-rated bonds may offer higher yields in return for more risk.

### Performance summary

This section shows your fund's performance during the first half of its fiscal year, which ended February 29, 2004. In accordance with regulatory requirements, we also include performance for the most current calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represent past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares.

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TOTAL RETURN FOR PERIODS ENDED 2/29/04  
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	NAV	Market price
6 months	14.77%	12.29%

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1 year	33.35	24.10
5 years	64.76	40.75
Annual average	10.50	7.08
10 years	127.77	108.78
Annual average	8.58	7.64
Life of fund (since 7/9/87)		
Annual average	10.35	9.40

Performance does not reflect taxes on reinvested distributions.

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 2/29/04

	Merrill Lynch All-Convertible Index	JP Morgan Chase Global High Yield Index	Lipper Convertible Securities Funds (closed-end) category average <sup>+</sup>
6 months	12.75%	10.92%	14.51%
1 year	27.20	24.82	37.28
5 years	49.64	35.37	47.61
Annual average	8.39	6.24	7.44
10 years	154.31	102.18	116.43
Annual average	9.78	7.29	7.95
Life of fund (since 7/9/87)			
Annual average	--*	--**	9.48

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

\* Index began operations on 12/31/87.

+ Over the 6-month and 1-, 5-, and 10-year periods ended 2/29/04, there were 14, 10, 9, and 7 funds, respectively, in this Lipper category.

\*\* Index began operations on 12/31/93.

PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 2/29/04

Distributions (number)	6
Income	\$0.279
Capital gains	--



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Total	\$0.279	
-----		
Share value:	NAV	Market price
-----		
8/31/03	\$7.73	\$7.31
-----		
2/29/04	8.56	7.92
-----		
Current return (end of period)		
-----		
Current dividend rate 1	6.52%	7.05%
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1 Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

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TOTAL RETURN FOR PERIODS ENDED 3/31/04 (MOST RECENT CALENDER QUARTER)

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	NAV	Market price
-----		
6 months	12.69%	9.17%
-----		
1 year	32.50	23.00
-----		
5 years	65.29	44.91
Annual average	10.57	7.70
-----		
10 years	133.63	124.51
Annual average	8.86	8.42
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Life of fund (since 7/9/87)		
Annual average	10.31	9.36
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### Terms and definitions

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

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

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

### Comparative indexes

JP Morgan Chase Global High Yield Index is an unmanaged index used to mirror the investable universe of the U.S. dollar global high-yield corporate debt market of both developed and emerging markets.

Lehman Aggregate Bond Index is an unmanaged index used as a general measure of U.S. fixed-income securities.

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Lehman Global Aggregate Bond Index is an unmanaged index used as a broad measure of international investment-grade bonds.

Merrill Lynch All-Convertible Index is an unmanaged index of domestic convertible securities.

Morgan Stanley Capital International (MSCI) EAFE Index is an unmanaged index of international stocks from Europe, Australasia, and the Far East.

Russell 2000 Index is an unmanaged index of common stocks that generally measure performance of small to midsize companies within the Russell 3000 Index.

S&P 500 Index is an unmanaged index of common stock performance.

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

Lipper Inc. is a third-party industry ranking entity that ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper. Lipper category averages reflect performance trends for funds within a category and are based on results at net asset value.

### A note about 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.

Putnam is committed to managing our mutual funds in the best interests of our shareholders. Our proxy voting guidelines and policies are available on the Putnam Individual Investor Web site, [www.putnaminvestments.com](http://www.putnaminvestments.com), by calling Putnam's Shareholder Services at 1-800-225-1581, or on the SEC's Web site, [www.sec.gov](http://www.sec.gov).

### 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

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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  
February 29, 2004 (Unaudited)

Corporate bonds and notes (41.0%) (a)	Value
Principal amount	
-----	
Basic Materials (3.9%)	
-----	
\$1,000 Abitibi-Consolidated Finance LP company guaranty 7 7/8s, 2009	\$1,078
95,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)	104,500
110,000 AK Steel Corp. company guaranty 7 7/8s, 2009	97,350
10,000 AK Steel Corp. company guaranty 7 3/4s, 2012	8,600
80,000 Appleton Papers, Inc. company guaranty Ser. B, 12 1/2s, 2008	91,000
40,000 Armco, Inc. sr. notes 8 7/8s, 2008	35,200
55,000 Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)	47,025
75,000 Better Minerals & Aggregates Co. company guaranty 13s, 2009	54,000
100,000 Compass Minerals Group, Inc. company guaranty 10s, 2011	114,000
110,000 Compass Minerals International Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 (STP)	89,100
32,000 Equistar Chemicals LP notes 8 3/4s, 2009	32,720
219,000 Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008	237,600

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	55,000	Equistar Chemicals LP/Equistar Funding Corp. sr. notes 10 5/8s, 2011	59,675
	55,000	Four M Corp. sr. notes Ser. B, 12s, 2006	55,000
	60,000	Georgia-Pacific Corp. bonds 7 3/4s, 2029	58,800
	55,000	Georgia-Pacific Corp. debs. 7.7s, 2015	58,025
	4,000	Georgia-Pacific Corp. sr. notes 7 3/8s, 2008	4,320
	95,000	Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)	106,875
	238,000	Hercules, Inc. company guaranty 11 1/8s, 2007	283,200
	161,000	HMP Equity Holdings Corp. 144A sr. disc. notes zero %, 2008	85,330
	75,000	Huntsman Advanced Materials, LLC 144A sec. notes 11s, 2010	84,375
	165,000	Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009	167,877
	180,000	Huntsman ICI Holdings sr. disc. notes zero %, 2009	84,600
EUR	10,000	Huntsman International, LLC sr. sub. notes Ser. EXCH, 10 1/8s, 2009	11,926
	\$55,000	Huntsman LLC 144A company guaranty 11 5/8s, 2010	57,475
	170,000	ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011	191,250
	35,000	ISP Holdings, Inc. sec. sr. notes Ser. B, 10 5/8s, 2009	38,675
	10,000	Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s, 2006 (In default) (NON)	8,950
	120,000	Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003 (In default) (DEF) (NON)	17,700
	4,000	Louisiana-Pacific Corp. sr. sub. notes 10 7/8s, 2008	4,690
	10,000	Lyondell Chemical Co. bonds 11 1/8s, 2012	10,900
	15,000	Lyondell Chemical Co. company guaranty 9 1/2s, 2008	15,600
	270,000	Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007	283,500
	100,000	MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	112,500
	49,559	MDP Acquisitions PLC sub. notes 15 1/2s, 2013 (Ireland) (PIK)	56,993
	155,000	Millennium America, Inc. company guaranty 9 1/4s, 2008	168,175
	25,000	Millennium America, Inc. company guaranty 7 5/8s, 2026	23,750
	20,000	Millennium America, Inc. 144A sr. notes 9 1/4s, 2008	21,700
	40,000	Nalco Co. 144A sr. notes 7 3/4s, 2011	41,600
EUR	10,000	Nalco Co. 144A sr. notes 7 3/4s, 2011	12,547
EUR	10,000	Nalco Co. 144A sr. sub. notes 9s, 2013	12,547
	\$175,000	Nalco Co. 144A sr. sub. notes	

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	8 7/8s, 2013	183,750
30,000	Noveon International company guaranty Ser. B, 11s, 2011	34,350
2,000	OM Group, Inc. company guaranty 9 1/4s, 2011	2,100
45,000	Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)	47,306
75,504	PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)	73,616
23,909	Pioneer Cos., Inc. sec. FRN 4.663s, 2006 (acquired various dates from 9/11/97 to 1/7/00, cost \$43,530) (RES)	23,311
128,000	Potlatch Corp. company guaranty 10s, 2011	144,000
30,000	Resolution Performance Products, LLC sr. notes 9 1/2s, 2010	30,000
25,000	Resolution Performance Products, LLC 144A sec. notes 8s, 2009	25,250
EUR	30,000 Rhodia SA unsub. Ser. EMTN, 6 1/4s, 2005 (France)	36,524
\$40,000	Salt Holdings Corp. 144A sr. disc. notes stepped-coupon zero % (12s, 6/1/06), 2013 (STP)	30,400
EUR	65,000 SGL Carbon SA 144A sr. notes 8 1/2s, 2012 (Luxembourg)	82,970
\$80,000	Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	88,800
120,000	Stone Container Corp. sr. notes 9 3/4s, 2011	133,800
45,000	Stone Container Corp. sr. notes 8 3/8s, 2012	48,881
30,000	Texas Petrochemical Corp. sr. sub. notes 11 1/8s, 2006 (In default) (NON)	12,900
305,000	Ucar Finance, Inc. company guaranty 10 1/4s, 2012	347,700
55,000	United Agri Products 144A sr. notes 8 1/4s, 2011	56,925
80,000	United States Steel Corp. sr. notes 9 3/4s, 2010	90,200
130,000	WCI Steel, Inc. sr. notes Ser. B, 10s, 2004 (In default) (NON)	63,700
5,500	Weirton Steel Corp. sr. notes 10s, 2008 (In default) (NON)	1,980
5,729	Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010	3,724
11,459	Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011	7,563
40,000	WHX Corp. sr. notes 10 1/2s, 2005	36,400
		-----
		4,656,878
Capital Goods (4.4%)		
-----		
115,000	AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007	118,163
190,000	AGCO Corp. company guaranty 9 1/2s, 2008	208,050
96,410	Air2 US 144A sinking fund Ser. D, 12.266s, 2020 (In default) (NON)	1
230,000	Allied Waste North America, Inc.	

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	company guaranty Ser. B, 9 1/4s, 2012	259,325
177,000	Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008	197,355
120,000	Allied Waste North America, Inc. company guaranty Ser. B, 7 5/8s, 2006	127,200
75,000	Allied Waste North America, Inc. 144A sec. notes 6 1/2s, 2010	76,125
124,000	Argo-Tech Corp. company guaranty 8 5/8s, 2007	123,690
150,000	Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007	149,625
30,000	BE Aerospace, Inc. sr. notes 8 1/2s, 2010	32,550
85,000	BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008	84,788
47,000	BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011	45,943
40,000	BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008	38,000
32,000	Berry Plastics Corp. company guaranty 10 3/4s, 2012	37,120
105,000	Blount, Inc. company guaranty 13s, 2009	113,400
125,000	Blount, Inc. company guaranty 7s, 2005	127,500
111,000	Briggs & Stratton company guaranty 8 7/8s, 2011	131,535
40,000	Browning-Ferris Industries, Inc. debs. 7.4s, 2035	38,600
40,000	Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008	41,200
90,000	Buhrmann US, Inc. company guaranty 12 1/4s, 2009	100,800
70,000	Crown Holdings SA notes 10 7/8s, 2013 (France)	81,550
240,000	Crown Holdings SA notes 9 1/2s, 2011 (France)	270,000
60,000	Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008	39,600
109,000	Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012	120,990
100,000	FIMEP SA sr. notes 10 1/2s, 2013 (France)	119,250
EUR	50,000 Flender Holdings 144A sr. notes 11s, 2010 (Denmark)	71,743
\$78,000	Flowserve Corp. company guaranty 12 1/4s, 2010	89,700
15,000	Fonda Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007	15,300
130,000	Hexcel Corp. sr. sub. notes 9 3/4s, 2009	136,175
DEM	95,000 Impress Metal Packaging Holding NV sr. sub. notes 9 7/8s, 2007 (Netherlands)	56,118
\$105,000	Invensys, PLC notes 9 7/8s, 2011 (United Kingdom)	103,054
EUR	35,000 Invensys, PLC sr. unsub. notes 5 1/2s, 2005 (United Kingdom)	44,307
\$70,000	K&F Industries, Inc. sr. sub. notes	

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	Ser. B, 9 5/8s, 2010	78,225
16,000	K&F Industries, Inc. sr. sub. notes Ser. B, 9 1/4s, 2007	16,520
50,000	L-3 Communications Corp. company guaranty 7 5/8s, 2012	55,500
40,000	L-3 Communications Corp. company guaranty 6 1/8s, 2013	41,100
195,000	Laidlaw International, Inc. 144A sr. notes 10 3/4s, 2011	223,763
35,000	Legrand SA debs. 8 1/2s, 2025 (France)	37,800
12,000	Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012	13,650
EUR 25,000	Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011	34,629
\$30,000	Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013	31,500
47,000	Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006	41,125
5,000	Owens-Brockway Glass company guaranty 8 7/8s, 2009	5,450
75,000	Owens-Brockway Glass company guaranty 8 1/4s, 2013	78,938
70,000	Owens-Brockway Glass company guaranty 7 3/4s, 2011	74,200
102,000	Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012	111,945
70,000	Pliant Corp. sec. notes 11 1/8s, 2009	72,975
75,000	Roller Bearing Company of America company guaranty Ser. B, 9 5/8s, 2007	73,875
105,000	Sensus Metering Systems, Inc. 144A sr. sub. notes 8 5/8s, 2013	106,706
175,000	Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008	192,500
20,000	Siebe PLC 144A notes 7 1/8s, 2007 (United Kingdom)	19,750
65,000	Solo Cup Co. 144A sr. sub. notes 8 1/2s, 2014	67,763
70,000	TD Funding Corp. company guaranty 8 3/8s, 2011	73,850
170,000	Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010	183,600
65,000	Tekni-Plex, Inc. 144A sr. sec. notes 8 3/4s, 2013	67,763
25,000	Terex Corp. company guaranty 9 1/4s, 2011	28,000
46,000	Terex Corp. company guaranty Ser. B, 10 3/8s, 2011	52,095
75,000	Titan Corp. (The) 144A sr. sub. notes 8s, 2011	85,500
88,000	Trimas Corp. company guaranty 9 7/8s, 2012	95,040
50,000	Vought Aircraft Industries, Inc. 144A sr. notes 8s, 2011	51,750
		-----
		5,214,269
Communication Services (3.6%)		
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	58,000 Alamosa Delaware, Inc. company	

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	guaranty 11s, 2010	62,205
105,000	Alamosa Delaware, Inc. 144A sr. notes 8 1/2s, 2012	100,275
25,000	American Cellular Corp. company guaranty 9 1/2s, 2009	23,250
120,000	American Cellular Corp. sr. notes Ser. B, 10s, 2011	120,600
230,000	American Tower Corp. sr. notes 9 3/8s, 2009	243,800
55,000	American Tower Corp. 144A sr. notes 7 1/2s, 2012	52,800
100,000	American Towers, Inc. 144A sr. sub. notes 7 1/4s, 2011	102,250
30,000	Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda) (In default) (NON)	3,375
240,000	Centennial Cellular Operating Co. company guaranty 10 1/8s, 2013	252,000
20,000	Cincinnati Bell Telephone Co. company guaranty 6.3s, 2028	18,900
100,000	Cincinnati Bell, Inc. company guaranty 7 1/4s, 2013	103,000
50,000	Cincinnati Bell, Inc. notes 7 1/4s, 2023	50,000
60,000	Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014	63,150
121,000	Crown Castle International Corp. sr. notes 9 3/8s, 2011	133,100
185,000	Dobson Communications Corp. sr. notes 8 7/8s, 2013	159,563
35,000	Eircom Funding notes 8 1/4s, 2013 (Ireland)	38,850
50,000	Fairpoint Communications, Inc. sr. sub. notes 12 1/2s, 2010	54,000
125,000	Inmarsat Finance PLC 144A company guaranty 7 5/8s, 2012 (United Kingdom)	131,250
140,000	iPCS, Inc. sr. disc. notes stepped-coupon zero % (14s,7/15/05), 2010 (In default) (NON) (STP)	38,150
40,000	IWO Holdings, Inc. company guaranty 14s, 2011 (In default) (NON)	10,800
10,000	Level 3 Communications, Inc. sr. notes 9 1/8s, 2008	8,325
165,000	Level 3 Financing Inc. 144A sr. notes 10 3/4s, 2011	165,825
95,000	Madison River Capital Corp. sr. notes 13 1/4s, 2010	104,500
53,000	Nextel Communications, Inc. sr. notes 9 1/2s, 2011	59,493
5,000	Nextel Communications, Inc. sr. notes 9 3/8s, 2009	5,431
210,000	Nextel Communications, Inc. sr. notes 7 3/8s, 2015	226,275
41,000	Nextel Partners, Inc. sr. notes 12 1/2s, 2009	47,560
75,000	Nextel Partners, Inc. sr. notes 11s, 2010	83,063
175,000	Nextel Partners, Inc. sr. notes 8 1/8s, 2011	184,625
74,000	PanAmSat Corp. company guaranty 8 1/2s, 2012	76,960



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180,000	Qwest Communications International, Inc. 144A sr. notes 7 1/2s, 2014	170,100
370,000	Qwest Corp. 144A notes 8 7/8s, 2012	421,800
50,000	Qwest Services Corp. 144A notes 14s, 2014	60,500
5,000	Rogers Cantel, Ltd. debs. 9 3/8s, 2008 (Canada)	5,250
65,000	Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)	79,300
45,000	Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008	43,200
25,000	SBA Communications Corp. sr. notes 10 1/4s, 2009	25,063
45,000	SBA Telecommunications Inc. 144A sr. disc.notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 (STP)	31,050
184,000	Telus Corp. notes 8s, 2011 (Canada)	219,725
49,000	Telus Corp. notes 7 1/2s, 2007 (Canada)	55,384
50,000	Time Warner Telecom, Inc. 144A sr. notes 9 1/4s, 2014	49,625
80,000	TSI Telecommunication Services, Inc. company guaranty Ser. B, 12 3/4s, 2009	88,400
52,000	UbiquiTel Operating Co. bonds stepped-coupon zero % (14s, 4/15/05), 2010 (STP)	48,880
50,000	UbiquiTel Operating Co. 144A sr. notes 9 7/8s, 2011	48,625
60,000	US UnWired, Inc. company guaranty stepped-coupon Ser. B, zero % (13 3/8s, 11/1/04), 2009 (STP)	55,500
145,000	Western Wireless Corp. sr. notes 9 1/4s, 2013	152,250
	-----	4,278,027
 Conglomerates (0.4%)		
	-----	
153,000	Tyco International Group SA company guaranty 7s, 2028 (Luxembourg)	162,453
165,000	Tyco International Group SA company guaranty 6 7/8s, 2029 (Luxembourg)	172,771
20,000	Tyco International Group SA company guaranty 6 3/4s, 2011 (Luxembourg)	22,093
1,000	Tyco International Group SA company guaranty 6 3/8s, 2005 (Luxembourg)	1,050
38,000	Tyco International Group SA notes 6 3/8s, 2011 (Luxembourg)	41,054
35,000	Tyco International Group SA 144A sr. notes 6s, 2013 (Luxembourg)	36,620
	-----	436,041
 Consumer Cyclical (9.9%)		
	-----	
100,000	Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009	115,000
50,000	Argosy Gaming Co. sr. sub. notes 9s, 2011	55,750
95,000	Argosy Gaming Co. 144A sr. sub. notes 7s, 2014	97,256

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40,000	ArvinMeritor, Inc. notes 8 3/4s, 2012	44,800
65,000	Asbury Automotive Group, Inc. 144A sr. sub. notes 8s, 2014	65,163
160,000	Autonation, Inc. company guaranty 9s, 2008	184,800
60,000	Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011	66,600
20,000	Beazer Homes USA, Inc. company guaranty 8 3/8s, 2012	22,200
15,000	Beazer Homes USA, Inc. 144A sr. notes 6 1/2s, 2013	15,263
40,000	Building Materials Corp. company guaranty 8s, 2008	40,000
40,000	CanWest Media, Inc. sr. sub. notes 10 5/8s, 2011 (Canada)	45,300
50,000	Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010	54,688
158,000	Coinmach Corp. sr. notes 9s, 2010	168,270
115,000	Collins & Aikman Products company guaranty 10 3/4s, 2011	112,125
30,000	D.R. Horton, Inc. sr. notes 7 7/8s, 2011	34,350
20,000	D.R. Horton, Inc. sr. notes 6 7/8s, 2013	21,350
130,000	D.R. Horton, Inc. sr. notes 5 7/8s, 2013	131,300
20,000	Dana Corp. notes 10 1/8s, 2010	23,300
100,000	Dana Corp. notes 9s, 2011	120,250
20,000	Dana Corp. notes 7s, 2029	19,700
30,000	Dana Corp. notes 6 1/4s, 2004	30,000
105,000	Dayton Superior Corp. 144A sec. notes 10 3/4s, 2008	110,250
20,000	Delco Remy International, Inc. company guaranty 11s, 2009	21,100
65,000	Delco Remy International, Inc. company guaranty 10 5/8s, 2006	65,325
150,000	Dex Media West, LLC 144A sr. notes 8 1/2s, 2010	167,625
70,000	Dex Media, Inc. 144A disc. notes stepped-coupon zero % (9s, 11/15/08), 2013 (STP)	46,725
80,000	Dex Media, Inc. 144A notes 8s, 2013	80,000
81,000	Dura Operating Corp. company guaranty Ser. D, 9s, 2009	82,620
25,000	Dura Operating Corp. 144A sr. notes 8 5/8s, 2012	26,875
130,000	FelCor Lodging LP company guaranty 9 1/2s, 2008 (R)	138,125
56,000	Gap, Inc. (The) notes 6.9s, 2007	61,880
95,000	Gaylord Entertainment Co. 144A sr. notes 8s, 2013	100,581
205,000	Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011	174,250
30,000	Goodyear Tire & Rubber Co. (The) notes 6 3/8s, 2008	25,800
129,000	Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008	144,803
125,000	Hilton Hotels Corp. notes 7 5/8s, 2012	141,250
224,000	HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008	231,840

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	97,329 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK)	112,172
	85,000 Hollywood Entertainment Corp. sr. sub. notes 9 5/8s, 2011	87,550
	92,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007	94,990
	215,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009	226,556
	30,000 Host Marriott LP company guaranty Ser. G, 9 1/4s, 2007 (R)	33,225
	30,000 Host Marriott LP sr. notes 7 1/8s, 2013 (R)	30,975
	75,000 Host Marriott LP sr. notes Ser. E, 8 3/8s, 2006 (R)	79,875
	131,000 Icon Health & Fitness company guaranty 11 1/4s, 2012	149,995
	99,000 IESI Corp. company guaranty 10 1/4s, 2012	107,910
	65,000 Inn of the Mountain Gods 144A sr. notes 12s, 2010	70,688
	30,000 Interface, Inc. 144A sr. sub. notes 9 1/2s, 2014	29,700
	65,000 ITT Corp. debs. 7 3/8s, 2015	69,225
	100,000 ITT Corp. notes 6 3/4s, 2005	104,750
	90,000 JC Penney Co., Inc. debs. 7.95s, 2017	101,700
	11,000 JC Penney Co., Inc. debs. 7.65s, 2016	12,320
	130,000 JC Penney Co., Inc. debs. 7 1/8s, 2023	140,725
	75,000 JC Penney Co., Inc. notes 9s, 2012	91,500
	5,000 JC Penney Co., Inc. notes 8s, 2010	5,775
	180,000 John Q. Hammons Hotels LP/John Q. Hammons Hotels Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012	195,750
	135,000 Jostens Holding Corp. 144A sr. disc. notes stepped-coupon zero % (10 1/4s, 12/1/08), 2013 (STP)	89,775
	80,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010	91,200
	60,000 K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007	70,500
	75,000 K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	82,313
	30,000 K. Hovnanian Enterprises, Inc. company guaranty 8s, 2012	32,550
	40,000 K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014	40,500
	55,000 K. Hovnanian Enterprises, Inc. 144A sr. notes 6 3/8s, 2014	54,588
	2,000 KB Home sr. sub. notes 9 1/2s, 2011	2,250
	80,000 Lamar Media Corp. company guaranty 7 1/4s, 2013	86,400
	32,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009	37,600
	340,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005	362,100
EUR	30,000 Lear Corp. sr. notes 8 1/8s, 2008	42,300
\$191,000	Levi Strauss & Co. sr. notes 12 1/4s, 2012	131,790
	60,000 Mandalay Resort Group sr. notes	

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	6 1/2s, 2009	63,300
140,000	MediaNews Group Inc. 144A sr. sub. notes 6 7/8s, 2013	144,200
70,000	Meristar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)	72,450
80,000	Meristar Hospitality Corp. company guaranty 9s, 2008 (R)	82,600
40,000	Meritage Corp. company guaranty 9 3/4s, 2011	44,800
55,000	Meritor Automotive, Inc. notes 6.8s, 2009	57,063
85,000	Metaldyne Corp. 144A sr. notes 10s, 2013	87,975
65,000	MGM Mirage, Inc. company guaranty 8 1/2s, 2010	75,888
1,000	MGM Mirage, Inc. company guaranty 8 3/8s, 2011	1,153
95,000	Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006	102,125
30,000	Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011	33,075
65,000	Mohegan Tribal Gaming Authority sr. sub. notes 6 3/8s, 2009	67,925
80,000	Nortek Holdings, Inc. 144A sr. notes stepped-coupon zero % (10s, 11/15/07), 2011 (STP)	59,000
55,000	Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011	61,325
20,000	Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007	20,608
60,000	Oxford Industries, Inc. 144A sr. notes 8 7/8s, 2011	63,900
25,000	Park Place Entertainment Corp. sr. notes 7 1/2s, 2009	27,813
65,000	Park Place Entertainment Corp. sr. notes 7s, 2013	70,688
161,000	Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008	182,333
110,000	Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008	123,475
132,000	Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010	141,900
30,000	Phillips-Van Heusen Corp. 144A sr. notes 7 1/4s, 2011	30,150
75,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 3/4s, 2013	77,438
65,000	Pinnacle Entertainment, Inc. 144A sr. sub. notes 8 1/4s, 2012	64,533
30,000	PRIMEDIA, Inc. company guaranty 8 7/8s, 2011	30,975
140,000	PRIMEDIA, Inc. company guaranty 7 5/8s, 2008	140,000
150,000	PRIMEDIA, Inc. 144A sr. notes 8s, 2013	150,375
55,000	Reader's Digest Association, Inc. (The) 144A sr. notes 6 1/2s, 2011	55,000
103,000	Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	113,815
15,000	RH Donnelley Finance Corp. I company guaranty 8 7/8s, 2010	16,950
134,000	RH Donnelley Finance Corp. I 144A	

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	sr. notes 8 7/8s, 2010	151,420
77,000	RH Donnelley Finance Corp. I 144A	
	sr. sub. notes 10 7/8s, 2012	91,630
80,000	Riviera Holdings Corp. company	
	guaranty 11s, 2010	84,000
82,000	Russell Corp. company guaranty	
	9 1/4s, 2010	86,510
175,000	Saks, Inc. 144A company guaranty 7s,	
	2013	182,438
246,000	Samsonite Corp. sr. sub. notes	
	10 3/4s, 2008	256,455
64,000	Schuler Homes, Inc. company guaranty	
	10 1/2s, 2011	74,640
265,000	Sealy Mattress Co. sr. sub. notes	
	Ser. B, 9 7/8s, 2007	274,275
10,000	Service Corp. International notes	
	7.2s, 2006	10,475
5,000	Service Corp. International notes	
	6 7/8s, 2007	5,225
21,000	Service Corp. International notes	
	6 1/2s, 2008	21,525
194,000	Service Corp. International notes	
	6s, 2005	198,850
25,000	Service Corp. International notes	
	Ser. (a), 7.7s, 2009	26,750
79,000	Starwood Hotels & Resorts Worldwide,	
	Inc. company guaranty 7 7/8s, 2012	88,085
71,000	Starwood Hotels & Resorts Worldwide,	
	Inc. company guaranty 7 3/8s, 2007	76,858
169,000	Station Casinos, Inc. sr. notes	
	8 3/8s, 2008	181,675
75,000	Station Casinos, Inc. 144A sr. sub.	
	notes 6 7/8s, 2016	75,750
45,000	Technical Olympic USA, Inc. company	
	guaranty 10 3/8s, 2012	51,075
40,000	Technical Olympic USA, Inc. company	
	guaranty 9s, 2010	43,300
30,000	Tenneco Automotive, Inc. company	
	guaranty Ser. B, 11 5/8s, 2009	32,400
100,000	Tenneco Automotive, Inc. sec. notes	
	Ser. B, 10 1/4s, 2013	116,500
60,000	Tommy Hilfiger USA, Inc. company	
	guaranty 6.85s, 2008	62,100
283,000	Trump Atlantic City Associates	
	company guaranty 11 1/4s, 2006	232,060
209,000	Trump Casino Holdings, LLC company	
	guaranty 11 5/8s, 2010	207,433
70,000	United Auto Group, Inc. company	
	guaranty 9 5/8s, 2012	77,350
101,000	Venetian Casino Resort, LLC company	
	guaranty 11s, 2010	116,150
115,000	Vertis, Inc. company guaranty	
	Ser. B, 10 7/8s, 2009	117,300
65,000	Vertis, Inc. sec. notes 9 3/4s, 2009	69,225
100,000	Vertis, Inc. sub. notes 13 1/2s,	
	2009	98,750
40,000	Von Hoffman Press, Inc. company	
	guaranty 10 3/8s, 2007	39,400
75,000	Von Hoffman Press, Inc. company	
	guaranty 10 1/4s, 2009	78,000
59,035	Von Hoffman Press, Inc. debs. 13s,	
	2009 (PIK)	52,836

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21,000	WCI Communities, Inc. company guaranty 10 5/8s, 2011	23,573
101,000	WCI Communities, Inc. company guaranty 9 1/8s, 2012	110,595
59,000	William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011	68,440
35,000	WRC Media Corp. sr. sub. notes 12 3/4s, 2009	35,306
		11,736,947
Consumer Staples (6.1%)		
10,000	Adelphia Communications Corp. notes Ser. B, 9 7/8s, 2005 (In default) (NON)	9,650
20,000	Adelphia Communications Corp. sr. notes 10 7/8s, 2010 (In default) (NON)	19,500
235,000	Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 (In default) (NON)	226,775
80,000	Affinity Group Inc. 144A sr. sub. notes 9s, 2012	83,000
40,000	AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012	44,100
29,000	AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011	30,378
160,000	AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009	164,200
80,000	AMC Entertainment, Inc. 144A sr. sub. notes 8s, 2014	79,800
148,000	Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009	163,910
60,000	Atlantic Broadband Finance LLC 144A sr. sub. notes 9 3/8s, 2014	60,150
136,000	Brand Services, Inc. company guaranty 12s, 2012	159,120
90,000	Capital Records, Inc. 144A company guaranty 8 3/8s, 2009	95,285
19,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)	12,445
35,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 1/15/05), 2010 (STP)	28,525
365,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 11 1/8s, 2011	323,938
70,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 3/4s, 2009	61,600
60,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 1/4s, 2010	52,050
120,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10s, 2011	100,200
63,000	Charter Communications Holdings,	

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	LLC/Capital Corp. sr. notes 9 5/8s, 2009	53,708
61,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 8 5/8s, 2009	50,783
90,000	Cinemark USA, Inc. sr. sub. notes 9s, 2013	100,575
70,000	Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008	72,800
35,000	Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	38,850
5,000	Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012	5,425
3,000	CSC Holdings, Inc. debs. Ser. B, 8 1/8s, 2009	3,270
412,000	CSC Holdings, Inc. sr. notes 7 7/8s, 2007	443,930
60,000	CSC Holdings, Inc. sr. sub. debs. 10 1/2s, 2016	68,850
30,000	Dean Foods Co. sr. notes 6 5/8s, 2009	31,800
40,000	Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011	44,300
80,000	Del Monte Corp. sr. sub. notes 8 5/8s, 2012	88,400
175,000	DirecTV Holdings, LLC sr. notes 8 3/8s, 2013	199,063
271,000	Diva Systems Corp. sr. disc. notes Ser. B, 12 5/8s, 2008 (In default) (NON)	16,938
155,000	Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007	141,050
35,000	Dole Food Co. sr. notes 8 7/8s, 2011	37,538
25,000	Dole Food Co. sr. notes 8 5/8s, 2009	26,875
90,000	Domino's, Inc. sr. sub. notes 8 1/4s, 2011	96,750
20,000	Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008	16,000
30,000	Echostar DBS Corp. sr. notes 10 3/8s, 2007	32,775
42,000	Echostar DBS Corp. sr. notes 9 1/8s, 2009	47,460
220,000	Echostar DBS Corp. 144A sr. notes 6 3/8s, 2011	233,200
35,000	Elizabeth Arden, Inc. 144A company guaranty 7 3/4s, 2014	36,138
154,000	Fleming Cos., Inc. company guaranty 10 1/8s, 2008 (In default) (NON)	25,410
9,000	Fleming Cos., Inc. sr. notes 9 1/4s, 2010 (In default) (NON)	1,485
210,000	Granite Broadcasting Corp. 144A sec. notes 9 3/4s, 2010	206,325
52,000	Gray Television, Inc. company guaranty 9 1/4s, 2011	57,850
110,000	Hasbro, Inc. notes 5.6s, 2005	114,923
2,287	Knology, Inc. 144A sr. notes 12s, 2009 (PIK)	2,321
71,000	Land O'Lakes, Inc. sr. notes 8 3/4s, 2011	61,770
50,000	Mediacom LLC/Mediacom Capital Corp. sr. notes 9 1/2s, 2013	50,750
55,000	North Atlantic Trading Co. 144A sr.	

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	notes 9 1/4s, 2012	56,375
	35,000 ONO Finance PLC sr. notes 14s, 2011 (United Kingdom)	39,025
	15,000 ONO Finance PLC sr. notes 13s, 2009 (United Kingdom)	15,900
EUR	20,000 ONO Finance PLC sr. notes Ser. REGS, 14s, 2011 (United Kingdom)	27,331
	\$10,000 Pegasus Communications Corp. sr. notes Ser. B, 9 3/4s, 2006	9,100
	75,000 Pegasus Satellite sr. notes 12 3/8s, 2006	69,750
	55,000 Pinnacle Foods Holding Corp. 144A sr. sub. notes 8 1/4s, 2013	57,613
	206,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011	191,065
	110,000 Playtex Products, Inc. 144A secd. notes 8s, 2011	114,400
	80,000 Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom)	86,800
	25,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)	22,125
	196,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)	223,440
	49,000 Regal Cinemas, Inc. company guaranty Ser. B, 9 3/8s, 2012	55,125
	95,000 Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	99,275
	40,000 Revlon Consumer Products sr. notes 9s, 2006	42,200
	80,000 Rite Aid Corp. company guaranty 9 1/2s, 2011	89,200
	5,000 Rite Aid Corp. debs. 6 7/8s, 2013	4,750
	10,000 Rite Aid Corp. notes 7 1/8s, 2007	10,050
	125,000 Rite Aid Corp. 144A notes 6 1/8s, 2008	120,313
	5,000 Rite Aid Corp. 144A notes 6s, 2005	4,988
	120,000 Sbarro, Inc. company guaranty 11s, 2009	99,000
	35,000 Scotts Co. (The) 144A sr. sub. notes 6 5/8s, 2013	36,225
	364,000 Six Flags, Inc. sr. notes 8 7/8s, 2010	374,465
	125,000 Six Flags, Inc. 144A sr. notes 9 5/8s, 2014	131,875
	290,000 TeleWest Communications PLC debs. 11s, 2007 (United Kingdom) (In default) (NON)	192,850
	40,000 Videotron Ltee company guaranty 6 7/8s, 2014 (Canada)	41,900
	90,000 Vivendi Universal SA sr. notes 9 1/4s, 2010 (France)	105,975
	135,000 Vivendi Universal SA sr. notes 6 1/4s, 2008 (France)	144,788
	114,000 Williams Scotsman, Inc. company guaranty 9 7/8s, 2007	112,005
	203,000 Young Broadcasting, Inc. company guaranty 10s, 2011	217,210
	50,000 Young Broadcasting, Inc. 144A sr. sub. notes 8 3/4s, 2014	51,750
	20,000 Yum! Brands, Inc. sr. notes 8 7/8s, 2011	24,700



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39,000	Yum! Brands, Inc. sr. notes 8 1/2s, 2006	43,485
105,000	Yum! Brands, Inc. sr. notes 7.7s, 2012	122,850
105,000	Yum! Brands, Inc. sr. notes 7.65s, 2008	120,225
		----- 7,280,066
Energy (3.0%)		
-----		
110,000	Arch Western Finance, LLC 144A sr. notes 6 3/4s, 2013	116,050
90,000	Belden & Blake Corp. company guaranty Ser. B, 9 7/8s, 2007	89,100
90,000	BRL Universal Equipment sec. notes 8 7/8s, 2008	96,075
54,000	Chesapeake Energy Corp. company guaranty 9s, 2012	62,303
35,000	Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	38,238
135,000	Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	147,488
75,000	Comstock Resources, Inc. sr. notes 6 7/8s, 2012	75,844
100,000	Dresser, Inc. company guaranty 9 3/8s, 2011	108,500
16,000	El Paso Energy Partners LP company guaranty Ser. B, 8 1/2s, 2011	17,920
80,000	Encore Acquisition Co. company guaranty 8 3/8s, 2012	85,600
80,000	Exco Resources, Inc. 144A company guaranty 7 1/4s, 2011	82,200
105,000	Forest Oil Corp. company guaranty 7 3/4s, 2014	110,250
62,000	Forest Oil Corp. sr. notes 8s, 2008	66,960
50,000	Hanover Compressor Co. sr. notes 8 5/8s, 2010	52,500
75,000	Hanover Compressor Co. sub. notes zero %, 2007	56,813
50,000	Hanover Equipment Trust sec. notes Ser. A, 8 1/2s, 2008	53,000
68,000	Hornbeck Offshore Services, Inc. sr. notes 10 5/8s, 2008	75,310
40,000	Key Energy Services, Inc. sr. notes 6 3/8s, 2013	41,600
5,000	Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009	5,263
75,000	Massey Energy Co. 144A sr. notes 6 5/8s, 2010	77,250
80,000	Newfield Exploration Co. sr. notes 7 5/8s, 2011	90,000
65,000	Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	63,050
20,000	Parker & Parsley Co. sr. notes 8 1/4s, 2007	22,862
90,000	Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009	99,000
250,000	Pemex Project Funding Master Trust company guaranty 7 3/8s, 2014	271,250
80,000	Petro Geo-Services notes 10s, 2010 (Norway)	86,800

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210,000	Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010	267,511
16,000	Pioneer Natural Resources Co. company guaranty 7.2s, 2028	17,647
55,000	Plains All American Pipeline LP/Plains All American Finance Corp. company guaranty 7 3/4s, 2012	64,488
80,000	Plains Exploration & Production Co. company guaranty Ser. B, 8 3/4s, 2012	89,400
65,000	Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	72,638
115,000	Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	128,225
10,000	Pride International, Inc. sr. notes 10s, 2009	10,663
113,000	Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007	115,966
80,000	Seabulk International, Inc. company guaranty 9 1/2s, 2013	84,000
105,000	Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013	116,550
25,000	Star Gas Partners LP/Star Gas Finance Co. 144A sr. notes 10 1/4s, 2013	27,750
25,000	Swift Energy Co. sr. sub. notes 9 3/8s, 2012	27,875
125,000	Trico Marine Services, Inc. company guaranty 8 7/8s, 2012	88,750
20,000	Universal Compression, Inc. sr. notes 7 1/4s, 2010	21,400
24,000	Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011	25,440
90,000	Westport Resources Corp. company guaranty 8 1/4s, 2011	99,450
70,000	Westport Resources Corp. 144A company guaranty 8 1/4s, 2011	77,350
52,000	XTO Energy, Inc. sr. notes 7 1/2s, 2012	60,710
45,000	XTO Energy, Inc. sr. notes 6 1/4s, 2013	49,106
		-----
		3,536,145

Financial (0.7%)

35,000	Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	36,925
110,000	Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009 (R)	121,138
685,000	Finova Group, Inc. notes 7 1/2s, 2009	429,838
65,000	iStar Financial, Inc. sr. notes 8 3/4s, 2008 (R)	73,613
10,000	iStar Financial, Inc. sr. notes 7s, 2008 (R)	10,750
60,000	iStar Financial, Inc. sr. notes 6s, 2010 (R)	62,100
70,000	Western Financial Bank sub. debs. 9 5/8s, 2012	80,150
		-----
		814,514

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### Health Care (2.4%)

189,000	Alderwoods Group, Inc. company guaranty 12 1/4s, 2009	210,026
52,000	Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011	52,390
82,000	AmerisourceBergen Corp. company guaranty 7 1/4s, 2012	88,150
160,000	AmerisourceBergen Corp. sr. notes 8 1/8s, 2008	178,000
135,000	Ardent Health Services 144A sr. sub. notes 10s, 2013	149,850
70,000	Beverly Enterprises, Inc. sr. notes 9 5/8s, 2009	79,100
60,000	Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)	60,000
29,863	Dade Behring, Inc. company guaranty 11.91s, 2010	34,454
60,000	Extendicare Health Services, Inc. company guaranty 9 1/2s, 2010	66,600
70,000	Hanger Orthopedic Group, Inc. company guaranty 10 3/8s, 2009	79,013
10,000	HCA, Inc. debs. 7.19s, 2015	11,159
40,000	HCA, Inc. sr. notes 6.95s, 2012	44,017
175,000	Healthsouth Corp. notes 7 5/8s, 2012	167,563
37,000	Healthsouth Corp. sr. notes 8 1/2s, 2008	36,538
37,000	Healthsouth Corp. sr. notes 8 3/8s, 2011	36,723
61,000	IASIS Healthcare Corp. company guaranty 13s, 2009	68,320
10,000	IASIS Healthcare Corp. company guaranty 8 1/2s, 2009	10,700
55,000	Insight Health Services Corp. 144A company guaranty 9 7/8s, 2011	55,825
39,220	Magellan Health Services, Inc. sr. notes Ser. A, 9 3/8s, 2008	41,769
90,000	Mediq, Inc. debs. 13s, 2009 (In default) (NON)	9
106,000	MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012	119,780
255,000	Multicare Companies, Inc. sr. sub. notes 9s, 2007 (In default) (NON)	1
50,000	NeighborCare, Inc. 144A sr. sub. notes 6 7/8s, 2013	52,000
90,000	Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	92,250
70,000	Owens & Minor, Inc. company guaranty 8 1/2s, 2011	76,650
100,000	PacifiCare Health Systems, Inc. company guaranty 10 3/4s, 2009	117,250
90,000	Province Healthcare Co. sr. sub. notes 7 1/2s, 2013	92,925
60,000	Stewart Enterprises, Inc. notes 10 3/4s, 2008	66,900
45,000	Tenet Healthcare Corp. notes 7 3/8s, 2013	41,625
10,000	Tenet Healthcare Corp. sr. notes 6 1/2s, 2012	8,825
170,000	Tenet Healthcare Corp. sr. notes 6 3/8s, 2011	150,875

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	195,000 Tenet Healthcare Corp. sr. notes 5 3/8s, 2006	185,250
	150,000 Triad Hospitals, Inc. 144A sr. sub. notes 7s, 2013	155,250
	75,000 Universal Hospital Services, Inc. 144A sr. notes 10 1/8s, 2011	80,063
	40,000 Ventas Realty LP/Capital Corp. company guaranty 9s, 2012	45,500
		2,755,350
Other (1.4%)		
	1,680,000 Dow Jones TRAC-X NA HY T1 144A notes 7 3/8s, 2009	1,686,871
Technology (1.4%)		
	64,000 AMI Semiconductor, Inc. company guaranty 10 3/4s, 2013	75,200
	68,000 DigitalNet Holdings Inc. sr. notes 9s, 2010	73,270
EUR	105,000 Getronics NV sub. notes 13s, 2008 (Netherlands)	62,612
	\$211,000 Iron Mountain, Inc. company guaranty 8 5/8s, 2013	229,990
	135,000 Lucent Technologies, Inc. debs. 6.45s, 2029	110,363
	5,000 Lucent Technologies, Inc. notes 5 1/2s, 2008	4,813
	170,000 Nortel Networks Corp. notes 6 1/8s, 2006 (Canada)	175,950
	69,000 ON Semiconductor Corp. company guaranty 13s, 2008	82,455
	141,555 Peregrine Systems, Inc. 144A sr. notes 6 1/2s, 2007	137,308
	75,000 SCG Holding & Semiconductor Corp. company guaranty 12s, 2009	81,469
	45,000 SCG Holding Corp. 144A notes zero %, 2011	63,450
	85,000 Seagate Technology Hdd Holdings company guaranty 8s, 2009 (Cayman Islands)	92,013
	55,000 Viasystems, Inc. 144A sr. sub. notes 10 1/2s, 2011	59,950
	105,000 Xerox Capital Trust I company guaranty 8s, 2027	102,900
	18,000 Xerox Corp. company guaranty 9 3/4s, 2009	20,970
	55,000 Xerox Corp. notes Ser. MTN, 7.2s, 2016	56,650
	144,000 Xerox Corp. sr. notes 7 5/8s, 2013	153,360
	95,000 Xerox Corp. sr. notes 7 1/8s, 2010	101,413
		1,684,136
Transportation (0.7%)		
	69,000 Allied Holdings, Inc. company guaranty Ser. B, 8 5/8s, 2007	66,930
	70,000 American Airlines, Inc. pass-through certificates Ser. 01-1, 6.817s,	

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	2011	67,200
140,000	Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008	124,600
60,000	Delta Air Lines, Inc. notes 7.9s, 2009	44,100
50,000	Delta Air Lines, Inc. pass-through certificates Ser. 00-1, 7.779s, 2005	46,582
185,000	Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008	206,275
25,000	Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009	25,750
97,000	Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006	107,428
20,000	Navistar International Corp. sr. notes Ser. B, 8s, 2008	20,450
60,000	Northwest Airlines, Inc. company guaranty 7 5/8s, 2005	58,950
20,000	Travel Centers of America, Inc. company guaranty 12 3/4s, 2009	23,500
85,055	US Air, Inc. pass-through certificates Ser. 93-A3, 10 3/8s, 2013 (In default) (NON)	27,218
	-----	818,983
 Utilities & Power (3.1%)		
	-----	
22,000	AES Corp. (The) sr. notes 8 7/8s, 2011	23,485
6,000	AES Corp. (The) sr. notes 8 3/4s, 2008	6,300
105,000	AES Corp. (The) 144A sec. notes 9s, 2015	116,025
150,000	AES Corp. (The) 144A sec. notes 8 3/4s, 2013	165,188
130,000	Allegheny Energy Supply 144A bonds 8 1/4s, 2012	128,700
45,000	Allegheny Energy Supply 144A sec. notes 10 1/4s, 2007	48,375
32,000	Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada)	24,720
10,000	Calpine Corp. sr. notes 8 3/4s, 2007	8,125
10,000	Calpine Corp. sr. notes 8 5/8s, 2010	7,625
105,000	Calpine Corp. sr. notes 7 7/8s, 2008	79,800
338,000	Calpine Corp. 144A sec. notes 8 1/2s, 2010	310,960
35,000	CenterPoint Energy Resources Corp. debs. 6 1/2s, 2008	37,744
20,000	CenterPoint Energy Resources Corp. sr. notes Ser. B, 7 7/8s, 2013	22,981
20,000	CMS Energy Corp. pass-through certificates 7s, 2005	20,350
30,000	CMS Energy Corp. sr. notes 8.9s, 2008	32,513
55,000	CMS Energy Corp. sr. notes 8 1/2s, 2011	58,988
25,000	CMS Energy Corp. 144A sr. notes 7 3/4s, 2010	25,875
15,000	Dynegy Holdings, Inc. sr. notes 6 7/8s, 2011	13,088
190,000	Dynegy Holdings, Inc. 144A sec.	

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	notes 10 1/8s, 2013	211,850
50,000	Dynergy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010	50,000
75,000	Dynergy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016	71,250
110,000	Edison Mission Energy sr. notes 9 7/8s, 2011	115,500
55,000	El Paso Corp. sr. notes 7 3/8s, 2012	47,850
115,000	El Paso Corp. sr. notes Ser. MTN, 7 3/4s, 2032	92,288
25,000	El Paso Natural Gas Co. debs. 8 5/8s, 2022	26,313
25,000	El Paso Natural Gas Co. sr. notes Ser. A, 7 5/8s, 2010	25,563
160,000	El Paso Production Holding Co. company guaranty 7 3/4s, 2013	150,400
30,000	Kansas Gas & Electric debs. 8.29s, 2016	31,050
69,650	Midland Funding II Corp. debs. Ser. A, 11 3/4s, 2005	74,525
110,000	Mirant Americas Generation, Inc. sr. notes 7.2s, 2008 (In default) (NON)	88,550
40,000	Mission Energy Holding Co. sec. notes 13 1/2s, 2008	41,500
90,000	Nevada Power Co. 144A 2nd mtge. 9s, 2013	99,900
135,000	Northwest Pipeline Corp. company guaranty 8 1/8s, 2010	147,150
260,000	NRG Energy, Inc. 144A sr. sec. notes 8s, 2013	268,450
75,000	Orion Power Holdings, Inc. sr. notes 12s, 2010	91,500
115,000	PG&E Corp. 144A sec. notes 6 7/8s, 2008	123,625
20,000	PG&E Gas Transmission Northwest sr. notes 7.1s, 2005	20,400
80,000	PSEG Energy Holdings, Inc. notes 7 3/4s, 2007	83,900
65,000	SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	68,900
40,000	Teco Energy, Inc. notes 10 1/2s, 2007	46,350
25,000	Teco Energy, Inc. notes 7.2s, 2011	26,375
70,000	Teco Energy, Inc. notes 7s, 2012	72,713
50,000	Teco Energy, Inc. sr. notes 7 1/2s, 2010	53,813
10,000	Tennessee Gas Pipeline Co. debs. 7s, 2028	9,350
15,000	Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026	15,300
85,000	Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)	81,600
25,000	Utilicorp United, Inc. sr. notes 9.95s, 2011	26,500
70,000	Western Resources, Inc. sr. notes 9 3/4s, 2007	80,500
20,000	Williams Cos., Inc. (The) notes 8 3/4s, 2032	21,500
20,000	Williams Cos., Inc. (The) notes 8 1/8s, 2012	21,800
25,000	Williams Cos., Inc. (The) notes	

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7 5/8s, 2019	25,375
4,000 Williams Cos., Inc. (The) notes Ser. A, 6 3/4s, 2006	4,135
95,000 Williams Cos., Inc. (The) sr. notes 8 5/8s, 2010	103,550
50,000 Williams Holdings Of Delaware notes 6 1/2s, 2008	51,250
	3,701,417
	-----
Total Corporate bonds and notes (cost \$46,500,339)	\$48,599,644
Convertible preferred stocks (26.9%) (a)	
Number of shares	Value
Basic Materials (2.7%)	
-----	
1,240 Hercules Trust II 6.50% units cum. cv. pfd.	\$961,000
12,604 IMC Global, Inc. Ser. MEDS, \$3.75 cv. pfd.	1,019,664
52,400 Smurfit-Stone Container Corp. Ser. A, \$1.75 cum. cv. pfd.	1,277,250
	3,257,914
Capital Goods (3.3%)	
-----	
19,600 Northrop Grumman Corp. Ser. B, \$7.00 cum. cv. pfd.	2,616,600
39,100 Owens-Illinois, Inc. \$2.375 cv. pfd.	1,334,288
	3,950,888
Communication Services (1.4%)	
-----	
35,020 CenturyTel, Inc. \$1.719 cv. pfd.	871,123
16,123 Crown Castle International Corp. \$3.125 cv. pfd.	735,612
417 Microcell Telecommunications, Inc. Ser. D, 9.00% cv. pfd. (Canada)	7,363
	1,614,098
Consumer Cyclical (4.1%)	
-----	
1,500,000 Baker Hughes, Inc. \$7.00 cv. pfd.	2
1,350 Radio One, Inc. 6.50% cum. cv. pfd.	1,442,223
25,200 Sinclair Broadcast Group, Inc. Ser. D, \$3.00 cv. pfd.	1,165,500
31,700 Tower Automotive Capital Trust \$3.375 cv. pfd.	895,525
30,300 TXI Capital Trust I \$2.75 cv. pfd.	1,318,050
	4,821,300
Consumer Staples (0.5%)	
-----	
20,120 Constellation Brands, Inc. Ser. A, \$1.438 cv. pfd.	601,085

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### Energy (1.7%)

	16,950 Amerada Hess Corp. \$3.50 cv. pfd.	1,055,138
	19,700 Hanover Compressor Capital Trust \$3.625 cv. pfd.	938,213
		1,993,351

### Financial (6.5%)

	19,200 Capital One Financial Corp. \$3.125 cv. pfd.	998,400
	22,300 Chubb Corp. (The) \$1.75 cv. pfd.	655,063
	44,996 Decs Trust IX \$6.75 cv. pfd.	545,577
	60,700 FelCor Lodging Trust, Inc. Ser. A, \$1.95 cum. cv. pfd. (R)	1,502,325
	15,403 Hartford Financial Services Group, Inc. (The) \$3.50 cv. pfd.	1,008,897
	28,600 Host Marriott Financial Trust \$3.375 cv. pfd.	1,512,225
	21,130 Provident Finance Group \$2.25 units cv. pfd.	763,321
	20,500 UnumProvident Corp. \$2.063 cv. pfd.	656,000
		7,641,808

### Technology (1.7%)

	33,168 Solectron Corp. 1.813 units cv. pfd.	576,294
	10,800 Xerox Corp. 6.25% cv. pfd.	1,425,600
		2,001,894

### Transportation (0.8%)

	25,869 Teekay Shipping Corp. \$1.813 cv. pfd. (Marshall Islands)	1,002,424
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### Utilities & Power (4.2%)

	25,250 El Paso Energy Capital Trust I \$2.375 cv. pfd.	795,375
	20,000 ONEOK, Inc. \$2.125 units cv. pfd.	617,500
	9,000 Public Service Enterprise Group, Inc. \$5.125 cv. pfd.	574,875
	40,900 Sempra Energy \$2.125 units cv. pfd.	1,175,875
	17,200 Sierra Pacific Resources \$4.50 units cum. cv. pfd.	652,568
	44,400 Williams Cos., Inc. (The) \$2.25 cv. pfd.	577,200
	9,830 Williams Cos., Inc. (The) 144A \$2.75 cv. pfd.	626,663
		5,020,056
	Total Convertible preferred stocks (cost \$27,042,848)	\$31,904,818

### Convertible bonds and notes (23.5%) (a)

Principal amount	Value
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### Communication Services (1.6%)



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\$400,000	Cybernet Internet Services International, Inc. 144A cv. sr. disc. notes stepped-coupon zero % (13s, 8/15/04) 2009 (Denmark) (In default) (NON) (STP)	\$4
81,000	Nextel Communications, Inc. cv. sr. notes 6s, 2011	95,175
3,580,000	United States Cellular Corp. cv. liquid yield option notes (LYON) zero %, 2015	1,852,650
		-----
		1,947,829
Conglomerates (1.1%)		
-----		
1,250,000	GenCorp, Inc. cv. sub. notes 5 3/4s, 2007	1,275,000
Consumer Cyclical (3.9%)		
-----		
612,000	Amazon.com, Inc. cv. sub. debs. 4 3/4s, 2009	624,240
300,000	Grey Global Group, Inc. 144A cv. debs. 5s, 2033	315,563
614,000	Meristar Hospitality Corp. cv. notes 9 1/2s, 2010	743,708
1,760,000	Service Corp. International cv. sub. notes 6 3/4s, 2008	1,942,600
1,036,000	Tower Automotive, Inc. cv. sub. notes 5s, 2004	1,036,000
		-----
		4,662,111
Consumer Staples (2.4%)		
-----		
1,300,000	Charter Communications, Inc. cv. sr. notes 5 3/4s, 2005	1,217,125
193,000	CKE Restaurants, Inc. cv. sub. notes 4 1/4s, 2004	193,483
1,260,000	Rite Aid Corp. cv. notes 4 3/4s, 2006	1,444,275
		-----
		2,854,883
Energy (0.9%)		
-----		
1,000,000	Parker Drilling Co. cv. sub. bonds 5 1/2s, 2004	1,003,750
Financial (1.7%)		
-----		
620,000	E*Trade Group, Inc. cv. sub. notes 6s, 2007	633,175
1,410,000	Providian Financial Corp. cv. sr. notes 3 1/4s, 2005	1,387,088
		-----
		2,020,263
Health Care (0.5%)		
-----		
610,000	LifePoint Hospitals, Inc. cv. notes	

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4 1/2s, 2009 641,263

### Technology (8.2%)

<hr/>		
750,000	Amkor Technologies, Inc. cv. notes 5 3/4s, 2006	743,438
1,297,000	Aspen Technology, Inc. cv. sub. debs. 5 1/4s, 2005	1,271,060
980,000	Avaya, Inc. cv. LYON zero %, 2021	683,550
680,000	Kulicke & Soffa Industries, Inc. cv. sub. notes 5 1/4s, 2006	690,200
1,200,000	Lucent Technologies, Inc. cv. sub. debs. 8s, 2031	1,449,000
930,000	Manugistics Group, Inc. cv. sub. notes 5s, 2007	924,188
1,509,000	Safeguard Scientifics, Inc. cv. sub. notes 5s, 2006	1,495,796
2,180,000	Sanmina Corp. cv. sub. debs. zero %, 2020	1,122,700
280,000	Silicon Graphics, Inc. cv. notes 6 1/2s, 2009	743,400
1,065,000	Solectron Corp. cv. LYON zero %, 2020	620,363
<hr/>		
		9,743,695

### Transportation (0.6%)

<hr/>		
750,000	Continental Airlines, Inc. cv. notes 4 1/2s, 2007	665,625

### Utilities & Power (2.6%)

<hr/>		
620,000	AES Corp. (The) cv. sub. notes 4 1/2s, 2005	612,250
1,400,000	El Paso Corp. cv. debs. zero %, 2021	647,500
526,000	Sierra Pacific Resources 144A cv. notes 7 1/4s, 2010	1,074,355
440,000	XCEL Energy, Inc. 144A cv. notes 7 1/2s, 2007	689,700
<hr/>		
		3,023,805
<hr/>		
	Total Convertible bonds and notes (cost \$22,582,893)	\$27,838,224

### Common stocks (1.7%) (a)

Number of shares		Value
<hr/>		
214	AboveNet, Inc. (NON)	\$10,058
14,000	Altria Group, Inc.	805,700
50,000	AMRESO Creditor Trust (acquired 9/20/00, cost \$38,655) (NON) (RES) (R)	500
21	Arch Wireless, Inc. Class A (NON)	468
2,125	Aurora Foods, Inc. (NON)	11
156	Birch Telecom, Inc. (acquired various dates from 9/30/02 to 6/5/03, cost \$--) (NON) (RES)	2
293,993	Contifinancial Corp. Liquidating Trust Units	2,940
2,031	Covad Communications Group, Inc.	

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(NON)	6,723
165 Crown Castle International Corp.	
(NON)	1,988
28,300 GATX Corp.	665,616
144 Genesis HealthCare Corp. (NON)	3,924
3,492 Globix Corp. (NON)	10,546
16 Knology, Inc. (NON)	133
64 Leucadia National Corp.	3,328
96 Magellan Health Services, Inc. (NON)	2,592
93 Mariner Health Care, Inc. (NON)	2,023
147 Mediq, Inc. (NON)	591
3 Microcell Telecommunications, Inc. Class A (Canada) (NON)	56
414 Microcell Telecommunications, Inc. Class B (Canada) (NON)	7,714
1,710 Pioneer Cos., Inc. (NON)	11,406
334 PSF Group Holdings, Inc. 144A Class A (acquired 3/15/96, cost \$1,015,896) (NON) (RES)	501,450
115 RCN Corp. (NON)	32
25 Sterling Chemicals, Inc. (NON)	650
102 Sun Healthcare Group, Inc. (NON)	1,219
14,550 VS Holdings, Inc. (NON)	1,455
235 Washington Group International, Inc. (NON)	9,048
	-----
Total Common stocks (cost \$3,377,739)	\$2,050,173

### Preferred stocks (0.4%) (a)

Number of shares	Value
-----	
3,964 Avecia Group PLC \$4.00 pfd. (acquired various dates from 12/3/03 to 1/26/04, cost \$53,174) (United Kingdom) (RES) (PIK)	\$67,388
70 Dobson Communications Corp. 13.00% pfd. (PIK)	65,100
1,714 iStar Financial, Inc. \$1.95 cum. pfd.	44,735
9 Metrocall Holdings, Inc. Ser. A, 15.00% cum. pfd.	103
12 Paxson Communications Corp. 14.25% cum. pfd. (PIK)	113,700
181 Rural Cellular Corp. 12.25% pfd. (PIK)	142,085
	-----
Total Preferred stocks (cost \$451,275)	\$433,111

### Foreign government bonds and notes (0.2%) (a)

Principal amount	Value
-----	
\$25,000 Colombia (Republic of) notes 10 3/4s, 2013	\$28,725
75,000 Colombia (Republic of) unsub. 9 3/4s, 2009	84,938
95,000 Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 7s (8s, 8/15/04), 2030 (STP)	78,850
	-----
Total Foreign government bonds and notes (cost \$147,427)	\$192,513

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Units (0.1%) (a)		Value
Number of units		Value
<hr/>		
80,000 Morrison Knudsen Corp.		\$12,800
208 XCL Equity Units		92,328
<hr/>		
Total Units (cost \$353,608)		\$105,128
Brady bonds (0.1%) (a) (cost \$50,235)		Value
Principal amount		Value
<hr/>		
\$80,000 Peru (Republic of) coll. FLIRB Ser.		
20YR, 4 1/2s, 2017		\$68,200
Warrants (--%) (a) (NON)	Expiration	Value
Number of warrants	date	Value
<hr/>		
83 AboveNet, Inc.	9/8/10	\$2,332
71 AboveNet, Inc.	9/8/08	2,095
140 Dayton Superior Corp. 144A	6/15/09	1
161 Huntsman Co., LLC 144A	5/15/11	22,540
72 MDP Acquisitions PLC (Ireland)	10/1/13	3,564
256 Microcell Telecommunications (Canada)	5/1/08	1,269
154 Microcell Telecommunications (Canada)	5/1/05	643
60 Pliant Corp. 144A	6/1/10	1
99 Solutia, Inc. 144A	7/15/09	1
240 Travel Centers of America, Inc. 144A	5/1/09	1,200
220 Ubiquitel, Inc. 144A	4/15/10	1
144 Washington Group International, Inc. Ser. A	1/25/06	1,656
165 Washington Group International, Inc. Ser. B	1/25/06	1,518
90 Washington Group International, Inc. Ser. C	1/25/06	725
<hr/>		
Total Warrants (cost \$100,468)		\$37,546
Short-term investments (8.1%) (a)		Value
Principal amount		Value
<hr/>		
\$2,796,432 Short-term investments held as collateral for loaned securities with yields ranging from 1.03% to 1.08% and a due date of March 1, 2004 (d)		\$2,796,349
6,839,479 Short-term investments held in Putnam commingled cash account with yields ranging from 1.01% to 1.07% and due dates ranging from March 1, 2004 to April 23, 2004 (d)		6,839,479
<hr/>		
Total Short-term investments (cost \$9,635,828)		\$9,635,828
<hr/>		
Total Investments (cost \$110,242,660)		\$120,865,185
<hr/>		

(a) Percentages indicated are based on net assets of \$118,411,692.

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- (DEF) Security is in default of principal and interest.
- (NON) Non-income-producing security.
- (STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.
- (RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at February 29, 2004 was \$592,651 or 0.5% of net assets.
- (PIK) Income may be received in cash or additional securities at the discretion of the issuer.
- (R) Real Estate Investment Trust.
- (d) See Note 1 to the financial statements.

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

FLIRB represents Front Loaded Interest Reduction Bond.

The rates shown on Floating Rate Notes (FRN) are the current interest rates shown at February 29, 2004.

Forward currency contracts to buy at February 29, 2004 (Unaudited)  
(aggregate face value \$29,452)

	Value	Aggregate face value	Delivery date	Unrealized depreciation
British Pound	\$29,440	\$29,452	6/16/04	\$(12)

Forward currency contracts to sell at February 29, 2004 (Unaudited)  
(aggregate face value \$482,710)

	Value	Aggregate face value	Delivery date	Unrealized appreciation
Euro	\$481,270	\$482,710	6/16/04	\$1,440

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

Statement of assets and liabilities  
February 29, 2004 (Unaudited)

### Assets

Investments in securities, at value, including \$2,704,897 of securities on loan (identified cost \$110,242,660) (Note 1)	\$120,865,185
Cash	290,964

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Dividends, interest and other receivables	1,310,228
Receivable for securities sold	275,772
Receivable for open forward currency contracts (Note 1)	1,440
Receivable for closed forward currency contracts (Note 1)	3,906
Total assets	122,747,495
Liabilities	
Distributions payable to shareholders	637,975
Payable for securities purchased	550,560
Payable for compensation of Manager (Note 2)	213,469
Payable for investor servicing and custodian fees (Note 2)	31,983
Payable for Trustee compensation and expenses (Note 2)	27,485
Payable for administrative services (Note 2)	1,104
Payable for open forward currency contracts (Note 1)	12
Payable for closed forward currency contracts (Note 1)	19,890
Collateral on securities loaned, at value (Note 1)	2,796,349
Other accrued expenses	56,976
Total liabilities	4,335,803
Net assets	\$118,411,692
Represented by	
Paid-in capital (Note 1)	\$129,476,986
Undistributed net investment income (Note 1)	61,546
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(21,751,530)
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	10,624,690
Total -- Representing net assets applicable to capital shares outstanding	\$118,411,692
Computation of net asset value and offering price	
Net asset value per share (\$118,411,692 divided by 13,825,527 shares)	\$8.56

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

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Statement of operations  
Six months ended February 29, 2004 (Unaudited)

Investment income:	
Interest	\$3,605,269
Dividends	950,273
Securities lending	2,115
Total investment income	4,557,657
Expenses:	
Compensation of Manager (Note 2)	419,674
Investor servicing and custodian fees (Note 2)	94,386
Trustee compensation and expenses (Note 2)	6,434
Administrative services (Note 2)	3,295
Auditing	31,210
Other	54,458
Total expenses	609,457
Expense reduction (Note 2)	(1,037)
Net expenses	608,420
Net investment income	3,949,237
Net realized gain on investments (Notes 1 and 3)	3,063,931
Net realized loss on foreign currency transactions (Note 1)	(55,086)
Net unrealized appreciation of assets and liabilities in foreign currencies during the period	6,263
Net unrealized appreciation of investments during the period	8,370,199
Net gain on investments	11,385,307
Net increase in net assets resulting from operations	\$15,334,544

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

### Statement of changes in net assets

	Six months ended February 29 2004*	Year ended August 31 2003
Increase in net assets		
Operations:		
Net investment income	\$3,949,237	\$7,963,721

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Net realized gain (loss) on investments and foreign currency transactions	3,008,845	(1,728,985)
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	8,376,462	17,624,892
Net increase in net assets resulting from operations	15,334,544	23,859,628
Distributions to shareholders: (Note 1)		
From net investment income	(3,857,047)	(7,704,436)
Increase from issuance of common shares in connection with reinvestment of distributions	--	217,676
Total increase in net assets	11,477,497	16,372,868
Net assets		
Beginning of period	106,934,195	90,561,327
End of period (including undistributed net investment income of \$61,546 and distributions in excess of net investment income of \$30,644, respectively)	\$118,411,692	\$106,934,195
Number of fund shares		
Shares outstanding at beginning of period	13,825,527	13,794,807
Shares issued in connection with reinvestment of distributions	--	30,720
Shares outstanding at end of period	13,825,527	13,825,527

\* Unaudited

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

Financial highlights

(For a common share outstanding throughout the period)

Per-share operating performance	Six months ended February 29 (Unaudited)			Year ended August 31, 2001
	2004	2003	2002	
Net asset value, beginning of period	\$7.73	\$6.56	\$7.30	\$8.09



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Investment operations:

Net investment income (a)	.29	.58	.60	.67
Net realized and unrealized gain (loss) on investments	.82	1.15	(.72)	(.71)
Total from investment operations	1.11	1.73	(.12)	(.04)
Less distributions:				
From net investment income	(.28)	(.56)	(.62)	(.75)
From net realized gain on investments	--	--	--	--
Total distributions	(.28)	(.56)	(.62)	(.75)
Net asset value, end of period	\$8.56	\$7.73	\$6.56	\$7.30
Market price, end of period	\$7.92	\$7.31	\$6.35	\$7.45
Total return at market price (%) (b)	12.29*	24.73	(6.77)	3.91

Ratios and supplemental data

Net assets, end of period (in thousands)	\$118,412	\$106,934	\$90,561	\$100,130
Ratio of expenses to average net assets (%) (c)	.53*	1.13	1.10	1.14
Ratio of net investment income to average net assets (%)	3.46*	8.20	8.65	8.91
Portfolio turnover (%)	30.02*	69.94	56.70	106.41

\* Not annualized.

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

(b) Total return assumes dividend reinvestment.

(c) Includes amounts paid through expense offset and brokerage service arrangements. (Note 2)

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

Notes to financial statements  
February 29, 2004 (Unaudited)

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### Note 1

#### Significant accounting policies

Putnam High Income Bond Fund (the "fund"), is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The fund seeks to provide high current income by investing in a portfolio consisting primarily of high-yielding convertible and nonconvertible securities with the potential for capital appreciation. The fund invests in higher yielding, lower rated bonds that have a higher rate of default due to the nature of the investments.

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

A) Security valuation Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported -- as in the case of some securities traded over-the-counter -- a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued at fair value on the basis of valuations furnished by an independent pricing service or dealers, approved by the Trustees. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities. Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value foreign securities taking into account multiple factors, including movements in the U.S. securities markets. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate. Short-term investments having remaining maturities of 60 days or less are valued at amortized cost, which approximates fair value. Other investments, including restricted securities, are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically 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 issuers of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

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C) Security transactions and related investment income Security transactions are recorded 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, net of applicable holding taxes, is recognized on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received.

All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

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

E) Forward currency contracts The fund may buy and sell forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts are used to protect against a decline in value relative to the U.S. dollar of the currencies in which its portfolio securities are denominated or quoted (or an increase in the value of a currency in which securities a fund intends to buy are denominated, when a fund holds cash reserves and short term investments). The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is marked to market daily and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position. Forward currency contracts outstanding at period end, if any, are listed after the fund's portfolio.

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F) Security lending The fund may lend securities, through its agents, 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 the fund's agents; 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 February 29, 2004, the value of securities loaned amounted to \$2,704,897. The fund received cash collateral of \$2,796,349 which is pooled with collateral of other Putnam funds into 10 issuers of high grade short-term investments.

G) 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 (the "Code"), as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At August 31, 2003, the fund had a capital loss carryover of \$24,507,868 available to the extent allowed by tax law to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

Loss Carryover	Expiration
\$4,424,357	August 31, 2008
1,283,239	August 31, 2009
9,205,575	August 31, 2010
9,594,697	August 31, 2011

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending August 31, 2004 \$139,111 of losses recognized during the period November 1, 2002 to August 31, 2003.

The aggregate identified cost on a tax basis is \$110,700,755, resulting in gross unrealized appreciation and depreciation of \$14,739,225 and \$4,574,795, respectively, or net unrealized appreciation of \$10,164,430.

H) 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

Putnam Management is paid for management and investment advisory services quarterly based on the average net assets of the fund. Such fee

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is based on the annual rate of 0.75% of the average weekly net assets of the fund.

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

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a subsidiary of Putnam, LLC. Putnam Investor Services, a division of PFTC, provides investor serving agent functions to the fund. During the six months ended February 29, 2004, the fund paid PFTC \$94,386 for these services.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. The fund also reduced expenses through brokerage service arrangements. For the six months ended February 29, 2004, the fund's expenses were reduced by \$1,037 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$746, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

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

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

### Note 3

#### Purchases and sales of securities

During the six months ended February 29, 2004, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$32,232,242 and \$35,645,856, respectively. There were no purchases or sales of U.S. government securities.

### Note 4

#### Regulatory matters and litigation

On April 8, 2004, Putnam Management entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division representing a final settlement of all charges brought against Putnam Management by those agencies on October 28, 2003 in connection with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered

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401(k) plans. The settlement with the SEC requires Putnam Management to pay \$5 million in disgorgement plus a civil monetary penalty of \$50 million, and the settlement with the Massachusetts Securities Division requires Putnam Management to pay \$5 million in restitution and an administrative fine of \$50 million. The settlements also leave intact the process established under an earlier partial settlement with the SEC under which Putnam Management agreed to pay the amount of restitution determined by an independent consultant, which may exceed the disgorgement and restitution amounts specified above, pursuant to a plan to be developed by the independent consultant.

Putnam Management, and not the investors in any Putnam fund, will bear all costs, including restitution, civil penalties and associated legal fees stemming from both of these proceedings. The SEC's and Massachusetts Securities Division's allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management has agreed to bear any costs incurred by Putnam funds in connection with these lawsuits. Based on currently available information, Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to provide investment management services to its clients, including the Putnam funds.

Review of these matters by counsel for Putnam Management and by separate independent counsel for the Putnam funds and their independent Trustees is continuing.

### Fund information

#### About Putnam Investments

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

#### Investment Manager

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

#### Marketing Services

Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

#### Custodian

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Putnam Fiduciary Trust Company

Legal Counsel

Ropes & Gray LLP

Trustees

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

Officers

George Putnam, III  
President

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

Patricia C. Flaherty  
Senior Vice President

Steven D. Krichmar  
Vice President and  
Principal Financial Officer

Michael T. Healy  
Assistant Treasurer and  
Principal Accounting Officer

Beth S. Mazor  
Vice President

Mark C. Trenchard  
Vice President and  
BSA Compliance Officer

William H. Woolverton  
Vice President and  
Chief Legal Officer

Judith Cohen  
Clerk and Assistant Treasurer

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

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[LOGO OMITTED]

PUTNAM INVESTMENTS

The Putnam Funds  
One Post Office Square  
Boston, Massachusetts 02109

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Item 2. Code of Ethics:

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Not applicable

Item 3. Audit Committee Financial Expert:

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Not applicable

Item 4. Principal Accountant Fees and Services:

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Not applicable

Items 5-6. [Reserved]

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed End

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Management Investment Companies: Not applicable  
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Item 8. [Reserved]

Item 9. Submission of Matters to a Vote of Security Holders:

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Not applicable

Item 10. Controls and Procedures:

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(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report on Form N-CSR, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the investment company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the



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Commission's rules and forms.

Although such officers reached the conclusion expressed in the preceding paragraph, they are aware of matters that raise concerns with respect to controls, each of which arose in connection with the administration of 401(k) plans by Putnam Fiduciary Trust Company. The first matter, which occurred in early 2001, involved the willful circumvention of controls by certain Putnam employees in connection with the correction of operational errors with respect to a 401(k) client's investment in certain Putnam Funds, which led to losses in five Putnam Funds (not including the registrant). Such officers became aware of this matter in February 2004. The second matter, which occurred in 2002, involved the willful circumvention by certain Putnam employees of policies and procedures in connection with the payment of Putnam corporate expenses. Such officers did not learn that this matter involved a Putnam Fund until January 2004. Putnam has made restitution to the affected Funds, implemented a number of personnel changes, including senior personnel, begun to implement changes in procedures to address these items and informed the SEC, the Funds' Trustees and independent auditors. An internal investigation and review of procedures and controls are currently ongoing.

In reaching the conclusion expressed herein, the registrant's principal executive officer and principal financial officer considered a number of factors, including the nature of the matters described above, when the matters occurred, the individuals involved, personnel changes that have occurred since these matters occurred, the results to date of the current ongoing investigation and the overall quality of controls at Putnam at this time.

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

Item 11. Exhibits:

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(a) Not applicable

(b) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Investment Company Act of 1940, as amended, and the officer certifications as required by Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith.

### SIGNATURES

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

### NAME OF REGISTRANT

By (Signature and Title):

/s/Michael T. Healy

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Michael T. Healy

Principal Accounting Officer

Date: May 4, 2004

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

By (Signature and Title):                    /s/Charles E. Porter  
-----  
Charles E. Porter  
Principal Executive Officer

Date: May 4, 2004

By (Signature and Title):                    /s/Steven D. Krichmar  
-----  
Steven D. Krichmar  
Principal Financial Officer

Date: May 4, 2004