

PUTNAM HIGH INCOME BOND FUND

Form N-CSR

April 27, 2005

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

2-28-05

[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:

Over the past year, Putnam has introduced a number of reforms for the benefit of shareholders, including increasing the amount of disclosure for our funds. We are now including additional disclosure about your fund's management teams. Following the Outlook for Your Fund, we provide manager compensation information that pertains to your fund, list any changes in your fund's Portfolio Leader and Portfolio Members during the prior year, and disclose these individuals' other fund management responsibilities at Putnam. We also show how much these individuals, as well as the members of Putnam's Executive Board, have invested in the fund (in dollar ranges). Finally, on page 12, we provide certain information about the most recent approval by the Trustees of your fund's management contract with Putnam.

During the reporting period just ended, the Federal Reserve Board's series of gradual increases in the federal funds rate have occupied much of investors' attention, but generally did not have a significant impact on stock and bond prices. However, over the last two months, we have begun to see a measurable increase in longer-term rates. This, along with the continued high levels of energy prices, has slowed the stock market's momentum even though the U.S. economy is continuing to expand at a moderate pace. Concerns about inflation, dormant for many months, are beginning to influence the markets once again and may well have a negative impact on bond prices.

In the following pages, members of your fund's management teams discuss the fund's performance, the strategies used to keep your fund on track during the reporting period, and the team's plan for responding to the changing market environment.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

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John A. Hill  
Chairman of the Trustees

George Putnam, III  
President of the Funds

April 20, 2005

Report from Fund Management

Fund highlights

- \* For the semiannual period ended February 28, 2005, Putnam High Income Bond Fund had total returns of 8.86% at net asset value (NAV) and 6.94% at market price.
- \* The fund's new primary benchmark, the Merrill Lynch All-Convertibles Index, returned 5.85%. The fund's former benchmark, the Merrill Lynch All-Convertibles Ex-Mandatory Index, returned 4.80%. The fund's secondary benchmark, the JP Morgan Global High Yield Index, returned 7.37%.
- \* The average return for the fund's Lipper category, Convertible Securities Funds (closed-end), was 9.03%.
- \* During the period, Putnam High Income Opportunities Trust was merged into your fund. See page 5 for details.
- \* See the Performance Summary beginning on page 9 for additional fund performance, comparative performance, and Lipper data.

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TOTAL RETURN FOR  
PERIODS ENDED 2/28/05  
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(inception 7/9/87)	NAV	Market Price
6 months	8.86%	6.94%
1 year	10.40	6.71
5 years	60.32	76.85
Annual average	9.90	12.08
10 years	155.64	110.85
Annual average	9.84	7.75
Annual average (life of fund)	10.35	9.25

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

Performance commentary

We are pleased to report that your fund posted solid returns during the period and outpaced both its primary and secondary benchmarks, based on results at NAV. We attribute this to effective security selection and generally favorable market conditions. Strong performance from

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convertible holdings and the fund's significant allocation to high-yield corporate bonds helped it rank competitively in its Lipper peer group; however, the fund slightly underperformed the average return for the group, which currently includes only 12 funds. It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

### FUND PROFILE

Putnam High Income Bond Fund seeks to provide high current income by investing 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

Over the past six months, market sentiment shifted between caution and exhilaration. From September 1 through November's U.S. presidential election, the market reflected investors' uncertainty. The Federal Reserve Board (the Fed) had begun periodically raising short-term interest rates starting in June 2004. Despite rising rates, bond sales were strong, signaling investors' high level of risk aversion. The possibility of a terrorist incident or voting irregularities weighed on investors' minds in the weeks before Election Day. Sustained high oil prices were an additional cause for concern. However, after voters handed George W. Bush a decisive victory, relieved investors sought more speculative opportunities. The stock market rallied and posted strong gains through the end of the calendar year. The high-yield market, moving in concert with equities, experienced seasonal strength at the end of the calendar year and was further buoyed by increased consolidation activity. Yield spreads -- the difference in yield between higher- and lower-rated bonds of comparable maturities -- narrowed significantly. When this is the case, high-yield bonds offer less of a yield advantage over Treasury bonds of similar maturities.

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### MARKET SECTOR PERFORMANCE 6 MONTHS ENDED 2/28/05

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#### Bonds

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Merrill Lynch All-Convertibles Index (convertible securities)	5.85%
JP Morgan Global High Yield Index (global high-yield corporate bonds)	7.37%
Lehman Aggregate Bond Index (broad bond market)	1.26%
Lehman Global Aggregate Bond Index (international bonds)	7.05%

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#### Equities

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S&P 500 Index (broad stock market)	9.99%
Russell 2000 Index (small-company stocks)	16.40%

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MSCI EAFE Index (international stocks) 21.18%

These indexes provide an overview of performance in different market sectors for the six months ended 2/28/05.

### Strategy overview

Because yield spreads have narrowed in recent months, and lower-rated bonds now offer a less compelling yield advantage, investors in high-yield and convertible bonds now receive less of a premium for the additional risk they are taking. Consequently, our goal has been to improve the quality of the portfolio while still targeting securities that offer attractive yields.

For example, we emphasized mandatory convertible securities, which must be converted, at a specified date, to common stocks. If the issuing company pays its stockholders a dividend, then the yield on its mandatory convertibles is generally two to three percentage points higher than the stock dividend yield, in order to attract potential investors. On these securities, the higher yield is not a reflection of a weaker credit rating. Our emphasis on mandatory convertibles increased both the quality and the equity sensitivity of the portfolio, a term that indicates how likely the portfolio is to reflect stock market trends.

We also established the fund's first position in non-accreting zero-coupon convertibles, which are described more fully on page 4. We don't typically invest in this type of security but when one of these bonds became available in the secondary market at an attractive discount, we viewed it as an opportunity worth pursuing.

Among the portfolio's high-yield bonds, we also trimmed some of the lower-quality holdings, which had been strong performers. We reduced positions in wireless communications, chemicals, media companies, auto suppliers, and technology companies.

[GRAPHIC OMITTED: horizontal bar chart PORTFOLIO COMPOSITION COMPARED]

### PORTFOLIO COMPOSITION COMPARED

	as of 8/31/04	as of 2/28/05
Convertible securities	48.9%	50.6%
Corporate bonds and notes	41.0%	41.2%
Short-term investments	7.2%	6.5%
Common stocks	2.0%	0.9%
Other	0.6%	0.7%
Preferred stocks	0.3%	0.1%

#### Footnote reads:

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

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### How fund holdings affected performance

Among the fund's convertible holdings, our position in Titan International was a top contributor to relative performance during the period. The company is the largest independent manufacturer of tires and wheels for tractors and other off-road vehicles. The convertible bonds, which we purchased at par value, have appreciated over 30% in the short time the fund has owned them. We continue to hold this position. The fund also established a position in the convertible preferred stock of Huntsman Corporation, a chemical manufacturer that, until just recently, had been privately owned. The value of these shares increased nearly 20% since the company went public. We maintained the position.

As noted in the Strategy Overview section, we established a position in a non-accreting, zero-coupon convertible. Unlike conventional zero coupon bonds, which are issued at a discount and increase in value through accretion (the accumulation of capital gains), these bonds are issued at par value. They offer no interest income and can increase in value only through their link to the underlying stock. The value of the zero coupon convertible bonds issued by ON Semiconductor had declined in response to weakening of the underlying common stock. Given our positive assessment of the firm's credit rating, we believed these zero coupon bonds were so undervalued that despite their lack of interest payments, they offered an implied yield of more than 6%. By the end of the reporting period, they had contributed positively to the fund's returns.

[GRAPHIC OMITTED: TOP HOLDINGS]

### TOP HOLDINGS

(Percent of fund's net assets as of 2/28/05)

#### Convertible Securities

- 1 Northrop Grumman Corp. (2.1%)  
Cumulative convertible preferred, series B, \$7.00  
Capital goods
- 2 Schering-Plough Corp. (1.6%)  
Convertible preferred, \$3.00  
Health care
- 3 Owens-Illinois, Inc. (1.4%)  
Convertible preferred, \$2.375  
Capital goods
- 4 TXI Capital Trust I (1.3%)  
Convertible preferred, \$2.75  
Consumer cyclicals
- 5 Host Marriott Financial Trust (1.3%)  
Convertible preferred, \$3.375  
Financial

#### Corporate Bonds

- 1 Dow Jones CDX HY (2.3%)  
144A pass-through certificates 7 3/4s, 2009  
Other
- 2 Qwest Corp. (0.4%)

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144A notes 9 1/8s, 2012  
Communications services

3 Nextel Communications, Inc. (0.3%)  
Senior notes 5.95s, 2014  
Communications services

4 Charter Communications Holdings,  
LLC/Capital Corp. (0.3%)  
Senior notes 11 1/8s, 2011  
Consumer staples

5 Qwest Communications International,  
Inc. (0.3%)  
144A Senior notes 7 3/4s, 2014  
Communications services

Footnote reads:

The fund's holdings will change over time.

The fund's positions in natural gas-related utilities also performed well, as a result of strong and growing demand. Notable among these utilities were Williams Companies, Aquila, ONEOK, and Southern Union. Among traditional oil companies, the fund's Amerada-Hess holdings posted strong results, as oil prices remained high. Bonds issued by Lyondell Chemical were standout performers among the fund's high-yield holdings. This company had been through some difficult years, as the costs of the raw materials used to produce its products had risen, foreign competition had intensified, and economic variables not in its control caused demand for its products to fluctuate. Eventually, the improving economy helped chemical companies in general. Lyondell was able to pass along higher energy costs to consumers, which improved its financial performance.

A position in the high-yield bonds of Icon Health detracted from the fund's results during the period. The company, which manufactures exercise equipment for home gyms, faced rising materials costs and was not able to pass these costs on to consumers. We believe this situation is likely to be temporary and we continue to hold the position. Star Gas Partners, LP was another detractor during the period. This distributor of home heating oil had not hedged against rising oil prices, and as a result suffered when oil prices rose higher. The company also had some service issues that led to a decline in its customer base. We think the issues will be resolved and we continue to hold the position.

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.

### OF SPECIAL INTEREST

Merger with Putnam High Income Opportunities Trust completed

On January 13, 2005, shareholders of your fund and Putnam High Income Opportunities Trust approved a merger of Putnam High Income Opportunities Trust into your fund, and the merger was completed on January 21, 2005. Putnam High Income Opportunities Trust was a closed-end, fixed income fund whose objectives, strategy, and investments were substantially similar to those of your fund.

The outlook for your fund

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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.

We believe the fundamental backdrop remains favorable for high-yield bonds and convertible bond investing. Default rates have been low, and the strong economy has contributed to a healthy credit environment. In our opinion, companies that exhibit poor credit ratings in this economy probably have significant operational problems that we would choose to avoid. However, at this point in the credit cycle, spreads have tightened to such an extent that returns will likely be muted compared to the strong results of 2004. We believe the opportunity to capitalize on narrowing yield spreads has essentially passed. Because the economy has matured, we are looking for select opportunities that offer high yields without increased credit risk. Among convertibles, we will continue to target securities and situations that offer a structurally high yield, as we discussed in the Strategy Overview of this report. We will seek to achieve higher-quality holdings and a greater degree of equity sensitivity in the portfolio.

Within the convertible portion of the portfolio we will continue to seek special opportunities, without emphasis on particular sectors, and generally will seek to own about 70 issues. The high-yield portion of the portfolio typically holds a larger number of issues and we actively manage sector exposures in an effort to improve relative performance.

We remain committed to combining our strengths in fundamental and quantitative research to uncover attractive opportunities within the high-yield and convertible markets.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Lower-rated bonds may offer higher yields in return for more risk.

### Your fund's management

Your fund is managed by the members of the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams. David King is the Portfolio Leader and Robert Salvin is a Portfolio Member of your fund. The Portfolio Leader and Portfolio Member coordinate the teams' management of the fund.

For a complete listing of the members of the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at [www.putnaminvestments.com](http://www.putnaminvestments.com).

### Fund ownership

The table below shows how much the fund's current Portfolio Leader and Portfolio Member have invested in the fund (in dollar ranges). Information shown is for February 28, 2005, and February 29, 2004.

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### FUND PORTFOLIO LEADER AND PORTFOLIO MEMBER

	Year	\$0	\$1 - \$10,000	\$10,001 - \$50,000	\$50,001- \$100,000	\$100,001 - \$500,000	\$500,001 - \$1,000,000
David King	2005	*					
Portfolio Leader	2004	*					
Robert Salvin	2005			*			
Portfolio Member	N/A						

N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 2/29/04.

#### Changes in your fund's Portfolio Leader and Portfolio Members

During the year ended February 28, 2005, Portfolio Member George Maris left your fund's management team.

#### Fund manager compensation

The total 2004 fund manager compensation that is attributable to your fund is approximately \$600,000. This amount includes a portion of 2004 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2004 compensation paid to the Group Chief Investment Officers of the fund's broader investment categories for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. These percentages are determined as of the fund's fiscal period-end. For personnel who joined Putnam Management during or after 2004, the calculation reflects annualized 2004 compensation or an estimate of 2005 compensation, as applicable.

#### Other Putnam funds managed by the Portfolio Leader and Portfolio Member

David King is also a Portfolio Leader of Putnam Convertible Income-Growth Trust and Putnam New Value Fund. He is also a Portfolio Member of The Putnam Fund for Growth and Income. David King and Robert Salvin may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

#### Fund ownership

The table below shows how much the members of Putnam's Executive Board have invested in the fund (in dollar ranges). Information shown is for February 28, 2005, and February 29, 2004.

### PUTNAM EXECUTIVE BOARD



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	Year	\$0	\$1 - \$10,000	\$10,001 - \$50,000	\$50,001- \$100,000	\$100,001 and over
Philippe Bibi	2005	*				
Chief Technology Officer	2004	*				
John Boneparth	2005	*				
Head of Global Institutional Mgmt	2004	*				
Joshua Brooks	2005	*				
Deputy Head of Investments	N/A					
Kevin Cronin	2005	*				
Head of Investments	N/A					
Charles Haldeman, Jr.	2005		*			
President and CEO	2004	*				
Amrit Kanwal	2005	*				
Chief Financial Officer	N/A					
Steven Krichmar	2005	*				
Chief of Operations	N/A					
Francis McNamara, III	2005	*				
General Counsel	N/A					
Richard Monaghan	2005	*				
Head of Retail Management	2004	*				
Richard Robie, III	2005	*				
Chief Administrative Officer	N/A					
Edward Shadek	2005	*				
Deputy Head of Investments	N/A					

N/A indicates the individual was not a member of Putnam's Executive Board as of 2/29/04.

Performance summary

This section shows your fund's performance during the first half of its fiscal year, which ended February 28, 2005. 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 represents past performance. Past performance does not guarantee future results. More recent returns

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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 2/28/05

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	NAV	Market price
6 months	8.86%	6.94%
1 year	10.40	6.71
5 years	60.32	76.85
Annual average	9.90	12.08
10 years	155.64	110.85
Annual average	9.84	7.75
Annual average Life of fund (since 7/9/87)	10.35	9.25

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

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### PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 2/28/05

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Distributions (number)	6	
Income	\$0.279	
Capital gains	--	
Total	\$0.279	
Share value:	NAV	Market price
8/31/04	\$8.37	\$7.62
2/28/05	8.80	7.87
Current return (end of period)		
Current dividend rate 1	6.34%	7.09%

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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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### COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 2/28/05

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Merrill Lynch

JP Morgan

Lipper  
Convertible

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	All-Convertibles Ex-Mandatory Index	Global High Yield Index	Merrill Lynch All-Convertibles Index*	Securities F (closed-end) category ave
6 months	4.80%	7.37%	5.85%	9.03%
1 year	1.98	10.95	3.00	7.04
5 years	-2.31	46.25	-1.35	10.40
Annual average	-0.47	7.90	-0.27	1.54
10 years	172.45	120.98	170.48	125.38
Annual average	10.54	8.25	10.46	8.39
Annual average				
Life of fund (since 7/9/87)	--[SECTION MARK]	--+	--*	9.17

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculations for reinvested dividends may differ from actual performance.

\* Putnam Management has recently undertaken a review of the fund's benchmarks. The Merrill Lynch All-Convertibles Index replaces the Merrill Lynch All-Convertibles Ex-Mandatory Index as the primary performance benchmark for this fund because, in Putnam Management's opinion, the securities tracked by this index more accurately reflect the types of securities that will be held by the fund. Index began operations on 12/31/87.

+ Index began operations on 12/31/93.

++ Over the 6-month and 1-, 5-, and 10-year periods ended 2/28/05, there were 12, 12, 7, and 7 funds, respectively, in this Lipper category.

[SECTION MARK] Index began operations on 12/31/87.

TOTAL RETURN FOR PERIODS ENDED 3/31/05 (MOST RECENT CALENDER QUARTER)

	NAV	Market price
6 months	4.80%	-0.70%
1 year	7.44	1.31
5 years	59.72	62.15
Annual average	9.82	10.15
10 years	144.65	104.31
Annual average	9.36	7.41
Annual average Life of fund (since 7/9/87)	10.15	8.89

Terms and definitions

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

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

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

### Comparative indexes

JP Morgan Global High Yield Index is an unmanaged index of global high-yield fixed-income securities.

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

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

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

Merrill Lynch All-Convertibles Ex-Mandatory Index is an unmanaged index of U.S. convertible securities, excluding those with mandatory conversion provisions.

Morgan Stanley Capital International (MSCI) EAFE Index is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

Russell 2000 Index is an unmanaged index of the 2,000 smallest companies in the Russell 3000 Index.

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

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

Lipper is a third-party industry ranking entity that ranks 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.

### Trustee approval of management contract

### General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of each fund's management contract with Putnam Management. In this regard the Board of Trustees, with the assistance of its Contract Committee consisting solely of Independent Trustees, requests and evaluates all information it deems reasonably necessary in the circumstances. Over the course of several months beginning in March and ending in June of 2004, the Contract Committee reviewed the information provided by Putnam Management and other information developed with the assistance of the Board's

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independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended and the Independent Trustees approved the continuance of your fund's contract, effective July 1, 2004.

This approval was based on the following conclusions:

- \* That the fee schedule currently in effect for your fund represents reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such service, and
- \* That such fee schedule represents an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below.

### Model fee schedules and categories; total expenses

The Trustees, working in cooperation with Putnam Management, have developed and implemented a series of model fee schedules for the Putnam funds designed to ensure that each fund's management fee is consistent with the fees for similar funds in the Putnam complex and compares favorably with fees paid by competitive funds sponsored by other advisors. The Trustees reviewed the model fee schedule currently in effect for the fund, including fee levels and breakpoints, and the assignment of the fund to a particular fee category under this structure. The Trustees also reviewed comparative fee and expense information for competitive funds. The Trustees concluded that no changes should be made in the fund's current fee schedule at this time. The Trustees noted that expense ratios for a number of Putnam funds had been increasing recently as a result of declining net assets and the natural operation of fee breakpoints. They noted that such expense ratio increases were currently being controlled by expense limitations implemented in January 2004. They also noted that the competitive landscape regarding mutual fund fees may be changing as a result of fee reductions accepted by various other fund groups in connection with recent regulatory settlements and greater focus on fees and expenses in the mutual fund industry generally. The Trustees indicated an intention to monitor these developments closely.

### Economies of scale

As noted above, the Trustees concluded that the fee schedule currently in effect for your fund represents an appropriate sharing of economies of scale at current asset levels. The Trustees indicated their intention to continue their ongoing consideration of economies of scale and in particular to consider further the possible operation of such economies in the event that a significant recovery in the equity markets or net fund sales were to raise asset levels substantially above current levels. In this regard, the Trustees noted that they had reviewed data relating to the substantial increase in asset levels of the Putnam funds that occurred during the years leading up to the market peak in 2000, the subsequent decline in assets and the resulting impact on revenues and expenses of Putnam Management. The Trustees also noted that recent declines in net assets in many Putnam funds, together with significant changes in the cost structure of Putnam Management have altered the

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economics of Putnam Management's business in significant ways. The Trustees concluded that they would monitor these changes carefully and evaluate the resulting impact on Putnam Management's economics and the sharing of economies of scale between the parties.

### Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under the Management Contracts. The Trustees recognized that a high quality investment process -- as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel -- does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing the fund's performance with various benchmarks and with the performance of competitive funds. The Trustees noted the satisfactory investment performance of many Putnam funds.

They also noted the disappointing investment performance of certain funds in recent years and continued to discuss with senior management of Putnam Management the factors contributing to such under-performance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line in an effort to address areas of underperformance. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted. As a general matter, the Trustees concluded that consultation between the Trustees and Putnam Management represents the most effective way to address investment performance problems. The Trustees believe that investors in the Putnam funds and their financial advisors have, as a general matter, effectively placed their trust in the Putnam organization, under the supervision of the funds' Trustees, to make appropriate decisions regarding the management of the funds. The Trustees believe that the termination of the Management Contract and engagement of a new investment adviser for under-performing funds, with all the attendant disruptions, would not serve the interests of fund shareholders at this time and would not necessarily provide any greater assurance of improved investment performance.

### Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the Management Contract with your fund. These include principally benefits related to brokerage and soft-dollar allocations, which pertain mainly to funds investing in equity securities. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage represent assets of the funds that should be used for the benefit of fund shareholders. The Trustees noted recent trends in the allocation of fund brokerage, including commission costs, the allocation of brokerage to firms that provide research services to Putnam Management, and the sources and application of available soft-dollar credits. Effective December 31, 2003, reflecting a decision made by the Trustees earlier that year, Putnam Management ceased allocating brokerage in connection with the sale of fund shares. In addition, in preparing its budget for commission allocations in 2004,

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Putnam Management voluntarily reduced substantially the allocation of brokerage commissions to acquire research services from third-party service providers. In light of evolving best practices in the mutual fund industry, the Trustees concluded that this practice should be further curtailed and possibly eliminated in the near future. The Trustees indicated that they would continue to monitor the allocation of the funds' brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

### Comparison of retail and institutional fee schedules

The information examined by the Trustees as part of the annual contract reviews included information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans and college endowments. This information included comparison of such fees with fees charged to the Putnam funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees devoted special attention to these issues and reviewed recent articles by critics of mutual fund fees, articles by the ICI defending such fee differences, and relevant guidance provided by decisions of the courts. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and mutual funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflects to a substantial degree historical competitive forces operating in separate market places. In reaching their conclusions, the Trustees considered the fact that fee rates across all asset sectors are higher on average for mutual funds than for institutional clients, and also considered the differences between the services that Putnam provides to the Putnam funds and those that it provides to institutional clients of the firm.

### Settlement of regulatory charges related to market timing

Finally, in reaching their conclusions, the Trustees considered all matters pertinent to the administrative charges filed against Putnam Management by the SEC and the Commonwealth of Massachusetts in October 2003 relating to market timing, the firm's settlement of those charges, and the conclusions and recommendations of the Trustees' Audit and Pricing Committee based on its review of these matters. The Trustees considered the actions taken by the owner of Putnam Management and its new senior management to terminate or discipline the individuals involved, to implement new compliance systems, to indemnify the funds against all costs and liabilities related to these matters, and otherwise to ensure that the interests of the funds and their shareholders are fully protected. The Trustees noted that, in addition to the settlements of the regulatory charges which will provide comprehensive restitution for any losses suffered by shareholders, the new senior management of Putnam Management has moved aggressively to control expense ratios of funds affected by market timing, to reduce charges to new investors, to improve disclosure of fees and expenses, and to emphasize the paramount role of investment performance in achieving shareholders' investment goals.

### Other information for shareholders

#### 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

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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.

### Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2004, are available on the Putnam Individual Investor Web site, [www.putnaminvestments.com/individual](http://www.putnaminvestments.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

### Fund portfolio holdings

For periods ending on or after July 9, 2004, the fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's public reference room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the public reference room.

### A guide to the financial statements

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

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

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

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

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent



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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 28, 2005 (Unaudited)

Corporate bonds and notes (42.4%) (a)	Value
Principal amount	
Basic Materials (4.4%)	
-----	
\$2,000 Abitibi-Consolidated Finance LP company guaranty 7 7/8s, 2009	\$2,090
160,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)	172,800
20,000 AK Steel Corp. company guaranty 7 3/4s, 2012	21,200
220,000 Almatris Investment Holdings, S.a.r.l. bonds 11s, 2013 (Luxembourg) (PIK)	224,400
260,000 BCP Caylux Holdings Luxembourg SCA 144A sr. sub. notes 9 5/8s, 2014 (Luxembourg)	300,300
80,000 Century Aluminum Co. 144A company guaranty 7 1/2s, 2014	86,000
EUR    70,000 Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s, 2014 (Germany)	105,678
\$235,000 Compass Minerals Group, Inc. company guaranty 10s, 2011	263,788
65,000 Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 (STP)	54,600
180,000 Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 (STP)	158,400
155,000 Crystal US Holdings, LLC/US Sub 3 Corp. 144A sr. disc. notes stepped-coupon zero % (10s, 10/1/09), 2014 (STP)	115,088
148,000 Equistar Chemicals LP notes 8 3/4s, 2009	165,390
352,000 Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008	405,680
95,000 Georgia-Pacific Corp. bonds 7 3/4s, 2029	111,863
165,000 Georgia-Pacific Corp. company guaranty 9 3/8s, 2013	190,781
272,000 Georgia-Pacific Corp. debs. 7.7s, 2015	316,200
240,000 Gerdau Ameristeel Corp. sr. notes	

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	10 3/8s, 2011 (Canada)	276,000
309,000	Hercules, Inc. company guaranty 11 1/8s, 2007	363,075
180,000	Hercules, Inc. company guaranty 6 3/4s, 2029	185,400
50,000	Huntsman Advanced Materials, LLC 144A sec. FRN 10.89s, 2008	53,500
65,000	Huntsman Advanced Materials, LLC 144A sec. notes 11s, 2010	76,538
37,000	Huntsman ICI Holdings sr. disc. notes zero %, 2009	21,090
97,000	Huntsman, LLC company guaranty 11 5/8s, 2010	117,128
80,000	Huntsman, LLC 144A company guaranty 11 1/2s, 2012	95,200
425,000	Innophos, Inc. 144A sr. sub. notes 8 7/8s, 2014	456,875
85,000	International Steel Group, Inc. sr. notes 6 1/2s, 2014	90,950
3,000	ISP Holdings, Inc. sec. sr. notes Ser. B, 10 5/8s, 2009	3,270
150,000	Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013	158,063
EUR	150,000 JSG Holding PLC sr. notes 11 1/2s, 2015 (Ireland) (PIK)	198,085
\$20,000	Lyondell Chemical Co. bonds 11 1/8s, 2012	23,600
270,000	Lyondell Chemical Co. company guaranty 10 1/2s, 2013	319,275
108,000	Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007	118,260
275,000	MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	304,563
EUR	15,000 Nalco Co. sr. notes 7 3/4s, 2011	21,988
EUR	190,000 Nalco Co. sr. sub. notes 9s, 2013	286,085
\$285,000	Nalco Co. sr. sub. notes 8 7/8s, 2013	314,925
265,000	Norske Skog Canada, Ltd. sr. notes 7 3/8s, 2014 (Canada)	278,250
260,000	Novels, Inc. 144A sr. notes 7 1/4s, 2015 (Canada)	269,100
148,822	PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)	159,240
24,074	Pioneer Companies, Inc. sec. sr. notes FRN 6.05s, 2006	25,398
75,000	PQ Corp. 144A company guaranty 7 1/2s, 2013	77,719
EUR	310,000 Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014	432,004
EUR	105,000 SGL Carbon SA 144A sr. notes 8 1/2s, 2012 (Luxembourg)	156,218
\$180,000	Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	196,425
17,046	Sterling Chemicals, Inc. sec. notes 10s, 2007 (PIK)	17,046
170,000	Stone Container Corp. sr. notes 9 3/4s, 2011	185,300
95,000	Stone Container Corp. sr. notes 8 3/8s, 2012	102,838
40,000	Stone Container Finance company guaranty 7 3/8s, 2014 (Canada)	42,050
3,000	Tembec Industries, Inc. company	

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	guaranty 8 5/8s, 2009 (Canada)	3,008
120,000	Ucar Finance, Inc. company guaranty 10 1/4s, 2012	133,500
57,000	United Agri Products 144A sr. notes 8 3/4s, 2011	62,130
279,000	United States Steel Corp. sr. notes 9 3/4s, 2010	318,060
12,000	Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010 (PIK)	10,200
23,330	Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011 (PIK)	19,831
40,000	WHX Corp. sr. notes 10 1/2s, 2005	37,600
		-----
		8,704,045
Capital Goods (4.0%)		
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	153,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007	156,251
EUR	350,000 Aero Invest 1 SA 144A company guaranty FRN 10.635s, 2015 (Luxembourg)	461,617
\$310,000	AGCO Corp. company guaranty 9 1/2s, 2008	327,050
293,000	Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008	314,975
180,000	Amsted Industries, Inc. 144A sr. notes 10 1/4s, 2011	203,400
415,000	Argo-Tech Corp. sr. notes 9 1/4s, 2011	456,500
50,000	BE Aerospace, Inc. sr. notes 8 1/2s, 2010	55,750
6,000	BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011	6,315
455,000	BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008	456,138
160,000	Blount, Inc. sr. sub. notes 8 7/8s, 2012	174,800
65,000	Browning-Ferris Industries, Inc. debs. 7.4s, 2035	57,688
140,000	Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008	138,950
340,000	Crown Euro Holdings SA sec. notes 10 7/8s, 2013 (France)	403,750
EUR	15,000 Crown Euro Holdings SA sec. notes 10 1/4s, 2011 (France)	22,894
\$115,000	Crown Euro Holdings SA sec. notes 9 1/2s, 2011 (France)	129,375
238,000	Decrane Aircraft Holdings Co. company guaranty zero %, 2008	90,440
199,000	Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012	222,880
EUR	80,000 Flender Holdings 144A sr. notes 11s, 2010 (Germany)	128,898
\$129,000	Flowserve Corp. company guaranty 12 1/4s, 2010	141,900
75,000	Hexcel Corp. sr. sub. notes 9 3/4s, 2009	78,000
170,000	Invensys, PLC notes 9 7/8s, 2011 (United Kingdom)	183,600
100,000	L-3 Communications Corp. company	

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	guaranty 7 5/8s, 2012	109,250
80,000	L-3 Communications Corp. company guaranty 6 1/8s, 2013	82,600
405,000	Legrand SA debs. 8 1/2s, 2025 (France)	502,200
124,000	Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012	142,910
EUR 45,000	Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011	67,010
\$50,000	Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013	54,125
315,000	Milacron Escrow Corp. sec. notes 11 1/2s, 2011	346,500
50,000	Mueller Group, Inc. sec. FRN 7.493s, 2011	51,375
335,000	Mueller Group, Inc. sr. sub. notes 10s, 2012	368,500
5,000	Owens-Brockway Glass company guaranty 8 7/8s, 2009	5,413
240,000	Owens-Brockway Glass company guaranty 8 1/4s, 2013	264,000
100,000	Owens-Brockway Glass company guaranty 7 3/4s, 2011	108,000
217,000	Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012	242,498
15,000	Owens-Illinois, Inc. debs. 7.8s, 2018	16,088
205,000	Polypore, Inc. sr. sub. notes 8 3/4s, 2012	205,000
285,000	Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008	310,650
205,000	Siebe PLC 144A sr. unsub. 6 1/2s, 2010 (United Kingdom)	197,313
125,000	Solo Cup Co. sr. sub. notes 8 1/2s, 2014	130,000
40,000	Terex Corp. company guaranty 9 1/4s, 2011	44,600
82,000	Terex Corp. company guaranty Ser. B, 10 3/8s, 2011	91,225
430,000	Titan Corp. (The) company guaranty 8s, 2011	462,250
		-----
		8,012,678

Communication Services (3.4%)

54,000	Alamosa Delaware, Inc. company guaranty 11s, 2010	62,910
49,000	Alamosa Delaware, Inc. company guaranty stepped-coupon zero % (12s, 7/31/05), 2009 (STP)	53,410
90,000	Alamosa Delaware, Inc. sr. notes 8 1/2s, 2012	97,650
45,000	American Cellular Corp. company guaranty 9 1/2s, 2009	43,875
71,000	American Tower Corp. sr. notes 9 3/8s, 2009	74,550
90,000	American Tower Corp. sr. notes 7 1/2s, 2012	94,725
165,000	American Towers, Inc. company guaranty 7 1/4s, 2011	175,725
28,862	Asia Global Crossing, Ltd. sr. notes	

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	13 3/8s, 2010 (Bermuda) (In default) (NON)	1,443
215,000	Centennial Cellular Operating Co. company guaranty 10 1/8s, 2013	249,400
35,000	Cincinnati Bell Telephone Co. company guaranty 6.3s, 2028	32,550
180,000	Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014	186,075
80,000	Cincinnati Bell, Inc. sr. sub. notes 7 1/4s, 2023	80,200
240,000	Citizens Communications Co. notes 9 1/4s, 2011	276,600
205,000	Citizens Communications Co. sr. notes 6 1/4s, 2013	203,463
272,000	Crown Castle International Corp. sr. notes 9 3/8s, 2011	301,920
60,000	Eircom Funding company guaranty Ser. US\$, 8 1/4s, 2013 (Ireland)	67,050
22,872	Globix Corp. company guaranty 11s, 2008 (PIK)	21,728
230,000	Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom)	240,925
230,000	Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 10/15/08), 2012 (United Kingdom) (STP)	173,938
70,000	iPCS, Inc. sr. notes 11 1/2s, 2012	81,200
25,000	IWO Escrow Co. 144A sec. FRN 5.77s, 2012	25,875
25,000	IWO Escrow Co. 144A sr. disc. notes stepped-coupon zero % (10 3/4s, 1/15/10), 2015 (STP)	16,375
180,000	Level 3 Financing, Inc. 144A sr. notes 10 3/4s, 2011	162,000
160,000	Madison River Capital Corp. sr. notes 13 1/4s, 2010	171,200
270,000	MCI, Inc. sr. notes 8.735s, 2014	303,413
220,000	MCI, Inc. sr. notes 7.688s, 2009	231,825
22,000	Nextel Communications, Inc. sr. notes 6 7/8s, 2013	23,760
625,000	Nextel Communications, Inc. sr. notes 5.95s, 2014	649,219
68,000	Nextel Partners, Inc. sr. notes 12 1/2s, 2009	76,075
290,000	Nextel Partners, Inc. sr. notes 8 1/8s, 2011	320,450
540,000	Qwest Communications International, Inc. 144A sr. notes 7 3/4s, 2014	556,200
615,000	Qwest Corp. 144A notes 9 1/8s, 2012	711,863
85,000	Qwest Services Corp. 144A notes 14 1/2s, 2014	106,675
150,000	Qwest Services Corp. 144A notes 14s, 2010	178,125
30,000	Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada)	37,050
110,000	Rogers Wireless Communications, Inc. sec. notes 9 5/8s, 2011 (Canada)	130,900
55,000	Rural Cellular Corp. sr. notes 9 7/8s, 2010	58,025
235,000	Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010	224,425

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75,000	SBA Communications Corp. 144A sr. notes 8 1/2s, 2012	81,000
75,000	SBA Telecommunications Inc./SBA Communications Corp. sr. disc. notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 (STP)	65,625
29,000	TSI Telecommunication Services, Inc. company guaranty Ser. B, 12 3/4s, 2009	32,698
75,000	Valor Telecommunications Enterprises LLC/Finance Corp. 144A sr. notes 7 3/4s, 2015	77,813
	-----	
		6,759,928

### Consumer Cyclical (9.8%)

400,000	Advertising Direct 144A sr. notes 9 1/4s, 2012 (Canada)	422,500
100,000	Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009	111,125
65,000	ArvinMeritor, Inc. notes 8 3/4s, 2012	73,450
105,000	Asbury Automotive Group, Inc. sr. sub. notes 8s, 2014	108,413
260,000	Autonation, Inc. company guaranty 9s, 2008	293,800
75,000	Bear Creek Corp. 144A sr. notes 9s, 2013	76,688
95,000	Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011	103,313
35,000	Beazer Homes USA, Inc. company guaranty 8 3/8s, 2012	38,456
30,000	Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012	33,225
25,000	Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012	27,031
290,000	Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014	302,688
70,000	Building Materials Corp. company guaranty 8s, 2008	72,363
90,000	CanWest Media, Inc. sr. sub. notes 10 5/8s, 2011 (Canada)	99,900
356,394	CanWest Media, Inc. 144A sr. sub. notes 8s, 2012 (Canada)	383,124
85,000	Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010	93,075
30,000	D.R. Horton, Inc. company guaranty 8s, 2009	33,223
50,000	D.R. Horton, Inc. sr. notes 7 7/8s, 2011	57,375
35,000	D.R. Horton, Inc. sr. notes 6 7/8s, 2013	38,325
215,000	D.R. Horton, Inc. sr. notes 5 7/8s, 2013	220,036
35,000	Dana Corp. notes 10 1/8s, 2010	38,068
251,000	Dana Corp. notes 9s, 2011	302,587
25,000	Dana Corp. notes 7s, 2029	24,358
125,000	Dayton Superior Corp. sec. notes 10 3/4s, 2008	134,375
44,000	Delco Remy International, Inc. company guaranty 11s, 2009	46,420

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270,000	Delco Remy International, Inc. sr. sub. notes 9 3/8s, 2012	259,875
245,000	Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s,2010	268,275
115,000	Dex Media, Inc. disc. notes zero %, 2013	90,563
455,000	Dex Media, Inc. notes 8s, 2013	493,675
40,000	Dura Operating Corp. company guaranty Ser. B, 8 5/8s, 2012	40,000
100,000	FelCor Lodging LP company guaranty 9s, 2008 (R)	113,125
160,000	Gaylord Entertainment Co. sr. notes 8s, 2013	173,400
60,000	Goodyear Tire & Rubber Co. (The) notes 8 1/2s, 2007	63,600
435,000	Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011	453,488
45,000	Goodyear Tire & Rubber Co. (The) notes 6 3/8s, 2008	45,450
180,000	Hasbro, Inc. notes 5.6s, 2005	181,800
78,000	HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 (R)	80,145
60,000	Host Marriott LP company guaranty Ser. G, 9 1/4s, 2007 (R)	66,000
128,000	Host Marriott LP sr. notes Ser. E, 8 3/8s, 2006 (R)	132,480
215,000	Host Marriott LP 144A sr. notes 7s, 2012 (R)	225,750
405,000	Houghton Mifflin Co. sr. sub. notes 9 7/8s, 2013	428,288
155,000	Icon Health & Fitness company guaranty 11 1/4s, 2012	120,900
150,000	JC Penney Co., Inc. debs. 7.95s, 2017	179,036
220,000	JC Penney Co., Inc. debs. 7 1/8s, 2023	245,263
130,000	JC Penney Co., Inc. notes 9s, 2012	159,575
10,000	JC Penney Co., Inc. notes 8s, 2010	11,328
120,000	Jostens Holding Corp. sr. disc. notes stepped-coupon zero % (10 1/4s, 12/1/08), 2013 (STP)	86,400
325,000	Jostens IH Corp. 144A company guaranty 7 5/8s, 2012	335,563
130,000	K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	144,300
90,000	K. Hovnanian Enterprises, Inc. company guaranty 6 3/8s, 2014	93,150
60,000	K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014	63,000
50,000	K2, Inc. sr. notes 7 3/8s, 2014	54,125
360,000	KB Home sr. notes 5 3/4s, 2014	365,392
2,000	KB Home sr. sub. notes 9 1/2s, 2011	2,179
320,000	Laidlaw International, Inc. sr. notes 10 3/4s, 2011	366,800
130,000	Lamar Media Corp. company guaranty 7 1/4s, 2013	139,100
51,000	Lear Corp. company guaranty Ser. B, 8.11s, 2009	57,141
359,000	Levi Strauss & Co. sr. notes 12 1/4s, 2012	411,055
175,000	Levi Strauss & Co. 144A sr. notes	

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	9 3/4s, 2015	184,406
95,000	Mandalay Resort Group sr. notes 6 3/8s, 2011	99,275
225,000	MediaNews Group, Inc. sr. sub. notes 6 7/8s, 2013	228,938
170,000	MeriStar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)	186,363
75,000	MeriStar Hospitality Corp. company guaranty 9s, 2008 (R)	79,875
65,000	Meritage Homes Corp. company guaranty 9 3/4s, 2011	72,639
75,000	Meritage Homes Corp. 144A sr. notes 6 1/4s, 2015	75,281
145,000	Meritor Automotive, Inc. notes 6.8s, 2009	148,988
125,000	Metaldyne Corp. 144A sr. notes 10s, 2013	123,125
160,000	MGM Mirage, Inc. company guaranty 8 1/2s, 2010	182,800
2,000	MGM Mirage, Inc. company guaranty 8 3/8s, 2011	2,240
55,000	Mirage Resorts, Inc. debs. 7 1/4s, 2017	57,750
140,000	Mohegan Tribal Gaming Authority sr. sub. notes 6 3/8s, 2009	143,500
100,000	Oxford Industries, Inc. sr. notes 8 7/8s, 2011	107,000
30,000	Park Place Entertainment Corp. sr. notes 7 1/2s, 2009	33,338
165,000	Park Place Entertainment Corp. sr. notes 7s, 2013	183,563
278,000	Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008	314,488
200,000	Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010	217,250
65,000	Penn National Gaming, Inc. 144A sr. sub. notes 6 3/4s, 2015	66,300
120,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 3/4s, 2013	132,000
170,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	181,475
200,000	PRIMEDIA, Inc. company guaranty 7 5/8s, 2008	203,000
330,000	PRIMEDIA, Inc. sr. notes 8s, 2013	351,450
25,000	R.H. Donnelley, Inc. company guaranty 8 7/8s, 2010	27,625
105,000	R.H. Donnelley Corp. 144A sr. notes 6 7/8s, 2013	107,888
223,000	R.H. Donnelley Finance Corp. I 144A company guaranty 8 7/8s, 2010	246,415
129,000	R.H. Donnelley Finance Corp. I 144A sr. sub. notes 10 7/8s, 2012	151,253
440,000	Reader's Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	461,450
158,000	Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	186,440
134,000	Russell Corp. company guaranty 9 1/4s, 2010	144,385
286,000	Saks, Inc. company guaranty 7s, 2013	297,440
335,000	Samsonite Corp. sr. sub. notes 8 7/8s, 2011	360,963



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104,000	Schuler Homes, Inc. company guaranty 10 1/2s, 2011	117,000
175,000	Scientific Games Corp. 144A sr. sub. notes 6 1/4s, 2012	180,250
260,000	Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	272,350
15,000	Standard Pacific Corp. sr. notes 6 7/8s, 2011	15,938
285,000	Standard Pacific Corp. sr. notes 6 1/4s, 2014	289,988
95,000	Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 7/8s, 2012	109,963
121,000	Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 3/8s, 2007	128,563
120,000	Starwood Hotels & Resorts Worldwide, Inc. debs. 7 3/8s, 2015	137,550
165,000	Starwood Hotels & Resorts Worldwide, Inc. notes 6 3/4s, 2005	167,888
193,000	Station Casinos, Inc. sr. notes 6s, 2012	199,996
120,000	Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016	126,450
75,000	Technical Olympic USA, Inc. company guaranty 10 3/8s, 2012	84,000
105,000	Technical Olympic USA, Inc. company guaranty 9s, 2010	113,663
290,000	Technical Olympic USA, Inc. 144A sr. sub. notes 7 1/2s, 2015	287,100
390,000	Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013	458,250
130,000	Tenneco Automotive, Inc. 144A sr. sub. notes 8 5/8s, 2014	138,450
460,000	THL Buildco, Inc. (Nortek Holdings, Inc.) sr. sub. notes 8 1/2s, 2014	469,200
100,000	Tommy Hilfiger USA, Inc. company guaranty 6.85s, 2008	101,000
230,000	Toys R Us, Inc. notes 7 5/8s, 2011	234,025
110,000	United Auto Group, Inc. company guaranty 9 5/8s, 2012	122,100
326,000	Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	333,335
160,000	Vertis, Inc. 144A sub. notes 13 1/2s, 2009	158,400
37,000	WCI Communities, Inc. company guaranty 10 5/8s, 2011	40,885
171,000	WCI Communities, Inc. company guaranty 9 1/8s, 2012	190,665
99,000	William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011	110,633
130,000	WRC Media Corp. sr. sub. notes 12 3/4s, 2009	120,900
365,000	Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 144A 1st mtge. 6 5/8s, 2014	364,088
	-----	
		19,515,672

Consumer Staples (7.0%)

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 20,000 Adelphia Communications Corp. sr.  
 notes 10 7/8s, 2010 (In default)

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	(NON)	18,100
235,000	Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 (In default) (NON)	203,863
360,000	Affinity Group, Inc. sr. sub. notes 9s, 2012	388,800
35,000	AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012	38,238
394,000	AMC Entertainment, Inc. sr. sub. notes 8s, 2014	397,940
285,000	Atlantic Broadband Finance, LLC 144A sr. sub. notes 9 3/8s, 2014	279,300
224,000	Brand Services, Inc. company guaranty 12s, 2012	252,560
250,000	Cablevision Systems Corp. 144A sr. notes 8s, 2012	281,250
94,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)	67,445
735,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 11 1/8s, 2011	628,425
120,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 3/4s, 2009	103,500
100,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 1/4s, 2010	83,500
240,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10s, 2011	196,800
117,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 9 5/8s, 2009	96,818
74,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 8 5/8s, 2009	60,495
130,000	Church & Dwight Co., Inc. 144A sr. sub. notes 6s, 2012	132,275
205,000	Cinemark USA, Inc. sr. sub. notes 9s, 2013	229,088
235,000	Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/07), 2014 (STP)	175,663
115,000	Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	125,063
10,000	Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012	10,900
100,000	CSC Holdings, Inc. debs. 7 5/8s, 2018	116,500
3,000	CSC Holdings, Inc. debs. Ser. B, 8 1/8s, 2009	3,338
105,000	CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011	116,813
130,000	CSC Holdings, Inc. sr. sub. debs. 10 1/2s, 2016	145,600
205,000	CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012	220,375
440,000	Dean Foods Co. sr. notes 6 5/8s, 2009	459,800
130,000	Del Monte Corp. sr. sub. notes	

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	8 5/8s, 2012	144,950
105,000	Del Monte Corp. 144A sr. sub. notes 6 3/4s, 2015	107,888
285,000	DirectTV Holdings, LLC sr. notes 8 3/8s, 2013	322,050
271,000	Diva Systems Corp. sr. disc. notes Ser. B, 12 5/8s, 2008 (In default) (NON)	1,186
265,000	Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007	255,725
106,000	Domino's, Inc. sr. sub. notes 8 1/4s, 2011	114,480
310,000	Echostar DBS Corp. sr. notes 6 3/8s, 2011	319,300
210,000	Echostar DBS Corp. 144A company guaranty 6 5/8s, 2014	215,775
60,000	Elizabeth Arden, Inc. company guaranty 7 3/4s, 2014	63,825
490,000	Granite Broadcasting Corp. sec. notes 9 3/4s, 2010	469,175
87,000	Gray Television, Inc. company guaranty 9 1/4s, 2011	95,700
210,000	Intelsat Bermuda, Ltd. 144A sr. notes 8 5/8s, 2015 (Bermuda)	224,175
100,000	Intelsat Bermuda, Ltd. 144A sr. notes 8 1/4s, 2013 (Bermuda)	104,750
100,000	Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada)	105,000
125,000	Jean Coutu Group, Inc. sr. sub. notes 8 1/2s, 2014 (Canada)	128,125
405,000	Kabel Deutschland GmbH 144A sr. notes 10 5/8s, 2014 (Germany)	465,750
2,435	Knology, Inc. 144A sr. notes 12s, 2009 (PIK)	2,350
440,000	LCE Acquisition Corp. 144A company guaranty 9s, 2014	460,900
175,000	Paxson Communications Corp. company guaranty 10 3/4s, 2008	184,188
375,000	Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013	341,250
258,000	Playtex Products, Inc. company guaranty 9 3/8s, 2011	277,673
180,000	Playtex Products, Inc. sec. notes 8s, 2011	197,550
345,000	Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012	374,325
60,000	Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)	59,550
317,000	Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)	360,191
205,000	Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	233,700
200,000	Rainbow National Services, LLC 144A sr. sub. debs. 10 3/8s, 2014	238,000
275,000	Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	271,563
GBP	150,000 RHM Finance, Ltd. sinking fund 8.8s, 2017 (Cayman Islands)	340,091
\$130,000	Rite Aid Corp. company guaranty 9 1/2s, 2011	141,050
215,000	Rite Aid Corp. debs. 6 7/8s, 2013	202,100

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	15,000 Rite Aid Corp. notes 7 1/8s, 2007	15,225
	105,000 Rite Aid Corp. 144A sec. notes 7 1/2s, 2015	103,950
	210,000 Sbarro, Inc. company guaranty 11s, 2009	211,050
	55,000 Scotts Co. (The) sr. sub. notes 6 5/8s, 2013	58,094
	125,000 Sinclair Broadcast Group, Inc. company guaranty 8 3/4s, 2011	135,000
	353,000 Six Flags, Inc. sr. notes 8 7/8s, 2010	336,674
EUR	260,000 United Biscuits Finance company guaranty 10 5/8s, 2011 (United Kingdom)	364,051
	\$80,000 United Rentals (North America), Inc. company guaranty 6 1/2s, 2012	80,600
	70,000 Universal City Florida Holding Co. 144A sr. notes 8 3/8s, 2010	73,675
	107,000 Universal City Florida Holding Co. 144A sr. notes FRN 7.493s, 2010	112,083
	65,000 Videotron Ltee company guaranty 6 7/8s, 2014 (Canada)	68,250
	125,000 Warner Music Group 144A sr. sub. notes 7 3/8s, 2014	132,500
	187,000 Williams Scotsman, Inc. company guaranty 9 7/8s, 2007	187,468
	189,000 Young Broadcasting, Inc. company guaranty 10s, 2011	199,395
	85,000 Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	84,150
		-----
		13,816,949
Energy (3.6%)		
	235,000 Arch Western Finance, LLC sr. notes 6 3/4s, 2013	244,400
	105,000 Arch Western Finance, LLC 144A sr. notes 6 3/4s, 2013	109,200
	92,000 Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands)	101,660
	130,000 CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	135,525
	91,000 Chesapeake Energy Corp. company guaranty 9s, 2012	103,285
	60,000 Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	66,150
	190,000 Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	210,900
	80,000 Chesapeake Energy Corp. sr. notes 7s, 2014	87,600
	120,000 Comstock Resources, Inc. sr. notes 6 7/8s, 2012	123,600
	210,000 Dresser, Inc. company guaranty 9 3/8s, 2011	226,800
	30,000 Dresser-Rand Group, Inc. 144A sr. sub. notes 7 3/8s, 2014	31,350
	130,000 Encore Acquisition Co. company guaranty 8 3/8s, 2012	143,650
	60,000 Encore Acquisition Co. sr. sub. notes 6 1/4s, 2014	60,450

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170,000	Exco Resources, Inc. company guaranty 7 1/4s, 2011	180,625
100,000	Forest Oil Corp. company guaranty 7 3/4s, 2014	108,500
135,000	Forest Oil Corp. sr. notes 8s, 2011	155,588
94,000	Forest Oil Corp. sr. notes 8s, 2008	102,930
90,000	Hanover Compressor Co. sr. notes 9s, 2014	100,125
60,000	Hanover Compressor Co. sr. notes 8 5/8s, 2010	65,100
125,000	Hanover Compressor Co. sub. notes zero %, 2007	112,188
40,000	Hanover Equipment Trust sec. notes Ser. B, 8 3/4s, 2011	43,400
365,000	Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)	375,950
365,000	Inergy LP/Inergy Finance Corp. 144A sr. notes 6 7/8s, 2014	370,475
85,000	KCS Energy, Inc. sr. notes 7 1/8s, 2012	89,463
365,000	Key Energy Services, Inc. sr. notes 6 3/8s, 2013	370,475
335,000	Massey Energy Co. sr. notes 6 5/8s, 2010	349,238
150,000	Newfield Exploration Co. sr. notes 7 5/8s, 2011	169,500
210,000	Newfield Exploration Co. 144A sr. sub. notes 6 5/8s, 2014	227,325
165,000	Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	165,825
95,000	Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014	100,938
180,000	Peabody Energy Corp. sr. notes 5 7/8s, 2016	182,250
80,000	Pemex Project Funding Master Trust company guaranty 8 5/8s, 2022	96,800
115,000	Pemex Project Funding Master Trust company guaranty 7 3/8s, 2014	128,662
179,543	Petroleum Geo-Services notes 10s, 2010 (Norway)	207,372
130,000	Plains Exploration & Production Co. sr. notes 7 1/8s, 2014	143,650
190,000	Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	211,850
195,000	Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	208,650
400,000	Pride International, Inc. sr. notes 7 3/8s, 2014	445,000
130,000	Seabulk International, Inc. company guaranty 9 1/2s, 2013	143,325
195,000	Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013	177,938
370,000	Stone Energy Corp. 144A sr. sub. notes 6 3/4s, 2014	371,850
35,000	Universal Compression, Inc. sr. notes 7 1/4s, 2010	37,100
7,000	Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012	7,718
40,000	Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011	42,900
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7,137,280

Financial (0.5%)

60,000	Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	62,100
110,000	Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009 (R)	119,900
230,000	E*Trade Finance Corp. 144A sr. notes 8s, 2011	248,400
273,004	Finova Group, Inc. notes 7 1/2s, 2009	120,804
320,000	Western Financial Bank sub. debs. 9 5/8s, 2012	358,400
		909,604

Health Care (2.3%)

137,000	AmerisourceBergen Corp. company guaranty 7 1/4s, 2012	152,070
260,000	AmerisourceBergen Corp. sr. notes 8 1/8s, 2008	288,600
225,000	Ardent Health Services, Inc. sr. sub. notes 10s, 2013	237,375
105,000	Community Health Systems, Inc. 144A sr. sub. notes 6 1/2s, 2012	105,656
105,000	Coventry Health Care, Inc. 144A sr. notes 5 7/8s, 2012	107,888
255,000	Elan Finance PLC/Elan Finance Corp. 144A sr. notes 7 3/4s, 2011 (Ireland)	226,950
67,000	HCA, Inc. debs. 7.19s, 2015	70,733
80,000	HCA, Inc. notes 6 3/8s, 2015	81,197
75,000	HCA, Inc. notes 5 3/4s, 2014	73,302
70,000	HCA, Inc. sr. notes 6.95s, 2012	73,988
289,000	Healthsouth Corp. notes 7 5/8s, 2012	293,335
63,000	Healthsouth Corp. sr. notes 8 1/2s, 2008	65,520
61,000	Healthsouth Corp. sr. notes 8 3/8s, 2011	64,203
27,586	Magellan Health Services, Inc. sr. notes Ser. A, 9 3/8s, 2008	29,793
31,000	MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012	35,185
240,000	MQ Associates, Inc. sr. disc. notes stepped-coupon zero % (12 1/4s, 8/15/08), 2012 (STP)	177,600
155,000	Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	155,388
110,000	Owens & Minor, Inc. company guaranty 8 1/2s, 2011	119,350
215,000	Province Healthcare Co. sr. sub. notes 7 1/2s, 2013	239,725
15,000	Service Corp. International notes 7.2s, 2006	15,506
5,000	Service Corp. International notes 6 7/8s, 2007	5,238
35,000	Service Corp. International notes 6 1/2s, 2008	36,488
41,000	Service Corp. International notes Ser. *, 7.7s, 2009	44,075

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180,000	Service Corp. International/US 144A sr. notes 6 3/4s, 2016	183,600
180,000	Stewart Enterprises, Inc. 144A sr. notes 6 1/4s, 2013	180,000
120,000	Tenet Healthcare Corp. notes 7 3/8s, 2013	113,700
145,000	Tenet Healthcare Corp. sr. notes 6 1/2s, 2012	133,763
365,000	Tenet Healthcare Corp. 144A sr. notes 9 7/8s, 2014	388,725
165,000	Triad Hospitals, Inc. sr. notes 7s, 2012	174,694
300,000	Triad Hospitals, Inc. sr. sub. notes 7s, 2013	309,375
120,000	Universal Hospital Services, Inc. sr. notes 10 1/8s, 2011	124,200
130,000	Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014	143,000
65,000	Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)	75,400
50,000	Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)	51,000
	-----	
		4,576,622
Other (2.3%)		
	-----	
4,510,000	Dow Jones CDX HY 144A pass-through certificates 7 3/4s, 2009	4,560,738
Technology (1.5%)		
	-----	
260,000	Advanced Micro Devices, Inc. 144A sr. notes 7 3/4s, 2012	265,200
103,000	AMI Semiconductor, Inc. company guaranty 10 3/4s, 2013	119,738
90,000	Amkor Technologies, Inc. sr. sub. notes 10 1/2s, 2009	84,825
320,000	Celestica, Inc. sr.sub. notes 7 7/8s, 2011 (Canada)	336,800
355,000	Iron Mountain, Inc. company guaranty 8 5/8s, 2013	374,525
225,000	Lucent Technologies, Inc. debs. 6.45s, 2029	214,031
90,000	New ASAT Finance, Ltd. 144A company guaranty 9 1/4s, 2011 (Cayman Islands)	77,400
75,000	SCG Holding Corp. 144A notes zero %, 2011	107,063
145,000	Seagate Technology Hdd Holdings company guaranty 8s, 2009 (Cayman Islands)	156,238
350,000	UGS Corp. 144A sr. sub. notes 10s, 2012	395,500
175,000	Xerox Capital Trust I company guaranty 8s, 2027	184,625
3,000	Xerox Corp. company guaranty 9 3/4s, 2009	3,484
90,000	Xerox Corp. notes Ser. MTN, 7.2s, 2016	96,525
231,000	Xerox Corp. sr. notes 7 5/8s, 2013	250,346
185,000	Xerox Corp. sr. notes 6 7/8s, 2011	197,950

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2,864,250

Transportation (0.5%)

120,000	American Airlines, Inc. pass-through certificates Ser. 01-1, 6.817s, 2011	114,600
230,000	Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008	184,000
300,000	Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008	334,500
40,000	Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009	41,900
157,000	Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006	166,616
110,000	Navistar International Corp. 144A sr. notes 6 1/4s, 2012	110,825
40,000	Travelcenters of America, Inc. company guaranty 12 3/4s, 2009	44,600
		----- 997,041

Utilities & Power (3.1%)

22,000	AES Corp. (The) sr. notes 8 7/8s, 2011	25,163
14,000	AES Corp. (The) sr. notes 8 3/4s, 2008	15,435
175,000	AES Corp. (The) 144A sec. notes 9s, 2015	200,375
240,000	AES Corp. (The) 144A sec. notes 8 3/4s, 2013	273,000
120,000	Allegheny Energy Supply Co., LLC 144A bonds 8 1/4s, 2012	136,800
70,000	Allegheny Energy Supply Co., LLC 144A sec. notes 10 1/4s, 2007	78,663
60,000	CMS Energy Corp. sr. notes 8.9s, 2008	66,750
70,000	CMS Energy Corp. sr. notes 8 1/2s, 2011	79,800
40,000	CMS Energy Corp. sr. notes 7 3/4s, 2010	43,900
445,000	DPL, Inc. bonds 8 1/8s, 2031	544,519
25,000	Dynegy Holdings, Inc. sr. notes 6 7/8s, 2011	23,281
315,000	Dynegy Holdings, Inc. 144A sec. notes 10 1/8s, 2013	359,100
90,000	Dynegy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010	89,100
125,000	Dynegy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016	117,188
115,000	El Paso Corp. sr. notes 8.05s, 2030	116,725
90,000	El Paso Corp. sr. notes 7 3/8s, 2012	92,025
85,000	El Paso Corp. sr. notes Ser. MTN, 7 3/4s, 2032	85,638
40,000	El Paso Natural Gas Co. debs. 8 5/8s, 2022	47,800
215,000	El Paso Production Holding Co. company guaranty 7 3/4s, 2013	230,588
155,000	Ferrellgas Partners LP/Ferrellgas Partners Finance sr. notes 6 3/4s,	



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2014		155,775
50,000	Kansas Gas & Electric debs. 8.29s, 2016	51,745
280,000	Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034	321,300
155,000	Mission Energy Holding Co. sec. notes 13 1/2s, 2008	193,750
90,000	Monongahela Power Co. 1st mtge. 6.7s, 2014	99,675
95,000	Nevada Power Co. 2nd mtge. 9s, 2013	109,725
75,000	Nevada Power Co. 144A general ref. mtge. 5 7/8s, 2015	75,938
225,000	Northwest Pipeline Corp. company guaranty 8 1/8s, 2010	247,219
454,000	NRG Energy, Inc. 144A sr. sec. notes 8s, 2013	501,670
125,000	Orion Power Holdings, Inc. sr. notes 12s, 2010	156,250
135,000	PSEG Energy Holdings, Inc. notes 7 3/4s, 2007	142,088
110,000	SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	115,666
145,000	SEMCO Energy, Inc. 144A sr. notes 7 3/4s, 2013	150,800
35,000	Sierra Pacific Power Co. general ref. mtge. 6 1/4s, 2012	36,663
215,000	Sierra Pacific Resources sr. notes 8 5/8s, 2014	237,575
65,000	Teco Energy, Inc. notes 10 1/2s, 2007	74,750
35,000	Teco Energy, Inc. notes 7.2s, 2011	38,500
60,000	Teco Energy, Inc. notes 7s, 2012	66,000
15,000	Tennessee Gas Pipeline Co. debs. 7s, 2028	15,600
100,000	Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017	111,250
185,000	Texas Genco LLC/Texas Genco Financing Corp. 144A sr. notes 6 7/8s, 2014	197,488
25,000	Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026	28,156
140,000	Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)	148,400
95,000	Utilicorp United, Inc. sr. notes 9.95s, 2011	109,013
30,000	Williams Cos., Inc. (The) notes 8 3/4s, 2032	37,950
35,000	Williams Cos., Inc. (The) notes 8 1/8s, 2012	40,688
50,000	Williams Cos., Inc. (The) notes 7 5/8s, 2019	57,750
		-----
		6,147,234
		-----
	Total Corporate bonds and notes (cost \$79,806,751)	\$84,002,041

Convertible preferred stocks (35.1%) (a)  
Number of shares

Value

Basic Materials (3.7%)

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	2,210 Freeport-McMoRan Copper & Gold, Inc. 144A 5.50% cv. pfd.	\$2,268,013
	2,020,000 Hercules Trust II Ser. UNIT, 6.50% cv. pfd.	1,656,400
	21,000 Huntsman Corp. \$2.50 cv. pfd.	1,234,170
	85,120 Smurfit-Stone Container Corp. Ser. A, \$1.75 cum. cv. pfd.	2,181,200
		7,339,783
Capital Goods (4.3%)		
	34,600 Coltec Capital Trust \$2.625 cv. pfd.	1,721,350
	31,900 Northrop Grumman Corp. Ser. B, \$7.00 cum. cv. pfd.	4,214,788
	63,770 Owens-Illinois, Inc. \$2.375 cv. pfd.	2,686,311
		8,622,449
Communication Services (2.4%)		
	56,894 CenturyTel, Inc. \$1.719 cv. pfd.	1,429,462
	35,300 Cincinnati Bell, Inc. Ser. B, \$3.378 cum. cv. pfd. (S)	1,561,672
	35,614 Crown Castle International Corp. \$3.125 cum. cv. pfd.	1,749,538
		4,740,672
Consumer Cyclical (3.0%)		
	12,870 Central Parking Finance Trust 144A \$1.313 cv. pfd.	250,965
	24,100 Emmis Communications Corp. Ser. A, \$3.125 cum. cv. pfd.	1,129,688
	40,000 Ford Motor Company Capital Trust II \$3.25 cum. cv. pfd.	2,000,000
	49,100 TXI Capital Trust I \$2.75 cv. pfd.	2,553,200
		5,933,853
Consumer Staples (2.7%)		
	40,800 Albertson's, Inc. \$1.813 cv. pfd.	989,400
	32,687 Constellation Brands, Inc. Ser. A, \$1.438 cv. pfd.	1,348,339
	41,100 Sinclair Broadcast Group, Inc. Ser. D, \$3.00 cv. pfd.	1,618,313
	63,200 Six Flags, Inc. \$1.813 cum. cv. pfd. (S)	1,358,800
		5,314,852
Energy (1.7%)		
	20,800 Amerada Hess Corp. \$3.50 cv. pfd.	1,817,400
	32,000 Hanover Compressor Capital Trust \$3.625 cum. cv. pfd.	1,616,000
		3,433,400

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### Financial (9.0%)

-----		
19,200	Capital One Financial Corp. \$3.125 cv. pfd.	986,400
55,500	Chubb Corp. (The) \$1.75 cv. pfd.	1,651,125
20	Fannie Mae Ser. 04-1, 5.375% cv. pfd.	2,041,933
99,200	FelCor Lodging Trust, Inc. Ser. A, \$1.95 cum. cv. pfd. (R)	2,492,400
2,079	Fortis Insurance NV 144A 7.75% cv. pfd. (Netherlands)	2,254,416
25,024	Hartford Financial Services Group, Inc. (The) \$3.50 cv. pfd.	1,682,864
46,720	Host Marriott Financial Trust \$3.375 cv. pfd. (R)	2,552,080
40,190	Lehman Brothers Holdings, Inc. \$1.563 cv. pfd.	1,125,320
38,400	Washington Mutual Capital Trust I \$2.688 cum. cv. pfd.	2,109,850
41,600	XL Capital, Ltd. \$1.625 cv. pfd. (Cayman Islands)	1,016,704
-----		
		17,913,092

### Health Care (1.6%)

-----		
59,600	Schering-Plough Corp. \$3.00 cv. pfd. (S)	3,136,450

### Technology (1.2%)

-----		
17,600	Xerox Corp. 6.25% cv. pfd.	2,376,000

### Utilities & Power (5.5%)

-----		
34,200	Aquila, Inc. \$1.688 cv. pfd.	1,115,775
38,950	El Paso Energy Capital Trust I \$2.375 cv. pfd. (S)	1,567,738
80,000	Great Plains Energy, Inc. \$2.00 cum. cv. pfd. (S)	2,160,000
34,000	ONEOK, Inc. \$2.125 units cv. pfd.	1,230,460
14,640	Public Service Enterprise Group, Inc. \$5.125 cv. pfd.	1,011,990
27,900	Sierra Pacific Resources \$4.50 units cum. cv. pfd.	1,082,241
30,700	Southern Union Co. \$2.50 cv. pfd.	1,591,795
11,390	Williams Cos., Inc. (The) 144A \$2.75 cv. pfd.	1,046,456
-----		
		10,806,455
-----		
	Total Convertible preferred stocks (cost \$59,776,956)	\$69,617,006

### Convertible bonds and notes (17.0%) (a)

Principal amount Value

### Capital Goods (0.7%)

-----		
\$1,070,000	Titan International, Inc. 144A cv. sr. notes 5 1/4s, 2009	\$1,419,088

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### Communication Services (1.0%)

	-----	
2,075,000	Charter Communications, Inc. 144A cv. sr. notes 5 7/8s, 2009	2,033,500
780,000	Cybernet Internet Services International, Inc. 144A cv. sr. disc. notes 13s, 2009 (Denmark) (In default) (NON)	8
		2,033,508

### Conglomerates (1.1%)

	-----	
2,030,000	GenCorp, Inc. cv. sub. notes 5 3/4s, 2007	2,215,238

### Consumer Cyclical (2.3%)

	-----	
\$1,050,000	Mediacom Communications Corp. cv. sr. notes 5 1/4s, 2006	\$1,034,250
1,730,000	MeriStar Hospitality Corp. cv. sr. sub. notes 9 1/2s, 2010 (R)	2,194,938
965,000	WCI Communities, Inc. cv. sr. sub. notes 4s, 2023	1,328,081
		4,557,269

### Consumer Staples (1.0%)

	-----	
1,660,000	Rite Aid Corp. cv. notes 4 3/4s, 2006	1,643,400
264,000	Rite Aid Corp. 144A cv. notes 4 3/4s, 2006	261,360
		1,904,760

### Electronics (0.6%)

	-----	
1,450,000	Kulicke & Soffa Industries, Inc. cv. sub. notes 1/2s, 2008	1,100,188

### Energy (0.3%)

	-----	
400,000	McMoran Exploration Co. cv. sr. notes 6s, 2008	649,500

### Financial (1.1%)

	-----	
1,050,000	American Equity Investment Life Holding Co. 144A cv. sr. notes 5 1/4s, 2024	1,157,625
1,300,000	Rewards Network, Inc. cv. sub. debs. 3 1/4s, 2023	978,250
		2,135,875

### Technology (6.5%)

	-----	
980,000	Agere Systems, Inc. cv. notes 6 1/2s, 2009	1,051,050
1,800,000	Amkor Technologies, Inc. cv. notes 5 3/4s, 2006	1,725,750

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2,098,000	Aspen Technology, Inc. cv. sub. debs. 5 1/4s, 2005	2,071,775
980,000	Fairchild Semiconductor International, Inc. cv. company guaranty 5s, 2008	987,350
1,950,000	Lucent Technologies, Inc. cv. sub. debs. 8s, 2031	2,067,000
1,500,000	Manugistics Group, Inc. cv. sub. notes 5s, 2007	1,378,125
1,500,000	ON Semiconductor Corp. 144A cv. sr. sub. notes zero %, 2024	1,162,500
2,800,000	Safeguard Scientifics, Inc. 144A cv. sr. notes 2 5/8s, 2024	2,040,500
450,000	Silicon Graphics, Inc. cv. notes 6 1/2s, 2009	429,750
		----- 12,913,800
 Transportation (0.5%)		
	-----	
1,200,000	Continental Airlines, Inc. cv. notes 4 1/2s, 2007	960,000
 Utilities & Power (1.9%)		
	-----	
980,000	AES Corp. (The) cv. sub. notes 4 1/2s, 2005	987,350
2,300,000	El Paso Corp. cv. debs. zero %, 2021	1,213,250
200,000	Sierra Pacific Resources 144A cv. notes 7 1/4s, 2010	472,750
720,000	XCEL Energy, Inc. 144A cv. notes 7 1/2s, 2007	1,082,700
		----- 3,756,050
		-----
	Total Convertible bonds and notes (cost \$31,214,623)	\$33,645,276
 Common stocks (0.9%) (a)		
	Number of shares	Value
	-----	
	393 AboveNet, Inc. (NON) (S)	\$11,790
	17,713 Alderwoods Group, Inc. (NON) (Canada)	216,984
	140,000 AMRESKO Creditor Trust (acquired various dates from 9/20/00 to 10/16/02, cost \$56,998) (NON) (RES) (F) (R)	140
	293 Birch Telecom, Inc. (NON) (F)	3
	5,780 Celanese Corp. Ser. A (NON) (S)	96,526
	25,623 Coinmach Service Corp. IDS (Income Deposit Securities) (S)	337,967
	147 Compass Minerals International, Inc.	3,675
	574,207 Contifinancial Corp. Liquidating Trust Units	14,355
	3,432 Covad Communications Group, Inc. (NON) (S)	5,217
	209 Crown Castle International Corp. (NON) (S)	3,415
	6,393 Globix Corp. (NON)	22,376
	145,000 iPCS Escrow, Inc. (NON) (F)	145
	3,374 iPCS, Inc. (NON)	101,220

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32 Knology, Inc. (NON)	86
153 Leucadia National Corp. (S)	5,127
386 Polymer Group, Inc. Class A (NON)	7,720
555 PSF Group Holdings, Inc. 144A Class A (NON) (F)	970,413
50 Sterling Chemicals, Inc. (NON)	2,250
202 Sun Healthcare Group, Inc. (NON)	1,378
56 USA Mobility, Inc. (NON) (S)	2,197
28,292 VS Holdings, Inc. (NON)	28
Total Common stocks (cost \$4,160,210)	\$1,803,012

### Foreign government bonds and notes (0.7%) (a)

Principal amount	Value
\$60,000 Brazil (Federal Republic of) bonds 10 1/2s, 2014	\$70,140
110,000 Colombia (Republic of) bonds Ser. NOV, 9 3/4s, 2009	124,025
90,000 Colombia (Republic of) notes 10 3/4s, 2013	105,075
85,000 Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 8s (9s, 8/15/05), 2030 (STP)	79,050
180,000 Indonesia (Republic of) 144A sr. notes 6 3/4s, 2014	184,770
65,000 Peru (Republic of) bonds 8 3/4s, 2033	70,363
155,000 Philippines (Republic of) bonds 9 1/2s, 2030	155,775
195,000 Philippines (Republic of) bonds 8 3/8s, 2011	202,118
220,000 Russia (Federation of) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP)	231,110
60,000 United Mexican States bonds Ser. MTN, 8.3s, 2031	72,330
55,000 Venezuela (Republic of) notes 10 3/4s, 2013	63,498
Total Foreign government bonds and notes (cost \$1,272,626)	\$1,358,254

### Units (0.1%) (a) (cost \$594,350)

Number of units	Value
406 XCL Equity Units (F)	\$180,261

### Preferred stocks (0.1%) (a)

Number of shares	Value
3 Dobson Communications Corp. 13.000% pfd. (PIK)	\$1,680
15 Paxson Communications Corp. 14.25% cum. pfd. (PIK)	121,500
43 Rural Cellular Corp. Ser. B, 11.375% cum. pfd. (PIK)	40,850
Total Preferred stocks (cost \$191,030)	\$164,030

### Brady bonds (0.1%) (a) (cost \$127,098)

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Principal amount	Value
\$136,400 Peru (Republic of) FRB Ser. 20 YR, 5s, 2017	\$129,921
Warrants (--) (a) (NON)	
Number of warrants	Expiration date
130 AboveNet, Inc.	9/8/08
152 AboveNet, Inc.	9/8/10
270 Dayton Superior Corp. 144A	6/15/09
119 MDP Acquisitions PLC 144A	10/1/13
120 Pliant Corp. 144A	6/1/10
420 Travelcenters of America, Inc. 144A	5/1/09
420 Ubiquitel, Inc. 144A	4/15/10
312 Washington Group International, Inc. Ser. C	1/25/06
Total Warrants (cost \$127,880)	\$11,061
Short-term investments (6.7%) (a)	
Principal amount	Value
\$5,708,363 Putnam Prime Money Market Fund (e)	\$5,708,363
7,489,369 Short-term investments held as collateral for loaned securities with yields ranging from 2.46% to 2.78% and due dates ranging from March 1, 2005 to March 29, 2005 (d)	7,484,215
Total Short-term investments (cost \$13,192,578)	\$13,192,578
Total Investments (cost \$190,464,102)	\$204,103,440

(a) Percentages indicated are based on net assets of \$198,219,764.

(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 28, 2005 was \$140 or less than 0.1% of net assets.

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

(F) Security is valued at fair value following procedures approved by the Trustees.

(R) Real Estate Investment Trust.

(S) Securities on loan, in part or in entirety, at February 28, 2005.

(d) See Note 1 to the financial statements.

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(e) See Note 4 to the financial statements regarding investments in Putnam Prime Money Market Fund.

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.

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at February 28, 2005.

Forward currency contracts to sell at February 28, 2005 (Unaudited)  
(aggregate face value \$2,521,525)

	Value	Aggregate face value	Delivery date	Unrealized appreciation (depreciation)
British Pound	\$339,359	\$340,276	3/16/05	
Euro	2,193,879	2,181,249	3/16/05	(12)
				\$ (11)

Credit default contracts outstanding at February 28, 2005 (Unaudited)

	Notional amount	Unrealized appreciation
Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.35% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities.	\$32,000	\$1
Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.55625% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities.	32,000	
Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives		



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a payment of the outstanding notional amount times 2.4625% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. 16,000

Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.433% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. 12,000

Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.475% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. 8,000

Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.5% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. 4,000

Agreement with Goldman Sachs effective September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.6% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. 4,000

-----  
\$4  
-----

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

Statement of assets and liabilities  
February 28, 2005 (Unaudited)

Assets

Investment in securities, at value, including \$7,265,954 of securities on loan (Note 1):	
Unaffiliated issuers (identified cost \$184,755,739)	\$198,395,077
Affiliated issuers (identified cost \$5,708,363) (Note 4)	5,708,363
Cash	239,414

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Dividends, interest and other receivables	2,364,271
-----	-----
Receivable for securities sold	1,348,501
-----	-----
Receivable for open credit default contracts (Note 1)	4,267
-----	-----
Receivable for open forward currency contracts (Note 1)	917
-----	-----
Total assets	208,060,810
-----	-----
Liabilities	
-----	-----
Distributions payable to shareholders	638,020
-----	-----
Payable for securities purchased	1,045,888
-----	-----
Payable for compensation of Manager (Notes 2 and 4)	416,317
-----	-----
Payable for investor servicing and custodian fees (Note 2)	43,475
-----	-----
Payable for Trustee compensation and expenses (Note 2)	60,415
-----	-----
Payable for administrative services (Note 2)	6,345
-----	-----
Payable for open forward currency contracts (Note 1)	12,630
-----	-----
Collateral on securities loaned, at value (Note 1)	7,484,215
-----	-----
Other accrued expenses	133,741
-----	-----
Total liabilities	9,841,046
-----	-----
Net assets	\$198,219,764
-----	-----
Represented by	
-----	-----
Paid-in capital (Unlimited shares authorized) (Notes 1 and 6)	\$221,972,930
-----	-----
Undistributed net investment income (Note 1)	16,279
-----	-----
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(37,401,356)
-----	-----
Net unrealized appreciation of investments and assets and liabilities in foreign currencies (Note 6)	13,631,911
-----	-----
Total -- Representing net assets applicable to capital shares outstanding	\$198,219,764
-----	-----
Computation of net asset value	
-----	-----
Net asset value per share (\$198,219,764 divided by 22,519,551 shares)	\$8.80
-----	-----

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

Statement of operations  
Six months ended February 28, 2005 (Unaudited)

Investment income:

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Interest (including interest income of \$38,965 from investments in affiliated issuers) (Note 4)	\$3,407,545
Dividends	1,551,548
Securities lending	16,254
Total investment income	4,975,347
Expenses:	
Compensation of Manager (Note 2)	491,895
Investor servicing fees (Note 2)	34,215
Custodian fees (Note 2)	66,071
Trustee compensation and expenses (Note 2)	7,541
Administrative services (Note 2)	14,416
Other	98,911
Fees waived and reimbursed by Manager (Note 4)	(2,591)
Total expenses	710,458
Expense reduction (Note 2)	(2,262)
Net expenses	708,196
Net investment income	4,267,151
Net realized gain on investments (Notes 1 and 3)	3,063,084
Net realized loss on foreign currency transactions (Note 1)	(31,075)
Net realized gain on credit default contracts (Note 1)	753
Net unrealized depreciation of assets and liabilities in foreign currencies during the period	(10,256)
Net unrealized appreciation of investments and credit default contracts during the period	4,115,723
Net gain on investments	7,138,229
Net increase in net assets resulting from operations	\$11,405,380

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

Statement of changes in net assets

	Six months ended February 28 2005*	Year ended August 31 2004
Increase in net assets		

Operations:

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Net investment income	\$4,267,151	\$7,906,456
Net realized gain on investments and foreign currency transactions	3,032,762	5,697,976
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	4,105,467	2,951,826
Net increase in net assets resulting from operations	11,405,380	16,556,258
Distributions to shareholders: (Note 1)		
From net investment income	(4,261,298)	(7,714,084)
Increase from issuance of shares in connection with the merger of Putnam High Income Opportunities Trust (Note 6)	75,299,313	--
Total increase in net assets	82,443,395	8,842,174
Net assets		
Beginning of period	115,776,369	106,934,195
End of period (including undistributed net investment income of \$16,279 and \$449,705, respectively)	\$198,219,764	\$115,776,369
Number of fund shares		
Shares outstanding at beginning of period	13,825,527	13,825,527
Shares issued in connection with the merger of Putnam High Income Opportunities Trust (Note 6)	8,694,024	--
Shares outstanding at end of period	22,519,551	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 28 (Unaudited)			Year ended Au 2002
	2005	2004	2003	
Net asset value, beginning of period	\$8.37	\$7.73	\$6.56	\$7.30

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Investment operations:

Net investment income (a)	.27 (d)	.57 (d)	.58	.60
Net realized and unrealized gain (loss) on investments	.44	.63	1.15	(.72)
Total from investment operations	.71	1.20	1.73	(.12)
Less distributions:				
From net investment income	(.28)	(.56)	(.56)	(.62)
Total distributions	(.28)	(.56)	(.56)	(.62)
Net asset value, end of period	\$8.80	\$8.37	\$7.73	\$6.56
Market price, end of period	\$7.87	\$7.62	\$7.31	\$6.35
Total return at market price (%) (b)	6.94*	12.06	24.73	(6.77)

Ratios and supplemental data

Net assets, end of period (in thousands)	\$198,220	\$115,776	\$106,934	\$90,561
Ratio of expenses to average net assets (%) (c)	.53 (d) *	1.09 (d)	1.13	1.10
Ratio of net investment income to average net assets (%)	3.18 (d) *	6.88 (d)	8.20	8.65
Portfolio turnover (%)	25.04*	61.92	69.94	56.70

\* 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).

(d) Reflects waivers of certain fund expenses in connection with investments in Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of the fund for the periods ended February 28, 2005 and August 31, 2004 reflect a reduction of less than 0.01% of average net assets (Note 4).

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

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Notes to financial statements  
February 28, 2005 (Unaudited)

Note 1  
Significant accounting policies

Putnam High Income Bond Fund (the "fund"), a Massachusetts business trust, 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 as a primary objective and capital appreciation as a secondary objective by investing in a portfolio primarily consisting 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 fund's 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 certain 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 Pursuant to an exemptive order from the Securities and Exchange Commission ("SEC"), 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

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Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. These balances may be invested in issues of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

C) 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 withholding 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

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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. Risks may exceed amounts recognized on the statement of assets and liabilities. Forward currency contracts outstanding at period end, if any, are listed after the fund's portfolio.

F) Credit default contracts The fund may enter into credit default contracts where one party, the protection buyer, makes an upfront or periodic payment to a counter party, the protection seller, in exchange for the right to receive a contingent payment. The maximum amount of the payment may equal the notional amount, at par, of the underlying index or security as a result of a related credit event. An upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund's books. An upfront payment made by the fund, as the protection buyer, is recorded as an asset on the fund's books. Periodic payments received or paid by the fund are recorded as realized gains or losses. The credit default contracts are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that the counterparty may default on its obligation to perform. Risks of loss may exceed amounts recognized on the statement of assets and liabilities. Credit default contracts outstanding at period end, if any, are listed after the fund's portfolio.

G) 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 28, 2005, the value of securities loaned amounted to \$7,265,954. The fund received cash collateral of \$7,484,215 which is pooled with collateral of other Putnam funds into 33 issuers of high grade short-term investments.

H) 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 of 1986 (the "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 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, 2004, the fund had a capital loss carryover of \$19,335,434 available to the extent allowed by the Code to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:



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Loss Carryover	Expiration
\$535,162	August 31, 2009
9,205,575	August 31, 2010
9,594,697	August 31, 2011

As a result of the January 21, 2005 merger of Putnam High Income Opportunities Trust into the fund, the fund acquired \$21,216,278 in capital loss carryovers which are subject to limitations imposed by the Code. The acquired capital loss carryovers and their expiration dates are:

Loss Carryover	Expiration
\$11,425,662	August 31, 2009
9,790,616	August 31, 2010

The aggregate identified cost on a tax basis is \$190,690,385, resulting in gross unrealized appreciation and depreciation of \$19,092,173 and \$5,679,118, respectively, or net unrealized appreciation of \$13,413,055.

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

Effective September 13, 2004, Putnam Investments Limited ("PIL"), an affiliate of Putnam Management is authorized by the Trustees to manage a separate portion of the assets of the fund as determined by Putnam Management from time to time. Putnam Management pays a quarterly sub-management fee to PIL for its services at an annual rate of 0.40% of the average net assets of the portion of the fund managed by PIL.

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 servicing agent functions to the fund. During the six months ended February 28, 2005, the fund paid PFTC \$100,286 for these services.

The fund has entered into an arrangement with PFTC whereby credits

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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 28, 2005, the fund's expenses were reduced by \$2,262 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$1,287, 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. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

### Note 3

#### Purchases and sales of securities

During the six months ended February 28, 2005, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$33,709,923 and \$33,901,231, respectively. There were no purchases or sales of U.S. government securities.

### Note 4

#### Investment in Putnam Prime Money Market Fund

Pursuant to an exemptive order from the Securities and Exchange Commission, the fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Management fees paid by the fund are reduced by an amount equal to the management fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the period ended February 28, 2005, management fees paid were reduced by \$2,591 relating to the fund's investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled \$38,965 for the period ended February 28, 2005.

### Note 5

#### Regulatory matters and litigation

Putnam Management has entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division settling charges connected 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 401(k) plans. Pursuant to these settlement agreements, Putnam Management will pay a total of \$193.5 million in penalties and restitution, with \$153.5 million being paid to shareholders and the funds. The restitution amount will be allocated to shareholders

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pursuant to a plan developed by an independent consultant, with payments to shareholders currently expected by the end of the summer.

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 will bear any costs incurred by Putnam funds in connection with these lawsuits. 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.

On March 23, 2005, Putnam Management entered into a settlement with the SEC resolving its inquiry into Putnam Management's alleged failure to fully and effectively disclose a former brokerage allocation practice to the Board of Trustees and shareholders of the Putnam Funds. This practice, which Putnam Management ceased as of January 1, 2004, involved allocating a portion of the brokerage on mutual fund portfolio transactions to certain broker-dealers who sold shares of Putnam mutual funds. Under the settlement order, Putnam Management has paid a civil penalty of \$40 million and disgorgement of \$1 to the SEC. These amounts subsequently will be distributed to certain Putnam funds pursuant to a plan to be approved by the SEC. As part of the settlement, Putnam Management neither admitted nor denied any wrongdoing.

### Note 6

#### Acquisition of Putnam High Income Opportunities Trust

On January 21, 2005, the fund issued 8,694,024 shares in exchange for 3,712,567 shares of Putnam High Income Opportunities Trust to acquire that fund's net assets in a tax-free exchange approved by the shareholders. The net assets of the fund and Putnam High Income Opportunities Trust on January 21, 2005, valuation date, were \$119,743,477 and \$75,299,313, respectively. On January 21, 2005, Putnam High Income Opportunities Trust had distributions in excess of net investment income of \$439,279, accumulated net realized loss of \$21,080,625 and unrealized appreciation of \$4,326,390. The aggregate net assets of the fund immediately following the acquisition were \$195,042,790.

Information presented in the Statement of operations and changes in net assets reflect only the operations of Putnam High Income Bond Fund.

#### Results of January 13, 2005 shareholder meeting (Unaudited)

A special meeting of the shareholders of the fund was held on January 13, 2005. At the meeting, the proposed merger of Putnam High Income Opportunities Trust into Putnam High Income Bond Fund was approved. In this merger, Putnam High Income Bond Fund will acquire all of the assets of Putnam High Income Opportunities Trust in exchange for the issuance and delivery of shares of beneficial interest of Putnam High Income Bond Fund and the assumption by Putnam High Income Bond Fund of the liabilities of Putnam High Income Opportunities Trust and the distribution of such shares to the shareholders of Putnam High Income Opportunities Trust. This was approved as follows:

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Votes For	Votes Against	Abstentions
7,023,242	530,636	325,383

All tabulations are rounded to nearest whole number.

### 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

#### Investment Sub-Manager

Putnam Investments Limited  
57-59 St. James Street  
London, England SW1A 1LD

#### Marketing Services

Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

#### Custodian

Putnam Fiduciary  
Trust Company

#### Legal Counsel

Ropes & Gray LLP

#### Trustees

John A. Hill, Chairman  
Jameson Adkins Baxter  
Charles B. Curtis  
Myra R. Drucker  
Charles E. Haldeman, Jr.  
Ronald J. Jackson  
Paul L. Joskow  
Elizabeth T. Kennan  
John H. Mullin, III  
Robert E. Patterson  
George Putnam, III

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W. Thomas Stephens  
Richard B. Worley

### Officers

George Putnam, III  
President

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

Jonathan S. Horwitz  
Senior Vice President  
and Treasurer

Steven D. Krichmar  
Vice President and  
Principal Financial Officer

Michael T. Healy  
Assistant Treasurer and  
Principal Accounting Officer

Daniel T. Gallagher  
Vice President and Legal  
and Compliance Liaison Officer

Beth S. Mazor  
Vice President

James P. Pappas  
Vice President

Richard S. Robie, III  
Vice President

Mark C. Trenchard  
Vice President and  
BSA Compliance Officer

Francis J. McNamara, III  
Vice President and  
Chief Legal Officer

Charles A. Ruys de Perez  
Vice President and  
Chief Compliance Officer

Judith Cohen  
Clerk and Assistant Treasurer

Call 1-800-225-1581 weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time,  
or visit our Web site ([www.putnaminvestments.com](http://www.putnaminvestments.com)) anytime for up-to-date  
information about the fund's NAV.

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PUTNAM INVESTMENTS

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The Putnam Funds  
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Boston, Massachusetts 02109

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220226 4/05

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

Item 5. Audit Committee: Not applicable

Item 6. Schedule of Investments: Not applicable

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. Purchases of Equity Securities by Closed-End Management Investment

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Companies and Affiliated Purchasers: Not applicable  
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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, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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(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  
-----  
Michael T. Healy  
Principal Accounting Officer

Date: April 27, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and 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: April 27, 2005

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

Date: April 27, 2005