

PUTNAM MANAGED HIGH YIELD TRUST

Form N-30D

January 15, 2003

Putnam
Managed
High Yield
Trust

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

11-30-02

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

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

Dear Fellow Shareholder:

During the stock market's ongoing volatility, higher-rated bonds clearly have been major beneficiaries of investors' flight to safety. However, the lower-rated higher-yielding securities in which Putnam Managed High Yield Trust invests faced quite a different environment, battling the negative effects of the stock market's instability as well as high default rates throughout most of the semiannual period that ended on November 30, 2002. Despite this challenging environment, high-yield bonds outperformed equities by a significant margin, proving their value in a diversified investment program.

Your fund sustained a loss for the period, but outperformed the average for its Lipper category. The fund underperformed its benchmark index, primarily because of differences in composition between the two. In addition, the decline in interest rates over the past several years necessitated reductions in the fund's dividend. On the following pages, the fund's management team discusses fund performance during the semiannual period and provides an outlook for the months ahead.

As the fund enters the fiscal year's second half, the economic recovery continues to exhibit signs that it is alive, if not as robust as some investors might desire. Productivity continues to improve, interest rates remain low, and inflation is still virtually nonexistent. In the final months of the period, investors began to recognize these attributes and respond accordingly. As investor psychology turns more positive, high-yield bonds should benefit.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill
Chairman of the Trustees
January 15, 2003

George Putnam, III
President of the Funds

REPORT FROM FUND MANAGEMENT

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

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During the first six months of Putnam Managed High Yield Trust's fiscal year, the high-yield market was affected by changes in the economic outlook, concerns over terrorist threats, and a wave of corporate scandals. In addition, the market continued to be plagued by high-profile defaults and credit problems among several issuers. Your fund's management team kept the portfolio well diversified and Putnam's research staff added value in a difficult credit environment by carefully monitoring individual holdings and scrutinizing new issues that came to market. As a result, although your fund's performance was disappointing in absolute terms, it was ahead of its Lipper category average for the semiannual period ending November 30, 2002 (see page 7 for details). The fund underperformed its benchmark, the CSFB High Yield Index, because the fund tends to own bonds issued by larger, better-known companies. The fund's benchmark index, by contrast, has many more bonds issued by smaller companies. While these smaller-company bonds outperformed larger-company bonds over this fiscal year, we typically do not purchase these types of securities for the fund because many are illiquid (cannot be easily sold) and therefore may carry increased risk.

Total return for 6 months ended 11/30/02

| NAV | Market price |
|--------|--------------|
| -3.31% | -5.77% |

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

The fund's market price reflects the relative performance of the underlying portfolio as well as changes in investor sentiment and market trends. These include increases or decreases in demand for the types of securities in which the fund invests. The fund's return at market price was lower than its return at net asset value in large part because of two dividend reductions that occurred during the period. The reasons for these reductions are discussed on page four of this report. In addition to the dividend, the fund's return at market price was lower because of reduced demand during the period for high-yield securities, as investors seeking relative safety favored higher-quality bond sectors.

[GRAPHIC OMITTED: horizontal bar chart TOP INDUSTRY SECTORS]

TOP INDUSTRY SECTORS*

| | |
|-------------------------|------|
| Capital goods | 8.0% |
| Health care | 7.5% |
| Communications services | 7.1% |
| Broadcasting | 6.4% |
| Energy | 6.0% |

Footnote reads:

*Based on net assets as of 11/30/02. Holdings will vary over time.

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* PERIOD PROVED VOLATILE FOR HIGH-YIELD BONDS

After several strong months early in the year, during which investor confidence was buoyed by a strengthening economy and rising equity prices, the high-yield market hit a peak in early May 2002. In April, the media had reported allegations of fraud at Adelphia, a large cable company and significant high-yield issuer. A month later, the high-yield market felt the effects of this scandal and began to decline. The fund owned some Adelphia bonds, and the scandal's effect on these holdings detracted from performance.

June brought no reprieve for investor confidence, as the stock market and corporate-bond market were rocked by accounting scandals at WorldCom and Tyco. In addition to reports of significant economic weakness, this corporate malfeasance caused both the high-yield and equity markets to continue declining through the middle of October. In response, investors flocked to high-quality investments, such as U.S. Treasuries. The yield on the 10-year U.S. Treasury bond, which moves in the opposite direction of its price, declined to near-record lows of approximately 3.60% by the end of September -- a level not seen since the 1950s. Finally, default rates, which are measured by the number of companies failing to meet payment obligations for their bonds, peaked in January 2002, according to Moody's. However, this default rate remained elevated for much of the year, and has just begun to show more meaningful improvement.

* THE FUND'S DEFENSIVE STRATEGY WAS ON TARGET

Despite the strong performance of high-yield bonds and the economy's improvement in early 2002, we remained wary of how well the economic recovery would hold up and were concerned about the effect that the developing corporate scandals and continued geopolitical turmoil would have on the high-yield market. We were also concerned about the continued high level of defaults in the market. As a result, we kept the portfolio diversified across a wide range of industry sectors and individual holdings. Moreover, our staff of research analysts helped the fund avoid a number of credit problems with individual holdings. A good example was Tesoro Petroleum, a refining company that brought a new bond issue to market in April 2002. Our analysts felt that these bonds carried too much risk because of the volatility associated with the refining industry and recommended against the purchase. Their analysis proved correct -- the bonds declined in value by nearly 50% after coming to market.

[GRAPHIC OMITTED: TOP 10 HOLDINGS]

TOP 10 HOLDINGS

PSF Group Holdings, Inc.
144A Class A common stock
Consumer staples

Echostar DBS Corp.
Senior notes, 10.375%, 2007
Broadcasting

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

Young Broadcasting, Inc.

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Company guaranty, 10%, 2011
Broadcasting

PRIMEDIA, Inc.
Company guaranty, 8.875%, 2011
Publishing

GS Escrow Corp.
Senior notes, 7.125%, 2005
Financial

Coinmach Corp.
Senior notes, 9%, 2010
Commercial and consumer services

CSC Holdings, Inc.
Series M, \$11.125 cumulative preferred stock
Cable television

Six Flags, Inc.
Senior notes, 8.875%, 2010
Entertainment

Riverwood International Corp.
Company guaranty, 10.875%, 2008
Forest products and packaging

Footnote reads:

These holdings represented approximately 9.7% of the fund's net assets as of 11/30/02. Portfolio holdings will vary over time.

In September, our view on the high-yield market became more positive. While we believed that third quarter earnings would be lackluster, we thought that the market was poised for a rally that would occur after third quarter earnings were released in mid-October. This view was based on the attractive valuations in the market, the prospects for an easing by the Fed, and the fact that November has historically marked a seasonally strong period for the high-yield market. As such, we began to position the fund slightly more aggressively to better capture a rallying market. In fact, the high-yield market bottomed on October 10 and posted a total return of over 6% from that date through the end of November.

* SECTOR AND SECURITY SELECTION ALSO HELPED RELATIVE PERFORMANCE

While we did not significantly overweight specific sectors during the period, many of the sectors in which the fund was invested made positive contributions to performance. Examples include television broadcasting, which has benefited from increased advertising expenditures, and gaming and lodging, which has benefited from people taking vacations closer to home and within the United States. We have kept the portfolio underweighted in technology, which continues to struggle from a reluctance of corporations to increase capital spending.

In the wireless industry, the fund owns Nextel, one of the largest holdings in the fund and a strong performer. Nextel stands out in its industry for a number of reasons. The company offers a service that allows customers to reach each other with a push-to-talk feature (similar to a walkie-talkie), in addition to traditional cellular transmission. These "flexible calling groups" are convenient and highly popular for a variety of uses, including construction, limousines,

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trucking, sales management, and emergency services (which have increased significantly after 9/11). The company is planning to expand the service nationwide and globally. We believe that Nextel is well managed and were pleased to see that the firm recently retired \$2 billion in debt and preferred stocks.

Fund Profile

Putnam Managed High Yield Trust seeks high current income and the potential for capital appreciation by investing in corporate high-yield bonds. The fund is designed for investors seeking high income and capital appreciation, and who are willing to take on the added risk of investing in below-investment-grade securities.

* DIVIDEND CUTS REFLECT DECLINE IN MARKET YIELDS OVER PAST SEVERAL YEARS

As a result of lower interest rates available in the marketplace, your fund's managers reduced the fund's dividend twice during the last 12 months -- in December 2001 and April 2002. Yields on bonds in all fixed-income sectors have been declining for the past several years, due to slowing economic growth, Federal Reserve Board interest-rate cuts, and strong inflows of funds into fixed-income securities which have pushed bond prices up and yields down. (In the high-yield market, prices have also fallen because of high default levels and increased credit stress.) Despite these dividend reductions, your fund's distribution rate remains in line with other mutual funds that invest in high-yield bonds and well above those found in other fixed-income sectors.

* OUTLOOK REMAINS POSITIVE DESPITE SHORT-TERM CAVEATS

While high-yield bonds have underperformed other bond sectors year-to-date, this sector historically has outperformed equities during other periods. We remain confident in the potential of high-yield bonds for 2003 due to a number of positive trends: yield spreads relative to Treasuries are wide; default rates, having peaked earlier in the year, are improving; and demand for these bonds is growing. Yields are high -- often exceeding 10% -- and there is potential for price appreciation. We believe that overall credit quality is improving as companies are working to improve their balance sheets. Also, many large companies have entered the high-yield universe, having been recently downgraded from investment-grade status. Many of these "fallen angels" have strong cash flows and manageable amounts of debt and offer attractive yields relative to their credit-risk profile. The economy is growing, and we do not expect a double-dip recession in 2003. Finally, we have seen an increase in demand, in part due to the fact that other fixed-income alternatives offer much lower yields. In October, with the rally in the stock market and a decline in Treasury performance, high-yield bonds outperformed Treasuries. These trends characterize an environment in which high-yield bonds have the potential to outperform other bond sectors.

There are risks, of course, that may affect high-yield bond performance in the short term. Default rates remain elevated, despite improvement, and geopolitical turmoil, including the possibility of war with Iraq, could also have a negative effect on the market. Moreover, companies remain reluctant to increase capital spending, and until they do so, the economy's growth will probably remain slow to moderate. As always, we will keep a close eye on market and economic developments, maintain diversification in the portfolio, and make adjustments as events and conditions warrant.

The views expressed here are exclusively those of Putnam Management.

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They are not meant as investment advice. Although the described holdings were viewed favorably as of 11/30/02, there is no guarantee the fund will continue to hold these securities in the future. Lower-rated bonds may offer higher yields in return for more risk.

The fund is managed by the Putnam Core Fixed-Income High-Yield Team. The members of this team are Stephen Peacher (Portfolio Leader), Norm Boucher (Portfolio Member), Paul Scanlon (Portfolio Member), Rosemary Thomsen (Portfolio Member), Jeffrey Kaufman, Geoffrey Kelley, Neil Reiner, and Joseph Towell.

A NOTE ABOUT DUPLICATE MAILINGS

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

PERFORMANCE SUMMARY

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

TOTAL RETURN FOR PERIODS ENDED 11/30/02

| | NAV | Market price | CSFB High Yield Index | Consumer price index |
|---------------------------------|--------|--------------|-----------------------|----------------------|
| 6 months | -3.31% | -5.77% | -1.84% | 1.11% |
| 1 year | -2.29 | -1.81 | 1.93 | 2.25 |
| 5 years | -10.23 | -5.94 | 7.07 | 12.24 |
| Annual average | -2.14 | -1.22 | 1.38 | 2.34 |
| Life of fund (since 6/25/93) | 45.26 | 47.47 | 67.10 | 25.78 |
| Annual average | 4.04 | 4.21 | 5.60 | 2.47 |

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

LIPPER INFORMATION:

The average cumulative return for the 8 funds in the Lipper High Current Yield Funds category over the 6 months ended 11/30/02 was -5.88%. Over the 1-year, 5-year, and life-of-fund periods ended 11/30/02, annualized returns for the category were -6.13%, -8.51%, and -0.87%, respectively.

PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 11/30/02

Distributions
(number)

6

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| | | |
|--------------------------------|----------|--------------|
| Income | \$0.4080 | |
| Capital gains 1 | -- | |
| Total | \$0.4080 | |
| Share value: | NAV | Market price |
| 5/31/02 | \$8.50 | \$9.48 |
| 11/30/02 | 7.82 | 8.50 |
| Current return (end of period) | | |
| Current dividend rate 2 | 10.43% | 9.60% |

1 Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

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

TOTAL RETURN FOR PERIODS ENDED 12/31/02 (most recent calendar quarter)

| | NAV | Market price |
|---------------------------------|--------|--------------|
| 6 months | 2.13% | 6.64% |
| 1 year | -1.67 | 0.10 |
| 5 years | -10.75 | -10.13 |
| Annual average | -2.25 | -2.11 |
| Life of fund (since 6/25/93) | 45.97 | 44.83 |
| Annual average | 4.05 | 3.97 |

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

TERMS AND DEFINITIONS

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

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

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

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COMPARATIVE BENCHMARKS

Credit Suisse First Boston (CSFB) High Yield Index is an unmanaged index of high-yield debt securities. The index assumes reinvestment of all distributions and does not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

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

Lipper Inc. is a third-party industry ranking entity that ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper.

A GUIDE TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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THE FUND'S PORTFOLIO
November 30, 2002 (Unaudited)

CORPORATE BONDS AND NOTES (86.6%) (a)
PRINCIPAL AMOUNT

Advertising and Marketing Services (0.1%)

\$196,618 Interact Operating Co. notes 14s, 2003 (In default) (NON) (PIK)
40,000 Lamar Media Corp. company guaranty 9 5/8s, 2006

Automotive (2.1%)

35,000 American Axle & Manufacturing, Inc. company guaranty
9 3/4s, 2009
90,000 Collins & Aikman Products, Inc. company guaranty
11 1/2s, 2006
140,000 Collins & Aikman Products, Inc. company guaranty
10 3/4s, 2011
35,000 Dana Corp. notes 10 1/8s, 2010
135,000 Dana Corp. notes 9s, 2011
20,000 Dana Corp. notes 7s, 2029
EUR 5,000 Dana Corp. sr. notes 9s, 2011
\$35,000 Delco Remy International, Inc. company guaranty
11s, 2009
25,000 Delco Remy International, Inc. company guaranty
10 5/8s, 2006
20,000 Delco Remy International, Inc. sr. notes 8 5/8s, 2007
115,000 Dura Operating Corp. company guaranty Ser. B,
8 5/8s, 2012
80,000 Dura Operating Corp. company guaranty Ser. D,
9s, 2009
110,000 Exide Corp. sr. notes 10s, 2005 (In default) (NON)
80,000 Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)
100,000 Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)
55,000 Ford Motor Credit Corp. notes 7 7/8s, 2010
30,000 Ford Motor Credit Corp. notes 7 3/8s, 2009
40,000 Ford Motor Credit Corp. notes 7 1/4s, 2011
30,000 Hayes Lemmerz International, Inc. 144A company
guaranty 11 7/8s, 2006 (In default) (NON)
150,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009
180,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005
EUR 30,000 Lear Corp. sr. notes 8 1/8s, 2008
\$30,000 Tenneco Automotive, Inc. company guaranty
Ser. B, 11 5/8s, 2009

Beverage (0.3%)

30,000 Constellation Brands, Inc. company guaranty 8 1/2s, 2009
10,000 Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008
150,000 Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012

Broadcasting (5.8%)

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10,000 Acme Communications, Inc. sr. disc. notes Ser. B, 12s, 2005
190,000 Acme Television company guaranty 10 7/8s, 2004
70,000 British Sky Broadcasting PLC company guaranty 8.2s, 2009
(United Kingdom)
210,000 British Sky Broadcasting PLC company guaranty 6 7/8s, 2009
(United Kingdom)
70,000 CD Radio, Inc. sec. notes 14 1/2s, 2009
160,000 Chancellor Media Corp. company guaranty 8s, 2008
440,000 Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B,
zero % (12 5/8s, 3/1/03), 2008 (In default) (NON) (STP)
790,000 Echostar DBS Corp. sr. notes 10 3/8s, 2007
150,000 Echostar DBS Corp. sr. notes 9 1/8s, 2009
50,000 Emmis Communications Corp. company guaranty Ser. B,
8 1/8s, 2009
62,000 Emmis Communications Corp. sr. disc. notes stepped-coupon
zero % (12 1/2s, 3/15/06), 2011 (STP)
25,000 Granite Broadcasting Corp. sr. sub. notes 10 3/8s, 2005
115,000 Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005
135,000 Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008
55,000 Gray Television, Inc. company guaranty 9 1/4s, 2011
10,000 Knology Holdings, Inc. sr. disc. notes 11 7/8s, 2007
10,000 LIN Holdings Corp. sr. disc. notes stepped-coupon zero %
(10s, 3/1/03), 2008 (STP)
20,000 LIN Holdings Corp. 144A sr. disc. notes stepped-coupon
zero % (10s, 3/1/03), 2008 (STP)
70,000 LIN Television Corp. company guaranty 8 3/8s, 2008
40,000 LIN Television Corp. company guaranty 8s, 2008
70,000 Pegasus Satellite sr. notes 12 3/8s, 2006
350,375 Quorum Broadcast Holdings, LLC notes stepped-coupon
zero % (15s, 5/15/06), 2009 (STP)
52,000 RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero %
(9.8s, 2/15/03), 2008 (STP)
15,000 Sinclair Broadcast Group, Inc. company guaranty 9s, 2007
260,000 Sinclair Broadcast Group, Inc. company guaranty 8 3/4s, 2011
125,000 XM Satellite Radio Holdings, Inc. sec. notes 14s, 2010
556,000 Young Broadcasting, Inc. company guaranty 10s, 2011
21,000 Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007

Building Materials (1.3%)

230,000 American Standard Companies, Inc. company guaranty
7 3/8s, 2005
55,000 Atrium Companies, Inc. company guaranty Ser. B, 10 1/2s, 2009
110,000 Better Minerals & Aggregates Co. company guaranty
13s, 2009
60,000 Building Materials Corp. company guaranty 8s, 2008
160,000 Dayton Superior Corp. company guaranty 13s, 2009
90,000 Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008
10,000 Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011
60,000 Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007
250,000 Owens Corning bonds 7 1/2s, 2018 (In default) (NON)
120,000 Owens Corning notes 7 1/2s, 2005 (In default) (NON)

Cable Television (1.7%)

10,000 Adelphia Communications Corp. notes Ser. B, 9 7/8s, 2005
(In default) (NON)

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

90,000 Adelphia Communications Corp. sr. notes 10 1/4s, 2011
(In default) (NON)

5,000 Adelphia Communications Corp. sr. notes 10 1/4s, 2006
(In default) (NON)

5,000 Adelphia Communications Corp. sr. notes 9 3/8s, 2009
(In default) (NON)

105,000 Adelphia Communications Corp. sr. notes 7 7/8s, 2009
(In default) (NON)

40,000 Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007
(In default) (NON)

25,000 Adelphia Communications Corp. sr. notes Ser. B, 8 3/8s, 2008
(In default) (NON)

35,000 Adelphia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009
(In default) (NON)

9,407 Australis Media, Ltd. sr. disc. notes 15 3/4s, 2003 (Australia)
(In default) (NON)

315,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.
notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)

140,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.
notes stepped-coupon zero % (9.92s, 4/1/04), 2011 (STP)

90,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc.
notes stepped-coupon zero % (11 3/4s, 1/15/05), 2010 (STP)

150,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
11 1/8s, 2011

130,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
10 3/4s, 2009

30,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
10s, 2011

10,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
10s, 2009

130,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
9 5/8s, 2009

15,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
8 5/8s, 2009

20,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
8 1/4s, 2007

165,000 CSC Holdings, Inc. sr. notes 7 7/8s, 2007

775,000 Diamond Cable Communications PLC sr. disc. notes zero %,
2007 (United Kingdom) (In default) (NON)

150,000 Diamond Cable Communications PLC sr. disc. notes zero %,
2005 (United Kingdom) (In default) (NON)

70,000 Insight Communications Company, Inc. sr. disc. notes
stepped-coupon zero % (12 1/4s, 2/15/06), 2011 (STP)

50,000 International Cabletel, Inc. sr. disc. notes 11 1/2s, 2006
(In default) (NON)

20,000 NTL Communications Corp. sr. notes stepped-coupon Ser. B,
zero % (12 3/8s, 10/1/03), 2008 (In default) (NON) (STP)

90,000 Olympus Cable bank term loan FRN Ser. B, 6 1/4s, 2010
(acquired 6/20/02, cost \$78,435) (RES)

100,000 ONO Finance PLC sr. notes 13s, 2009 (United Kingdom)

20,000 Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s, 2005 (Canada)

320,000 TeleWest Communications PLC debts. 11s, 2007
(United Kingdom) (In default) (NON)

146,000 United Pan-Europe NV sr. disc. notes 12 1/2s, 2009
(Netherlands) (In default) (NON)

240,000 United Pan-Europe NV sr. disc. notes stepped-coupon
zero % (13 3/4s, 2/1/05), 2010 (Netherlands) (In default) (NON) (STP)

20,000 United Pan-Europe NV 144A bonds 10 7/8s, 2009
(Netherlands) (In default) (NON)

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Capital Goods (8.0%)

40,000 Advanced Glass Fiber Yarns bank term loan FRN Ser. A, 6 3/4s, 2004 (acquired 9/12/02, cost \$28,000) (RES)

50,000 Advanced Glass Fiber Yarns sr. sub. notes 9 7/8s, 2009 (In default) (NON)

130,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007

60,000 Allied Waste North America, Inc. company guaranty Ser. B, 8 7/8s, 2008

235,000 Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008

15,000 Allied Waste North America, Inc. company guaranty Ser. B, 7 7/8s, 2009

330,000 Allied Waste North America, Inc. company guaranty Ser. B, 7 5/8s, 2006

195,000 Allied Waste North America, Inc. 144A company guaranty 9 1/4s, 2012

70,000 Amkor Technologies, Inc. sr. notes 9 1/4s, 2006

40,000 Amkor Technologies, Inc. sr. notes 9 1/4s, 2008

110,000 Applied Extrusion Technologies, Inc. company guaranty Ser. B, 10 3/4s, 2011

80,000 Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007

360,000 Argo-Tech Corp. 144A company guaranty 8 5/8s, 2007

5,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011

295,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008

80,000 Berry Plastics Corp. company guaranty 10 3/4s, 2012

210,000 Blount, Inc. company guaranty 13s, 2009

60,000 Browning-Ferris Industries, Inc. debs. 7.4s, 2035

100,000 Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008

20,000 Cummins, Inc. debs. 7 1/8s, 2028

240,000 Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008

105,000 Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012

108,000 Flowserve Corp. company guaranty 12 1/4s, 2010

50,000 Fonda Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007

40,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009

90,000 High Voltage Engineering Corp. sr. notes 10 3/4s, 2004

100,000 IESI Corp. 144A sr. sub. notes 10 1/4s, 2012

180,000 Insilco Holding Co. sr. disc. notes stepped-coupon zero % (14s, 8/15/03), 2008 (STP)

65,000 Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005

80,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007

200,000 L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008

75,000 Laidlaw, Inc. debs. 8 3/4s, 2025 (Canada) (In default) (NON)

20,000 Laidlaw, Inc. debs. 8 1/4s, 2023 (Canada) (In default) (NON)

190,000 Laidlaw, Inc. notes 7.65s, 2006 (Canada) (In default) (NON)

55,000 Manitowoc Company, Inc. (The) 144A sr. sub. notes 10 1/2s, 2012

200,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006

230,000 Owens-Brockway Glass company guaranty 8 7/8s, 2009

105,000 Owens-Brockway Glass 144A sec. notes 8 3/4s, 2012

50,000 Owens-Illinois, Inc. debs. 7.8s, 2018

40,000 Owens-Illinois, Inc. sr. notes 8.1s, 2007

100,000 Pliant Corp. company guaranty 13s, 2010

15,000 Pliant Corp. sr. sub. notes 13s, 2010

55,000 Rexnord Corp. 144A sr. sub. notes 10 1/8s, 2012

130,000 Roller Bearing Company of America company guaranty Ser. B, 9 5/8s, 2007

190,000 Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010

35,000 Terex Corp. company guaranty 8 7/8s, 2008

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150,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011
 25,000 Trimas Corp. 144A company guaranty 9 7/8s, 2012
 80,000 Trimas Corp. 144A sr. sub. notes 9 7/8s, 2012
 130,000 Waste Management, Inc. sr. notes 7 3/8s, 2010
 80,000 Waste Management, Inc. sr. notes 6 1/2s, 2008

Chemicals (5.4%)

185,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)
 10,000 Airgas, Inc. company guaranty 9 1/8s, 2011
 50,000 ARCO Chemical Co. debs. 9.8s, 2020
 170,000 Avecia Group PLC company guaranty 11s, 2009
 (United Kingdom)
 100,000 Compass Minerals Group, Inc. company guaranty 10s, 2011
 35,000 Equistar Chemicals LP notes 8 3/4s, 2009
 240,000 Equistar Chemicals LP/Equistar Funding Corp. company
 guaranty 10 1/8s, 2008
 50,000 Ferro Corp. sr. notes 9 1/8s, 2009
 205,000 Hercules, Inc. company guaranty 11 1/8s, 2007
 67,581 Huntsman Corp. bank term loan FRN Ser. A, 6.299s, 2007
 (acquired various dates from 6/10/02 to 7/17/02,
 cost \$58,035) (RES)
 32,419 Huntsman Corp. bank term loan FRN Ser. B, 7.813s, 2007
 (acquired various dates from 6/10/02 to 7/17/02,
 cost \$27,840) (RES)
 215,000 Huntsman ICI Chemicals, Inc. company guaranty
 10 1/8s, 2009
 200,000 Huntsman ICI Holdings sr. disc. notes zero %, 2009
 EUR 65,000 Huntsman International, LLC sr. sub. notes Ser. EXCH,
 10 1/8s, 2009
 \$173,000 IMC Global, Inc. company guaranty Ser. B, 10 7/8s, 2008
 220,000 ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011
 55,000 Lyondell Chemical Co. bonds 11 1/8s, 2012
 60,000 Lyondell Chemical Co. company guaranty 9 1/2s, 2008
 20,000 Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007
 135,000 Lyondell Chemical Co. sec. notes Ser. B, 9 7/8s, 2007
 140,000 Lyondell Chemical Co. sr. sub. notes 10 7/8s, 2009
 100,000 Lyondell Chemical Co. 144A sec. notes 9 1/2s, 2008
 140,000 Millenium America, Inc. company guaranty 9 1/4s, 2008
 50,000 Millenium America, Inc. company guaranty 7s, 2006
 70,000 Millenium America, Inc. 144A sr. notes 9 1/4s, 2008
 90,000 Noveon, Inc. company guaranty Ser. B, 11s, 2011
 215,000 OM Group, Inc. company guaranty 9 1/4s, 2011
 31,547 PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)
 73,849 Pioneer Companies, Inc. sec. FRN 5.298s, 2006
 60,000 Polymer Group, Inc. company guaranty Ser. B, 9s, 2007
 (In default) (NON)
 160,000 Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009
 60,000 Solutia, Inc. company guaranty 11 1/4s, 2009
 30,000 Sterling Chemicals Holdings sr. disc. notes 13 1/2s, 2008
 (In default) (NON)
 80,000 Sterling Chemicals, Inc. company guaranty Ser. B,
 12 3/8s, 2006 (In default) (NON)
 40,000 Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006

Commercial and Consumer Services (1.2%)

55,000 Brand Services, Inc. 144A sr. sub. notes 12s, 2012

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440,000 Coinmach Corp. sr. notes 9s, 2010
110,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006
(In default) (NON)
50,000 United Rentals (North America), Inc. company guaranty
Ser. B, 10 3/4s, 2008
90,000 Williams Scotsman, Inc. company guaranty 9 7/8s, 2007

Communication Services (6.1%)

110,000 Airgate PCS, Inc. sr. sub. notes stepped-coupon zero %
(13 1/2s, 10/1/04), 2009 (STP)
120,000 Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011
50,000 Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011
250,000 Alamosa PCS Holdings, Inc. company guaranty stepped-coupon
zero % (12 7/8s, 2/15/05), 2010 (STP)
200,000 American Cellular Corp. company guaranty 9 1/2s, 2009
20,000 Arch Communications, Inc. sr. notes 13 3/4s, 2008
(In default) (NON)
20,000 Arch Communications, Inc. sr. notes 13s, 2007 (In default) (NON)
100,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda)
(In default) (NON)
318,870 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON)
80,000 Crown Castle International Corp. sr. disc. notes stepped-coupon
zero % (10 3/8s, 5/15/04), 2011 (STP)
145,000 Crown Castle International Corp. sr. notes 9 3/8s, 2011
50,000 Crown Castle International Corp. sr. notes 9s, 2011
490,000 Cybernet Internet Services International, Inc. 144A sr. disc.
notes stepped-coupon zero % (13s, 8/15/04), 2009
(Denmark) (STP)
150,000 Dobson/Sygnnet Communications, Inc. sr. notes 12 1/4s, 2008
230,000 Equinix, Inc. sr. notes 13s, 2007 (In default) (NON)
200,000 Firstworld Communication Corp. sr. disc. notes stepped-coupon
zero % (13s, 4/15/03), 2008 (In default) (NON) (STP)
28,524 Globix Corp. company guaranty 11s, 2008 (PIK)
145,000 Globix Corp. sr. notes 12 1/2s, 2010 (In default) (NON)
20,000 Horizon PCS, Inc. company guaranty 13 3/4s, 2011
200,000 iPCS, Inc. sr. disc. notes stepped-coupon zero %
(14s, 7/15/05), 2010 (STP)
140,000 IWO Holdings, Inc. company guaranty 14s, 2011
80,000 Leap Wireless International, Inc. company guaranty
12 1/2s, 2010
40,000 Metrocall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON)
200,000 Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s,
2008 (In default) (NON)
160,000 Microcell Telecommunications sr. disc. notes Ser. B, 14s,
2006 (Canada) (In default) (NON)
40,000 Millicom International Cellular SA sr. disc. notes 13 1/2s,
2006 (Luxembourg)
80,000 Nextel Communications, Inc. bank term loan FRN Ser. A,
2.938s, 2007 (acquired 11/20/02, cost \$72,300) (RES)
20,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon
zero % (9.95s, 2/15/03), 2008 (STP)
180,000 Nextel Communications, Inc. sr. disc. notes 9 3/4s, 2007
260,000 Nextel Communications, Inc. sr. notes 12s, 2008
385,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009
40,000 Nextel Communications, Inc. 144A sr. disc. notes 10.65s, 2007
155,000 Nextel Partners, Inc. sr. disc. notes stepped-coupon zero %
(14s, 2/1/04), 2009 (STP)
100,000 Nextel Partners, Inc. sr. notes 12 1/2s, 2009
80,000 Nextel Partners, Inc. sr. notes 11s, 2010

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200,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005
(In default) (NON)

215,000 PanAmSat Corp. 144A sr. notes 8 3/4s, 2012

30,000 Qwest Capital Funding, Inc. company guaranty 7 3/4s, 2006

300,000 Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011

340,000 Qwest Capital Funding, Inc. company guaranty 7s, 2009

130,000 Qwest Capital Funding, Inc. company guaranty 6 3/8s, 2008

37,459 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010
(In default) (NON)

130,000 Rogers Cantel, Ltd. sr. sub. notes 8.8s, 2007 (Canada)

50,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)

110,000 SBA Communications Corp. sr. notes 10 1/4s, 2009

28,000 Telecorp PCS, Inc. company guaranty 10 5/8s, 2010

13,000 Telecorp PCS, Inc. company guaranty stepped-coupon
zero % (11 5/8s, 4/15/04), 2009 (STP)

305,000 Telus Corp. notes 8s, 2011 (Canada)

55,000 Telus Corp. notes 7 1/2s, 2007 (Canada)

85,000 Time Warner Telecom, Inc. sr. notes 10 1/8s, 2011

55,000 Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008

30,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011

155,000 Triton PCS, Inc. company guaranty 8 3/4s, 2011

55,000 Triton PCS, Inc. company guaranty zero %, 2008

90,000 TSI Telecommunication Services, Inc. company guaranty
Ser. B, 12 3/4s, 2009

350,000 UbiquiTel Operating Co. company guaranty stepped-coupon
zero % (14s, 4/15/05), 2010 (STP)

160,000 US UnWired, Inc. company guaranty stepped-coupon
Ser. B, zero % (13 3/8s, 11/1/04), 2009 (STP)

140,000 WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero %
(11 1/4s, 2/1/03), 2008 (In default) (NON) (STP)

30,000 Williams Communications Group, Inc. sr. notes 11 7/8s, 2010
(In default) (NON)

20,000 Williams Communications Group, Inc. sr. notes 11.7s, 2008
(In default) (NON)

30,000 Williams Communications Group, Inc. sr. notes 10.7s, 2007
(In default) (NON)

Conglomerates (1.0%)

55,000 Tyco International Group SA company guaranty 6 3/4s,
2011 (Luxembourg)

355,000 Tyco International Group SA company guaranty 6 3/8s,
2006 (Luxembourg)

40,000 Tyco International Group SA company guaranty 6 3/8s,
2005 (Luxembourg)

210,000 Tyco International Group SA notes 6 3/8s, 2011 (Luxembourg)

Consumer Goods (2.2%)

125,000 Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009

206,765 Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON)

DEM 117,131 Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON)

\$70,000 French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007

10,000 French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007

160,000 Icon Health & Fitness company guaranty 11 1/4s, 2012

160,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010

115,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011

70,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)

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70,000 Revlon Consumer Products sr. notes 9s, 2006
65,000 Revlon Consumer Products sr. notes 8 1/8s, 2006
300,000 Samsonite Corp. sr. sub. notes 10 3/4s, 2008
130,000 Sealy Mattress Co. company guaranty stepped-coupon
Ser. B, zero % (10 7/8s, 12/15/02), 2007 (STP)
170,000 Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007

Distribution (0.3%)

85,000 Fleming Companies, Inc. company guaranty 10 1/8s, 2008
60,000 Fleming Companies, Inc. company guaranty 9 7/8s, 2012
10,000 Fleming Companies, Inc. company guaranty Ser. D,
10 5/8s, 2007
90,000 Fleming Companies, Inc. sr. notes 9 1/4s, 2010

Energy (5.8%)

130,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007
110,000 BRL Universal Equipment sec. notes 8 7/8s, 2008
210,000 Chesapeake Energy Corp. company guaranty 9s, 2012
100,000 Chesapeake Energy Corp. company guaranty 8 3/8s, 2008
25,000 Chesapeake Energy Corp. sr. notes Ser. B, 8 1/2s, 2012
170,000 Comstock Resources, Inc. company guaranty 11 1/4s, 2007
20,000 Denbury Resources, Inc. company guaranty Ser. B, 9s, 2008
140,000 Dresser, Inc. company guaranty 9 3/8s, 2011
20,000 El Paso Energy Partners LP/El Paso Energy Partners
Finance Corp. 144A company guaranty 8 1/2s, 2011
70,000 Encore Acquisition Co. 144A sr. sub. notes 8 3/8s, 2012
90,000 Forest Oil Corp. company guaranty 7 3/4s, 2014
50,000 Forest Oil Corp. sr. notes 8s, 2011
55,000 Forest Oil Corp. sr. notes 8s, 2008
40,000 Grant Prideco Escrow Corp. 144A sr. notes 9s, 2009
35,000 Hornbeck Offshore Services, Inc. sr. notes 10 5/8s, 2008
75,000 Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009
40,000 Magnum Hunter Resources, Inc. company guaranty 9.6s, 2012
90,000 Mission Resources Corp. company guaranty Ser. C, 10
7/8s, 2007
130,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011
100,000 Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009
50,000 Petronas Capital, Ltd. 144A company guaranty 7s, 2012
(Malaysia)
270,000 Pioneer Natural Resources Co. company guaranty
9 5/8s, 2010
20,000 Pioneer Natural Resources Co. company guaranty
6 1/2s, 2008
70,000 Plains All American Pipeline LP/Plains All American Finance
Corp. 144A sr. notes 7 3/4s, 2012
100,000 Plans Exploration & Production Co. 144A sr. sub. notes
8 3/4s, 2012
110,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011
10,000 Pride International, Inc. sr. notes 10s, 2009
145,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007
50,000 Stone Energy Corp. company guaranty 8 3/4s, 2007
80,000 Stone Energy Corp. sr. sub. notes 8 1/4s, 2011
60,000 Swift Energy Co. sr. sub. notes 10 1/4s, 2009
95,000 Swift Energy Co. sr. sub. notes 9 3/8s, 2012
130,000 Trico Marine Services, Inc. company guaranty 8 7/8s, 2012
45,000 Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012

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160,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009
25,000 Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011
95,000 Westport Resources Corp. company guaranty 8 1/4s, 2011
25,000 XTO Energy, Inc. sr. notes 7 1/2s, 2012
60,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009

Entertainment (1.7%)

80,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011
160,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009
10,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 9 5/8s, 2008
150,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008
20,000 Premier Parks, Inc. sr. disc. notes stepped-coupon zero %
(10s, 4/1/03), 2008 (STP)
120,000 Premier Parks, Inc. sr. notes 9 3/4s, 2007
75,000 Regal Cinemas, Inc. company guaranty Ser. B, 9 3/8s, 2012
100,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON)
440,000 Six Flags, Inc. sr. notes 8 7/8s, 2010

Financial (3.6%)

180,000 Advanta Corp. 144A company guaranty Ser. B, 8.99s, 2026
70,000 Chevy Chase Savings Bank, Inc. sub. debs. 9 1/4s, 2005
95,000 Colonial Capital II 144A company guaranty 8.92s, 2027
11,660 Comdisco Holding Co., Inc./Comdisco, Inc. sec. notes
Ser. B, 11s, 2005
20,000 Crescent Real Estate Equities LP FRN 7 1/2s, 2007
190,000 Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009
439,000 Finova Group, Inc. notes 7 1/2s, 2009
430,000 GS Escrow Corp. sr. notes 7 1/8s, 2005
54,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005
(In default) (NON)
70,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008
61,000 Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008
(In default) (NON)
65,000 Ocwen Capital Trust I company guaranty 10 7/8s, 2027
160,000 Peoples Bank- Bridgeport sub. notes 9 7/8s, 2010
220,000 Resource America, Inc. 144A sr. notes 12s, 2004
140,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006
140,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003
80,000 Webster Capital Trust I 144A bonds 9.36s, 2027
100,000 Western Financial Bank sub. debs. 9 5/8s, 2012

Food (1.2%)

200,000 Archibald Candy Corp. company guaranty 10 1/4s, 2004
(In default) (NON)
230,000 Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007
40,000 Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011
45,000 Dole Food Co. notes 6 3/8s, 2005
130,000 Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008
70,000 Land O'Lakes, Inc. sr. notes 8 3/4s, 2011
110,000 Premier International Foods PLC sr. notes 12s, 2009
(United Kingdom)
310,000 RAB Enterprises, Inc. company guaranty 10 1/2s, 2005
(In default) (NON)

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245,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B,
10 1/4s, 2009 (In default) (NON)

Forest Products and Packaging (3.6%)

20,000 Abitibi-Consolidated, Inc. bonds 8.55s, 2010 (Canada)
190,000 Appleton Papers, Inc. company guaranty Ser. B,
12 1/2s, 2008
150,000 Four M Corp. sr. notes Ser. B, 12s, 2006
150,000 Georgia-Pacific Corp. debs. 9 1/2s, 2011
30,000 Georgia-Pacific Corp. notes 8 7/8s, 2031
25,000 Georgia-Pacific Corp. notes 7 1/2s, 2006
70,000 Louisiana-Pacific Corp. sr. notes 8 7/8s, 2010
EUR 10,000 MDP Acquisitions PLC sr. notes Ser. REGS, 10 1/8s,
2012 (Ireland)
\$110,000 MDP Acquisitions PLC 144A sr. notes 9 5/8s, 2012 (Ireland)
45,000 Norske Skog Canada, Ltd. company guaranty 8 5/8s,
2011 (Canada)
160,000 Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)
145,000 Potlatch Corp. company guaranty 10s, 2011
365,000 Riverwood International Corp. company guaranty
10 7/8s, 2008
45,000 Smurfit-Stone Container Corp. 144A sr. notes 8 1/4s, 2012
40,000 Stone Container Corp. sr. notes 9 3/4s, 2011
140,000 Stone Container Corp. sr. notes 9 1/4s, 2008
100,000 Stone Container Corp. sr. notes 8 3/8s, 2012
80,000 Stone Container Corp. 144A company guaranty 11 1/2s,
2006 (Canada)
85,000 Tembec Industries, Inc. company guaranty 8 1/2s, 2011
(Canada)
60,000 Tembec Industries, Inc. company guaranty 7 3/4s, 2012
(Canada)

Gaming & Lottery (5.9%)

80,000 Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon
Ser. B, zero % (13 1/2s, 3/1/03), 2010 (In default) (NON) (STP)
60,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009
140,000 Argosy Gaming Co. company guaranty 10 3/4s, 2009
20,000 Argosy Gaming Co. sr. sub. notes 9s, 2011
30,000 Boyd Gaming Corp. sr. sub. notes 9 1/2s, 2007
120,000 Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012
60,000 Chumash Casino & Resort Enterprise 144A sr. notes
9s, 2010
86,021 Fitzgeralds Gaming Corp. company guaranty Ser. B,
12 1/4s, 2004 (In default) (NON)
115,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008
195,000 Hollywood Casino Corp. company guaranty 11 1/4s, 2007
105,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007
180,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009
170,000 International Game Technology sr. notes 8 3/8s, 2009
230,000 Majestic Investor Holdings/Capital Corp. company guaranty
11.653s, 2007
10,000 Mandalay Resort Group sr. notes 9 1/2s, 2008
10,000 Mandalay Resort Group sr. sub. notes 9 3/8s, 2010
10,000 MGM Mirage, Inc. coll. sr. notes 6 7/8s, 2008
230,000 MGM Mirage, Inc. company guaranty 8 1/2s, 2010
15,000 MGM Mirage, Inc. company guaranty 8 3/8s, 2011

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50,000 Mikohn Gaming Corp. company guaranty Ser. B,
11 7/8s, 2008
60,000 Mirage Resorts, Inc. notes 6 3/4s, 2008
40,000 Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006
130,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009
40,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011
130,000 Mohegan Tribal Gaming Authority sr. sub. notes 8s, 2012
160,000 Park Place Entertainment Corp. sr. notes 7 1/2s, 2009
110,000 Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008
50,000 Penn National Gaming, Inc. company guaranty Ser. B,
11 1/8s, 2008
200,000 Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010
40,000 Pinnacle Entertainment, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007
125,000 Resorts International Hotel and Casino, Inc. company guaranty
11 1/2s, 2009
140,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008
70,000 Trump Atlantic City Associates company guaranty
11 1/4s, 2006
10,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003
265,000 Venetian Casino Resort, LLC 144A 2nd mtge. 11s, 2010
15,000 Wheeling Island Gaming, Inc. company guaranty 10 1/8s, 2009

Health Care (7.2%)

140,000 ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006
80,000 ALARIS Medical Systems, Inc. 144A company guaranty
9 3/4s, 2006
10,000 ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero %
(11 1/8s, 8/1/03), 2008 (STP)
303,400 Alderwoods Group, Inc. company guaranty 12 1/4s, 2009
2,500 Alderwoods Group, Inc. company guaranty 11s, 2007
105,000 Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011
100,000 AmerisourceBergen Corp. sr. notes 8 1/8s, 2008
80,000 AmerisourceBergen Corp. 144A sr. notes 7 1/4s, 2012
70,000 Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007
150,000 Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)
200,000 Conmed Corp. company guaranty 9s, 2008
35,000 Dade Behring, Inc. company guaranty 11.91s, 2010
90,000 Extendicare Health Services, Inc. 144A sr. notes
9 1/2s, 2010
105,000 Hanger Orthopedic Group, Inc. company guaranty
10 3/8s, 2009
10,000 Hanger Orthopedic Group, Inc. sr. sub. notes 11 1/4s, 2009
40,000 HCA, Inc. debs. 7.19s, 2015
70,000 HCA, Inc. med. term notes 7.69s, 2025
200,000 HCA, Inc. notes 8 3/4s, 2010
60,000 HCA, Inc. notes 8.36s, 2024
10,000 HCA, Inc. notes 7s, 2007
265,000 Healthsouth Corp. notes 7 5/8s, 2012
105,000 Healthsouth Corp. sr. notes 8 1/2s, 2008
45,000 Healthsouth Corp. sr. notes 8 3/8s, 2011
75,000 IASIS Healthcare Corp. company guaranty 13s, 2009
14,000 Insight Health Services Corp. company guaranty Ser. B,
9 7/8s, 2011
180,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s,
2007 (In default) (NON)
110,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s,
2008 (In default) (NON)
130,000 Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007
165,000 Magellan Health Services, Inc. sr. sub. notes 9s, 2008

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55,000 Magellan Health Services, Inc. 144A sr. notes 9 3/8s, 2007
170,000 Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)
180,000 Mediq, Inc. debs. stepped-coupon zero % (13s, 6/1/03), 2009
(In default) (NON) (STP)
105,000 MedQuest, Inc. 144A sr. sub. notes 11 7/8s, 2012
90,000 Omnicare, Inc. company guaranty Ser. B, 8 1/8s, 2011
205,000 PacifiCare Health Systems, Inc. company guaranty 10 3/4s, 2009
150,000 Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012
40,000 Service Corp. International debs. 7 7/8s, 2013
20,000 Service Corp. International notes 7.7s, 2009
20,000 Service Corp. International notes 6 1/2s, 2008
200,000 Service Corp. International notes 6s, 2005
50,000 Service Corp. International 144A notes 7.7s, 2009
130,000 Stewart Enterprises, Inc. notes 10 3/4s, 2008
50,000 Tenet Healthcare Corp. sr. notes 6 1/2s, 2012
80,000 Tenet Healthcare Corp. sr. notes 6 3/8s, 2011
25,000 Tenet Healthcare Corp. sr. notes 5 3/8s, 2006
140,000 Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009
160,000 Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009
80,000 Vanguard Health Systems, Inc. company guaranty 9 3/4s, 2011
120,000 Ventas Realty LP/Capital Corp. company guaranty 9s, 2012

Homebuilding (2.3%)

80,000 Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011
50,000 D.R. Horton, Inc. company guaranty 8 1/2s, 2012
120,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011
90,000 Del Webb Corp. sr. sub. debs. 9 3/8s, 2009
30,000 K. Hovnanian Enterprises, Inc. company guaranty
10 1/2s, 2007
10,000 K. Hovnanian Enterprises, Inc. company guaranty
8 7/8s, 2012
80,000 K. Hovnanian Enterprises, Inc. company guaranty 8s, 2012
115,000 KB Home sr. sub. notes 9 1/2s, 2011
130,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010
75,000 Lennar Corp. sr. notes 7 5/8s, 2009
20,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008
170,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010
80,000 Schuler Homes, Inc. company guaranty 10 1/2s, 2011
40,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010
15,000 Standard Pacific Corp. sr. notes 8 1/2s, 2009
100,000 Toll Corp. company guaranty 8 1/8s, 2009
15,000 WCI Communities, Inc. company guaranty 10 5/8s, 2011
105,000 WCI Communities, Inc. company guaranty 9 1/8s, 2012

Lodging/Tourism (3.2%)

280,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)
35,000 Felcor Lodging LP company guaranty 8 1/2s, 2008 (R)
155,000 Hilton Hotels Corp. notes 7 5/8s, 2012
640,000 HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008
55,000 HMH Properties, Inc. sr. notes Ser. C, 8.45s, 2008
60,000 Host Marriott LP company guaranty Ser. G, 9 1/4s, 2007 (R)
50,000 Host Marriott LP sr. notes Ser. E, 8 3/8s, 2006 (R)
120,000 ITT Corp. notes 6 3/4s, 2005
190,000 John Q. Hammons Hotels LP/John Q. Hammons Hotels
Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012
120,000 Lodgian Financing Corp. company guaranty 12 1/4s, 2009

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(In default) (NON)
75,000 Meristar Hospitality Corp. company guaranty 9 1/8s,
2011 (R)
90,000 RFS Partnership LP company guaranty 9 3/4s, 2012
55,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes
7 7/8s, 2012
35,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes
7 3/8s, 2007

Metals (1.2%)

20,000 AK Steel Corp. company guaranty 7 7/8s, 2009
200,000 AK Steel Corp. 144A company guaranty 7 3/4s, 2012
80,000 Armco, Inc. sr. notes 8 7/8s, 2008
170,000 Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s,
2005 (In default) (NON)
20,000 Doe Run Resources Corp. company guaranty Ser. B(a), 11 1/4s,
2005 (In default) (NON)
50,000 Doe Run Resources Corp. company guaranty FRN Ser. B,
8.119s, 2003 (In default) (NON)
25,000 Haynes International, Inc. sr. notes 11 5/8s, 2004
10,000 Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s,
2006 (In default) (NON)
305,000 Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s,
2003 (In default) (NON)
80,000 Oregon Steel Mills, Inc. 144A 1st mtge. 10s, 2009
32,000 P&L Coal Holdings Corp. company guaranty Ser. B,
9 5/8s, 2008
85,000 Steel Dynamics, Inc. company guaranty 9 1/2s, 2009
10,000 United States Steel, LLC sr. notes 10 3/4s, 2008
90,000 WCI Steel, Inc. sr. notes Ser. B, 10s, 2004
11,000 Weirton Steel Corp. sr. notes FRN 10s, 2008
120,000 Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007
(In default) (NON)
80,000 WHX Corp. sr. notes 10 1/2s, 2005

Publishing (4.0%)

310,000 Affinity Group Holdings sr. notes 11s, 2007
80,000 Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011
50,000 Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009
70,000 Hollinger International Publishing, Inc. company guaranty
9 1/4s, 2007
331,117 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010
(Canada) (PIK)
90,000 Key3media Group, Inc. company guaranty 11 1/4s, 2011
95,000 Mail-Well I Corp. company guaranty 9 5/8s, 2012
110,000 Perry-Judd company guaranty 10 5/8s, 2007
520,000 PRIMEDIA, Inc. company guaranty 8 7/8s, 2011
80,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008
130,000 PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006
60,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero %
(13 3/4s, 7/15/06), 2011 (Canada) (STP)
130,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)
95,000 RH Donnelley Finance Corp. I 144A sr. notes 8 7/8s, 2010
100,000 RH Donnelley Finance Corp. I 144A sr. sub. notes
10 7/8s, 2012
120,000 Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009

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35,000 Vertis, Inc. 144A sr. notes 10 7/8s, 2009
110,000 Von Hoffman Press, Inc. company guaranty 10 1/4s, 2009
97,068 Von Hoffman Press, Inc. debs. zero %, 2009 (PIK)

Restaurants (0.8%)

40,000 Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009
100,000 Sbarro, Inc. company guaranty 11s, 2009
90,000 Yum! Brands, Inc. sr. notes 8 7/8s, 2011
50,000 Yum! Brands, Inc. sr. notes 8 1/2s, 2006
160,000 Yum! Brands, Inc. sr. notes 7.65s, 2008

Retail (2.3%)

80,000 Amazon.com, Inc. sr. sub. notes stepped-coupon zero %
(10s, 5/1/03), 2008 (STP)
100,000 Asbury Automotive Group, Inc. company guaranty 9s, 2012
160,000 Autonation, Inc. company guaranty 9s, 2008
65,000 Gap, Inc. (The) notes 6.9s, 2007
15,000 JC Penney Company, Inc. debs. 7.65s, 2016
50,000 JC Penney Company, Inc. debs. 7.4s, 2037
60,000 JC Penney Company, Inc. notes Ser. A MTN, 7.05s, 2005
170,000 JC Penney Company, Inc. 144A notes 9s, 2012
120,000 Kmart Corp. 144A notes 9 7/8s, 2008 (In default) (NON)
60,000 NBTY, Inc. sr. sub. notes Ser. B, 8 5/8s, 2007
40,000 Rite Aid Corp. debs. 6 7/8s, 2013
80,000 Rite Aid Corp. notes 7 1/8s, 2007
280,000 Saks, Inc. company guaranty 8 1/4s, 2008
125,000 Southland Corp. debs. Ser. A, 4 1/2s, 2004
70,000 United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012

Technology (2.3%)

40,000 Fairchild Semiconductor International, Inc. company guaranty
10 3/8s, 2007
115,000 Iron Mountain, Inc. company guaranty 8 5/8s, 2013
200,000 Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada)
10,000 Lucent Technologies, Inc. debs. 6 1/2s, 2028
360,000 Lucent Technologies, Inc. debs. 6.45s, 2029
70,000 ON Semiconductor Corp. 144A company guaranty
12s, 2008
40,000 SCG Holding & Semiconductor Corp. company guaranty
12s, 2009
110,000 Seagate Technology Hdd Holdings 144A sr. notes 8s, 2009
250,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008
64,685 Telex Communications Group, Inc. sr. sub. notes Ser. A,
zero %, 2006
100,000 Unisys Corp. sr. notes 7 1/4s, 2005
35,000 Xerox Cap Europe PLC company guaranty 5 7/8s, 2004
(United Kingdom)
40,000 Xerox Corp. notes 5 1/2s, 2003
155,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009
10,000 Xerox Credit Corp. sr. notes 6.1s, 2003

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Textiles (0.9%)

| | | | |
|-----|-----------|--|--|
| | 100,000 | Galey & Lord, Inc. company guaranty 9 1/8s, 2008 (In default) (NON) | |
| | 90,000 | GFSI, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (11 3/8s, 9/15/04), 2009 (STP) | |
| | 45,000 | Levi Strauss & Co. notes 7s, 2006 | |
| | 85,000 | Levi Strauss & Co. sr. notes 11 5/8s, 2008 | |
| EUR | 10,000 | Levi Strauss & Co. sr. notes 11 5/8s, 2008 | |
| | \$100,000 | Levi Strauss & Co. 144A sr. notes 12 1/4s, 2012 | |
| | 95,000 | Russell Corp. company guaranty 9 1/4s, 2010 | |
| | 40,000 | Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003 | |
| | 105,000 | William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011 | |

Transportation (2.2%)

| | | | |
|--|---------|---|--|
| | 10,000 | Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada) | |
| | 221,742 | Airbus Industries 144A sinking fund Ser. D, 12.266s, 2020 | |
| | 80,000 | Allied Holdings, Inc. company guaranty Ser. B, 8 5/8s, 2007 | |
| | 170,000 | Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008 | |
| | 60,000 | Continental Airlines, Inc. pass-through certificates Ser. D, 7.568s, 2006 | |
| | 70,000 | Delta Air Lines, Inc. pass-through certificates Ser. 00-1, Class C, 7.779s, 2005 | |
| | 50,000 | Delta Air Lines, Inc. pass-through certificates Ser. C, 7.779s, 2012 | |
| | 170,000 | Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008 | |
| | 60,000 | Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009 | |
| | 125,000 | Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006 | |
| | 80,000 | Navistar International Corp. sr. notes Ser. B, 8s, 2008 | |
| | 10,000 | Northwest Airlines, Inc. company guaranty 8.52s, 2004 | |
| | 120,000 | Northwest Airlines, Inc. company guaranty 7 5/8s, 2005 | |
| | 100,000 | Northwest Airlines, Inc. sr. notes 9 7/8s, 2007 | |
| | 70,615 | NWA Trust sr. notes Ser. A, 9 1/4s, 2012 | |
| | 170,000 | RailAmerica Transportation company guaranty 12 7/8s, 2010 | |
| | 30,000 | Transportation Manufacturing Operations, Inc. company guaranty 11 1/4s, 2009 | |
| | 40,000 | Travel Centers of America, Inc. company guaranty 12 3/4s, 2009 | |
| | 110,000 | US Air, Inc. pass-through certificates Ser. 93A3, 10 3/8s, 2013 (In default) (NON) | |

Utilities & Power (2.9%)

| | | | |
|--|---------|---|--|
| | 80,000 | AES Corp. (The) sr. notes 8 7/8s, 2011 | |
| | 70,000 | AES Corp. (The) sr. notes 8 3/4s, 2008 | |
| | 20,000 | Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada) | |
| | 90,000 | Calpine Corp. sr. notes 10 1/2s, 2006 | |
| | 10,000 | Calpine Corp. sr. notes 8 3/4s, 2007 | |
| | 220,000 | Calpine Corp. sr. notes 8 5/8s, 2010 | |
| | 280,000 | Calpine Corp. sr. notes 8 1/2s, 2011 | |
| | 60,000 | Calpine Corp. sr. notes 7 7/8s, 2008 | |

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130,000 CMS Energy Corp. sr. notes 8.9s, 2008
 60,000 CMS Energy Corp. sr. notes 8 1/2s, 2011
 40,000 CMS Panhandle Holding Corp. sr. notes 6 1/2s, 2009
 65,000 Consumers Energy bank term loan FRN 6.32s, 2004
 (acquired 9/17/02, cost \$62,400) (RES)
 60,000 Edison Mission Energy sr. notes 10s, 2008
 60,000 Edison Mission Energy sr. notes 9 7/8s, 2011
 135,000 Midland Funding II Corp. debs. Ser. A, 11 3/4s, 2005
 60,000 Mission Energy Holding Co. sec. notes 13 1/2s, 2008
 70,000 Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005
 (In default) (NON)
 160,000 Southern California Edison Co. notes 8.95s, 2003
 20,000 Southern California Edison Co. notes 6 3/8s, 2006
 150,000 Tiverton/Rumford Power Associates, LP 144A pass-through
 certificates 9s, 2018
 125,000 Western Resources, Inc. 1st mtge. 7 7/8s, 2007
 105,000 Western Resources, Inc. sr. notes 9 3/4s, 2007
 20,000 Williams Companies, Inc. (The) FRN Ser. A, 6 3/4s, 2006
 360,000 York Power Funding 144A notes 12s, 2007 (Cayman Islands)
 (In default) (NON)

Total Corporate Bonds and Notes (cost \$59,774,478)

PREFERRED STOCKS (3.1%) (a) NUMBER OF SHARES

 261 AmeriKing, Inc. \$3.25 cum. pfd. (PIK)
 4,695 Chevy Chase Capital Corp. Ser. A, \$5.188 pfd.
 50,000 CSBI Capital Trust I 144A company guaranty Ser. A,
 11.75% pfd.
 5,279 CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd.
 220 Delta Financial Corp. Ser. A, \$10.00 cum. pfd.
 66,000 Diva Systems Corp. 144A Ser. D, zero % pfd.
 8,200 Doane Pet Care Co. \$7.125 pfd.
 7 Dobson Communications Corp. 13.00% pfd. (PIK)
 170 Dobson Communications Corp. 12.25% pfd. (PIK)
 80 First Republic Capital Corp. 144A 10.50% pfd.
 91 Granite Broadcasting Corp. 12.75% cum. pfd.
 68 Nextel Communications, Inc. Ser. E, 11.125% pfd. (PIK)
 6,969 North Atlantic Trading Co. 12.00% pfd. (PIK)
 2 NTL, Inc. Ser. B, \$13.00
 55 Paxson Communications Corp. 13.25% cum. pfd. (PIK)
 100 PRIMEDIA, Inc. Ser. F, \$9.20 cum. pfd.
 359 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$2,886,484)

FOREIGN GOVERNMENT BONDS AND NOTES (2.0%) (a) PRINCIPAL AMOUNT

 \$42,450 Argentina (Republic of) unsub. Ser. 2018, 2.89s, 2018
 (In default) (NON)
 155,000 Bulgaria (Republic of) 144A bonds 8 1/4s, 2015
 50,000 Colombia (Republic of) bonds 11 3/4s, 2020
 EUR 15,000 Colombia (Republic of) notes Ser. E MTN, 11 1/2s, 2011
 \$5,000 Colombia (Republic of) unsub. 9 3/4s, 2009

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EUR 25,000 Colombia (Republic of) unsub. bonds Ser. 15A, 11 3/8s, 2008
\$20,000 Ecuador (Republic of) bonds Ser. REGS, 12s, 2012
145,000 Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 5s
(6s, 8/15/03), 2030 (STP)
10,000 El Salvador (Republic of) 144A bonds 7 3/4s, 2023
10,000 Malaysia (Government of) bonds 7 1/2s, 2011
30,000 Peru (Republic of) notes 9 1/8s, 2008
450,000 Russia (Federation of) unsub. stepped-coupon 5s
(7 1/2s, 3/31/07), 2030 (STP)
110,000 South Africa (Republic of) notes 7 3/8s, 2012
110,000 United Mexican States bonds 11 3/8s, 2016
110,000 United Mexican States bonds Ser. MTN, 8.3s, 2031
100,000 Venezuela (Republic of) bonds 9 1/4s, 2027

Total Foreign Government Bonds and Notes
(cost \$1,090,742)

COMMON STOCKS (2.1%) (a)
NUMBER OF SHARES

Broadcasting (--%)

102 RCN Corp. (NON)
31 Quorum Broadcast Holdings, Inc. Class E (acquired 5/15/01,
cost \$30,765) (RES)

Chemicals (0.1%)

14,327 Pioneer Companies, Inc. (NON)

Commercial & Consumer Services (--%)

20,000 Loewen Group International, Inc.

Communication Services (--%)

9,148 Arch Wireless, Inc. (NON)
203 Call-Net Enterprises, Inc. Class B (Canada) (NON)
50,942 Celcaribe SA (Colombia)
3,010 Covad Communications Group, Inc. 144A (NON)
263 FLAG Telecom Holdings, Ltd. (Bermuda)
3,325 Globix Corp.
434 Vast Solutions, Inc. Class B1 (NON)
434 Vast Solutions, Inc. Class B2 (NON)
434 Vast Solutions, Inc. Class B3 (NON)

Consumer Cyclical (0.1%)

160,000 Morrison Knudsen Corp.
40,417 VS Holdings, Inc.
311 Washington Group International, Inc. (NON)

Consumer Goods (--%)

4,680 Daskocil Manufacturing Co., Inc.

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Consumer Staples (1.7%)

244 Premium Holdings (LP) 144A
576 PSF Group Holdings, Inc. 144A Class A

Financial (0.2%)

180,000 AMRESCO Capital Trust, Inc. (R)
84 Comdisco Holding Co., Inc. (NON)
505,286 Contifinancial Corp. Liquidating Trust Units
220 Delta Funding Residual Exchange Co., LLC (NON)
220 Delta Funding Residual Management, Inc. (NON)
1 Imperial Credit Industries, Inc. (NON)

Food (--%)

4,427 Aurora Foods, Inc. (NON)

Gaming & Lottery (--%)

8,269 Fitzgeralds Gaming Corp.

Health Care (--%)

384 Alderwoods Group, Inc. (NON)
453 Mariner Health Care, Inc. (NON)
178 Sun Healthcare Group, Inc. (NON)

Total Common Stocks (cost \$4,606,160)

CONVERTIBLE BONDS AND NOTES (0.9%) (a) PRINCIPAL AMOUNT

\$140,000 American Tower Corp. cv. notes 5s, 2010
90,000 DaVita, Inc. cv. sub. notes 7s, 2009
16,000 Hexcel Corp. cv. sub. notes 7s, 2003
350,000 Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010
60,000 Province Healthcare Co. cv. sub. notes 4 1/2s, 2005
70,000 Tyco International, Ltd. cv. notes zero %, 2020 (Bermuda)

Total Convertible Bonds and Notes (cost \$532,891)

UNITS (0.3%) (a) NUMBER OF UNITS

550,000 Australis Media, Ltd. units 15 3/4s, 2003 (Australia)
(In default) (NON)
50,000 MDP Acquisitions PLC 144A units 15 1/2s, 2013 (Ireland) (PIK)
450,000 XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)
2,950 XCL, Ltd. 144A units cum. cv. pfd. 9.50% (In default) (NON) (PIK)

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Total Units (cost \$1,312,627)

CONVERTIBLE PREFERRED STOCKS (0.2%) (a)
NUMBER OF SHARES

174 Hercules Trust II 6.50% units cum. cv. pfd.
1,400 LTV Corp. 144A \$4.125 cv. pfd. (In default) (NON)
3,069 Telex Communications, Inc. zero % cv. pfd. (In default) (NON)
180 Weirton Steel Corp. Ser. C, zero % cv. pfd.
580 XCL, Ltd. 144A Ser. A, 9.50% cum. cv. pfd. (In default) (NON) (PIK)

Total Convertible Preferred Stocks (cost \$213,619)

BRADY BONDS (0.2%) (a)
PRINCIPAL AMOUNT

\$65,000 Argentina (Republic of) govt. guaranty Ser. L-GP, 6s, 2023
(In default) (NON)
49,000 Peru (Republic of) bonds Ser. PDI, 4s, 2017
30,000 Peru (Republic of) coll. FLIRB 4s, 2017
15,000 Peru (Republic of) coll. FLIRB Ser. 20YR, 4s, 2017

Total Brady Bonds (cost \$94,407)

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

EXPIRAT
DATE

| | |
|---|----------|
| 150 Birch Telecommunications, Inc. 144A (PIK) | 6/15/08 |
| 250 Comunicacion Cellular 144A (Colombia) | 11/15/00 |
| 200 Dayton Superior Corp. | 6/15/09 |
| 1,250 Diva Systems Corp. 144A | 3/1/08 |
| 200 Horizon PCS, Inc. | 10/1/10 |
| 180 Insilco Holding Co. | 8/15/08 |
| 200 iPCS, Inc. 144A | 7/15/10 |
| 110 IWO Holdings, Inc. | 1/15/11 |
| 106 Leap Wireless International, Inc. 144A | 4/15/10 |
| 70 Mikohn Gaming Corp. 144A | 8/15/08 |
| 80 Pliant Corp. 144A | 6/1/10 |
| 60 Solutia, Inc. 144A | 7/15/09 |
| 447 Sun Healthcare Group, Inc. | 2/28/05 |
| 120 Travel Centers of America, Inc. 144A | 5/1/09 |
| 350 Ubiquitel, Inc. 144A | 4/15/10 |
| 260 Veraldo Holdings, Inc. 144A | 4/15/08 |
| 10 Versatel Telecom NV (Netherlands) | 5/15/08 |
| 192 Washington Group International, Inc. Ser. A | 1/25/06 |
| 219 Washington Group International, Inc. Ser. B | 1/25/06 |
| 118 Washington Group International, Inc. Ser. C | 1/25/06 |
| 190 XM Satellite Radio Holdings, Inc. 144A | 3/15/10 |

Total Warrants (cost \$106,283)

SHORT-TERM INVESTMENTS (4.6%) (a)
PRINCIPAL AMOUNT/SHARES

\$91 Short-term investments held as collateral for loaned securities
with yields ranging from 1.19% to 1.99% and due dates

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2,727,904 ranging from December 2, 2002 to January 17, 2003 (d)
 Short-term investments held in Putnam commingled cash
 account with yields ranging from 1.23% to 1.80% and
 due dates ranging from December 2, 2002 to
 January 22, 2003 (d)

Total Short-Term Investments (cost \$2,727,995)

 Total Investments (cost \$73,345,686)

(a) Percentages indicated are based on net assets of \$58,723,472.

(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 November 30, 2002 was \$317,685 or 0.5% of net assets.

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

(R) Real Estate Investment Trust.

(d) See Note 1 to the financial statements.

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

FLIRB represents Front Loaded Interest Reduction Bond.

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

Forward Currency Contracts to Sell at November 30, 2002 (Unaudited)

| | Market Value | Aggregate Face Value | Delivery Date | Unrealized Appreciation |
|------|--------------|----------------------|---------------|-------------------------|
| Euro | \$25,244 | \$25,578 | 12/18/02 | \$334 |

Credit Default Contracts Outstanding at November 30, 2002 (Unaudited) (premiums received \$164,893)

| | Market Value |
|--|--------------|
| \$960,300 Agreement with JPMorgan Chase Bank effective May 14, 2002, maturing on May 15, 2007, to receive a premium equal to 17.171% times the notional amount. For each credit default event related to one of the 100 issues within the HYDI 100 8.75%, 5/15/07 Bond Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the defaulted issue | \$232,652 |

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

STATEMENT OF ASSETS AND LIABILITIES
 November 30, 2002 (Unaudited)

Assets

| | |
|--|-------------------|
| Investments in securities, at value, including \$62 of securities on loan (identified cost \$73,345,686) (Note 1) | \$58,754,334 |
| Cash | 3,383 |
| Dividends, interest and other receivables | 1,353,943 |
| Receivable for securities sold | 218,832 |
| Receivable for open forward currency contracts (Note 1) | 334 |
| Receivable for closed forward currency contracts (Note 1) | 242 |
| Total assets | 60,331,068 |

Liabilities

| | |
|--|---------------------|
| Distributions payable to shareholders | 510,424 |
| Payable for securities purchased | 674,925 |
| Payable for compensation of Manager (Note 2) | 107,269 |
| Payable for investor servicing and custodian fees (Note 2) | 20,785 |
| Payable for compensation of Trustees (Note 2) | 21,292 |
| Payable for administrative services (Note 2) | 562 |
| Credit default contracts outstanding, at value (premiums received \$164,893) (Note 1) | 232,652 |
| Collateral on securities loaned, at value (Note 1) | 91 |
| Other accrued expenses | 39,596 |
| Total liabilities | 1,607,596 |
| Net assets | \$58,723,472 |

Represented by

| | |
|---|---------------|
| Paid-in capital (Note 1) | \$105,295,260 |
| Distributions in excess of net investment income (Note 1) | (1,451,847) |
| Accumulated net realized loss on investments (Note 1) | (30,461,199) |

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| | |
|---|--------------|
| Net unrealized depreciation of investments and assets and liabilities in foreign currencies | (14,658,742) |
| <hr/> | |
| Total -- Representing net assets applicable to capital shares outstanding | \$58,723,472 |
| <hr/> | |
| Computation of net asset value | |
| <hr/> | |
| Net asset value per share (\$58,723,472 divided by 7,507,107 shares) | \$7.82 |
| <hr/> | |

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

STATEMENT OF OPERATIONS Six months ended November 30, 2002 (Unaudited)

Investment income:

| | |
|-------------------------|-------------|
| Interest | \$3,010,077 |
| Dividends | 149,771 |
| Securities lending | 10 |
| Total investment income | 3,159,858 |

Expenses:

| | |
|---|-------------|
| Compensation of Manager (Note 2) | 220,986 |
| Investor servicing and custodian fees (Note 2) | 80,654 |
| Compensation of Trustees (Note 2) | 4,936 |
| Administrative services (Note 2) | 2,732 |
| Other | 62,861 |
| Total expenses | 372,169 |
| Expense reduction (Note 2) | (2,822) |
| Net expenses | 369,347 |
| Net investment income | 2,790,511 |
| Net realized loss on investments (Notes 1 and 3) | (5,017,468) |
| Net realized gain on foreign currency transactions (Note 1) | 215 |
| Net realized loss on credit default contracts (Note 1) | (21,236) |
| Net unrealized appreciation of assets and liabilities in foreign currencies during the period | 369 |

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| | |
|---|---------------|
| Net unrealized appreciation of investments and credit default contracts during the period | 207,803 |
| Net loss on investments | (4,830,317) |
| Net decrease in net assets resulting from operations | \$(2,039,806) |

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

STATEMENT OF CHANGES IN NET ASSETS

| | Six months ended November 30 2002* | Year |
|---|--|--------|
| Decrease in net assets | | |
| Operations: | | |
| Net investment income | \$2,790,511 | \$6,4 |
| Net realized loss on investments and foreign currency transactions | (5,038,489) | (9,7 |
| Net unrealized appreciation of investments and assets and liabilities in foreign currencies | 208,172 | 3,4 |
| Net increase (decrease) in net assets resulting from operations | (2,039,806) | |
| Distributions to shareholders: (Note 1) | | |
| From net investment income | (3,062,550) | (6,5 |
| From return of capital | -- | (9 |
| Total decrease in net assets | (5,102,356) | (7,3 |
| Net assets | | |
| Beginning of period | 63,825,828 | 71,2 |
| End of period (including distributions in excess of net investment income of \$1,451,847 and \$1,179,808, respectively) | \$58,723,472 | \$63,8 |
| Number of fund shares | | |
| Shares outstanding at beginning and end of period | 7,507,107 | 7,5 |

* Unaudited

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

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FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

| Per-share operating performance | Six months ended Nov. 30 (Unaudited) | | Year ended May 31 | | |
|---|---|----------|-------------------|----------|----------|
| | 2002 | 2002 | 2001 | 2000 | 1999 |
| Net asset value, beginning of period | \$8.50 | \$9.49 | \$10.91 | \$12.30 | \$14.83 |
| Investment operations: | | | | | |
| Net investment income (a) | .37 | .86 | 1.16 | 1.16 | 1.24 |
| Net realized and unrealized gain (loss) on investments | (.64) | (.86) | (1.41) | (1.27) | (2.23) |
| Total from investment operations | (.27) | -- (d) | (.25) | (.11) | (.99) |
| Less distributions: | | | | | |
| From net investment income | (.41) | (.87) | (1.17) | (1.21) | (1.38) |
| From net realized gain on investments | -- | -- | -- | -- | (.16) |
| From return of capital | -- | (.12) | -- | (.07) | -- |
| Total distributions | (.41) | (.99) | (1.17) | (1.28) | (1.54) |
| Net asset value, end of period | \$7.82 | \$8.50 | \$9.49 | \$10.91 | \$12.30 |
| Market value, end of period | \$8.50 | \$9.48 | \$10.80 | \$10.19 | \$13.50 |
| Total return at market value (%) (b) | (5.77)* | (2.91) | 18.34 | (15.61) | (2.30) |
| Ratios and supplemental data | | | | | |
| Net assets, end of period (in thousands) | \$58,723 | \$63,826 | \$71,211 | \$81,898 | \$92,368 |
| Ratio of expenses to average net assets (%) (c) | .64* | 1.19 | 1.14 | 1.08 | 1.11 |
| Ratio of net investment income | | | | | |

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| | | | | | |
|---------------------------|--------|-------|-------|-------|-------|
| to average net assets (%) | 4.78* | 9.69 | 11.41 | 9.92 | 9.50 |
| ----- | | | | | |
| Portfolio turnover (%) | 32.21* | 73.39 | 97.63 | 97.22 | 47.56 |
| ----- | | | | | |

* Not annualized.

- (a) Per share net investment income has been determined on the basis of the weighted number of shares outstanding during the period.
- (b) Total return assumes dividend reinvestment.
- (c) Includes amounts paid through expense offset arrangements (Note 2).
- (d) Amount represents less than \$0.01 per share.

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

NOTES TO FINANCIAL STATEMENTS November 30, 2002 (Unaudited)

Note 1 Significant accounting policies

Putnam Managed High Yield Trust (the "fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The fund's investment objective is to seek high current income. The fund intends to achieve its objective by investing in high yielding income securities.

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

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maturities of 60 days or less are stated at amortized cost, which approximates market value. Other investments, including restricted securities, are stated at fair value following procedures approved by the Trustees.

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

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

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

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recorded 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.

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

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fluctuations, not present with domestic investments.

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

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

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

G) Credit default contracts The fund may engage in credit default contracts where one party, the protection buyer, makes an upfront payment to a counter party, the protection seller, in exchange for the right to receive a contingent payment as a result of a credit event related to a specified security or index. The upfront payment received by the fund, as the protection seller, is recorded as a liability on the funds books. 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 recorded, 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 counter party may default on its obligation to perform.

H) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A., the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At November 30, 2002, the value of securities loaned amounted to \$62. The fund received cash collateral of \$91 which is pooled with collateral of other Putnam funds into 31 issuers of high-grade short-term investments.

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

At May 31, 2002, the fund had a capital loss carryover of approximately \$18,916,000 available to the extent allowed by tax law to offset future capital gains, if any. The amount of the carryover and the expiration dates are:

| Loss Carryover | Expiration |
|----------------|--------------|
| \$2,584,000 | May 31, 2007 |
| 4,168,000 | May 31, 2008 |
| 3,778,000 | May 31, 2009 |
| 8,386,000 | May 31, 2010 |

The aggregate identified cost on a tax basis is \$73,562,477, resulting in gross unrealized appreciation and depreciation of \$2,207,729 and \$17,015,872, respectively, or net unrealized depreciation of \$14,808,143.

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending May 31, 2003 approximately \$6,290,000 of losses recognized during the period November 1, 2001 to May 31, 2002.

J) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

Note 2

Management fee, administrative services and other transactions

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

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

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

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The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the six months ended November 30, 2002, the fund's expenses were reduced by \$2,822 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$537 has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

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

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

Note 3

Purchases and sales of securities

During the six months ended November 30, 2002, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$17,963,949 and \$17,685,600, respectively. There were no purchases and sales of U.S. government obligations.

RESULTS OF OCTOBER 3, 2002 SHAREHOLDER MEETING

(Unaudited)

An annual meeting of shareholders of the fund was held on October 3, 2002. At the meeting, each of the nominees for Trustees was elected, as follows:

| | Common Shares | |
|-----------------------|---------------|----------------|
| | Votes for | Votes withheld |
| Jameson A. Baxter | 6,667,724 | 203,174 |
| Charles B. Curtis | 6,667,724 | 203,174 |
| John A. Hill | 6,667,724 | 203,174 |
| Ronald J. Jackson | 6,667,724 | 203,174 |
| Paul L. Joskow | 6,667,724 | 203,174 |
| Elizabeth T. Kennan | 6,667,724 | 203,174 |
| Lawrence J. Lasser | 6,667,724 | 203,174 |
| John H. Mullin III | 6,667,724 | 203,174 |
| Robert E. Patterson | 6,667,724 | 203,174 |
| George Putnam, III | 6,667,724 | 203,174 |
| A.J.C. Smith | 6,667,394 | 203,504 |
| W. Thomas Stephens | 6,667,724 | 203,174 |
| W. Nicholas Thorndike | 6,667,394 | 203,504 |

All tabulations are rounded to nearest whole number.

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FUND INFORMATION

ABOUT PUTNAM INVESTMENTS

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

INVESTMENT MANAGER

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

MARKETING SERVICES

Putnam Retail Management
One Post Office Square
Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

TRUSTEES

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

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Charles E. Porter
Executive Vice President, Treasurer
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Executive Officer

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Financial Officer

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Assistant Treasurer and
Principal Accounting Officer

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John R. Verani
Vice President

Judith Cohen
Clerk and Assistant Treasurer

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

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PUTNAM INVESTMENTS

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Boston, Massachusetts 02109

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