

PUTNAM HIGH INCOME BOND FUND

Form N-CSR

October 27, 2004

Putnam  
High Income  
Bond Fund

ANNUAL REPORT ON PERFORMANCE AND OUTLOOK

8-31-04

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

Item 1. Report to Stockholders:

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

From the Trustees

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

John A. Hill and  
George Putnam, III

Dear Fellow Shareholder:

We are pleased to announce that three new Trustees have joined the Board of Trustees of your fund. All three have had outstanding careers as leaders in the investment management industry. Myra R. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College and serves as Chair of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee and as a Trustee of Commonfund, a not-for-profit asset management firm. Richard B. Worley is Managing Partner of Permit Capital LLC, an investment management firm. Both Ms. Drucker and Mr. Worley are independent Trustees (i.e., Trustees who are not "interested persons" of your fund or its investment advisor). Charles E. Haldeman, Jr., the third new Trustee, is President and Chief Executive Officer of Putnam Investments. We look forward to the contributions that these new Trustees will make to the continued success of the Putnam funds.

Investment returns during the 12-month period covered by the following report were generally positive, though advances varied across investment styles as well as sectors of the equity and fixed-income markets. Putnam High Income Bond Fund delivered strong results. As the economic and market environment changed from one of strength in 2003 to a period of greater uncertainty in 2004, the members of your fund's management teams made strategic decisions regarding security selection, sector weightings, and credit quality. The fund's performance validates the success of these strategies, which were both in reaction to, as well as in anticipation of, the changing investment landscape. In the following pages, the management teams describe how market conditions changed during the year and how the fund responded. They also outline their expectations for the coming months.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

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John A. Hill  
Chairman of the Trustees

George Putnam, III  
President of the Funds

October 20, 2004

Report from Fund Management

Fund highlights

- \* During its fiscal year ended August 31, 2004, Putnam High Income Bond Fund had total returns of 16.40% at net asset value (NAV) and 12.06% at market price.
- \* The fund's primary benchmark, the Merrill Lynch All Convertible Index, returned 9.72%. The fund's secondary benchmark, the JP Morgan Global High Yield Index, returned 14.62%.
- \* The average return for the fund's Lipper category, Convertible Securities Funds (closed-end), was 10.59%.
- \* See the Performance Summary that begins on page 8 for additional fund performance, comparative performance, and Lipper data.

Performance commentary

Over the past 12 months, returns in the global capital markets underwent a fundamental change, significantly cooling off from the strong returns that had characterized the first half of the period. Expectations of rising interest rates and renewed concerns about geopolitical turmoil contributed to a more cautious investor approach in the second half of the fiscal year. Management's selection of strong-performing convertible bonds in the first half of the period and the fund's significant allocation to high-yield corporate bonds helped the fund outperform both of its benchmarks and the average return of its Lipper peer group. It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

TOTAL RETURN FOR  
PERIODS ENDED 8/31/04

(inception 7/9/87)	NAV	Market price
1 year	16.40%	12.06%
5 years	58.79	36.49
Annual average	9.69	6.42
10 years	139.54	104.14
Annual average	9.13	7.40
Annual average (life of fund)	10.12	9.10

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

### FUND PROFILE

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

### Market overview

Convertible bonds, which are tied to the stock market by their convertibility to an underlying stock, continued to feel the influence of equity fluctuations during the past 12 months. After a strong year in 2003, in which stocks made an impressive comeback from a three-year bear market, the stock market changed significantly in 2004. High-growth industries such as biotechnology and semiconductors, which had led the way in 2003, gave way in 2004 to sectors with less volatility, such as consumer products, pharmaceuticals, and utilities. As investors factored in high gasoline prices, continued threats of global terrorism, and uncertainty over the impact of higher interest rates on economic growth, many took profits in 2004 and adopted a wait-and-see attitude, especially as the looming presidential election was generating increasing uncertainty.

After stellar returns in 2003, led by lower-quality companies, convertible bonds cooled off in 2004, following the equity trend. Convertibles posted slightly negative returns for the six-month period that nearly matched the performance of the Standard & Poor's 500 Index, a broad-based measure of the stock market.

A strong 18-month run in the high-yield corporate bond market leveled off during the middle of the period, in early 2004. However, credit spreads, which reflect the yield difference between lower-rated bonds and Treasuries, narrowed further, while the income produced by high-yield bonds continued to make a solid contribution to returns. Meanwhile, important positive factors such as declining default rates and improved corporate balance sheets remained in place throughout the fund's fiscal year.

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### MARKET SECTOR PERFORMANCE 12 MONTHS ENDED 8/31/04

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#### Bonds

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Merrill Lynch All Convertible Index (convertible securities)	9.72%
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JP Morgan Global High Yield Index (global high-yield corporate bonds)	14.62%
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Lehman Aggregate Bond Index (broad bond market)	6.13%
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Lehman Global Aggregate Bond Index (international bonds)	10.33%
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#### Equities

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S&P 500 Index (broad stock market)	11.46%
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Russell 2000 Index (stocks of small and midsize companies)	11.35%
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MSCI EAFE Index (international stocks)	22.64%
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These indexes provide an overview of performance in different market sectors for the 12 months ended 8/31/04.

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### Strategy overview

During the first half of the period, when the stock and convertible bond markets were strong, we focused on "busted convertibles," which are securities that have seen large price declines (in both the convertible and the underlying stock price). These securities continued to perform well through early 2004; however, in the second half of the period, stock valuations were much higher and, as a result, there was less room for growth in the busted convertible universe. We turned our attention toward finding opportunities in select industries that we believed could outperform, such as pharmaceuticals and utilities, and we found value in another type of security known as a "mandatory" convertible. These securities require a mandatory conversion to the stock upon maturity (as opposed to a return of principal), and they are therefore more sensitive to the performance of the stock. Mandatory convertibles also tend to be less sensitive to changes in interest rates and typically offer significantly higher yields than new-issue convertibles.

In the high-yield corporate bond portion of the portfolio, we kept the fund overweighted in lower-quality bonds, which were the strongest-performing part of the market. As always, we sought companies offering a sustainable competitive advantage, a manageable debt structure, and the ability to generate adequate cash flows. As the market's strength eased in early 2004, we began to take profits by reducing the fund's holdings of lower-rated securities.

[GRAPHIC OMITTED: horizontal bar chart PORTFOLIO COMPOSITION COMPARED]

### PORTFOLIO COMPOSITION COMPARED

	as of 2/29/04	as of 8/31/04
Convertible securities	49.4%	48.9%
Corporate bonds and notes	40.2%	41.0%
Short-term investments	8.0%	7.2%
Common stocks	1.7%	2.0%
Other	0.3%	0.6%
Preferred stocks	0.4%	0.3%

#### Footnote reads:

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

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### How fund holdings affected performance

The busted convertible part of the convertible bond market performed well during the first half of the period, and the fund's holdings of Northrop Grumman, a defense contractor, benefited. As the post-9/11 terrorism concerns receded, the stock prices of several defense companies had declined to pre-9/11 levels by the fall of 2003. The Northrop Grumman issue came with an attractive yield and was backed by a large company with ample cash flows.

By the midpoint of the fund's fiscal year, several of the fund's convertible holdings were being called, or redeemed, by the issuers. While this locked in attractive gains for the fund, it removed any potential for future gains that these securities might have provided for the rest of the fund's fiscal year. Examples included U.S. Cellular, a telecommunications company, and Kulicke & Soffa Industries, a leading supplier of semiconductor assembly equipment. Approximately 5% of the portfolio was affected by this activity. Fortunately, we were able to find opportunities for reinvestment into mandatory convertible securities, which offer higher yields in exchange for a mandatory conversion to equity upon maturity. Although these carry more equity risk, they are typically offered by larger, more substantial companies that we believe have lower chances of defaulting than other types of convertibles.

[GRAPHIC OMITTED: TOP HOLDINGS]

### TOP HOLDINGS

(Percent of fund's net assets as of 8/31/04)

#### Convertible Securities

- 1 Northrop Grumman Corp. (2.2%)  
Cumulative convertible preferred, series B, \$7.00  
Capital goods
- 2 Schering-Plough Corp. (1.6%)  
Convertible preferred, \$3.00  
Health care
- 3 TXI Capital Trust I (1.3%)  
Convertible preferred, \$2.75  
Consumer cyclicals
- 4 Host Marriott Financial Trust (1.3%)  
Convertible preferred, \$3.375  
Financial
- 5 FelCor Lodging Trust, Inc. (1.3%)  
Cumulative convertible preferred, series A, \$1.95  
Financial

#### Corporate Bonds

- 1 Dow Jones CDX HY (2.3%)  
144A pass-through certificates 7.75%, 2009  
Other

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- 2 Qwest Corp. (0.3%)  
144A notes 9.125%, 2012  
Communication services
- 3 NRG Energy, Inc. (0.3%)  
144A senior secured notes 8%, 2013  
Utilities and power
- 4 Charter Communications Holdings, LLC/Capital Corp. (0.3%)  
Senior notes 11.125%, 2011  
Consumer staples
- 5 Huntsman ICI Chemicals, Inc. (0.3%)  
Company guaranty 10.125%, 2009  
Basic materials

Footnote reads:

The fund's holdings will change over time.

We took a significant position for the fund in a mandatory convertible offered by Schering-Plough, which is now a top holding in the fund. This large pharmaceutical company has stumbled over the past few years due to management problems and the transition to over-the-counter drugs, notably of Claritin, an allergy medication. The stock price has been low for the past few years, but the company is regrouping with new management and came out with an attractive convertible issue to help finance new research initiatives. Despite its problems, Schering-Plough is an investment-grade company, and we believe the company is on the right track and that these convertible bonds should benefit the fund.

The fund was generally overweighted in the utilities sector relative to the Merrill Lynch All Convertible Index, and this positioning made a positive contribution. In this sector, Sierra Pacific, a Nevada-based utility, has been a big success for the fund, as the stock and convertible bond prices have seen enormous gains. We also acquired the mandatory convertibles of Great Plains Energy, a Midwestern utility that came with an attractive coupon rate.

In the high-yield portion of the fund, bonds issued by subsidiaries of Edison International were among the strongest performers. Edison, which owns California's second-largest electric utility, Southern California Edison, also owns Edison Mission Energy. This subsidiary owns a portfolio of independent power plants located around the world. After poor performance in 2002, the company sold assets and shored up its balance sheet, which drove strong returns for the fund's Edison Mission holdings. Another top performer was diversified chemicals manufacturer Huntsman International, which benefited from a rebound in chemical prices. The company carries a significant debt load, but its cash flow has improved as commodity prices have risen. Finally, Williams Companies experienced significant capital appreciation as management improved the company's balance sheet by focusing on its core pipeline business, selling nonproductive assets, and paying down debt.

We sold the fund's high-yield holdings of Trico Marine, an energy service company that underperformed, and Dobson Communications, a wireless communications firm. Dobson has had poor financial performance, in part because of its reliance on revenues from AT&T Wireless, which has been struggling. Overall, however, the fund's high-yield corporate holdings performed well and significantly helped the fund's relative performance.

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

The fund's management teams

The fund is managed by the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams. The members of the Large-Cap Value Team are David King (Portfolio Leader), George Maris (Portfolio Member), Mike Abata, Ronald Bukovac, Bartlett Geer, Deborah Kuenstner, Coleman Lannum, Christopher Miller, Jeanne Mockard, and Hugh Mullin. George Maris, who became a Portfolio Member in April 2004, has been at Putnam Management since July 1999. The members of the Core Fixed-Income High-Yield Team are Robert Salvin (Portfolio Member), Jeffrey Kaufman, Geoffrey Kelley, Stephen Peacher, Neil Reiner, Paul Scanlon, Rosemary Thomsen, and Joseph Towell. Robert Salvin became a Portfolio Member in April 2004 and has been at Putnam Management since July 2000. Prior to July 2000, he was at BancBoston Robertson Stephens, and prior to June 2000 he was self-employed.

OF SPECIAL INTEREST

MERGER WITH PUTNAM HIGH INCOME OPPORTUNITIES TRUST PROPOSED

The fund's Trustees have approved the merger of Putnam High Income Opportunities Trust into your fund. Putnam High Income Opportunities Trust is a closed-end fixed-income fund whose objectives, strategy, and investments are substantially similar to those of your fund. The merger may result in lower expenses for shareholders of each fund due to the larger asset base of the combined fund. A prospectus/proxy statement containing more information about the proposed merger is expected to be sent to shareholders of each fund in November 2004. Completion of the merger is subject to a number of conditions, including approval by shareholders of each fund at a joint shareholder meeting expected to be held within the coming months.

This report is not an offer to sell, nor a solicitation of an offer to buy, shares of any fund, nor is it a solicitation of a proxy. To receive a free copy of the prospectus/proxy statement relating to the proposed merger (which contains important information about fees, expenses, and risk considerations) after a registration statement has been filed with the SEC and becomes effective, please call 1-800-225-1581. The prospectus/proxy statement will also be available without charge on the SEC's Web site ([www.sec.gov](http://www.sec.gov)). Read the prospectus/proxy statement carefully before making any investment decisions.

The outlook for your fund

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

The downshift in the market for convertible bonds, traditional bonds, and stocks reflects the wait-and-see attitude among investors regarding a number of issues -- notably, the economy, corporate profits, the war in Iraq, and the U.S. presidential election. The impact of high oil prices and higher interest rates on economic growth has yet to be determined, although initial reports show that these factors have not affected business investment or consumer spending -- two key drivers of the economy -- nearly as much as had been anticipated. Credit yield spreads, which measure the difference in yield between lower-rated bonds

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(such as convertibles and high-yield corporates) and Treasuries, have narrowed considerably, but we believe spreads may have room to narrow further. Most importantly, we believe we are not in an economic or market "bubble" phase right now. Rather, the economy and corporate and high-yield bond markets appear to be on hold, but we believe they still have the potential for further growth. In the coming months, we will continue to maintain vigilance against potential headwinds that could adversely affect the fund's holdings, while continuing to seek opportunities for both income and capital appreciation.

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

Performance summary

This section shows your fund's performance during its fiscal year, which ended August 31, 2004. In accordance with regulatory requirements, we also include performance for the most current calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares.

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TOTAL RETURN FOR PERIODS ENDED 8/31/04  
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	NAV	Market price
1 year	16.40%	12.06%
5 years	58.79	36.49
Annual average	9.69	6.42
10 years	139.54	104.14
Annual average	9.13	7.40
Life of fund (since 7/9/87)		
Annual average	10.12	9.10

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Performance does not reflect taxes on reinvested distributions.  
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COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 8/31/04  
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Merrill Lynch All Convertible Index	JP Morgan Global High Yield Index	Lipper Convertible Securities Funds (closed-end) category average ++
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1 year	9.72%	14.62%	10.59%
5 years	31.43	38.05	21.12
Annual average	5.62	6.66	3.80
10 years	158.46	115.52	113.01
Annual average	9.96	7.98	7.78
Life of fund (since 7/9/87)			
Annual average	--*	--+	9.02

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

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

+ Index began operations on 12/31/93.

++ Over the 1-, 5-, and 10-year periods ended 8/31/04, there were 13, 8, and 7 funds, respectively, in this Lipper category.

PRICE AND DISTRIBUTION INFORMATION 12 MONTHS ENDED 8/31/04

Distributions (number)	12	
Income	\$0.558	
Capital gains	--	
Total	\$0.558	
Share value:	NAV	Market price
8/31/03	\$7.73	\$7.31
8/31/04	8.37	7.62
Current return (end of period)		
Current dividend rate 1	6.67%	7.32%

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

TOTAL RETURN FOR PERIODS ENDED 9/30/04 (MOST RECENT CALENDER QUARTER)

	NAV	Market price
1 year	15.52%	11.36%
5 years	61.56	52.70
Annual average	10.07	8.83

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10 years	141.54	112.98
Annual average	9.22	7.85
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Life of fund (since 7/9/87)		
Annual average	10.16	9.20
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### Terms and definitions

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

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

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

### Comparative indexes

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

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

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

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

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

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

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

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

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

### Putnam's policy on confidentiality

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

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

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

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

### Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2004, are available on the Putnam Individual Investor Web site, [www.putnaminvestments.com/individual](http://www.putnaminvestments.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures by calling Putnam's Shareholder Services at 1-800-225-1581.

### Fund portfolio holdings

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

### A guide to the financial statements

These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, constitute the fund's financial statements.

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

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

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

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

### Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of  
Putnam High Income Bond Fund

In our opinion, the accompanying statement of assets and liabilities, including the fund's portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Putnam High Income Bond Fund (the "fund") at August 31, 2004, and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable

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assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investments owned at August 31, 2004 by correspondence with the custodian, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
 Boston, Massachusetts  
 October 12, 2004

The fund's portfolio  
 August 31, 2004

Corporate bonds and notes (42.3%) (a)	Value
Principal amount	
Basic Materials (4.9%)	
-----	
\$1,000 Abitibi-Consolidated Finance LP company guaranty 7 7/8s, 2009	\$1,050
105,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)	115,500
110,000 AK Steel Corp. company guaranty 7 7/8s, 2009	106,150
10,000 AK Steel Corp. company guaranty 7 3/4s, 2012	9,400
40,000 Armco, Inc. sr. notes 8 7/8s, 2008	39,600
30,000 Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)	24,000
160,000 BCP Caylux Holdings Luxembourg SCA 144A sr. sub. notes 9 5/8s, 2014 (Luxembourg)	171,800
50,000 Century Aluminum Co. 144A company guaranty 7 1/2s, 2014	51,250
145,000 Compass Minerals Group, Inc. company guaranty 10s, 2011	160,950
40,000 Compass Minerals International, Inc. sr. disc. notes stepped-coupon zero % (12s, 6/1/08), 2013 (STP)	31,200
110,000 Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 (STP)	90,200
87,000 Equistar Chemicals LP notes 8 3/4s, 2009	91,568
219,000 Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008	243,090
60,000 Georgia-Pacific Corp. bonds 7 3/4s, 2029	62,400
100,000 Georgia-Pacific Corp. company guaranty 9 3/8s, 2013	117,750
170,000 Georgia-Pacific Corp. debs. 7.7s, 2015	189,975
4,000 Georgia-Pacific Corp. sr. notes 7 3/8s, 2008	4,370
145,000 Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)	164,575
198,000 Hercules, Inc. company guaranty	

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	11 1/8s, 2007	232,650
110,000	Hercules, Inc. 144A sr. sub. notes 6 3/4s, 2029	109,175
30,000	Huntsman Advanced Materials, LLC 144A sec. FRN 11.86s, 2008	31,500
40,000	Huntsman Advanced Materials, LLC 144A sec. notes 11s, 2010	45,600
111,000	Huntsman Co., LLC sr. disc. notes zero %, 2008	66,045
295,000	Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009	303,850
205,000	Huntsman ICI Holdings sr. disc. notes zero %, 2009	104,550
EUR	10,000 Huntsman International, LLC sr. sub. notes Ser. EXCH, 10 1/8s, 2009	12,254
\$90,000	Huntsman, LLC company guaranty 11 5/8s, 2010	100,800
50,000	Huntsman, LLC 144A company guaranty 11 1/2s, 2012	51,250
75,000	Innophos, Inc. 144A sr. sub. notes 8 7/8s, 2014	78,000
70,000	International Steel Group, Inc. 144A sr. notes 6 1/2s, 2014	67,550
170,000	ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011	189,125
90,000	Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013	94,050
10,000	Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s, 2006 (In default) (NON)	9,775
120,000	Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003 (In default) (NON) (DEF)	24,900
10,000	Lyondell Chemical Co. bonds 11 1/8s, 2012	11,375
165,000	Lyondell Chemical Co. company guaranty 10 1/2s, 2013	185,625
70,000	Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007	74,813
170,000	MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	191,250
53,473	MDP Acquisitions PLC sub. notes 15 1/2s, 2013 (Ireland) (PIK)	62,029
180,000	Millennium America, Inc. company guaranty 9 1/4s, 2008	196,200
20,000	Millennium America, Inc. 144A sr. notes 9 1/4s, 2008	21,800
EUR	10,000 Nalco Co. 144A sr. notes 7 3/4s, 2011	12,923
EUR	70,000 Nalco Co. 144A sr. sub. notes 9s, 2013	90,331
\$170,000	Nalco Co. 144A sr. sub. notes 8 7/8s, 2013	183,388
160,000	Norske Skog Canada, Ltd. sr. notes 7 3/8s, 2014 (Canada)	162,800
75,504	PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)	73,616
23,909	Pioneer Companies, Inc. sec. FRN 5.086s, 2006	22,594
128,000	Potlatch Corp. company guaranty 10s, 2011	144,640
10,000	Resolution Performance Products, LLC	

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	sr. notes 9 1/2s, 2010	10,425
	90,000 Rhodia SA unsub. notes 10 1/4s, 2010 (France)	91,800
EUR	65,000 SGL Carbon SA 144A sr. notes 8 1/2s, 2012 (Luxembourg)	81,035
	\$125,000 Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	138,125
	120,000 Stone Container Corp. sr. notes 9 3/4s, 2011	134,100
	45,000 Stone Container Corp. sr. notes 8 3/8s, 2012	49,500
	25,000 Stone Container Finance 144A company guaranty 7 3/8s, 2014 (Canada)	25,813
	200,000 Ucar Finance, Inc. company guaranty 10 1/4s, 2012	227,000
	55,000 United Agri Products 144A sr. notes 8 1/4s, 2011	59,125
	172,000 United States Steel Corp. sr. notes 9 3/4s, 2010	193,500
	6,000 Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010	4,200
	11,665 Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011	8,165
	20,000 WHX Corp. sr. notes 10 1/2s, 2005	19,000
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		5,671,074

### Capital Goods (3.8%)

	95,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007	97,375
	190,000 AGCO Corp. company guaranty 9 1/2s, 2008	205,675
	96,410 Air2 US 144A sinking fund Ser. D, 12.266s, 2020 (In default) (NON)	1
	177,000 Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008	194,258
	120,000 Allied Waste North America, Inc. company guaranty Ser. B, 7 5/8s, 2006	125,850
	75,000 Allied Waste North America, Inc. sec. notes 6 1/2s, 2010	75,000
	90,000 Argo-Tech Corp. 144A sr. notes 9 1/4s, 2011	94,950
	30,000 BE Aerospace, Inc. sr. notes 8 1/2s, 2010	32,400
	85,000 BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008	86,700
	2,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8 7/8s, 2011	1,950
	40,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008	38,950
	15,000 Berry Plastics Corp. company guaranty 10 3/4s, 2012	16,838
	105,000 Blount, Inc. company guaranty 13s, 2009	111,956
	50,000 Blount, Inc. company guaranty 7s, 2005	51,750
	60,000 Blount, Inc. sr. sub. notes 8 7/8s, 2012	62,700
	40,000 Browning-Ferris Industries, Inc.	

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	debs. 7.4s, 2035	35,600
	40,000 Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008	40,600
EUR	10,000 Crown Holdings SA bonds 10 1/4s, 2011 (France)	13,761
	\$250,000 Crown Holdings SA notes 10 7/8s, 2013 (France)	290,625
	60,000 Crown Holdings SA notes 9 1/2s, 2011 (France)	66,600
	119,000 Decrane Aircraft Holdings Co. company guaranty 17s, 2008	45,220
	109,000 Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012	120,990
	95,000 FIMEP SA sr. notes 10 1/2s, 2013 (France)	109,725
EUR	50,000 Flender Holdings 144A sr. notes 11s, 2010 (Germany)	69,291
	78,000 Flowserve Corp. company guaranty 12 1/4s, 2010	88,530
	130,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009	136,825
DEM	10,000 Impress Metal Packaging Holding NV sr. sub. notes 9 7/8s, 2007 (Netherlands)	6,197
EUR	95,000 Impress Metal Packaging Holding NV sr. sub. notes 9 7/8s, 2007 (Netherlands)	58,873
	\$105,000 Invensys, PLC notes 9 7/8s, 2011 (United Kingdom)	106,575
	70,000 K&F Industries, Inc. sr. sub. notes Ser. B, 9 5/8s, 2010	77,525
	16,000 K&F Industries, Inc. sr. sub. notes Ser. B, 9 1/4s, 2007	16,520
	50,000 L-3 Communications Corp. company guaranty 7 5/8s, 2012	54,125
	40,000 L-3 Communications Corp. company guaranty 6 1/8s, 2013	39,400
	265,000 Legrand SA debs. 8 1/2s, 2025 (France)	288,519
	117,000 Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012	133,380
EUR	25,000 Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011	33,461
	\$30,000 Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013	30,975
	25,000 Mueller Group, Inc. 144A sec. FRN 6.44s, 2011	25,563
	75,000 Mueller Group, Inc. 144A sr. sub. notes 10s, 2012	80,438
	5,000 Owens-Brockway Glass company guaranty 8 7/8s, 2009	5,438
	145,000 Owens-Brockway Glass company guaranty 8 1/4s, 2013	152,975
	70,000 Owens-Brockway Glass company guaranty 7 3/4s, 2011	74,200
	132,000 Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012	146,520
	50,000 Pliant Corp. sec. notes 11 1/8s, 2009	53,625
	175,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008	188,125
	125,000 Siebe PLC 144A sr. unsub. 6 1/2s,	



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	2010 (United Kingdom)	112,500
75,000	Solo Cup Co. sr. sub. notes 8 1/2s, 2014	72,750
95,000	Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010	91,200
65,000	Tekni-Plex, Inc. 144A sr. sec. notes 8 3/4s, 2013	62,400
25,000	Terex Corp. company guaranty 9 1/4s, 2011	28,000
46,000	Terex Corp. company guaranty Ser. B, 10 3/8s, 2011	51,980
75,000	Titan Corp. (The) company guaranty 8s, 2011	77,438
53,000	Trimas Corp. company guaranty 9 7/8s, 2012	56,180
50,000	Vought Aircraft Industries, Inc. sr. notes 8s, 2011	49,625
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		4,388,627
Communication Services (3.3%)		
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29,000	Alamosa Delaware, Inc. company guaranty 11s, 2010	32,117
29,000	Alamosa Delaware, Inc. company guaranty stepped-coupon zero % (12s, 7/31/05), 2009 (STP)	28,855
55,000	Alamosa Delaware, Inc. sr. notes 8 1/2s, 2012	54,725
25,000	American Cellular Corp. company guaranty 9 1/2s, 2009	20,125
65,000	American Cellular Corp. sr. notes Ser. B, 10s, 2011	52,813
230,000	American Tower Corp. sr. notes 9 3/8s, 2009	245,525
55,000	American Tower Corp. 144A sr. notes 7 1/2s, 2012	55,550
100,000	American Towers, Inc. company guaranty 7 1/4s, 2011	103,500
30,000	Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda) (In default) (NON)	2,400
130,000	Centennial Cellular Operating Co. company guaranty 10 1/8s, 2013	133,575
20,000	Cincinnati Bell Telephone Co. company guaranty 6.3s, 2028	17,500
80,000	Cincinnati Bell, Inc. company guaranty 7 1/4s, 2013	75,200
50,000	Cincinnati Bell, Inc. notes 7 1/4s, 2023	43,750
115,000	Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014	101,775
166,000	Crown Castle International Corp. sr. notes 9 3/8s, 2011	191,730
35,000	Eircom Funding notes 8 1/4s, 2013 (Ireland)	37,800
50,000	Fairpoint Communications, Inc. sr. sub. notes 12 1/2s, 2010	53,500
11,436	Globix Corp. company guaranty 11s, 2008 (PIK)	9,549
140,000	Inmarsat Finance PLC 144A company guaranty 7 5/8s, 2012 (United	

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Kingdom)	137,200
45,000 iPCS, Inc. 144A sr. notes 11 1/2s, 2012	47,138
110,000 Level 3 Financing, Inc. 144A sr. notes 10 3/4s, 2011	92,950
95,000 Madison River Capital Corp. sr. notes 13 1/4s, 2010	101,412
235,000 MCI, Inc. sr. notes 7.735s, 2014	217,081
135,000 MCI, Inc. sr. notes 6.688s, 2009	127,238
53,000 Nextel Communications, Inc. sr. notes 9 1/2s, 2011	59,890
5,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009	5,300
230,000 Nextel Communications, Inc. sr. notes 7 3/8s, 2015	240,350
155,000 Nextel Communications, Inc. sr. notes 5.95s, 2014	147,250
41,000 Nextel Partners, Inc. sr. notes 12 1/2s, 2009	47,765
175,000 Nextel Partners, Inc. sr. notes 8 1/8s, 2011	182,438
120,000 Qwest Communications International, Inc. 144A sr. notes 7 1/2s, 2014	106,800
370,000 Qwest Corp. 144A notes 9 1/8s, 2012	396,825
50,000 Qwest Services Corp. 144A notes 14 1/2s, 2014	59,375
90,000 Qwest Services Corp. 144A notes 14s, 2010	104,625
20,000 Rogers Cantel, Ltd. debs. 9 3/4s, 2016 (Canada)	23,100
65,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)	73,775
35,000 Rural Cellular Corp. sr. notes 9 7/8s, 2010	34,738
45,000 Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008	41,850
25,000 SBA Communications Corp. sr. notes 10 1/4s, 2009	26,313
45,000 SBA Telecommunications Inc./SBA Communication Corp. sr. disc. notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 (STP)	35,100
80,000 TSI Telecommunication Services, Inc. company guaranty Ser. B, 12 3/4s, 2009	88,800
52,000 UbiquiTel Operating Co. bonds stepped-coupon zero % (14s, 4/15/05), 2010 (STP)	53,300
50,000 UbiquiTel Operating Co. sr. notes 9 7/8s, 2011	51,250
80,000 Western Wireless Corp. sr. notes 9 1/4s, 2013	82,200
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	3,844,052
Conglomerates (0.3%)	
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20,000 Tyco International Group SA company guaranty 6 3/4s, 2011 (Luxembourg)	22,350
1,000 Tyco International Group SA company guaranty 6 3/8s, 2005 (Luxembourg)	1,030
255,000 Tyco International Group SA company	

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	guaranty 6s, 2013 (Luxembourg)	273,017
38,000	Tyco International Group SA notes 6 3/8s, 2011 (Luxembourg)	41,630
		338,027

### Consumer Cyclical (9.7%)

	60,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009	67,650
50,000	Argosy Gaming Co. sr. sub. notes 9s, 2011	56,000
95,000	Argosy Gaming Co. sr. sub. notes 7s, 2014	96,900
40,000	ArvinMeritor, Inc. notes 8 3/4s, 2012	44,000
65,000	Asbury Automotive Group, Inc. sr. sub. notes 8s, 2014	63,375
160,000	Autonation, Inc. company guaranty 9s, 2008	182,800
50,000	Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011	54,375
20,000	Beazer Homes USA, Inc. company guaranty 8 3/8s, 2012	21,750
30,000	Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012	32,850
25,000	Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012	26,406
40,000	Building Materials Corp. company guaranty 8s, 2008	40,600
40,000	CanWest Media, Inc. sr. sub. notes 10 5/8s, 2011 (Canada)	45,400
50,000	Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010	55,000
158,000	Coinmach Corp. sr. notes 9s, 2010	159,580
80,000	Collins & Aikman Products company guaranty 10 3/4s, 2011	82,400
20,000	D.R. Horton, Inc. company guaranty 8s, 2009	22,700
30,000	D.R. Horton, Inc. sr. notes 7 7/8s, 2011	34,200
20,000	D.R. Horton, Inc. sr. notes 6 7/8s, 2013	21,550
130,000	D.R. Horton, Inc. sr. notes 5 7/8s, 2013	131,625
20,000	Dana Corp. notes 10 1/8s, 2010	22,900
185,000	Dana Corp. notes 9s, 2011	221,075
20,000	Dana Corp. notes 7s, 2029	20,100
75,000	Dayton Superior Corp. sec. notes 10 3/4s, 2008	79,875
20,000	Delco Remy International, Inc. company guaranty 11s, 2009	21,350
165,000	Delco Remy International, Inc. sr. sub. notes 9 3/8s, 2012	167,888
150,000	Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s, 2010	168,938
70,000	Dex Media, Inc. 144A disc. notes stepped-coupon zero % (9s, 11/15/08), 2013 (STP)	51,275
280,000	Dex Media, Inc. 144A notes 8s, 2013	290,500
25,000	Dura Operating Corp. company	

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	guaranty Ser. B, 8 5/8s, 2012	25,938
29,000	FelCor Lodging LP company guaranty 10s, 2008 (R)	30,523
65,000	Finlay Fine Jewelry Corp. 144A sr. notes 8 3/8s, 2012	69,225
95,000	Gaylord Entertainment Co. sr. notes 8s, 2013	98,563
40,000	Goodyear Tire & Rubber Co. (The) notes 8 1/2s, 2007	41,500
265,000	Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011	249,100
30,000	Goodyear Tire & Rubber Co. (The) notes 6 3/8s, 2008	29,250
45,000	Herbst Gaming, Inc. 144A sr. sub. notes 8 1/8s, 2012	45,338
160,000	Hilton Hotels Corp. notes 7 5/8s, 2012	183,600
119,000	HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 (R)	122,570
177,414	Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK)	200,034
147,000	Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007	151,226
30,000	Host Marriott LP company guaranty Ser. G, 9 1/4s, 2007 (R)	33,600
75,000	Host Marriott LP sr. notes Ser. E, 8 3/8s, 2006 (R)	79,688
130,000	Host Marriott LP 144A sr. notes 7s, 2012 (R)	132,275
110,000	Houghton Mifflin Co. sr. sub. notes 9 7/8s, 2013	114,813
131,000	Icon Health & Fitness company guaranty 11 1/4s, 2012	142,790
99,000	IESI Corp. company guaranty 10 1/4s, 2012	107,168
35,000	Inn of the Mountain Gods sr. notes 12s, 2010	39,550
30,000	Interface, Inc. sr. sub. notes 9 1/2s, 2014	30,750
70,000	ITT Corp. debs. 7 3/8s, 2015	74,200
100,000	ITT Corp. notes 6 3/4s, 2005	103,750
90,000	JC Penney Co., Inc. debs. 7.95s, 2017	101,700
11,000	JC Penney Co., Inc. debs. 7.65s, 2016	12,183
130,000	JC Penney Co., Inc. debs. 7 1/8s, 2023	134,875
75,000	JC Penney Co., Inc. notes 9s, 2012	90,000
5,000	JC Penney Co., Inc. notes 8s, 2010	5,638
180,000	John Q. Hammons Hotels LP/John Q. Hammons Hotels Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012	201,150
135,000	Jostens Holding Corp. sr. disc. notes stepped-coupon zero % (10 1/4s, 12/1/08), 2013 (STP)	89,100
80,000	Jostens, Inc. sr. sub. notes 12 3/4s, 2010	90,300
10,000	K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007	11,600
75,000	K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	83,625

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55,000	K. Hovnanian Enterprises, Inc. company guaranty 6 3/8s, 2014	54,175
40,000	K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014	39,700
60,000	K2, Inc. 144A sr. notes 7 3/8s, 2014	62,100
2,000	KB Home sr. sub. notes 9 1/2s, 2011	2,230
195,000	Laidlaw International, Inc. sr. notes 10 3/4s, 2011	222,300
80,000	Lamar Media Corp. company guaranty 7 1/4s, 2013	85,200
32,000	Lear Corp. company guaranty Ser. B, 8.11s, 2009	37,135
201,000	Levi Strauss & Co. sr. notes 12 1/4s, 2012	208,538
60,000	Mandalay Resort Group sr. notes 6 3/8s, 2011	61,500
140,000	MediaNews Group, Inc. sr. sub. notes 6 7/8s, 2013	141,050
105,000	MeriStar Hospitality Corp. company guaranty 9 1/8s, 2011 (R)	108,150
45,000	MeriStar Hospitality Corp. company guaranty 9s, 2008 (R)	46,350
40,000	Meritage Corp. company guaranty 9 3/4s, 2011	44,600
30,000	Meritage Corp. sr. notes 7s, 2014	29,475
90,000	Meritor Automotive, Inc. notes 6.8s, 2009	92,700
85,000	Metaldyne Corp. 144A sr. notes 10s, 2013	83,938
100,000	MGM Mirage, Inc. company guaranty 8 1/2s, 2010	112,500
1,000	MGM Mirage, Inc. company guaranty 8 3/8s, 2011	1,085
65,000	Mohegan Tribal Gaming Authority sr. sub. notes 6 3/8s, 2009	66,138
60,000	Oxford Industries, Inc. 144A sr. notes 8 7/8s, 2011	64,200
25,000	Park Place Entertainment Corp. sr. notes 7 1/2s, 2009	27,750
65,000	Park Place Entertainment Corp. sr. notes 7s, 2013	69,713
161,000	Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008	182,333
110,000	Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008	120,725
132,000	Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010	144,540
30,000	Phillips-Van Heusen Corp. sr. notes 7 1/4s, 2011	30,975
75,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 3/4s, 2013	77,250
40,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	40,200
30,000	PRIMEDIA, Inc. company guaranty 8 7/8s, 2011	29,400
140,000	PRIMEDIA, Inc. company guaranty 7 5/8s, 2008	137,200
150,000	PRIMEDIA, Inc. 144A sr. notes 8s, 2013	138,750
100,000	Reader's Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	101,000
103,000	Resorts International Hotel and	

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	Casino, Inc. company guaranty 11 1/2s, 2009	116,905
15,000	RH Donnelley Finance Corp. I company guaranty 8 7/8s, 2010	16,894
134,000	RH Donnelley Finance Corp. I 144A sr. notes 8 7/8s, 2010	150,918
77,000	RH Donnelley Finance Corp. I 144A sr. sub. notes 10 7/8s, 2012	91,053
82,000	Russell Corp. company guaranty 9 1/4s, 2010	88,355
175,000	Saks, Inc. company guaranty 7s, 2013	175,875
205,000	Samsonite Corp. 144A sr. sub. notes 8 7/8s, 2011	211,150
64,000	Schuler Homes, Inc. company guaranty 10 1/2s, 2011	73,440
160,000	Sealy Mattress Co. 144A sr. sub. notes 8 1/4s, 2014	165,200
50,000	Standard Pacific Corp. sr. notes 7 3/4s, 2013	52,625
10,000	Standard Pacific Corp. sr. notes 6 7/8s, 2011	10,375
175,000	Standard Pacific Corp. sr. notes 6 1/4s, 2014	168,438
74,000	Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 7/8s, 2012	82,880
71,000	Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 3/8s, 2007	75,970
118,000	Station Casinos, Inc. sr. notes 6s, 2012	118,295
75,000	Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016	74,906
45,000	Technical Olympic USA, Inc. company guaranty 10 3/8s, 2012	48,937
65,000	Technical Olympic USA, Inc. company guaranty 9s, 2010	68,900
30,000	Tenneco Automotive, Inc. company guaranty Ser. B, 11 5/8s, 2009	32,025
100,000	Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013	115,750
95,000	THL Buildco, Inc. (Nortek, Inc.) 144A sr. sub. notes 8 1/2s, 2014	99,038
60,000	Tommy Hilfiger USA, Inc. company guaranty 6.85s, 2008	61,350
55,000	Toys "R" Us, Inc. notes 7 5/8s, 2011	54,313
283,000	Trump Atlantic City Associates company guaranty 11 1/4s, 2006	240,196
70,000	United Auto Group, Inc. company guaranty 9 5/8s, 2012	77,700
53,000	Venetian Casino Resort, LLC company guaranty 11s, 2010	60,354
200,000	Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	216,500
100,000	Vertis, Inc. 144A sub. notes 13 1/2s, 2009	101,125
40,000	Von Hoffman Press, Inc. company guaranty 10 3/8s, 2007	40,750
75,000	Von Hoffman Press, Inc. company guaranty 10 1/4s, 2009	83,438
63,019	Von Hoffman Press, Inc. debs. 13s, 2009 (PIK)	65,540
21,000	WCI Communities, Inc. company guaranty 10 5/8s, 2011	23,573

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101,000	WCI Communities, Inc. company guaranty 9 1/8s, 2012	111,605
59,000	William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011	66,670
80,000	WRC Media Corp. sr. sub. notes 12 3/4s, 2009	72,800
		11,185,427
Consumer Staples (6.3%)		
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10,000	Adelphia Communications Corp. notes Ser. B, 9 7/8s, 2005 (In default) (NON)	9,000
20,000	Adelphia Communications Corp. sr. notes 10 7/8s, 2010 (In default) (NON)	18,250
235,000	Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 (In default) (NON)	211,500
105,000	Affinity Group, Inc. sr. sub. notes 9s, 2012	109,725
40,000	AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012	41,600
29,000	AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011	29,580
190,000	AMC Entertainment, Inc. 144A sr. sub. notes 8s, 2014	177,175
148,000	Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009	161,320
60,000	Atlantic Broadband Finance, LLC 144A sr. sub. notes 9 3/8s, 2014	56,550
136,000	Brand Services, Inc. company guaranty 12s, 2012	155,040
210,000	Cablevision Systems Corp. 144A sr. notes 8s, 2012	215,250
70,000	Capital Records, Inc. 144A company guaranty 8 3/8s, 2009	76,125
19,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)	12,065
365,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 11 1/8s, 2011	304,775
70,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 3/4s, 2009	58,800
60,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 1/4s, 2010	49,350
120,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10s, 2011	94,800
63,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 9 5/8s, 2009	50,873
61,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 8 5/8s, 2009	48,495
125,000	Cinemark USA, Inc. sr. sub. notes	

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	9s, 2013	138,438
145,000	Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/07), 2014 (STP)	99,869
70,000	Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	77,175
5,000	Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012	5,463
60,000	CSC Holdings, Inc. debs. 7 5/8s, 2018	60,300
3,000	CSC Holdings, Inc. debs. Ser. B, 8 1/8s, 2009	3,218
65,000	CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011	67,438
60,000	CSC Holdings, Inc. sr. sub. debs. 10 1/2s, 2016	68,250
65,000	CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012	64,675
30,000	Dean Foods Co. sr. notes 6 5/8s, 2009	31,913
40,000	Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011	44,000
80,000	Del Monte Corp. sr. sub. notes 8 5/8s, 2012	89,000
175,000	DirectTV Holdings, LLC sr. notes 8 3/8s, 2013	199,063
271,000	Diva Systems Corp. sr. disc. notes Ser. B, 12 5/8s, 2008 (acquired various dates from 5/15/96 to 5/24/01, cost \$98,675) (In default) (NON) (RES)	339
155,000	Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007	144,538
35,000	Dole Food Co. sr. notes 8 7/8s, 2011	37,450
25,000	Dole Food Co. sr. notes 8 5/8s, 2009	26,625
60,000	Dole Food Co. company guaranty 7 1/4s, 2010	60,300
66,000	Domino's, Inc. sr. sub. notes 8 1/4s, 2011	70,620
20,000	Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008	15,000
30,000	Echostar DBS Corp. sr. notes 10 3/8s, 2007	31,800
42,000	Echostar DBS Corp. sr. notes 9 1/8s, 2009	46,358
220,000	Echostar DBS Corp. sr. notes 6 3/8s, 2011	220,550
35,000	Elizabeth Arden, Inc. company guaranty 7 3/4s, 2014	36,225
205,000	Granite Broadcasting Corp. sec. notes 9 3/4s, 2010	193,213
52,000	Gray Television, Inc. company guaranty 9 1/4s, 2011	58,110
110,000	Hasbro, Inc. notes 5.6s, 2005	113,025
60,000	Jean Coutu Group, Inc. 144A sr. notes 7 5/8s, 2012 (Canada)	61,800
125,000	Jean Coutu Group, Inc. 144A sr. sub. notes 8 1/2s, 2014 (Canada)	125,938
230,000	Kabel Deutschland GmbH 144A sr. notes 10 5/8s, 2014 (Germany)	235,750
2,435	Knology, Inc. 144A sr. notes 12s, 2009 (PIK)	2,313



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71,000	Land O'Lakes, Inc. sr. notes 8 3/4s, 2011	66,208
35,000	LCE Acquisition Corp. 144A company guaranty 9s, 2014	35,525
90,000	North Atlantic Trading Co. sr. notes 9 1/4s, 2012	87,750
105,000	Paxson Communications Corp. company guaranty 10 3/4s, 2008	105,525
150,000	Pinnacle Foods Holding Corp. 144A sr. sub. notes 8 1/4s, 2013	142,875
156,000	Playtex Products, Inc. company guaranty 9 3/8s, 2011	158,535
110,000	Playtex Products, Inc. 144A sec. notes 8s, 2011	114,675
80,000	Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom)	84,800
105,000	Prestige Brands, Inc. 144A sr. sub. notes 9 1/4s, 2012	104,475
25,000	Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)	23,813
196,000	Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)	225,400
125,000	Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	127,500
160,000	Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	147,200
80,000	Rite Aid Corp. company guaranty 9 1/2s, 2011	88,000
130,000	Rite Aid Corp. debs. 6 7/8s, 2013	119,600
10,000	Rite Aid Corp. notes 7 1/8s, 2007	10,200
5,000	Rite Aid Corp. 144A notes 6s, 2005	5,050
130,000	Sbarro, Inc. company guaranty 11s, 2009	117,325
35,000	Scotts Co. (The) sr. sub. notes 6 5/8s, 2013	36,575
75,000	Sinclair Broadcast Group, Inc. company guaranty 8s, 2012	77,438
140,000	Six Flags, Inc. sr. notes 9 5/8s, 2014	129,850
314,000	Six Flags, Inc. sr. notes 8 7/8s, 2010	288,880
40,000	Videotron Ltee company guaranty 6 7/8s, 2014 (Canada)	40,400
90,000	Vivendi Universal SA sr. notes 9 1/4s, 2010 (France)	106,313
135,000	Vivendi Universal SA sr. notes 6 1/4s, 2008 (France)	144,450
75,000	Warner Music Group 144A sr. sub. notes 7 3/8s, 2011	74,625
114,000	Williams Scotsman, Inc. company guaranty 9 7/8s, 2007	112,290
108,000	Young Broadcasting, Inc. company guaranty 10s, 2011	110,430
50,000	Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	47,938
		-----
		7,242,674

Energy (3.0%)

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145,000	Arch Western Finance, LLC 144A sr. notes 7 1/2s, 2013	150,075
75,000	Belden & Blake Corp. 144A sec. notes 8 3/4s, 2012	78,188
90,000	BRL Universal Equipment sec. notes 8 7/8s, 2008	96,075
80,000	CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	80,900
54,000	Chesapeake Energy Corp. company guaranty 9s, 2012	61,560
35,000	Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	37,538
115,000	Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	123,625
50,000	Chesapeake Energy Corp. sr. notes 7s, 2014	51,500
75,000	Comstock Resources, Inc. sr. notes 6 7/8s, 2012	75,375
100,000	Dresser, Inc. company guaranty 9 3/8s, 2011	107,500
16,000	El Paso Energy Partners LP company guaranty Ser. B, 8 1/2s, 2011	18,000
80,000	Encore Acquisition Co. company guaranty 8 3/8s, 2012	88,000
35,000	Encore Acquisition Co. sr. sub. notes 6 1/4s, 2014	34,125
105,000	Exco Resources, Inc. company guaranty 7 1/4s, 2011	110,250
55,000	Forest Oil Corp. company guaranty 7 3/4s, 2014	58,300
62,000	Forest Oil Corp. sr. notes 8s, 2008	67,580
45,000	Forest Oil Corp. 144A sr. notes 8s, 2011	49,388
55,000	Hanover Compressor Co. sr. notes 9s, 2014	58,988
50,000	Hanover Compressor Co. sr. notes 8 5/8s, 2010	53,250
75,000	Hanover Compressor Co. sub. notes zero %, 2007	63,188
50,000	Hanover Equipment Trust sec. notes Ser. A, 8 1/2s, 2008	53,375
68,000	Hornbeck Offshore Services, Inc. sr. notes 10 5/8s, 2008	74,800
50,000	KCS Energy, Inc. sr. notes 7 1/8s, 2012	51,250
40,000	Key Energy Services, Inc. sr. notes 6 3/8s, 2013	38,200
75,000	Massey Energy Co. sr. notes 6 5/8s, 2010	77,625
80,000	Newfield Exploration Co. sr. notes 7 5/8s, 2011	87,800
65,000	Newfield Exploration Co. 144A sr. sub. notes 6 5/8s, 2014	66,138
100,000	Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	99,000
60,000	Pacific Energy Partners/Pacific Energy Finance Corp. 144A sr. notes 7 1/8s, 2014	63,450
90,000	Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009	95,625
110,000	Peabody Energy Corp. sr. notes 5 7/8s, 2016	105,050

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250,000	Pemex Project Funding Master Trust company guaranty 7 3/8s, 2014	270,000
113,029	Petro Geo-Services notes 10s, 2010 (Norway)	121,506
55,000	Plains All American Pipeline LP/Plains All American Finance Corp. company guaranty 7 3/4s, 2012	63,673
80,000	Plains Exploration & Production Co. company guaranty Ser. B, 8 3/4s, 2012	89,200
45,000	Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	50,175
70,000	Plains Exploration & Production Co. 144A sr. notes 7 1/8s, 2014	74,200
115,000	Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	126,212
110,000	Pride International, Inc. 144A sr. notes 7 3/8s, 2014	117,150
80,000	Seabulk International, Inc. company guaranty 9 1/2s, 2013	83,400
130,000	Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013	140,400
20,000	Universal Compression, Inc. sr. notes 7 1/4s, 2010	20,800
24,000	Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011	25,140
	-----	
		3,457,574
 Financial (0.5%)		
	-----	
35,000	Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	35,700
110,000	Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009 (R)	117,700
140,000	E(a)Trade Finance Corp. 144A sr. notes 8s, 2011	142,800
206,550	Finova Group, Inc. notes 7 1/2s, 2009	103,017
44,000	iStar Financial, Inc. sr. notes 8 3/4s, 2008 (R)	50,050
10,000	iStar Financial, Inc. sr. notes 7s, 2008 (R)	10,738
95,000	iStar Financial, Inc. sr. notes 6s, 2010 (R)	97,138
70,000	Western Financial Bank sub. debs. 9 5/8s, 2012	77,000
	-----	
		634,143
 Health Care (2.6%)		
	-----	
100,000	Alderwoods Group, Inc. 144A sr. notes 7 3/4s, 2012	104,000
82,000	AmerisourceBergen Corp. company guaranty 7 1/4s, 2012	87,740
160,000	AmerisourceBergen Corp. sr. notes 8 1/8s, 2008	175,600
135,000	Ardent Health Services, Inc. sr. sub. notes 10s, 2013	145,125
40,000	Extendicare Health Services, Inc. company guaranty 9 1/2s, 2010	44,700

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75,000	Extendicare Health Services, Inc. sr. sub. notes 6 7/8s, 2014	74,250
50,000	Hanger Orthopedic Group, Inc. company guaranty 10 3/8s, 2009	46,500
10,000	HCA, Inc. debs. 7.19s, 2015	10,790
30,000	HCA, Inc. notes 5 3/4s, 2014	29,739
40,000	HCA, Inc. sr. notes 6.95s, 2012	43,048
175,000	Healthsouth Corp. notes 7 5/8s, 2012	167,125
37,000	Healthsouth Corp. sr. notes 8 1/2s, 2008	37,000
37,000	Healthsouth Corp. sr. notes 8 3/8s, 2011	36,353
65,000	IASIS Healthcare/IASIS Capital Corp. 144A sr. sub. notes 8 3/4s, 2014	68,250
55,000	Insight Health Services Corp. 144A company guaranty 9 7/8s, 2011	55,688
39,220	Magellan Health Services, Inc. sr. notes Ser. A, 9 3/8s, 2008	42,358
90,000	Mediq, Inc. debs. 13s, 2009 (In default) (NON)	9
31,000	MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012	35,030
145,000	MQ Associates, Inc. 144A sr. disc. notes zero %, 2012	90,263
90,000	Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	87,300
70,000	Owens & Minor, Inc. company guaranty 8 1/2s, 2011	77,000
100,000	PacifiCare Health Systems, Inc. company guaranty 10 3/4s, 2009	116,000
155,000	Province Healthcare Co. sr. sub. notes 7 1/2s, 2013	173,600
10,000	Service Corp. International notes 7.2s, 2006	10,450
5,000	Service Corp. International notes 6 7/8s, 2007	5,175
21,000	Service Corp. International notes 6 1/2s, 2008	21,683
25,000	Service Corp. International notes Ser. (a), 7.7s, 2009	26,563
110,000	Service Corp. International 144A sr. notes 6 3/4s, 2016	105,875
60,000	Stewart Enterprises, Inc. notes 10 3/4s, 2008	66,300
70,000	Tenet Healthcare Corp. notes 7 3/8s, 2013	64,750
10,000	Tenet Healthcare Corp. sr. notes 6 1/2s, 2012	8,850
170,000	Tenet Healthcare Corp. sr. notes 6 3/8s, 2011	150,875
145,000	Tenet Healthcare Corp. 144A sr. notes 9 7/8s, 2014	151,163
100,000	Triad Hospitals, Inc. sr. notes 7s, 2012	104,250
245,000	Triad Hospitals, Inc. sr. sub. notes 7s, 2013	246,531
75,000	Universal Hospital Services, Inc. sr. notes 10 1/8s, 2011	76,125
45,000	US Oncology, Inc. 144A sr. notes 9s, 2012	47,138
30,000	US Oncology, Inc. 144A sr. sub. notes 10 3/4s, 2014	31,575

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40,000	Ventas Realty LP/Capital Corp. company guaranty 9s, 2012	44,600
55,000	VWR International, Inc. 144A sr. notes 6 7/8s, 2012	56,650
		2,966,021
 Other (2.3%)		
	2,680,000 Dow Jones CDX HY 144A pass-through certificates 7 3/4s, 2009	2,690,050
 Technology (1.7%)		
	64,000 AMI Semiconductor, Inc. company guaranty 10 3/4s, 2013	74,400
55,000	Amkor Technologies, Inc. sr. notes 7 3/4s, 2013	46,200
55,000	Amkor Technologies, Inc. sr. sub. notes 10 1/2s, 2009	49,775
120,000	Celestica, Inc. sr.sub. notes 7 7/8s, 2011 (Canada)	125,550
68,000	DigitalNet Holdings, Inc. sr. notes 9s, 2010	73,780
120,000	Freescale Semiconductor, Inc. 144A sr. notes 7 1/8s, 2014	121,950
211,000	Iron Mountain, Inc. company guaranty 8 5/8s, 2013	227,880
135,000	Lucent Technologies, Inc. debs. 6.45s, 2029	105,975
5,000	Lucent Technologies, Inc. notes 5 1/2s, 2008	4,813
55,000	New ASAT Finance, Ltd. 144A company guaranty 9 1/4s, 2011 (Cayman Islands)	46,200
170,000	Nortel Networks Corp. notes 6 1/8s, 2006 (Canada)	172,550
119,000	ON Semiconductor Corp. company guaranty 13s, 2008	133,875
106,166	Peregrine Systems, Inc. 144A sr. notes 6 1/2s, 2007	104,043
45,000	SCG Holding Corp. 144A notes zero %, 2011	63,225
85,000	Seagate Technology Hdd Holdings company guaranty 8s, 2009 (Cayman Islands)	89,250
120,000	UGS Corp. 144A sr. sub. notes 10s, 2012	130,800
105,000	Xerox Capital Trust I company guaranty 8s, 2027	100,538
18,000	Xerox Corp. company guaranty 9 3/4s, 2009	20,925
55,000	Xerox Corp. notes Ser. MTN, 7.2s, 2016	55,275
144,000	Xerox Corp. sr. notes 7 5/8s, 2013	153,000
95,000	Xerox Corp. sr. notes 6 7/8s, 2011	98,325
		1,998,329
 Transportation (0.5%)		
	70,000 American Airlines, Inc. pass-through	

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	certificates Ser. 01-1, 6.817s, 2011	61,600
140,000	Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008	105,700
60,000	Delta Air Lines, Inc. notes 7.9s, 2009	19,200
185,000	Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008	200,956
25,000	Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009	25,250
97,000	Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006	104,275
60,000	Northwest Airlines, Inc. company guaranty 7 5/8s, 2005	58,650
20,000	Travel Centers of America, Inc. company guaranty 12 3/4s, 2009	23,200
	-----	598,831
 Utilities & Power (3.4%)		
	-----	
22,000	AES Corp. (The) sr. notes 8 7/8s, 2011	23,980
6,000	AES Corp. (The) sr. notes 8 3/4s, 2008	6,450
105,000	AES Corp. (The) 144A sec. notes 9s, 2015	116,813
150,000	AES Corp. (The) 144A sec. notes 8 3/4s, 2013	166,875
75,000	Allegheny Energy Supply 144A bonds 8 1/4s, 2012	79,500
45,000	Allegheny Energy Supply 144A sec. notes 10 1/4s, 2007	49,500
62,000	Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada)	39,680
248,000	Calpine Corp. 144A sec. notes 8 1/2s, 2010	194,680
35,000	CenterPoint Energy Resources Corp. debs. 6 1/2s, 2008	37,836
20,000	CenterPoint Energy Resources Corp. sr. notes Ser. B, 7 7/8s, 2013	23,593
15,000	CMS Energy Corp. pass-through certificates 7s, 2005	15,094
30,000	CMS Energy Corp. sr. notes 8.9s, 2008	32,625
55,000	CMS Energy Corp. sr. notes 8 1/2s, 2011	59,675
25,000	CMS Energy Corp. 144A sr. notes 7 3/4s, 2010	26,375
140,000	DPL, Inc. sr. notes 6 7/8s, 2011	145,600
15,000	Dynegy Holdings, Inc. sr. notes 6 7/8s, 2011	13,950
190,000	Dynegy Holdings, Inc. 144A sec. notes 10 1/8s, 2013	213,750
50,000	Dynegy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010	48,750
75,000	Dynegy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016	66,188
5,000	Edison Mission Energy sr. notes 9 7/8s, 2011	5,738
55,000	El Paso Corp. sr. notes 7 3/8s, 2012	51,425
115,000	El Paso Corp. sr. notes Ser. MTN,	

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	7 3/4s, 2032	97,606
25,000	El Paso Natural Gas Co. debs. 8 5/8s, 2022	26,750
25,000	El Paso Natural Gas Co. sr. notes Ser. A, 7 5/8s, 2010	26,500
130,000	El Paso Production Holding Co. company guaranty 7 3/4s, 2013	127,725
95,000	Ferrellgas Partners LP/Ferrellgas Partners Finance sr. notes 6 3/4s, 2014	94,525
30,000	Kansas Gas & Electric debs. 8.29s, 2016	31,050
165,000	Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034	175,313
95,000	Mission Energy Holding Co. sec. notes 13 1/2s, 2008	119,463
55,000	Monongahela Power Co. 144A 1st. mtge. 6.7s, 2014	57,471
90,000	Nevada Power Co. 2nd mtge. 9s, 2013	100,800
135,000	Northwest Pipeline Corp. company guaranty 8 1/8s, 2010	152,044
335,000	NRG Energy, Inc. 144A sr. sec. notes 8s, 2013	351,750
75,000	Orion Power Holdings, Inc. sr. notes 12s, 2010	93,750
115,000	PG&E Corp. sec. notes 6 7/8s, 2008	124,775
20,000	PG&E Gas Transmission Northwest sr. notes 7.1s, 2005	20,600
80,000	PSEG Energy Holdings, Inc. notes 7 3/4s, 2007	85,000
65,000	SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	68,250
90,000	SEMCO Energy, Inc. 144A sr. notes 7 3/4s, 2013	85,050
20,000	Sierra Pacific Power Co. 144A general ref. mtge. 6 1/4s, 2012	19,800
130,000	Sierra Pacific Resources 144A sr. notes 8 5/8s, 2014	136,500
40,000	Teco Energy, Inc. notes 10 1/2s, 2007	46,200
25,000	Teco Energy, Inc. notes 7.2s, 2011	26,313
40,000	Teco Energy, Inc. notes 7s, 2012	41,400
10,000	Tennessee Gas Pipeline Co. debs. 7s, 2028	9,363
35,000	Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017	35,919
15,000	Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026	15,413
85,000	Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)	86,700
55,000	Utilicorp United, Inc. sr. notes 9.95s, 2011	59,950
47,000	Western Resources, Inc. sr. notes 9 3/4s, 2007	53,882
20,000	Williams Cos., Inc. (The) notes 8 3/4s, 2032	22,450
20,000	Williams Cos., Inc. (The) notes 8 1/8s, 2012	23,000
25,000	Williams Cos., Inc. (The) notes 7 5/8s, 2019	27,000
95,000	Williams Cos., Inc. (The) sr. notes	

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8 5/8s, 2010	110,200
	-----
	3,970,589
	-----
Total Corporate bonds and notes (cost \$47,535,278)	\$48,985,418
Convertible preferred stocks (32.5%) (a)	
Number of shares	Value
Basic Materials (3.1%)	
-----	
1,360 Freeport-McMoRan Copper & Gold, Inc. 144A 5.50% cv. pfd.	\$1,328,516
1,240 Hercules Trust II 6.50% units cum. cv. pfd.	936,200
52,400 Smurfit-Stone Container Corp. Ser. A, \$1.75 cum. cv. pfd.	1,303,450
	-----
	3,568,166
Capital Goods (4.2%)	
-----	
21,300 Coltec Capital Trust \$2.625 cv. pfd.	966,019
19,600 Northrop Grumman Corp. Ser. B, \$7.00 cum. cv. pfd.	2,548,000
39,100 Owens-Illinois, Inc. \$2.375 cv. pfd.	1,383,163
	-----
	4,897,182
Communication Services (2.4%)	
-----	
21,700 Broadwing, Inc. Ser. B, \$3.378 cum. cv. pfd.	873,425
35,020 CenturyTel, Inc. \$1.719 cv. pfd.	893,010
21,923 Crown Castle International Corp. \$3.125 cum. cv. pfd.	1,005,718
	-----
	2,772,153
Consumer Cyclicals (3.6%)	
-----	
4,370 Central Parking Finance Trust 144A \$1.313 cv. pfd.	77,568
11,200 Ford Motor Company Capital Trust II \$3.25 cum. cv. pfd.	596,400
1,350 Radio One, Inc. 6.50% cum. cv. pfd.	1,381,304
31,700 Tower Automotive Capital Trust \$3.375 cv. pfd. (S)	645,888
30,300 TXI Capital Trust I \$2.75 cv. pfd.	1,473,338
	-----
	4,174,498
Consumer Staples (2.7%)	
-----	
25,100 Albertson's, Inc. 1.813 cv. pfd.	657,871
20,120 Constellation Brands, Inc. Ser. A, \$1.438 cv. pfd. (S)	643,840
25,200 Sinclair Broadcast Group, Inc. Ser. D, \$3.00 cv. pfd.	1,026,900
38,900 Six Flags, Inc. \$1.813 cum. cv. pfd. (S)	743,963



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	-----	3,072,574
Energy (1.9%)	-----	
16,950 Amerada Hess Corp. \$3.50 cv. pfd.		1,228,875
19,700 Hanover Compressor Capital Trust \$3.625 cum. cv. pfd. (S)		952,988
	-----	2,181,863
Financial (5.9%)	-----	
11,800 Capital One Financial Corp. \$3.125 cv. pfd.		588,525
22,300 Chubb Corp. (The) \$1.75 cv. pfd.		613,250
44,996 Decs Trust IX 6.75% cv. pfd.		421,838
60,700 FelCor Lodging Trust, Inc. Ser. A, \$1.95 cum. cv. pfd. (R)		1,449,213
15,403 Hartford Financial Services Group, Inc. (The) \$3.50 cv. pfd.		931,882
28,600 Host Marriott Financial Trust \$3.375 cv. pfd. (R)		1,458,600
21,130 Provident Finance Group \$2.25 units cv. pfd.		787,093
25,600 XL Capital, Ltd. \$1.625 cv. pfd. (Cayman Islands)		608,768
	-----	6,859,169
Health Care (1.6%)	-----	
36,650 Schering-Plough Corp. \$3.00 cv. pfd.		1,882,894
Technology (1.5%)	-----	
33,168 Solectron Corp. \$1.813 units cv. pfd.		456,060
10,800 Xerox Corp. 6.25% cv. pfd.		1,336,500
	-----	1,792,560
Utilities & Power (5.6%)	-----	
3,700 Aquila, Inc. \$1.688 cv. pfd. (S)		108,225
25,250 El Paso Energy Capital Trust I \$2.375 cv. pfd.		817,469
49,200 Great Plains Energy, Inc. \$2.00 cum. cv. pfd.		1,223,850
20,000 ONEOK, Inc. \$2.125 units cv. pfd.		609,000
9,000 Public Service Enterprise Group, Inc. \$5.125 cv. pfd.		511,875
40,900 Sempra Energy \$2.125 units cv. pfd.		1,257,675
17,200 Sierra Pacific Resources \$4.50 units cum. cv. pfd.		665,468
44,400 Williams Cos., Inc. (The) \$2.25 cv. pfd. (S)		571,650
9,830 Williams Cos., Inc. (The) 144A \$2.75 cv. pfd.		689,329
	-----	6,454,541
	-----	

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Total Convertible preferred stocks (cost \$34,301,403)	\$37,655,600
Convertible bonds and notes (17.9%) (a)	
Principal amount	Value
Capital Goods (0.6%)	
-----	
\$660,000 Titan International, Inc. 144A cv. sr. notes 5 1/4s, 2009	\$679,800
Communication Services (1.1%)	
-----	
1,300,000 Charter Communications, Inc. cv. sr. notes 5 3/4s, 2005	1,217,125
400,000 Cybernet Internet Services International, Inc. 144A cv. sr. disc. notes 13s, 2009 (In default) (NON)	4
	1,217,129
Conglomerates (1.1%)	
-----	
1,250,000 GenCorp, Inc. cv. sub. notes 5 3/4s, 2007	1,254,688
Consumer Cyclical (2.2%)	
-----	
612,000 Amazon.com, Inc. cv. sub. debs. 4 3/4s, 2009	606,645
650,000 Mediacom Communications Corp. cv. sr. notes 5 1/4s, 2006	612,625
614,000 Meristar Hospitality Corp. cv. notes 9 1/2s, 2010	713,775
595,000 WCI Communities, Inc. cv. sr. sub. notes 4s, 2023	676,813
	2,609,858
Consumer Staples (1.1%)	
-----	
1,260,000 Rite Aid Corp. cv. notes 4 3/4s, 2006	1,289,925
Financial (1.5%)	
-----	
310,000 E*Trade Group, Inc. cv. sub. notes 6s, 2007	316,975
1,410,000 Providian Financial Corp. cv. sr. notes 3 1/4s, 2005	1,383,563
	1,700,538
Technology (7.3%)	
-----	
600,000 Agere Systems, Inc. cv. notes 6 1/2s, 2009	604,500
1,170,000 Amkor Technologies, Inc. cv. notes 5 3/4s, 2006	1,083,713
1,297,000 Aspen Technology, Inc. cv. sub. debs. 5 1/4s, 2005	1,293,758

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980,000	Avaya, Inc. cv. liquid yield option notes (LYON) zero %, 2021	541,450
600,000	Fairchild Semiconductor International, Inc. cv. company guaranty 5s, 2008	594,000
1,200,000	Lucent Technologies, Inc. cv. sub. debs. 8s, 2031	1,291,500
930,000	Manugistics Group, Inc. cv. sub. notes 5s, 2007	831,188
920,000	ON Semiconductor Corp. 144A cv. bonds zero %, 2024	605,452
1,730,000	Safeguard Scientifics, Inc. 144A cv. sr. notes 2 5/8s, 2024	1,193,700
280,000	Silicon Graphics, Inc. cv. notes 6 1/2s, 2009	372,400
		----- 8,411,661
 Transportation (0.4%)		
	-----	
750,000	Continental Airlines, Inc. cv. notes 4 1/2s, 2007	523,125
 Utilities & Power (2.6%)		
	-----	
605,000	AES Corp. (The) cv. sub. notes 4 1/2s, 2005	602,731
1,400,000	El Paso Corp. cv. debs. zero %, 2021	687,750
526,000	Sierra Pacific Resources 144A cv. notes 7 1/4s, 2010	1,120,380
440,000	XCEL Energy, Inc. 144A cv. notes 7 1/2s, 2007	671,550
		----- 3,082,411 -----
	Total Convertible bonds and notes (cost \$18,817,584)	\$20,769,135
 Common stocks (2.1%) (a)		
Number of shares		Value
	-----	
214	AboveNet, Inc. (NON) (S)	\$5,136
11,800	Altria Group, Inc.	577,610
50,000	AMRESKO Creditor Trust (acquired 9/20/00, cost \$38,655) (NON) (RES) (R)	50
28	Arch Wireless, Inc. Class A (NON)	854
156	Birch Telecom, Inc. (acquired various dates from 9/30/02 to 6/5/03, cost \$--) (NON) (RES)	2
293,993	Contifinancial Corp. Liquidating Trust Units	5,880
2,031	Covad Communications Group, Inc. (NON) (S)	2,965
305	Crown Castle International Corp. (NON)	4,365
28,300	GATX Corp. (S)	763,202
144	Genesis HealthCare Corp. (NON) (S)	4,477
3,492	Globix Corp. (NON)	9,638
75,000	iPCS Escrow, Inc. (NON)	75
2,137	iPCS, Inc. (NON)	39,748
16	Knology, Inc. (NON)	56

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64 Leucadia National Corp. (S)	3,456
227 Polymer Group, Inc. Class A (NON)	2,792
334 PSF Group Holdings, Inc. 144A Class A (NON)	501,450
83,600 Service Corp. International (NON)	502,436
25 Sterling Chemicals, Inc. (NON)	575
102 Sun Healthcare Group, Inc. (NON)	877
14,550 VS Holdings, Inc. (acquired various dates from 11/1/00 to 10/22/02, cost \$180,000) (NON) (RES)	728
408 Washington Group International, Inc. (NON)	14,353
	-----
Total Common stocks (cost \$3,658,197)	\$2,440,725
Foreign government bonds and notes (0.5%) (a)	
Principal amount	Value
	-----
\$70,000 Colombia (Republic of) bonds Ser. NOV, 9 3/4s, 2009	\$77,875
25,000 Colombia (Republic of) notes 10 3/4s, 2013	28,850
95,000 Ecuador (Republic of) bonds Ser. REGS, stepped-coupon 8s (9s, 8/15/05), 2030 (STP)	74,575
110,000 Indonesia (Republic of) 144A sr. notes 6 3/4s, 2014	105,325
40,000 Peru (Republic of) bonds 8 3/4s, 2033	38,400
110,000 Russia (Federation of) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP)	105,490
100,000 Ukraine (Government of) 144A bonds 7.65s, 2013	100,500
	-----
Total Foreign government bonds and notes (cost \$492,729)	\$531,015
Preferred stocks (0.3%) (a)	
Number of shares	Value
	-----
4,281 Avecia Group PLC \$4.00 pfd. (United Kingdom) (PIK)	\$61,004
2 Dobson Communications Corp. 13.00% pfd. (PIK)	1,210
1,714 iStar Financial, Inc. Ser. F, \$1.95 cum. pfd. (R)	42,850
13 Paxson Communications Corp. 14.25% cum. pfd. (PIK) (S)	111,800
196 Rural Cellular Corp. 12.25% pfd. (PIK)	113,825
	-----
Total Preferred stocks (cost \$399,827)	\$330,689
Units (0.1%) (a)	
Number of units	Value
	-----
80,000 Morrison Knudsen Corp.	\$5,000
208 XCL Equity Units (acquired 6/19/03, cost \$303,520) (RES)	92,328

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Total Units (cost \$354,027)	\$97,328
-----	
Brady bonds (--%) (a) (cost \$54,802)	
Principal amount	Value
-----	
\$59,150 Peru (Republic of) FRB Ser. PDI, 5s, 2017	\$53,756
-----	
Warrants (--%) (a) (NON)	Expiration
Number of warrants	date
-----	
71 AboveNet, Inc.	9/8/08
83 AboveNet, Inc.	9/8/10
140 Dayton Superior Corp. 144A	6/15/09
161 Huntsman Co., LLC 144A	5/15/11
72 MDP Acquisitions PLC 144A	10/1/13
60 Pliant Corp. 144A	6/1/10
240 Travel Centers of America, Inc. 144A	5/1/09
220 Ubiquitel, Inc. 144A	4/15/10
250 Washington Group International, Inc. Ser. A	1/25/06
287 Washington Group International, Inc. Ser. B	1/25/06
156 Washington Group International, Inc. Ser. C	1/25/06
	-----
Total Warrants (cost \$88,220)	\$39,893
-----	
Short-term investments (7.4%) (a)	
Principal amount	Value
-----	
\$5,733,235 Putnam Prime Money Market Fund (e)	\$5,733,235
2,867,267 Short-term investments held as collateral for loaned securities with yields ranging from 1.52% to 1.71% and due dates ranging from September 1, 2004 to September 24, 2004 (d)	2,866,478
	-----
Total Short-term investments (cost \$8,599,713)	\$8,599,713
-----	
Total Investments (cost \$114,301,780)	\$119,503,272
-----	

(a) Percentages indicated are based on net assets of \$115,776,369.

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

(NON) Non-income-producing security.

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

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at August 31, 2004 was \$93,447 or 0.1% of net assets.

(PIK) Income may be received in cash or additional securities at the

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discretion of the issuer.

- (R) Real Estate Investment Trust.
- (S) Securities on loan, in part or in entirety, at August 31, 2004.
- (d) See Note 1 to the financial statements.
- (e) See Note 4 to the financial statements regarding investments in the Putnam Prime Money Market Fund.

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

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at August 31, 2004.

Forward currency contracts to sell at August 31, 2004  
(aggregate face value \$344,729)

	Value	Aggregate face value	Delivery date	Unrealized depreciation
Euro	\$346,128	\$344,729	12/15/04	\$(1,399)

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

Statement of assets and liabilities  
August 31, 2004

### Assets

Investment in securities, at value, including \$2,734,371 of securities on loan (Note 1):

Unaffiliated issuers (identified cost \$108,568,545)	\$113,770,037
--	---------------

Affiliated issuers (identified cost \$5,733,235) (Note 4)	5,733,235
---	-----------

Cash	250
------	-----

Dividends, interest and other receivables	1,295,091
---	-----------

Receivable for securities sold	24,750
--------------------------------	--------

Receivable for closed forward currency contracts (Note 1)	177
---	-----

Total assets	120,823,540
--------------	-------------

### Liabilities

Distributions payable to shareholders	637,999
---------------------------------------	---------

Payable for securities purchased	1,233,298
----------------------------------	-----------

Payable for compensation of Manager (Notes 2 and 4)	220,347
---	---------

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Payable for investor servicing and custodian fees (Note 2)	35,843
-----	-----
Payable for Trustee compensation and expenses (Note 2)	31,887
-----	-----
Payable for administrative services (Note 2)	781
-----	-----
Payable for open forward currency contracts (Note 1)	1,399
-----	-----
Payable for closed forward currency contracts (Note 1)	334
-----	-----
Collateral on securities loaned, at value (Note 1)	2,866,478
-----	-----
Other accrued expenses	18,805
-----	-----
Total liabilities	5,047,171
-----	-----
Net assets	\$115,776,369
Represented by	
-----	-----
Paid-in capital (Note 1)	\$129,480,103
-----	-----
Undistributed net investment income (Note 1)	449,705
-----	-----
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(19,353,493)
-----	-----
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	5,200,054
-----	-----
Total -- Representing net assets applicable to capital shares outstanding	\$115,776,369
Computation of net asset value	
-----	-----
Net asset value per share (\$115,776,369 divided by 13,825,527 shares)	\$8.37
-----	-----

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

Statement of operations  
Year ended August 31, 2004

Investment income:

Interest (including interest income of \$15,626 from investments in affiliated issuers) (Note 4)	\$6,922,317
-----	-----
Dividends	2,214,753
-----	-----
Securities lending	19,215
-----	-----
Total investment income	9,156,285

Expenses:

Compensation of Manager (Note 2)	861,556
-----	-----
Investor servicing fees (Note 2)	58,227

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Custodian fees (Note 2)	135,604
Trustee compensation and expenses (Note 2)	15,052
Administrative services (Note 2)	8,368
Auditing	69,228
Other	104,719
Fees waived and reimbursed by Manager (Note 4)	(1,782)
Total expenses	1,250,972
Expense reduction (Note 2)	(1,143)
Net expenses	1,249,829
Net investment income	7,906,456
Net realized gain on investments (Notes 1 and 3)	5,740,727
Net realized loss on foreign currency transactions (Note 1)	(42,751)
Net unrealized appreciation of assets and liabilities in foreign currencies during the year	2,660
Net unrealized appreciation of investments during the year	2,949,166
Net gain on investments	8,649,802
Net increase in net assets resulting from operations	\$16,556,258

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

Statement of changes in net assets

	Year ended August 31	
	2004	2003
Increase in net assets		
Operations:		
Net investment income	\$7,906,456	\$7,963,721
Net realized gain (loss) on investments and foreign currency transactions	5,697,976	(1,728,985)
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	2,951,826	17,624,892
Net increase in net assets resulting from operations	16,556,258	23,859,628
Distributions to shareholders: (Note 1)		
From net investment income	(7,714,084)	(7,704,436)



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Increase from issuance of common shares in connection with reinvestment of distributions	--	217,676
--	----	---------

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Total increase in net assets	8,842,174	16,372,868
------------------------------	-----------	------------

### Net assets

---

Beginning of year	106,934,195	90,561,327
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---

End of year (including undistributed net investment income of \$449,705 and distributions in excess of net investment income of \$30,644, respectively)	\$115,776,369	\$106,934,195
---	---------------	---------------

### Number of fund shares

---

Shares outstanding at beginning of year	13,825,527	13,794,807
---	------------	------------

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Shares issued in connection with reinvestment of distributions	--	30,720
--	----	--------

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Shares outstanding at end of year	13,825,527	13,825,527
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The accompanying notes are an integral part of these financial statements.

### Financial highlights

(For a common share outstanding throughout the period)

Per-share operating performance	2004	2003	Year ended August 31, 2002
---------------------------------	------	------	----------------------------

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Net asset value, beginning of period	\$7.73	\$6.56	\$7.30
--------------------------------------	--------	--------	--------

#### Investment operations:

---

Net investment income (a)	.57 (d)	.58	.60
---------------------------	---------	-----	-----

---

Net realized and unrealized gain (loss) on investments	.63	1.15	(.72)
--	-----	------	-------

---

Total from investment operations	1.20	1.73	(.12)
----------------------------------	------	------	-------

#### Less distributions:

---

From net investment income	(.56)	(.56)	(.62)
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Total distributions	(.56)	(.56)	(.62)
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Net asset value,

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end of period	\$8.37	\$7.73	\$6.56
Market price, end of period	\$7.62	\$7.31	\$6.35
Total return at market price (%) (b)	12.06	24.73	(6.77)
Ratios and supplemental data			
Net assets, end of period (in thousands)	\$115,776	\$106,934	\$90,561
Ratio of expenses to average net assets (%) (c)	1.09 (d)	1.13	1.10
Ratio of net investment income to average net assets (%)	6.88 (d)	8.20	8.65
Portfolio turnover (%)	61.92	69.94	56.70

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

(b) Total return assumes dividend reinvestment.

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

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

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

Notes to financial statements  
August 31, 2004

Note 1  
Significant accounting policies

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

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that

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affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

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

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

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 recorded on the trade date (date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis.

Interest income is recorded on the accrual basis. Dividend income, net of applicable withholding taxes, is recognized on the ex-dividend date except that certain dividends from foreign securities are recognized as

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

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

G) Security lending The fund may lend securities, through its agents, to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required

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collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by the fund's agents; the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the statement of operations. At August 31, 2004, the value of securities loaned amounted to \$2,734,371. The fund received cash collateral of \$2,866,478 which is pooled with collateral of other Putnam funds into 20 issuers of high grade short-term investments.

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

At August 31, 2004, the fund had a capital loss carryover of \$19,335,434 available to the extent allowed by the Code to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

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

I) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include temporary and permanent differences of losses on wash sale transactions, foreign currency gains and losses, nontaxable dividends, dividends payable, defaulted bond interest and interest on payment-in-kind securities. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. For the year ended August 31, 2004, the fund reclassified \$287,977 to increase undistributed net investment income and \$3,117 to increase paid-in-capital, with an increase to accumulated net realized losses of \$291,094.

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

Unrealized appreciation	\$10,115,463
Unrealized depreciation	(5,140,254)
	-----
Net unrealized appreciation	4,975,209
Undistributed ordinary income	1,410,767
Capital loss carryforward	(19,335,434)
Cost for federal income tax purposes	\$114,528,063

### Note 2

Management fee, administrative services and other transactions

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Putnam Management is paid for management and investment advisory services quarterly based on the average net assets of the fund. Such fee is based on the annual rate of 0.75% of the average weekly net assets of the fund.

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

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

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company ("PFTC"), a subsidiary of Putnam, LLC. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. During the year ended August 31, 2004, the fund paid PFTC \$193,831 for these services.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. The fund also reduced expenses through brokerage service arrangements. For the year ended August 31, 2004, the fund's expenses were reduced by \$1,143 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$744, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee.

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

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

### Note 3

#### Purchases and sales of securities

During the year ended August 31, 2004, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$67,448,002 and \$69,036,548, respectively. There were no purchases or sales of U.S. government securities.

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### Note 4

#### Investment in Putnam Prime Money Market Fund

The fund invests in the Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Management fees paid by the fund are reduced by an amount equal to the management fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the year ended August 31, 2004, management fees paid were reduced by \$1,782 relating to the fund's investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled \$15,626 for the period ended August 31, 2004.

### Note 5

#### Regulatory matters and litigation

On April 8, 2004, Putnam Management entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division representing a final settlement of all charges brought against Putnam Management by those agencies on October 28, 2003 in connection with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. The settlement with the SEC requires Putnam Management to pay \$5 million in disgorgement plus a civil monetary penalty of \$50 million, and the settlement with the Massachusetts Securities Division requires Putnam Management to pay \$5 million in restitution and an administrative fine of \$50 million. The settlements also leave intact the process established under an earlier partial settlement with the SEC under which Putnam Management agreed to pay the amount of restitution determined by an independent consultant, which may exceed the disgorgement and restitution amounts specified above, pursuant to a plan to be developed by the independent consultant.

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

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

#### Federal tax information

(Unaudited)

The fund has designated 24.3% of the distributions from net investment income as qualifying for the dividends received deduction for

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corporations.

For its tax year ended August 31, 2004, the fund hereby designates 24.4%, the maximum amount allowable, of its net taxable income as qualified dividends taxed at individual net capital gain rates.

The Form 1099 you receive in January 2005 will show the tax status of all distributions paid to your account in calendar 2004.

Results of June 10, 2004 shareholder meeting  
(Unaudited)

An annual meeting of shareholders of the fund was held on June 10, 2004. At the meeting, each of the nominees for Trustees was elected, as follows:

	Votes for	Votes withheld
Jameson A. Baxter	12,196,059	375,041
Charles B. Curtis	12,202,530	368,570
John A. Hill	12,195,497	375,603
Ronald J. Jackson	12,205,030	366,070
Paul L. Joskow	12,202,255	368,845
Elizabeth T. Kennan	12,185,834	385,266
John H. Mullin, III	12,200,304	370,796
Robert E. Patterson	12,198,583	372,517
George Putnam, III	12,186,730	384,370
A.J.C. Smith	12,180,595	390,505
W. Thomas Stephens	12,184,558	386,542

All tabulations are rounded to nearest whole number.

### About the Trustees

Jameson A. Baxter (9/6/43), Trustee since 1994

Ms. Baxter is the President of Baxter Associates, Inc., a private investment firm that she founded in 1986.

Ms. Baxter serves as a Director of ASHTA Chemicals, Inc., Banta Corporation (a printing and digital imaging firm), Ryerson Tull, Inc. (a steel service corporation), Advocate Health Care and BoardSource, formerly the National Center for Nonprofit Boards. She is Chairman Emeritus of the Board of Trustees, Mount Holyoke College, having served as Chairman for five years and as a board member for thirteen years. Until 2002, Ms. Baxter was a Director of Intermatic Corporation (a manufacturer of energy control products).

Ms. Baxter has held various positions in investment banking and corporate finance, including Vice President and Principal of the Regency Group, and Vice President of and Consultant to First Boston Corporation. She is a graduate of Mount Holyoke College.

Charles B. Curtis (4/27/40), Trustee since 2001

Mr. Curtis is President and Chief Operating Officer of the Nuclear Threat Initiative (a private foundation dealing with national security issues) and serves as Senior Advisor to the United Nations Foundation.



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Mr. Curtis is a member of the Council on Foreign Relations and the Trustee Advisory Council of the Applied Physics Laboratory, Johns Hopkins University. Until 2003, Mr. Curtis was a member of the Electric Power Research Institute Advisory Council and the University of Chicago Board of Governors for Argonne National Laboratory. Prior to 2002, Mr. Curtis was a Member of the Board of Directors of the Gas Technology Institute and the Board of Directors of the Environment and Natural Resources Program Steering Committee, John F. Kennedy School of Government, Harvard University. Until 2001, Mr. Curtis was a member of the Department of Defense Policy Board and Director of EG&G Technical Services, Inc. (a fossil energy research and development support company).

From August 1997 to December 1999, Mr. Curtis was a Partner at Hogan & Hartson L.L.P., a Washington, D.C. law firm. Prior to May 1997, Mr. Curtis was Deputy Secretary of Energy. He served as Chairman of the Federal Energy Regulatory Commission from 1977 to 1981 and has held positions on the staff of the U.S. House of Representatives, the U.S. Treasury Department, and the SEC.

Myra R. Drucker (1/16/48)

Ms. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College, a Trustee of Commonfund (a not-for-profit firm specializing in asset management for educational endowments and foundations) and a member of the Investment Committee of the Kresge Foundation (a charitable trust). She is also Chair of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee and a member of the Executive Committee of the Committee on Investment of Employee Benefit Assets. Until August 31, 2004, Ms. Drucker was Managing Director and a member of the Board of Directors of General Motors Asset Management and Chief Investment Officer of General Motors Trust Bank. Ms. Drucker also served as a member of the NYSE Corporate Accountability and Listing Standards Committee and the NYSE/NASD IPO Advisory Committee.

Prior to joining General Motors Asset Management in 2001, Ms. Drucker held various executive positions in the investment management industry. Ms. Drucker served as Chief Investment Officer of Xerox Corporation (a technology and service company in the document industry), where she was responsible for the investment of the company's pension assets. Ms. Drucker was also Staff Vice President and Director of Trust Investments for International Paper (a paper, paper distribution, packaging and forest products company) and previously served as Manager of Trust Investments for Xerox Corporation. Ms. Drucker received a B.A. degree in Literature and Psychology from Sarah Lawrence College and pursued graduate studies in economics, statistics and portfolio theory at Temple University.

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

Mr. Hill is Vice Chairman of First Reserve Corporation, a private equity buyout firm that specializes in energy investments in the diversified worldwide energy industry.

Mr. Hill is a Director of Devon Energy Corporation, TransMontaigne Oil Company, Continuum Health Partners of New York and various private companies controlled by First Reserve Corporation, as well as a Trustee of TH Lee, Putnam Investment Trust (a closed-end investment company advised by an affiliate of Putnam Management). He is also a Trustee of Sarah Lawrence College.

Prior to acquiring First Reserve Corporation in 1983, Mr. Hill held

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executive positions in investment banking and investment management with several firms and with the federal government, including Deputy Associate Director of the Office of Management and Budget and Deputy Director of the Federal Energy Administration. He is active in various business associations, including the Economic Club of New York, and lectures on energy issues in the United States and Europe. Mr. Hill holds a B.A. degree in Economics from Southern Methodist University and pursued graduate studies there as a Woodrow Wilson Fellow.

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

Mr. Jackson is a private investor.

Mr. Jackson is President of the Kathleen and Ronald J. Jackson Foundation (a charitable trust). He is also a member of the Board of Overseers of WGBH (a public television and radio station) as well as a member of the Board of Overseers of the Peabody Essex Museum.

Mr. Jackson is the former Chairman, President and Chief Executive Officer of Fisher-Price, Inc. (a major toy manufacturer), from which he retired in 1993. He previously served as President and Chief Executive Officer of Stride-Rite, Inc. (a manufacturer and distributor of footwear) and of Kenner Parker Toys, Inc. (a major toy and game manufacturer). Mr. Jackson was President of Talbots, Inc. (a distributor of women's apparel) and has held financial and marketing positions with General Mills, Inc. and Parker Brothers (a toy and game company). Mr. Jackson is a graduate of Michigan State University Business School.

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

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

Dr. Joskow serves as a Director of National Grid Transco (a UK-based holding company with interests in electric and gas transmission and distribution and telecommunications infrastructure) and TransCanada Corporation (an energy company focused on natural gas transmission and power services). He also serves on the board of the Whitehead Institute for Biomedical Research (a non-profit research institution) and has been President of the Yale University Council since 1993. Prior to February 2002, he was a Director of State Farm Indemnity Company (an automobile insurance company), and, prior to March 2000, he was a Director of New England Electric System (a public utility holding company).

Dr. Joskow has published five books and numerous articles on topics in industrial organization, government regulation of industry, and competition policy. He is active in industry restructuring, environmental, energy, competition and privatization policies -- serving as an advisor to governments and corporations worldwide. Dr. Joskow holds a Ph.D. and M. Phil from Yale University and B.A. from Cornell University.

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

Dr. Kennan is a Partner of Cambus-Kenneth Farm (thoroughbred horse and cattle breeding). She is President Emeritus of Mount Holyoke College.

Dr. Kennan served as Chairman and is now Lead Director of Northeast Utilities and is a Director of Talbots, Inc. She has served as Director on a number of other boards, including Bell Atlantic, Chastain Real Estate, Shawmut Bank, Berkshire Life Insurance and Kentucky Home Life

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Insurance. She is a Trustee of the National Trust for Historic Preservation, of Centre College and of Midway College in Midway, Kentucky. She is also a member of The Trustees of Reservations. Dr. Kennan has served on the oversight committee of the Folger Shakespeare Library, as President of Five Colleges Incorporated, as a Trustee of Notre Dame University and is active in various educational and civic associations.

As a member of the faculty of Catholic University for twelve years, until 1978, Dr. Kennan directed the post-doctoral program in Patristic and Medieval Studies, taught history and published numerous articles. Dr. Kennan holds a Ph.D. from the University of Washington in Seattle, an M.S. from St. Hilda's College at Oxford University and an A.B. from Mount Holyoke College. She holds several honorary doctorates.

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

Mr. Mullin is the Chairman and CEO of Ridgeway Farm (a limited liability company engaged in timber and farming).

Mr. Mullin serves as a Director of The Liberty Corporation (a broadcasting company), Progress Energy, Inc. (a utility company, formerly known as Carolina Power & Light) and Sonoco Products, Inc. (a packaging company). Mr. Mullin is Trustee Emeritus of The National Humanities Center and Washington & Lee University, where he served as Chairman of the Investment Committee. Prior to May 2001, he was a Director of Graphic Packaging International Corp. Prior to February 2004, he was a Director of Alex Brown Realty, Inc.

Mr. Mullin is also a past Director of Adolph Coors Company; ACX Technologies, Inc.; Crystal Brands, Inc.; Dillon, Read & Co., Inc.; Fisher-Price, Inc.; and The Ryland Group, Inc. Mr. Mullin is a graduate of Washington & Lee University and The Wharton Graduate School, University of Pennsylvania.

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

Mr. Patterson is Senior Partner of Cabot Properties, L.P. and Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate).

Mr. Patterson serves as Chairman of the Joslin Diabetes Center and as a Director of Brandywine Trust Company. Prior to June 2003, he was a Trustee of Sea Education Association. Prior to December 2001, he was President and Trustee of Cabot Industrial Trust (a publicly traded real estate investment trust). Prior to February 1998, he was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership (a registered investment adviser involved in institutional real estate investments). Prior to 1990, he served as Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (the predecessor company of Cabot Partners) and as a Senior Vice President of the Beal Companies (a real estate management, investment and development firm).

Mr. Patterson practiced law and held various positions in state government and was the founding Executive Director of the Massachusetts Industrial Finance Agency. Mr. Patterson is a graduate of Harvard College and Harvard Law School.

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

Mr. Stephens serves on a number of corporate boards.

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Effective November 2004, Mr. Stephens is expected to become Chief Executive Officer of Boise Cascade, L.L.C. (a paper, forest products and timberland assets company). Mr. Stephens serves as a Director of TransCanada Pipelines Limited. Until 2004, Mr. Stephens was a Director of Xcel Energy Incorporated, a public utility company, Qwest Communications, and Norske Canada, Inc. (a paper manufacturer). Until 2003, Mr. Stephens was a Director of Mail-Well, Inc. (a diversified printing company). He served as Chairman of Mail-Well until 2001 and as CEO of MacMillan-Bloedel, Ltd. (a forest products company) until 1999.

Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville Corporation. He holds B.S. and M.S. degrees from the University of Arkansas.

Richard B. Worley (11/15/45)

Mr. Worley is Managing Partner of Permit Capital, LLC, an investment management firm.

Mr. Worley serves on the Executive Committee of the University of Pennsylvania Medical Center, is a Trustee of The Robert Wood Johnson Foundation (a philanthropic organization devoted to health care issues) and is a Director of The Colonial Williamsburg Foundation (a historical preservation organization). Mr. Worley also serves on the investment committees of Mount Holyoke College and World Wildlife Fund (a wildlife conservation organization).

Prior to joining Permit Capital LLC in 2002, Mr. Worley served as Chief Strategic Officer of Morgan Stanley Investment Management. He previously served as President, Chief Executive Officer and Chief Investment Officer of Morgan Stanley Dean Witter Investment Management and as a Managing Director of Morgan Stanley, a financial services firm. Mr. Worley also was the Chairman of Miller Anderson & Sherrerd, an investment management firm.

Mr. Worley holds a B.S. degree from University of Tennessee and pursued graduate studies in economics at the University of Texas.

Charles E. Haldeman, Jr.\* (10/29/48)

Mr. Haldeman is President and Chief Executive Officer of Putnam, LLC ("Putnam Investments"). He is a member of Putnam Investments' Executive Board of Directors and Advisory Council. Prior to November 2003, Mr. Haldeman served as Co-Head of Putnam Investments' Investment Division.

Prior to joining Putnam Investments in 2002, Mr. Haldeman held executive positions in the investment management industry. He previously served as Chief Executive Officer of Delaware Investments and President & Chief Operating Officer of United Asset Management. Mr. Haldeman was also a partner and director of Cooke & Bieler, Inc. (an investment management firm).

Mr. Haldeman currently serves as a Trustee of Dartmouth College and as Emeritus Trustee of Abington Memorial Hospital. He is a graduate of Dartmouth College, Harvard Law School and Harvard Business School. Mr. Haldeman is also a Chartered Financial Analyst (CFA) charterholder.

George Putnam, III\* (8/10/51), Trustee since 1984 and President since 2000

Mr. Putnam is President of New Generation Research, Inc. (a publisher of

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financial advisory and other research services), and of New Generation Advisers, Inc. (a registered investment advisor to private funds). Mr. Putnam founded the New Generation companies in 1986.

Mr. Putnam is a Director of The Boston Family Office, LLC (a registered investment adviser). He is a Trustee of St. Mark's School, Shore Country Day School, and until 2002 was a Trustee of the Sea Education Association.

Mr. Putnam previously worked as an attorney with the law firm of Dechert LLP (formerly known as Dechert Price & Rhoads) in Philadelphia. He is a graduate of Harvard College, Harvard Business School and Harvard Law School.

A.J.C. Smith\* (4/13/34), Trustee since 1986

Mr. Smith is the Chairman of Putnam Investments and Director of and Consultant to Marsh & McLennan Companies, Inc.

Mr. Smith is also a Director of Trident Corp. (a limited partnership with over thirty institutional investors). He is also a Trustee of the Carnegie Hall Society, the Educational Broadcasting Corporation, and the National Museums of Scotland. He is Chairman of the Central Park Conservancy and a Member of the Board of Overseers of the Joan and Sanford I. Weill Graduate School of Medical Sciences of Cornell University. Prior to May 2000 and November 1999, Mr. Smith was Chairman and CEO, respectively, of Marsh & McLennan Companies, Inc.

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

As of August 31, 2004, there were 103 Putnam Funds. All Trustees other than Ms. Drucker and Messrs. Worley and Haldeman serve as Trustees of all 103 Putnam Funds. Ms. Drucker and Messrs. Worley and Haldeman currently serve as Trustees of 23 Putnam Funds.

Each Trustee serves for an indefinite term, until his or her resignation, retirement at age 72, death, or removal.

\* Trustees who are or may be deemed to be "interested persons" (as defined in the Investment Company Act of 1940) of the fund, Putnam Management, Putnam Retail Management, or Marsh & McLennan Companies, Inc., the parent company of Putnam, LLC and its affiliated companies. Messrs. Putnam, III, and Smith are deemed "interested persons" by virtue of their positions as officers of the fund, Putnam Management, Putnam Retail Management or Marsh & McLennan Companies, Inc. and as shareholders of Marsh & McLennan Companies, Inc. Mr. Putnam, III is the President of your fund and each of the other Putnam funds. Mr. Smith serves as a Director of and Consultant to Marsh & McLennan Companies, Inc. and as Chairman of Putnam Investments.

### Officers

In addition to George Putnam, III, the other officers of the fund are shown below:

Charles E. Porter (7/26/38)  
Executive Vice President, Associate Treasurer and Principal  
Executive Officer  
Since 1989

Managing Director, Putnam Investments

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and Putnam Management

Jonathan S. Horwitz (6/4/55)  
Senior Vice President and Treasurer  
Since 2004

Managing Director, Putnam Investments

Steven D. Krichmar (6/27/58)  
Vice President and Principal Financial Officer  
Since 2002

Senior Managing Director, Putnam Investments. Prior to July  
2001, Partner, PricewaterhouseCoopers LLP

Michael T. Healy (1/24/58)  
Assistant Treasurer and Principal  
Accounting Officer  
Since 2000

Managing Director, Putnam Investments

Beth S. Mazor (4/6/58)  
Vice President  
Since 2002

Senior Vice President, Putnam Investments

Daniel T. Gallagher (2/27/62)  
Vice President and Legal and Compliance Liaison Officer  
Since 2004

Vice President, Putnam Investments. Prior to 2004,  
Associate, Ropes & Gray LLP; prior to 2000, Law Clerk,  
Massachusetts Supreme Judicial Court

Francis J. McNamara, III (8/19/55)  
Vice President and Chief Legal Officer  
Since 2004

Senior Managing Director, Putnam  
Investments, Putnam Management and  
Putnam Retail Management. Prior to 2004, General Counsel,  
State Street Research & Management Company

James P. Pappas (2/24/53)  
Vice President  
Since 2004

Managing Director, Putnam Investments and Putnam Management.  
From 2001 to 2002, Chief Operating Officer, Atalanta/Sosnoff  
Management Corporation; prior to 2001, President and Chief  
Executive Officer, UAM Investment Services, Inc.

Richard S. Robie, III (3/30/60)  
Vice President  
Since 2004

Senior Managing Director, Putnam  
Investments, Putnam Management and  
Putnam Retail Management. Prior to 2003, Senior Vice  
President, United Asset Management Corporation

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Charles A. Ruys de Perez (10/17/57)

Vice President and Chief Compliance Officer  
Since 2004  
Managing Director, Putnam Investments

Mark C. Trenchard (6/5/62)  
Vice President and BSA Compliance Officer  
Since 2002

Senior Vice President, Putnam Investments

Judith Cohen (6/7/45)  
Clerk and Assistant Treasurer  
Since 1993

Clerk and Assistant Treasurer, The Putnam Funds

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

### Fund information

#### About Putnam Investments

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

#### Investment Manager

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

#### Investment Sub-Manager

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

#### Marketing Services

Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

#### Custodian

Putnam Fiduciary Trust Company

Legal Counsel

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Ropes & Gray LLP

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

### Trustees

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

### Officers

George Putnam, III  
President

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

Jonathan S. Horwitz  
Senior Vice President and Treasurer

Steven D. Krichmar  
Vice President and  
Principal Financial Officer

Michael T. Healy  
Assistant Treasurer and  
Principal Accounting Officer

Beth S. Mazor  
Vice President

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

James P. Pappas  
Vice President  
Richard S. Robie, III  
Vice President

Mark C. Trenchard  
Vice President and  
BSA Compliance Officer

Francis J. McNamara, III  
Vice President and



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Chief Legal Officer

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

Judith Cohen  
Clerk and Assistant Treasurer

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

[LOGO OMITTED]

PUTNAM INVESTMENTS

The Putnam Funds  
One Post Office Square  
Boston, Massachusetts 02109

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216506 10/04

Item 2. Code of Ethics:

-----  
All officers of the Fund, including its principal executive, financial and  
accounting officers, are employees of Putnam Investment Management, LLC,  
the Fund's investment manager. As such they are subject to a comprehensive  
Code of Ethics adopted and administered by Putnam Investments which is  
designed to protect the interests of the firm and its clients. The Fund  
has adopted a Code of Ethics which incorporates the Code of Ethics of  
Putnam Investments with respect to all of its officers and Trustees who are  
employees of Putnam Investment Management, LLC. For this reason, the Fund  
has not adopted a separate code of ethics governing its principal  
executive, financial and accounting officers.

Item 3. Audit Committee Financial Expert:

-----  
The Funds' Audit and Pricing Committee is comprised solely of Trustees  
who are "independent" (as such term has been defined by the Securities  
and Exchange Commission ("SEC") in regulations implementing Section 407  
of the Sarbanes-Oxley Act (the "Regulations")). The Trustees believe  
that each of the members of the Audit and Pricing Committee also possess  
a combination of knowledge and experience with respect to financial  
accounting matters, as well as other attributes, that qualify them for  
service on the Committee. In addition, the Trustees have determined  
that all members of the Funds' Audit and Pricing Committee meet the  
financial literacy requirements of the New York Stock Exchange's rules

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and that Mr. Patterson and Mr. Stephens qualify as "audit committee financial experts" (as such term has been defined by the Regulations) based on their review of their pertinent experience and education. Certain other Trustees, although not on the Audit and Pricing Committee, would also qualify as "audit committee financial experts." The SEC has stated that the designation or identification of a person as an audit committee financial expert pursuant to this Item 3 of Form N-CSR does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit and Pricing Committee and the Board of Trustees in the absence of such designation or identification.

### Item 4. Principal Accountant Fees and Services:

-----  
 The following table presents fees billed in each of the last two fiscal years for services rendered to the fund by the fund's independent auditors:

Fiscal year ended	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
August 31, 2004	\$61,486	\$--	\$7,700	\$23
August 31, 2003	\$54,273	\$--	\$7,711	\$--

For the fiscal years ended August 31, 2004 and August 31, 2003, the fund's independent auditors billed aggregate non-audit fees in the amounts of \$ 139,982 and \$82,391 , respectively, to the fund, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund.

Audit Fees represents fees billed for the fund's last two fiscal years.

Audit-Related Fees represents fees billed in the fund's last two fiscal years for services traditionally performed by the fund's auditor, including accounting consultation for proposed transactions or concerning financial accounting and reporting standards and other audit or attest services not required by statute or regulation.

Tax Fees represent fees billed in the fund's last two fiscal years for tax compliance, tax planning and tax advice services. Tax planning and tax advice services include assistance with tax audits, employee benefit plans and requests for rulings or technical advice from taxing authorities.

All Other Fees Fees represent fees billed for services relating to fund expense processing.

Pre-Approval Policies of the Audit and Pricing Committee. The Audit and Pricing Committee of the Putnam funds has determined that, as a matter of policy, all work performed for the funds by the funds' independent auditors will be pre-approved by the Committee and will generally not be subject to pre-approval procedures.

Under certain circumstances, the Audit and Pricing Committee believes that it may be appropriate for Putnam Investment Management, LLC ("Putnam Management") and certain of its affiliates to engage the services of the funds' independent auditors, but only after prior approval by the Committee. Such requests are required to be submitted in writing to the Committee and explain, among other things, the nature of the proposed engagement, the estimated fees,

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and why this work must be performed by that particular audit firm. The Committee will review the proposed engagement at its next meeting.

Since May 6, 2003, all work performed by the independent auditors for the funds, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund was pre-approved by the Committee or a member of the Committee pursuant to the pre-approval policies discussed above. Prior to that date, the Committee had a general policy to pre-approve the independent auditor's engagements for non-audit services with the funds, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund.

The following table presents fees billed by the fund's principal auditor for services required to be approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X.

Fiscal year ended	Audit-Related Fees	Tax Fees	All Other Fees	Total Non-Audit Fees
August 31, 2004	\$--	\$--	\$--	\$--
August 31, 2003	\$--	\$--	\$--	\$--

Item 5. Audit Committee

(a) The fund has a separately-designated audit committee established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934, as amended. The Audit Committee of the fund's Board of Trustees is composed of the following persons:

- Paul L. Joskow (Chairperson)
- Robert E. Patterson
- W. Thomas Stephens
- Elizabeth T. Kennan

(b) Not applicable

Item 6. Schedule of Investments: Not applicable

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

Management Investment Companies:

Proxy Voting Guidelines of the Putnam Funds

The proxy voting guidelines below summarize the Funds' positions on various issues of concern to investors, and give a general indication of how Fund portfolio securities will be voted on proposals dealing with a particular issue. The Funds' proxy voting service is instructed to vote all proxies relating to Fund portfolio securities in accordance with these guidelines, except as otherwise instructed by the Proxy Coordinator.

The proxy voting guidelines are just that - guidelines. The guidelines are not exhaustive and do not include all potential voting issues. Because proxy issues and the circumstances of individual companies are so varied, there may be instances when the Funds may not vote in strict

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adherence to these guidelines. For example, the proxy voting service is expected to bring to the Proxy Coordinator's attention proxy questions that are company-specific and of a non-routine nature and, although covered by the guidelines, may be more appropriately handled on a case-by-case basis.

Similarly, Putnam Management's investment professionals, as part of their ongoing review and analysis of all Fund portfolio holdings, are responsible for monitoring significant corporate developments, including proxy proposals submitted to shareholders, and notifying the Proxy Coordinator of circumstances where the interests of Fund shareholders may warrant a vote contrary to these guidelines. In such instances, the investment professionals will submit a written recommendation to the Proxy Coordinator and the person or persons designated by Putnam Management's Legal and Compliance Department to assist in processing referral items pursuant to the Funds' "Proxy Voting Procedures." The Proxy Coordinator, in consultation with the Senior Vice President, Executive Vice President and/or the Chair of the Board Policy and Nominating Committee, as appropriate, will determine how the Funds' proxies will be voted. When indicated, the Chair of the Board Policy and Nominating Committee may consult with other members of the Committee or the full board of Trustees.

The following guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and recommended by a company's board of directors. Part II deals with proposals submitted by shareholders for inclusion in proxy statements. Part III addresses unique considerations pertaining to foreign issuers.

### I. Board-Approved Proposals

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The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself (sometimes referred to as "management proposals"), which have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies and the Funds' intent to hold corporate boards accountable for their actions in promoting shareholder interests, the Funds' proxies generally will be voted in support of decisions reached by independent boards of directors. Accordingly, the Funds' proxies will be voted for board-approved proposals, except as follows:

#### A. Matters Relating to the Board of Directors

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The board of directors has the important role of overseeing management and its performance on behalf of shareholders. The Funds' proxies will be voted for the election of the company's nominees for directors and for board-approved proposals on other matters relating to the board of directors (provided that such nominees and other matters have been approved by an independent nominating committee), except as follows:

- \* The Funds will withhold votes for the entire board of directors if
- \* The board does not have a majority of independent directors; or
- \* The board does not have nominating, audit and compensation committees composed solely of independent directors.

Commentary: While these requirements will likely become mandatory for most public companies in the near future as a result of pending NYSE and NASDAQ rule proposals, the Funds' Trustees believe that there is no

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excuse for public company boards that fail to implement these vital governance reforms at their next annual meeting. For these purposes, an "independent director" is a director who meets all requirements to serve as an independent director of a company under the pending NYSE rule proposals (i.e., no material business relationships with the company, no present or recent employment relationship with the company (including employment of immediate family members) and, in the case of audit committee members, no compensation for non-board services). As indicated below, the Funds will generally vote on a case-by-case basis on board-approved proposals where the board fails to meet these basic independence standards.

\* The Funds will withhold votes for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director (e.g., investment banking, consulting, legal or financial advisory fees).

Commentary: The Funds' Trustees believe that receipt of compensation for services other than service as a director raises significant independence issues. The Funds will withhold votes for any nominee for director who is considered an independent director by the company and who receives such compensation.

\* The Funds will withhold votes for the entire board of directors if the board has more than 19 members or fewer than five members, absent special circumstances.

Commentary: The Funds' Trustees believe that the size of the board of directors can have a direct impact on the ability of the board to govern effectively. Boards that have too many members can be unwieldy and ultimately inhibit their ability to oversee management performance. Boards that have too few members can stifle innovation and lead to excessive influence by management.

\* The Funds will vote on a case-by-case basis in contested elections of directors.

\* The Funds will withhold votes for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for the absences (i.e., illness, personal emergency, etc.).

Commentary: Being a director of a company requires a significant time commitment to adequately prepare for and attend the company's board and committee meetings. Directors must be able to commit the time and attention necessary to perform their fiduciary duties in proper fashion, particularly in times of crisis.

The Funds' Trustees are concerned about over-committed directors. In some cases, directors may serve on too many boards to make a meaningful contribution. This may be particularly true for senior executives of public companies (or other directors with substantially full-time employment) who serve on more than a few outside boards. The Funds may withhold votes from such directors on a case-by-case basis where it appears that they may be unable to discharge their duties properly because of excessive commitments.

\* The Funds will withhold votes for any nominee for director of a public company (Company A) who is employed as a senior executive of another public company (Company B) if a director of Company B serves as a senior executive of Company A (commonly referred to as an "interlocking directorate").

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Commentary: The Funds' Trustees believe that interlocking directorships are inconsistent with the degree of independence required for outside directors of public companies.

Board independence depends not only on its members' individual relationships, but also the board's overall attitude toward management. Independent boards are committed to good corporate governance practices and, by providing objective independent judgment, enhancing shareholder value. The Funds may withhold votes on a case-by-case basis from some or all directors that, through their lack of independence, have failed to observe good corporate governance practices or, through specific corporate action, have demonstrated a disregard for the interest of shareholders.

\* The Funds will vote against proposals to classify a board, absent special circumstances indicating that shareholder interests would be better served by this structure.

Commentary: Under a typical classified board structure, the directors are divided into three classes, with each class serving a three-year term. The classified board structure results in directors serving staggered terms, with usually only a third of the directors up for re-election at any given annual meeting. The Funds' Trustees generally believe that it is appropriate for directors to stand for election each year, but recognize that, in special circumstances, shareholder interests may be better served under a classified board structure.

### B. Executive Compensation

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The Funds generally favor compensation programs that relate executive compensation to a company's long-term performance. The Funds will vote on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

\* Except where the Funds are otherwise withholding votes for the entire board of directors, the Funds will vote for stock option plans which will result in an average annual dilution of 1.67% or less (including all equity-based plans).

\* The Funds will vote against stock option plans that permit replacing or repricing of underwater options (and against any proposal to authorize such replacement or repricing of underwater options).

\* The Funds will vote against stock option plans that permit issuance of options with an exercise price below the stock's current market price.

\* Except where the Funds are otherwise withholding votes for the entire board of directors, the Funds will vote for employee stock purchase plans that have the following features: (1) the shares purchased under the plan are acquired for no less than 85% of their market value, (2) the offering period under the plan is 27 months or less, and (3) dilution is 10% or less.

Commentary: Companies should have compensation programs that are reasonable and that align shareholder and management interests over the longer term. Further, disclosure of compensation programs should provide absolute transparency to shareholders regarding the sources and amounts of, and the factors influencing, executive compensation. Appropriately designed equity-based compensation plans can be an effective way to align the interests of long-term shareholders with the interests of management. The Funds may vote against executive compensation proposals

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on a case-by-case basis where compensation is excessive by reasonable corporate standards, or where a company fails to provide transparent disclosure of executive compensation. In voting on proposals relating to executive compensation, the Funds will consider whether the proposal has been approved by an independent compensation committee of the board.

### C. Capitalization

Many proxy proposals involve changes in a company's capitalization, including the authorization of additional stock, the repurchase of outstanding stock or the approval of a stock split. The management of a company's capital structure involves a number of important issues, including cash flow, financing needs and market conditions that are unique to the circumstances of each company. As a result, the Funds will vote on a case-by-case basis on board-approved proposals involving changes to a company's capitalization, except that where the Funds are not otherwise withholding votes from the entire board of directors:

\* The Funds will vote for proposals relating to the authorization of additional common stock (except where such proposals relate to a specific transaction).

\* The Funds will vote for proposals to effect stock splits (excluding reverse stock splits.)

\* The Funds will vote for proposals authorizing share repurchase programs.

Commentary: A company may decide to authorize additional shares of common stock for reasons relating to executive compensation or for routine business purposes. For the most part, these decisions are best left to the board of directors and senior management. The Funds will vote on a case-by-case basis, however, on other proposals to change a company's capitalization, including the authorization of common stock with special voting rights, the authorization or issuance of common stock in connection with a specific transaction (e.g., an acquisition, merger or reorganization) or the authorization or issuance of preferred stock. Actions such as these involve a number of considerations that may impact a shareholder's investment and warrant a case-by-case determination.

### D. Acquisitions, Mergers, Reincorporations, Reorganizations and Other Transactions

Shareholders may be confronted with a number of different types of transactions, including acquisitions, mergers, reorganizations involving business combinations, liquidations and sale of all or substantially all of a company's assets, which may require their consent. Voting on such proposals involves considerations unique to each transaction. As a result, the Funds will vote on a case-by-case basis on board-approved proposals to effect these types of transactions, except as follows:

\* The Funds will vote for mergers and reorganizations involving business combinations designed solely to reincorporate a company in Delaware.

Commentary: A company may reincorporate into another state through a merger or reorganization by setting up a "shell" company in a different state and then merging the company into the new company. While reincorporation into states with extensive and established corporate laws - notably Delaware - provides companies and shareholders with a more well-defined legal framework, generally speaking, shareholders must carefully consider the reasons for a reincorporation into another

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jurisdiction, including especially offshore jurisdictions.

### E. Anti-Takeover Measures

Some proxy proposals involve efforts by management to make it more difficult for an outside party to take control of the company without the approval of the company's board of directors. These include adoption of a shareholder rights plan, requiring supermajority voting on particular issues, adoption of fair price provisions, issuance of blank check preferred stock and creating a separate class of stock with disparate voting rights. Such proposals may adversely affect shareholder rights, lead to management entrenchment, or create conflicts of interest. As a result, the Funds will vote against board-approved proposals to adopt such anti-takeover measures, except as follows:

\* The Funds will vote on a case-by-case basis on proposals to ratify or approve shareholder rights plans (commonly referred to as "poison pills"); and

\* The Funds will vote on a case-by-case basis on proposals to adopt fair price provisions.

Commentary: The Funds' Trustees recognize that poison pills and fair price provisions may enhance shareholder value under certain circumstances. As a result, the Funds will consider proposals to approve such matters on a case-by-case basis.

### F. Other Business Matters

Many proxies involve approval of routine business matters, such as changing the company's name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting. For the most part, these routine matters do not materially affect shareholder interests and are best left to the board of directors and senior management of the company. The Funds will vote for board-approved proposals approving such matters, except as follows:

\* The Funds will vote on a case-by-case basis on proposals to amend a company's charter or bylaws (except for charter amendments necessary or to effect stock splits to change a company's name or to authorize additional shares of common stock).

\* The Funds will vote against authorization to transact other unidentified, substantive business at the meeting.

\* The Funds will vote on a case-by-case basis on other business matters where the Funds are otherwise withholding votes for the entire board of directors.

Commentary: Charter and bylaw amendments and the transaction of other unidentified, substantive business at a shareholder meeting may directly affect shareholder rights and have a significant impact on shareholder value. As a result, the Funds do not view such items as routine business matters. Putnam Management's investment professionals and the Funds' proxy voting service may also bring to the Proxy Coordinator's attention company-specific items which they believe to be non-routine and warranting special consideration. Under these circumstances, the Funds will vote on a case-by-case basis.

## II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in



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a company's proxy statement. These proposals generally seek to change some aspect of a company's corporate governance structure or to change some aspect of its business operations. The Funds will vote in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

- \* The Funds will vote for shareholder proposals to declassify a board, absent special circumstances which would indicate that shareholder interests are better served by a classified board structure.
- \* The Funds will vote for shareholder proposals to require shareholder approval of shareholder rights plans.
- \* The Funds will vote for shareholder proposals that are consistent with the Fund's proxy voting guidelines for board-approved proposals.
- \* The Funds will vote on a case-by-case basis on other shareholder proposals where the Funds are otherwise withholding votes for the entire board of directors.

Commentary: In light of the substantial reforms in corporate governance that are currently underway, the Funds' Trustees believe that effective corporate reforms should be promoted by holding boards of directors - and in particular, their independent directors - accountable for their actions, rather than imposing additional legal restrictions on board governance through piecemeal proposals. Generally speaking, shareholder proposals relating to business operations are often motivated primarily by political or social concerns, rather than the interests of shareholders as investors in an economic enterprise. As stated above, the Funds' Trustees believe that boards of directors and management are responsible for ensuring that their businesses are operating in accordance with high legal and ethical standards and should be held accountable for resulting corporate behavior. Accordingly, the Funds will generally support the recommendations of boards that meet the basic independence and governance standards established in these guidelines. Where boards fail to meet these standards, the Funds will generally evaluate shareholder proposals on a case-by-case basis.

### III. Voting Shares of Foreign Issuers

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Many of the Funds invest on a global basis and, as a result, they may be required to vote shares held in foreign issuers - i.e., issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed a U.S. securities exchange or the NASDAQ stock market. Because foreign issuers are incorporated under the laws of countries and jurisdictions outside the U.S., protection for shareholders may vary significantly from jurisdiction to jurisdiction. Laws governing foreign issuers may, in some cases, provide substantially less protection for shareholders. As a result, the foregoing guidelines, which are premised on the existence of a sound corporate governance and disclosure framework, may not be appropriate under some circumstances for foreign issuers. The Funds will vote proxies of foreign issuers in accordance with the foregoing guidelines where applicable, except as follows:

- \* The Funds will vote for shareholder proposals calling for a majority of the directors to be independent of management.
- \* The Funds will vote for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.
- \* The Funds will vote for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law

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and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

\* The Funds will vote on case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company's outstanding common stock where shareholders have preemptive rights.

Commentary: In many non-U.S. markets, shareholders who vote proxies for shares of a foreign issuer are not able to trade in that company's stock within a given period of time on or around the shareholder meeting date. This practice is known as "share blocking." In countries where share blocking is practiced, the Funds will vote proxies only with direction from Putnam Management's investment professionals.

As adopted March 14, 2003

### Proxy Voting Procedures of the Putnam Funds

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#### The Role of the Funds' Trustees

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The Trustees of the Putnam Funds exercise control of the voting of proxies through their Board Policy and Nominating Committee, which is composed entirely of independent Trustees. The Board Policy and Nominating Committee oversees the proxy voting process and participates, as needed, in the resolution of issues which need to be handled on a case-by-case basis. The Committee annually reviews and recommends for approval by the Trustees guidelines governing the Funds' proxy votes, including how the Funds vote on specific proposals and which matters are to be considered on a case-by-case basis. The Trustees are assisted in this process by their independent administrative staff ("Fund Administration"), independent legal counsel, and an independent proxy voting service. The Trustees also receive assistance from Putnam Investment Management, LLC ("Putnam Management"), the Funds' investment adviser, on matters involving investment judgments. In all cases, the ultimate decision on voting proxies rests with the Trustees, acting as fiduciaries on behalf of the shareholders of the Funds.

#### The Role of the Proxy Voting Service

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The Funds have engaged an independent proxy voting service to assist in the voting of proxies. The proxy voting service is responsible for coordinating with the Funds' custodians to ensure that all proxy materials received by the custodians relating to the Funds' portfolio securities are processed in a timely fashion. To the extent applicable, the proxy voting service votes all proxies in accordance with the proxy voting guidelines established by the Trustees. The proxy voting service will refer proxy questions to the Proxy Coordinator (described below) for instructions under circumstances where: (1) the application of the proxy voting guidelines is unclear, (2) a particular proxy question is not covered by the guidelines, or (3) the guidelines call for specific instructions on a case-by-case basis. The proxy voting service is also requested to call to the Proxy Coordinator's attention specific proxy questions which, while governed by a guideline, appear to involve unusual or controversial issues. The Funds also utilize research

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services relating to proxy questions provided by the proxy voting service and by other firms.

### The Role of the Proxy Coordinator

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Each year, a member of Fund Administration is appointed Proxy Coordinator to assist in the coordination and voting of the Funds' proxies. The Proxy Coordinator will deal directly with the proxy voting service and, in the case of proxy questions referred by the proxy voting service, will solicit voting recommendations and instructions from Fund Administration, the Chair of the Board Policy and Nominating Committee, and Putnam Management's investment professionals, as appropriate. The Proxy Coordinator is responsible for ensuring that these questions and referrals are responded to in a timely fashion and for transmitting appropriate voting instructions to the proxy voting service.

### Voting Procedures for Referral Items

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As discussed above, the proxy voting service will refer proxy questions to the Proxy Coordinator under certain circumstances. When the application of the proxy voting guidelines is unclear or a particular proxy question is not covered by the guidelines (and does not involve investment considerations), the Proxy Coordinator will assist in interpreting the guidelines and, as appropriate, consult with the Senior Vice President of Fund Administration, the Executive Vice President of Fund Administration and the Chair of the Board Policy and Nominating Committee on how the Funds' shares will be voted.

For proxy questions that require a case-by-case analysis pursuant to the guidelines or that are not covered by the guidelines but involve investment considerations, the Proxy Coordinator will refer such questions, through a written request, to Putnam Management's investment professionals for a voting recommendation. Such referrals will be made in cooperation with the person or persons designated by Putnam Management's Legal and Compliance Department to assist in processing such referral items. In connection with each such referral item, the Legal and Compliance Department will conduct a conflicts of interest review, as described below under "Conflicts of Interest," and provide a conflicts of interest report (the "Conflicts Report") to the Proxy Coordinator describing the results of such review. After receiving a referral item from the Proxy Coordinator, Putnam Management's investment professionals will provide a written recommendation to the Proxy Coordinator and the person or persons designated by the Legal and Compliance Department to assist in processing referral items. Such recommendation will set forth (1) how the proxies should be voted, (2) the basis and rationale for such recommendation, and (3) any contacts the investment professionals have had with respect to the referral item with non-investment personnel of Putnam Management or with outside parties (except for routine communications from proxy solicitors). The Proxy Coordinator will then review the investment professionals' recommendation and the Conflicts Report with the Senior Vice President and/or Executive Vice President in determining how to vote the Funds' proxies. The Proxy Coordinator will maintain a record of all proxy questions that have been referred to Putnam Management's investment professionals, the voting recommendation and the Conflicts Report.

In some situations, the Proxy Coordinator, the Senior Vice President and/or the Executive Vice President may determine that a particular proxy question raises policy issues requiring consultation with the Chair of the Board Policy and Nominating Committee who, in turn, may decide to bring the particular proxy question to the Committee or the full board of Trustees for consideration.

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### Conflicts of Interest

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Occasions may arise where a person or organization involved in the proxy voting process may have a conflict of interest. A conflict of interest may exist, for example, if Putnam Management has a business relationship with (or is actively soliciting business from) either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote or that is actively lobbying for a particular outcome of a proxy vote. Any individual with knowledge of a personal conflict of interest (e.g., familial relationship with company management) relating to a particular referral item shall disclose that conflict to the Proxy Coordinator and the Legal and Compliance Department and otherwise remove himself or herself from the proxy voting process. The Legal and Compliance Department will review each item referred to Putnam Management's investment professionals to determine if a conflict of interest exists and will provide the Proxy Coordinator with a Conflicts Report for each referral item that (1) describes any conflict of interest; (2) discusses the procedures used to address such conflict of interest; and (3) discloses any contacts from parties outside Putnam Management (other than routine communications from proxy solicitors) with respect to the referral item not otherwise reported in an investment professional's recommendation. The Conflicts Report will also include written confirmation that any recommendation from an investment professional provided under circumstances where a conflict of interest exists was made solely on the investment merits and without regard to any other consideration.

As adopted March 14, 2003

### Item 8. Purchases of Equity Securities by Closed-End Management Investment

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Companies and Affiliated Purchasers: Not applicable

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

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Not applicable

### Item 10. Controls and Procedures:

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

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

### Item 11. Exhibits:

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(a) The Code of Ethics of The Putnam Funds, which incorporates the Code of Ethics of Putnam Investments, is filed herewith.

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

SIGNATURES

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

NAME OF REGISTRANT

By (Signature and Title): /s/Michael T. Healy  
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Michael T. Healy  
Principal Accounting Officer

Date: October 27, 2004

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

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

Date: October 27, 2004

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

Date: October 27, 2004