PUTNAM PREMIER INCOME TRUST
Form N-CSR
March 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: (811- 05452 )

Exact name of registrant as specified in charter: Putnam Premier Income Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service: Beth S. Mazor, Vice President
One Post Office Square
Boston, Massachusetts 02109

Copy to: John W. Gerstmayr, Esq.
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One International Place
Boston, Massachusetts 02110

Registrant's telephone number, including area code: (617) 292-1000

Date of fiscal year end: July 31, 2006

Date of reporting period: August 1, 2005 January, 31 2006

Item 1. Report to Stockholders:

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

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# What makes Putnam different?

In 1830, Massachusetts Supreme Judicial Court Justice Samuel Putnam established The Prudent Man Rule, a legal foundation for responsible money management.

THE PRUDENT MAN RULE

All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in

regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

## A time-honored tradition in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

## A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

## Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their financial representatives can build diversified portfolios.

## A commitment to doing what□s right for investors

We have stringent investor protections and provide a wealth of information about the Putnam funds.

## Industry-leading service

We help investors, along with their financial representatives, make informed investment decisions with confidence.

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# Putnam Premier Income Trust 1|31|06

## *Semiannual Report*


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*Cover photograph: © Richard H. Johnson*

*Message from the Trustees*

# Dear Fellow Shareholder

The performance of U.S. financial markets in the early weeks of 2006 suggests that investors remain generally optimistic this year. Stocks have advanced briskly while bonds have remained subdued. We consider these results typical of an expanding economy capable of generating both profits and inflation. As is often the case, the fundamental data painted a more conflicted picture than the market's movements. In the final months of 2005, the economic growth rate slipped to a low level of 1.1%, according to initial estimates. Nevertheless, labor market conditions have strengthened, and energy prices, though elevated, did not spike in the winter months, thanks in part to mild winter weather in many regions of the country. Inflationary pressures remain contained, to borrow the terminology of the U.S. Federal Reserve Board (the Fed). At its January 31 meeting, marking the end of former Chairman Alan Greenspan's 18 years of service, the Fed again raised interest rates, but hinted that the end of this tightening cycle might not be far away. Whatever the course the economy and monetary policy take in coming months, in our view it is fortunate that the Fed's new Chairman, Ben Bernanke, like his predecessor, regards the Fed's role in pursuing both price stability and economic growth as essential to encouraging investment.

Although there is no guarantee a fund will achieve its objectives, we believe that the professional research, diversification, and active management that mutual funds provide continue to make them an intelligent choice for investors. We want you to know that Putnam Investments, under the leadership of Chief Executive Officer Ed Haldeman, continues to focus on delivering consistent, dependable, superior investment performance over time.



In the following pages, members of your fund's management team discuss the fund's performance and strategies, and their outlook for the months ahead. We thank you for your support of the Putnam funds.

## Putnam Premier Income Trust: seeking broad diversification across global bond markets

When Putnam Premier Income Trust was launched in 1988, its three-pronged focus on U.S. investment-grade bonds, high-yield corporate bonds, and non-U.S. bonds was considered innovative. Lower-rated, higher-yielding corporate bonds were relatively new, having just been established in the late 1970s. And, at the time of the fund's launch, few investors were venturing outside the United States for fixed-income opportunities.

The bond investment landscape has undergone a transformation in the nearly two decades since. New sectors such as mortgage- and asset-backed securities now make up over one third of the U.S. investment-grade market. The high-yield corporate bond sector has also grown significantly. Outside the United States, the popularity of the euro has resulted in a large market of European government bonds. And there are also growing opportunities to invest in the debt of emerging-market countries.

The fund's original investment focus has been enhanced to keep pace with this market expansion. To process the market's increasing complexity, Putnam's 100-member fixed-income group aligns teams of specialists with the varied investment opportunities. Each team identifies compelling strategies within its area of expertise. Your fund's management team selects from among these strategies, systematically building a diversified portfolio that carefully balances risk and return.

We believe the fund's multi-strategy approach is well suited to the expanding opportunities of today's global bond marketplace. As different factors drive the performance of the various fixed-income sectors, the fund's diversified

## Optimizing the risk/return trade-off across multiple sectors

Putnam believes that building a diversified fund's objectives. The fund's portfolio is portfolio with multiple income-generating composed of a broad spectrum of government, strategies is the best way to pursue your credit, and securitized debt instruments.



strategy can take advantage of changing market leadership in pursuit of high current income consistent with capital preservation.

*International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. 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. While diversification can help protect returns from excessive volatility, it cannot ensure protection against a market loss.*

## How do closed-end funds differ from open-end funds?

**More assets at work** While open-end funds must maintain a cash position to meet redemptions, closed-end funds have no such requirement and can keep more of their assets invested in the market.

**Traded like stocks** Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

**Market price vs. net asset value** Like an open fund's net asset value (NAV) per share, the NAV of a closed-end fund share is equal to the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

| | | |
|---|---|---|
| | GOVERNMENT | |
| * | U.S.Treasury | 12.9% |
| * | International Treasury (developed markets) | 9.4% |

| | | |
|---|---|---|
| * | International Treasury (emerging markets) | 5.8% |
| | CASH/OTHER | |
| * | Cash/derivatives/equivalents (e.g., short-term U.S. Treasuries, commercial paper, and other cash equivalents) | 9.1% |

*Weightings are shown as a percentage of the fund's net assets. Allocations and holdings in each sector will vary over time. For more information on current fund holdings, see pages 10 and 31.*



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**Putnam Premier Income Trust** seeks high current income by investing in U.S. government and agency, high-yield corporate, and international fixed-income securities. Fund holding and sector classifications reflect the diversification of the fixed-income market. The fund is designed for investors seeking a higher level of income who can accept a moderately higher level of risk.

## Highlights

* For the six months ended January 31, 2006, Putnam Premier Income Trust had a total return at net asset value (NAV) of 1.80% . The fund's return at market price was 1.32%.

* The fund's primary benchmark, the Lehman Government Bond Index, returned 0.77% for the period. The average return of the fund's Lipper category, Flexible Income Funds (closed-end), was 1.64%.

* Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

## Performance

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 1/31/06

Since the fund's inception (2/29/88), average annual return is 8.30% at NAV and 7.08% at market price.

| | Average annual return | | Cumulative return | |
|---|---|---|---|---|
| | NAV | Market price | NAV | Market price |
| 10 years | 6.56% | 6.31% | 88.78% | 84.40% |
| 5 years | 8.27 | 6.78 | 48.80 | 38.80 |
| 3 years | 10.86 | 5.63 | 36.25 | 17.86 |
| 1 year | 4.23 | 0.23 | 4.23 | 0.23 |
| 6 months | □ | □ | 1.80 | 1.32 |

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



## *Report from the fund managers*

# The period in review

During the six months ended January 31, 2006, interest rates rose, with the Federal Reserve Board (the Fed) continuing to boost short-term rates. Inflationary pressures drove a more modest rise in long-term rates. A similar trend was evident in key overseas markets, as steady global economic expansion prompted central banks to tighten monetary policy. Yield spreads (i.e., the difference in yields between higher- and lower-rated bonds of comparable maturities) remained historically tight, and narrowed still further for emerging-market bonds. Your fund's diverse mix of investments — developed-country government bonds, investment-grade and high-yield credit issues, and emerging-market debt — along with favorable security selection in several portfolio categories, enabled it to outperform both the benchmark and the average return of its Lipper peer group, based on results at net asset value.

Because the U.S. dollar strengthened over the period, the fund's modest positions in non-dollar-denominated securities slightly impaired returns, as small gains on such investments turned into losses when translated into U.S. dollars. However, we partly hedged the fund's foreign-exchange exposure, which helped to mitigate these adverse effects.

## Market overview

Both in the United States and overseas, bond yields generally rose in response to solid economic growth and monetary-policy tightening. Because yields of fixed-income instruments move inversely to their prices, the rising yields resulted in lower bond prices. Despite these conditions, global bond markets delivered small overall gains for the period in local currency terms. Meanwhile, high-yield and emerging-market bonds turned in solid gains, buoyed by steady worldwide economic expansion and robust demand for commodities.



In the United States, the Fed continued to raise short-term interest rates in its ongoing efforts to slow economic growth and restrain inflation. On the last day of the period, the central bank lifted the federal funds rate to 4.50%, its highest level in almost five years. Short-term bond yields rose in reaction to the rate increases and to speculation that incoming chairman Ben Bernanke would continue the Fed's tightening trend. Long-term yields also rose, but not to the same degree as short-term yields, as inflation seemed under control and foreign investors continued to buy ten-year U.S. Treasuries.

Accelerating growth in the euro-zone economy prompted the European Central Bank to raise interest rates at its December 1, 2005, meeting. This was the first interest rate increase since 2000. Export-oriented manufacturing

has been doing very well in continental Europe, and there are growing signs that this vigor is spilling over into greater domestic demand. The U.K. economy also continued to expand, albeit at a slower pace than earlier in the decade; housing prices began to rebound toward the end of the period, indicating a sustained pickup in the property market.

# Strategy overview

Your fund's managers believe that building a diversified portfolio with multiple income-generating strategies is the best way to pursue the fund's objectives. The portfolio is composed

### Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 1/31/06.

| | |
|---|---|
| Bonds | |
| Lehman Government Bond Index (U.S. Treasury and agency securities) | 0.77% |
| Citigroup Non-U.S. World Government Bond Index (international government bonds) | 1.19% |
| JP Morgan Global High Yield Index (global high-yield corporate bonds) | 1.83% |
| JP Morgan Global Diversified Emerging Markets Index (global emerging-market bonds) | 6.60% |
| Equities | |
| S&P 500 Index (broad stock market) | 4.68% |
| MSCI EAFE Index (international stocks) | 18.31% |
| Russell 2000 Index (small-company stocks) | 8.50% |



of a broad spectrum of government, credit, and securitized debt instruments. Putnam's fixed-income group aligns teams of specialists with these varied investment opportunities. Each team identifies what it considers the most compelling strategies within its area of expertise. The fund's management team then selects from among these strategies, systematically building an array of investments that carefully balances risk and return.

During the period, we maintained a conservative posture with regard to both duration  a measure of interest-rate sensitivity  and credit risk. Bond prices move in the opposite direction of interest rates and the global trend in monetary policy is toward tightening, or higher rates. Therefore, we are keeping the fund's duration short in order to lessen the portfolio's vulnerability. With regard to credit risk, despite our expectation of continued steady global economic growth and low default rates, we believe that the yield advantages offered by bonds from non-government entities (in particular, investment-grade corporate issuers) over those of government securities are typically too small to compensate investors adequately for the additional risk the bonds carry.

We continued to upgrade the fund's credit quality during the period by somewhat reducing exposure to high-yield bonds, altering the investment mix in that component of the portfolio, and boosting exposure to

### Comparison of top sector weightings

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



structured/securitized instruments. Substantial positions in international holdings, including emerging-market debt, further diversified the fund's sources of returns.

# Your fund's holdings

As mentioned above, our dominant strategy during the period was to position the portfolio conservatively in terms of both duration and credit risk. We moderately lowered the fund's exposure to high-yield bonds, and within the high-yield allocation, carved out a substantial share to bank loans, which tend to be of higher quality than other investments in the high-yield category. We also boosted exposure to structured/securitized instruments, which are typically characterized by higher quality and lower effective duration. Indeed, many of the portfolio's most highly-rated holdings were in structured securities.

The most common type of securitized bonds are mortgage-backed securities issued by the **Federal National Mortgage Association (Fannie Mae)** and the **Government National Mortgage Association (Ginnie Mae)**. Other types of securitized bonds include **asset-backed securities**, which are typically backed by car loans and credit-card payments, and **commercial mortgage-backed securities**, which are secured by loans on large commercial real estate

### Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each comprised, as of 1/31/06. The fund's holdings will change over time.

| Holding (percent of fund's net assets) | Coupon (%) and maturity date |
|---|---|
| Securitized sector | |
| Federal National Mortgage Association pass-through certificates, TBA (5.0%) | 5.5%, 2036 |
| Federal National Mortgage Association pass-through certificates, TBA (2.2%) | 5.5%, 2021 |
| Structured Asset Investment Loan Trust Ser.04-9, Class A4 (1.0%) | 4.8%, 2034 |
| Credit sector | |
| Echostar DBS Corp. company guaranty (0.3%) | 6.625%, 2014 |
| Pemex Project Funding Master Trust 144A notes (0.3%) | 5.75%, 2015 |

| | |
|---|---|
| Pemex Project Funding Master Trust 144A company guaranty (0.3%) | 5.75%, 2015 |
| Government sector | |
| U.S. Treasury Bonds (4.2%) | 6.25%, 2030 |
| U.S. Treasury Bonds (2.5%) | 7.50%, 2016 |
| U.S. Treasury Notes (2.2%) | 4.25%, 2013 |



projects. Areas of particular strength for the fund during the period included asset-backed securities (especially those secured by home-equity loans and manufactured housing) and commercial mortgage-backed securities. Longer-dated securities were another area of focus, as we expect continued robust demand for them from pension funds.

For some time we have believed that yield spreads of corporate bonds versus government bonds have become excessively narrow, and that the upside potential of significant exposure to corporate bonds is materially outweighed by their downside risk. Our conviction on this point is especially firm with regard to investment-grade corporates; accordingly, the fund had virtually no holdings of such instruments during the period. However, we maintained substantial exposure to high-yield and emerging-markets issues. That approach served the fund in good stead: Both these segments outpaced investment-grade developed markets during the period, and strong security selection within the segments further enhanced returns.

The fund's holdings of emerging-market debt were particularly beneficial to performance. Most emerging markets turned in stellar returns in the period, benefiting from a virtuous circle of credit-rating upgrades (for example, ratings for Turkey and Venezuela were raised during the period, and Brazil shortly before) and higher commodity prices, which bolstered credit fundamentals; this in turn made it easier and cheaper for developing countries to borrow. Among developed overseas markets, we focused on European securities, in particular those of France, Sweden, Spain, and Ireland.

*Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the fund's investment strategy and may vary in the future.*



## 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 team's plans for responding to them.

We anticipate continued global economic expansion as 2006 proceeds, with accelerating growth in Europe and Japan taking up the slack of a slowing U.S. economy. In our opinion, the Fed will likely pause after one or two more rate increases. However, we expect central banks overseas to continue raising rates in coming months. Also, we remain concerned about the potential for a sudden widening of credit spreads. Therefore, we are continuing to position the fund defensively with regard to both duration and credit.

As part of this defensive posture, we are maintaining an emphasis on structured securities, which tend to have shorter maturities and are of higher quality. At the same time, we have an emphasis toward long-maturity securities, based on two prominent worldwide trends: disinflationary pressures from ever-greater pricing

transparency and globalization, and fierce demand for such securities from pension funds seeking to cover their long-term obligations to a growing flood of retirees. Conversely, the fund has relatively light exposure to intermediate-maturity bonds.

*The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.*

*International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. 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. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.*

*The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.*



# Your fund's performance

This section shows your fund's performance during the first half of its fiscal year, which ended January 31, 2006. In accordance with regulatory requirements for mutual funds, we also include performance for the most recent 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.

## Fund performance

Total return for periods ended 1/31/06

| | NAV | Market price |
|---|---|---|
| Annual average | | |
| Life of fund (since 2/29/88) | 8.30% | 7.08% |
| 10 years | 88.78 | 84.40 |
| Annual average | 6.56 | 6.31 |
| 5 years | 48.80 | 38.80 |
| Annual average | 8.27 | 6.78 |
| 3 years | 36.25 | 17.86 |
| Annual average | 10.86 | 5.63 |
| 1 year | 4.23 | 0.23 |
| 6 months | 1.80 | 1.32 |

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



## Comparative index returns

For periods ended 1/31/06

| | Lehman Government Bond Index | Citigroup Non-U.S. World Government Bond Index | JP Morgan Global High Yield Index | Lipper Flexible Income Funds (closed-end) category average |
|---|---|---|---|---|
| Annual average | | | | |
| Life of fund (since 2/29/88) | 7.31% | 6.84% | * | 8.08% |
| 10 years | 76.66 | 60.24 | 95.91% | 83.83 |
| Annual average | 5.86 | 4.83 | 6.96 | 6.13 |
| 5 years | 28.47 | 45.08 | 50.76 | 41.14 |
| Annual average | 5.14 | 7.73 | 8.56 | 6.95 |
| 3 years | 8.81 | 20.50 | 44.65 | 34.67 |
| Annual average | 2.85 | 6.41 | 13.09 | 10.28 |
| 1 year | 1.84 | 5.84 | 4.34 | 3.77 |
| 6 months | 0.77 | 1.19 | 1.83 | 1.64 |

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

* *The inception date of the JP Morgan Global High Yield Index was 12/31/93.*

 *Over the 6-month and 1-, 3-, 5-, and 10-year periods ended 1/31/06, there were 8 funds in this Lipper category.*

## Fund price and distribution information

For the six-month period ended 1/31/06

Distributions

| | |
|---|---|
| Number | 6 |
| Income | $0.180 |
| Capital gains | |

| | | |
|---|---|---|
| Total | $0.180 | |
| Share value: | NAV | Market price |
| 7/31/05 | $7.16 | $6.31 |
| 1/31/06 | 7.08 | 6.21 |
| Current yield (end of period) | | |
| Current dividend rate[1] | 5.08% | 5.80% |

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



## Fund performance for most recent calendar quarter

Total return for periods ended 12/31/05

| | NAV | Market price |
|---|---|---|
| Annual average | | |
| Life of fund (since 2/29/88) | 8.31% | 6.95% |
| 10 years | 90.45 | 86.52 |
| Annual average | 6.65 | 6.43 |
| 5 years | 52.96 | 46.87 |
| Annual average | 8.87 | 7.99 |
| 3 years | 38.04 | 23.37 |
| Annual average | 11.34 | 7.25 |
| 1 year | 4.19 | □0.90 |
| 6 months | 1.64 | □3.28 |



# Your fund□s management

Your fund is managed by the members of the Putnam Core Fixed-Income and Core Fixed-Income High-Yield teams. D. William Kohli is the Portfolio Leader, and Rob Bloemker, Jeffrey Kaufman, Paul Scanlon, and David Waldman are Portfolio Members of your fund. The Portfolio Leader and Portfolio Members coordinate the teams□ management of the fund.

For a complete listing of the members of the Putnam Core Fixed-Income and Core Fixed-Income High-Yield teams, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at www.putnam.com.

## Fund ownership by the Portfolio Leader and Portfolio Members

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is as of January 31, 2006, and January 31, 2005.

| | Year | $0 | $1 – $10,000 | $10,001 – $50,000 | $50,001 – $100,000 | $100,001 – $500,000 | $500,001 – $1,000,000 | $1,000,001 and over |
|---|---|---|---|---|---|---|---|---|
| D.William Kohli | 2006 | * | | | | | | |
| *Portfolio Leader* | 2005 | * | | | | | | |
| Rob Bloemker | 2006 | * | | | | | | |
| *Portfolio Member* | N/A | | | | | | | |
| Jeffrey Kaufman | 2006 | * | | | | | | |
| *Portfolio Member* | N/A | | | | | | | |
| Paul Scanlon | 2006 | * | | | | | | |
| *Portfolio Member* | N/A | | | | | | | |
| David Waldman | 2006 | * | | | | | | |
| *Portfolio Member* | 2005 | * | | | | | | |

*N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 1/31/05.*



## Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately $1,800,000. This amount includes a portion of 2005 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2005 compensation paid to the Chief Investment Officer of the team and the Group Chief Investment Officer of the fund's broader investment category for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the fund's fiscal period-end. For

personnel who joined Putnam Management during or after 2005, the calculation reflects annualized 2005 compensation or an estimate of 2006 compensation, as applicable.

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

D. William Kohli is also a Portfolio Leader of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust, and a Portfolio Member of Putnam Global Income Trust.

Rob Bloemker is also a Portfolio Member of Putnam American Government Income Fund, Putnam Diversified Income Trust, Putnam Income Fund, Putnam Limited Duration Government Income Fund, Putnam Master Intermediate Income Trust, and Putnam U.S. Government Income Trust.

Jeffrey Kaufman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

Paul Scanlon is also a Portfolio Leader of Putnam Floating Rate Income Fund, Putnam High Yield Advantage Fund, Putnam High Yield Trust, and Putnam Managed High Yield Trust, and a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

David Waldman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

D. William Kohli, Rob Bloemker, Jeffrey Kaufman, Paul Scanlon, and David Waldman may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

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

During the year ended January 31, 2006, Rob Bloemker, Jeffrey Kaufman, and Paul Scanlon became Portfolio Members of your fund, and Portfolio Member Stephen Peacher left your fund's management team.



## Fund ownership by Putnam's Executive Board

The table below shows how much the members of Putnam's Executive Board have invested in the fund (in dollar ranges). Information shown is as of January 31, 2006, and January 31, 2005.

| | Year | $0 | $1 – $10,000 | $10,001 – $50,000 | $50,001 – $100,000 | $100,001 and over |
|---|---|---|---|---|---|---|
| Philippe Bibi | 2006 | * | | | | |
| *Chief Technology Officer* | 2005 | * | | | | |
| Joshua Brooks | 2006 | * | | | | |
| *Deputy Head of Investments* | N/A | | | | | |
| William Connolly | 2006 | * | | | | |
| *Head of Retail Management* | N/A | | | | | |

| | | | |
|---|---|---|---|
| Kevin Cronin | 2006 | * | |
| *Head of Investments* | 2005 | * | |
| Charles Haldeman, Jr. | 2006 | | * |
| *President and CEO* | 2005 | | * |
| Amrit Kanwal | 2006 | * | |
| *Chief Financial Officer* | 2005 | * | |
| Steven Krichmar | 2006 | * | |
| *Chief of Operations* | 2005 | * | |
| Francis McNamara, III | 2006 | * | |
| *General Counsel* | 2005 | * | |
| Richard Robie, III | 2006 | * | |
| *Chief Administrative Officer* | 2005 | * | |
| Edward Shadek | 2006 | * | |
| *Deputy Head of Investments* | N/A | | |
| Sandra Whiston | 2006 | * | |
| *Head of Institutional Management* | N/A | | |

*N/A indicates the individual was not a member of Putnam's Executive Board as of 1/31/05.*



# Terms and definitions

## Important terms

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

Citigroup Non-U.S. World Government Bond Index is an unmanaged index of global investment-grade fixed-income securities, excluding the United States.

JP Morgan Global Diversified Emerging Markets Index is an unmanaged index of global emerging-market fixed-income securities.

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

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and agency securities.

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

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

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

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

Lipper is a third-party industry-ranking entity that ranks mutual funds. Lipper rankings are based on total return at net asset value and do not reflect sales charges. Funds are ranked among other funds with similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.



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# Trustee approval of management contract

### General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Management and its sub-management contract with Putnam Management's affiliate, Putnam Investments Limited ("PIL"). In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not "interested persons" (as such term is defined in the Investment Company Act of 1940, as amended (the "1940 Act")) of the Putnam funds (the "Independent Trustees"), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months beginning in March and ending in June 2005, the Contract Committee met five times to consider the information provided by Putnam Management and other information developed with the assistance of the Board's independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended and the Independent Trustees approved the continuance of your fund's management contract and sub-management contract, effective July 1, 2005. Because PIL is an affiliate of Putnam Management and Putnam Management remains fully responsible for all services provided by PIL, the Trustees have not evaluated PIL as a separate entity and all subsequent references to Putnam Management below should be deemed to include reference to PIL as necessary or appropriate in the context.

This approval was based on the following conclusions:

* That the fee schedule currently in effect for your fund, subject to certain changes noted below, represents reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and

* That such fee schedule represents an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees conclusions may be based, in part, on their consideration of these same arrangements in prior years.



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## Model fee schedules and categories; total expenses

The Trustees review of the management fees and total expenses of the Putnam funds focused on three major themes:

* Consistency. The Trustees, working in cooperation with Putnam Management, have developed and implemented a series of model fee schedules for the Putnam funds designed to ensure that each fund s management fee is consistent with the fees for similar funds in the Putnam family of funds and compares favorably with fees paid by competitive funds sponsored by other investment advisors. Under this approach, each Putnam fund is assigned to one of several fee categories based on a combination of factors, including competitive fees and perceived difficulty of management, and a common fee schedule is implemented for all funds in a given fee category. The Trustees reviewed the model fee schedule then in effect for the Putnam funds, including fee levels and breakpoints, and the assignment of each fund to a particular fee category under this structure. (Breakpoints refer to reductions in fee rates that apply to additional assets once specified asset levels are reached.)

Since their inception, Putnam s closed-end funds have generally had management fees that are higher than those of Putnam s open-end funds pursuing comparable investment strategies. These differences ranged from five to 20 basis points. The Trustees have reexamined this matter and recommended that these differences be conformed to a uniform five basis points. At a meeting on January 13, 2006, the Trustees approved an amended management contract for your fund to memorialize the arrangements agreed to in June 2005. Under the new fee schedule, the fund pays a quarterly fee to Putnam Management at the following rates:

0.75% of the first $500 million of the fund s average weekly assets
(as described below);
0.65% of the next $500 million;
0.60% of the next $500 million;
0.55% of the next $5 billion;
0.525% of the next $5 billion;
0.505% of the next $5 billion;
0.49% of the next $5 billion;
0.48% of the next $5 billion;
0.47% of the next $5 billion;
0.46% of the next $5 billion;
0.45% of the next $5 billion;
0.44% of the next $5 billion;
0.43% of the next $5 billion; and

0.42% thereafter.

Based on net asset levels as of June 30, 2005, the new fee schedule for your fund will not change the management fees, as a percentage of the fund's average weekly assets, currently paid by common shareholders. The Trustees approved the new fee schedules for the funds



effective as of January 1, 2006, in order to provide Putnam Management an opportunity to accommodate the impact on revenues in its budget process for the coming year.

- Competitiveness. The Trustees also reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 33rd percentile in management fees and in the 67th percentile in total expenses as of December 31, 2004 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of the Putnam funds continue to meet evolving competitive standards.

- Economies of scale. The Trustees concluded that the fee schedule currently in effect for your fund, which as of January 1, 2006 reflects the changes noted above, represents an appropriate sharing of economies of scale at current asset levels. Your fund currently has the benefit of breakpoints in its management fee that provide shareholders with significant economies of scale, which means that the effective management fee rate of a fund (as a percentage of fund assets) declines as a fund grows in size and crosses specified asset thresholds. The Trustees examined the existing breakpoint structure of the Putnam funds' management fees in light of competitive industry practices. The Trustees considered various possible modifications to the Putnam funds' current breakpoint structure, but ultimately concluded that the current breakpoint structure continues to serve the interests of fund shareholders. Accordingly, the Trustees continue to believe that the fee schedules currently in effect for the funds, taking into account the changes noted above, represent an appropriate sharing of economies of scale at current asset levels.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by Putnam Management and its affiliates from the relationship with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management and distribution services provided to the funds. In this regard, the Trustees also reviewed an analysis of Putnam Management's revenues, expenses and profitability with respect to the funds' management contracts, allocated on a fund-by-fund basis.

## Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under your fund's management contract. The Trustees were assisted in their review of the funds' investment process and performance by the work of the Investment Oversight Committees of the Trustees, which meet on a regular monthly basis with the funds' portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process — as measured by the experience and skills of the individuals assigned to the

management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel  but also recognize that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing the fund's performance with various benchmarks and with the performance of competitive funds. The Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and continued to discuss with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of underperformance. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted.

In the case of your fund, the Trustees considered that your fund's common share cumulative total return performance at net asset value was in the following percentiles of its Lipper Inc. peer group (Lipper Flexible Income Funds (closed-end)) for the one-, three- and five-year periods ended December 31, 2004 (the first percentile being the best-performing funds and the 100th percentile being the worst-performing funds):

| One-year period | Three-year period | Five-year period |
|---|---|---|
| 37th | 28th | 28th |

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report. Over the one-, three-, and five-year periods ended December 31, 2004, there were ten funds in your fund's Lipper peer group.* Past performance is no guarantee of future performance. )

As a general matter, the Trustees believe that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees believe that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds' Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees believe that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees' view, the alternative of terminating a management contract and engaging a new investment advisor for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

* *The percentile rankings for your fund's common share annualized total return performance in the Lipper Flexible Income Funds (closed-end) category for the one-, five-, and ten-year periods ended December 31, 2005, were 45th, 34th, and 45th, respectively. Over the one-, five-, and ten-year periods ended December 31, 2005, the fund ranked 4th out of 8, 3rd out of 8, and 4th out of 8 funds, respectively. Note that this more recent information was not available when the Trustees approved the continuance of your fund's management contract.*



## Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include principally benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage is earmarked to pay for research services that may be utilized by a fund's investment advisor, subject to the obligation to seek best execution. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage, which pertains mainly to funds investing in equity securities, represent assets of the funds that should be used for the benefit of fund shareholders. This area has been marked by significant change in recent years. In July 2003, acting upon the Contract Committee's recommendation, the Trustees directed that allocations of brokerage to reward firms that sell fund shares be discontinued no later than December 31, 2003. In addition, commencing in 2004, the allocation of brokerage commissions by Putnam

Management to acquire research services from third-party service providers has been significantly reduced, and continues at a modest level only to acquire research that is customarily not available for cash. The Trustees will continue to monitor the allocation of the funds brokerage to ensure that the principle of best price and execution remains paramount in the portfolio trading process.

The Trustees annual review of your funds management contract also included the review of your funds custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to affiliates of Putnam Management.

## Comparison of retail and institutional fee schedules

The information examined by the Trustees as part of their annual contract review has included for many years information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, etc. This information included comparison of such fees with fees charged to the funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and the mutual funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflect to a substantial degree historical competitive forces operating in separate market places. The Trustees considered the fact that fee rates across all asset sectors are higher on average for mutual funds than for institutional clients, as well as the differences between the services that Putnam Management provides to the Putnam funds and those that it provides to institutional clients of the firm, but have not relied on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.



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## Approval of amended and restated management contract in July 2005

In July 2005, the Trustees, including the Independent Trustees of your fund, approved an amendment to your funds management contract to take into account investment leverage in calculating management fees. The Trustees, including a majority of the Independent Trustees, have concluded that it would be in the best interest of your fund and its common shareholders to compensate Putnam Management on the basis of its average weekly assets, rather than its net assets. Average weekly assets is defined as the difference (as measured on a weekly basis) between the funds total assets (including assets attributable to leverage for investment purposes) and its total liabilities (excluding liabilities attributable to leverage for investment purposes). This formulation effectively allows for Putnam Management to receive management fees on leveraged assets. As your funds Agreement and Declaration of Trust prohibits the issuance of preferred shares, for all practical purposes the only form of investment leverage available would be borrowing. In the course of their evaluation, the Trustees considered the benefit to your fund from the additional investment management services that Putnam Management would perform in connection with a leveraged investment strategy, as well as the amount of compensation Putnam Management would receive under the proposed fee structure.

The Trustees noted that the proposed amendment would align the fee arrangements for your fund with those of other closed-end Putnam funds that currently engage in leverage for investment purposes. Furthermore, the Trustees were advised by Putnam Management that it is a customary and widespread practice in the closed-end fund industry to structure leveraged products in a manner that compensates advisors for their management of the assets acquired through leverage.

In evaluating the incentives and potential conflicts of interest created by an average weekly assets-based fee, the Trustees considered that the asset coverage restrictions under the 1940 Act, as well as other legal requirements, limit the extent to which a manager can expose a fund to additional risk through leverage. Furthermore, the Trustees considered the advantages of a management fee reduction mechanism that is included in the amended contract, which reduces the management fee dollar for dollar (subject to a specified maximum reduction) where the costs of carrying investment leverage outweigh the benefits (in terms of net income and short-term capital gains) to common shareholders from managing additional investment assets. In the event that your fund actually engages in leverage, the Trustees will have the opportunity, through regular reports from Putnam Management prepared in connection with the fee reduction mechanism described above, to continue monitoring the conflict of interest between Putnam Management and your fund.

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The Trustees approved the proposed changes to your fund's management contract in principle at a meeting held on April 15, 2005, and further confirmed their approval in principle by written consent of a majority of the Trustees (including a majority of the Independent Trustees) dated May 18, 2005. Shareholders of your fund approved the amended and restated management contract at the fund's annual meeting of shareholders on July 14, 2005. The Trustees confirmed their action by written consent at an in-person meeting as required under the 1940 Act prior to the execution of the amended management contract.

The Trustees also approved conforming changes to the sub-management contract between Putnam Management and PIL with respect to your fund, to provide for PIL's fee to be calculated on the basis of the fund's average weekly assets. The fee paid under the sub-management contract is paid by Putnam Management and not by your fund. Under the circumstances, the changes to the sub-management contract did not require shareholder approval.

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# Other information for shareholders

## Important notice regarding share repurchase program

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding shares over the 12 months following the announcement. In March 2006, the Trustees approved an extension of this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period.

## Important notice regarding delivery of shareholder documents

In accordance with SEC regulations, Putnam sends a single copy of annual and semiannual shareholder reports, prospectuses, and proxy statements to Putnam shareholders who share the same address. If you prefer to receive your own copy of these documents, please call Putnam at 1-800-225-1581, and Putnam will begin sending individual copies within 30 days.

## 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, 2005, are available on the Putnam Individual Investor Web site, www.putnam.com/individual, and on the SEC's Web site, www.sec.gov. If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

## Fund portfolio holdings

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. 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.

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## Information about your fund's revised investment policies

Bank loans. By purchasing a loan, the fund acquires some or all of the interest of a bank or other lending institution in a loan to a particular borrower. The fund may act as part of a lending syndicate, and in such cases would be purchasing a "participation" in the loan. The fund may also purchase loans by assignment from another lender. Many bank loans are secured by the assets of the borrower, and most impose restrictive covenants that must be met by the borrower.

The fund's ability to receive payments of principal and interest and other amounts in connection with loans will depend primarily on the financial condition of the borrower. The value of collateral, if any, securing a loan can decline, and may be insufficient to meet the borrower's obligations or be difficult to liquidate. In addition, the fund's access to collateral may be limited by bankruptcy or other insolvency laws. Loans may not be fully collateralized and may decline in value. The failure by the fund to receive scheduled payments on a loan would adversely affect the income of the fund and would likely reduce the value of its assets, which would be reflected in a reduction in the fund's net asset value. Investments in loans may be of any quality, including "distressed" loans, and will be subject to the fund's credit quality policy. The loans in which the fund may invest include those that pay fixed rates of interest and those that pay floating rates — i.e., rates that adjust periodically based on a generally recognized base rate.

The fund will in many cases be required to rely upon the lending institution from which it purchases the loan to collect and pass on to the fund such payments and to enforce the fund's rights under the loan. As a result, an insolvency, bankruptcy, or reorganization of the lending institution may delay or prevent the fund from receiving principal, interest and other amounts with respect to the underlying loan.

The fund's investments in loans are also subject to the risk of prepayment by the borrower. There is no assurance that the fund will be able to reinvest the proceeds of any loan prepayment at the same interest rate or on the same terms as those of the original loan.

In addition, loans often are subject to restrictions on transfer, and only limited opportunities may exist to sell such loans in secondary markets. As a result, the fund may be unable to sell its interest in a loan at a time when it may otherwise be desirable to do so or may be able to sell them only at a price that is less than their fair market value. Although the market for bank loans has become increasingly liquid over time, this market is still developing, and there can be no assurance that adverse developments with respect to this market or particular borrowers will not prevent the fund from selling its interest in a loan when Putnam Management desires to do so.

With respect to its management of investments in bank loans, Putnam Management will normally seek to avoid receiving material, non-public information ("Confidential Information") about the issuers of bank loans. In many instances, borrowers may offer to furnish Confidential Information to prospective lenders. Putnam Management's decision not to receive Confidential Information may place the fund at a disadvantage relative to other investors in loans. Also, in instances where holders of loans are asked to grant amendments, waivers, or consents, Putnam



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Management's ability to assess their significance or desirability may be adversely affected. For these and other reasons, it is possible that Putnam Management's general policy of not receiving Confidential Information could adversely affect the fund's investment performance.

Swap agreements. A swap involves the exchange by the fund with another party of their respective commitments to pay or receive cash flows — for example, an exchange of floating-rate payments for fixed-rate payments. Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the fund's exposure to long- or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices, inflation rates, or the volatility of an index or one or more securities. For example, if the fund agrees to exchange payments in U.S. dollars for payments in a non-U.S. currency, the swap agreement would tend to decrease the fund's exposure to U.S. interest rates and increase its exposure to the non-U.S. currency and interest rates. The value of the fund's swap positions would increase or decrease depending on the changes in value of the underlying rates, currency values, volatility, or other indices or measures. The fund's ability to engage in certain swap transactions may be limited by tax considerations.

The fund's ability to realize a profit from such transactions will depend on the ability of the financial institutions with which it enters into the transactions to meet their obligations to the fund. If a counterparty's creditworthiness declines, the value of the swap agreement would likely decline, potentially resulting in losses. If a default occurs by the counterparty, the fund's contractual remedies pursuant to the agreements related to the transaction may be limited, particularly in the case of a counterparty's insolvency. Under certain circumstances, the fund may be unable to close out its position under a transaction at the same time, or at the same price, as if it had purchased comparable publicly traded securities.

The fund may enter into credit default swap contracts for investment purposes. As the seller in a credit default swap contract, the fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as a corporate issuer, on the debt obligation. In return for its obligation, the fund would receive a periodic stream of payments over the term of the contract, so long as no event of default has occurred. If no default occurs, the fund would keep the stream of payments and would have no payment obligations. As the seller, the fund would be subject to investment exposure on the notional amount of the swap.

The fund may also purchase credit default swap contracts in order to hedge against the risk of default of the debt of a particular issuer or basket of issuers, in which case the fund would function as the counterparty referred to in the preceding paragraph. This would involve the risk that the investment may expire with no value and would only generate income if an event of default occurs with respect to the underlying debt obligation. It would also involve the risk that the seller may fail to satisfy its payment obligations to the fund in the event of a default. The purchase of credit default swaps involves costs, which will reduce the fund's return.



# Financial statements

## A guide to financial statements

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

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

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

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

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent 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. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year.

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



# The fund□s portfolio/31/06 (Unaudited)

CORPORATE BONDS AND NOTES (19.8%)*

| | Principal amount | | Value |
|---|---|---|---|
| Basic Materials (1.5%) | | | |
| ALROSA Finance SA 144A company guaranty 8 7/8s, 2014 (Luxembourg) | $ | 995,000 | $ 1,136,788 |
| Chaparral Steel Co. company guaranty 10s, 2013 | | 950,000 | 1,045,000 |
| Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s, 2014 (Germany) | EUR | 514,000 | 702,677 |
| Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 □□ | $ | 555,000 | 499,500 |
| Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 □□ | | 1,490,000 | 1,385,700 |
| Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 □□ | | 659,000 | 490,955 |
| Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008 | | 1,128,000 | 1,223,880 |
| Georgia-Pacific Corp. sr. notes 8s, 2024 | | 69,000 | 67,275 |
| Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada) | | 1,315,000 | 1,449,788 |
| Graphic Packaging International Corp sr. notes 8 1/2s, 2011 | | 258,000 | 258,000 |
| Huntsman, LLC company guaranty 11 5/8s, 2010 | | 500,000 | 572,500 |
| Huntsman, LLC company guaranty 11 1/2s, 2012 | | 380,000 | 436,050 |
| Innophos, Inc. 144A sr. sub. notes 9 5/8s, 2014 | | 451,000 | 462,275 |
| International Steel Group, Inc. sr. notes 6 1/2s, 2014 | | 250,000 | 255,000 |
| ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011 | | 1,261,000 | 1,352,423 |
| Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013 | | 490,000 | 444,675 |
| JSG Holding PLC 144A sr. notes 11 1/2s, 2015 (Ireland) □□ | EUR | 350,175 | 410,267 |
| MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland) | $ | 170,000 | 175,525 |
| MDP Acquisitions PLC sr. notes Ser. EUR, 10 1/8s, 2012 (Ireland) | EUR | 845,000 | 1,119,786 |
| Nalco Co. sr. sub. notes 9s, 2013 | EUR | 140,000 | 184,422 |
| Nalco Co. sr. sub. notes 8 7/8s, 2013 | $ | 1,613,000 | 1,685,585 |
| Novelis, Inc. 144A sr. notes 7 1/2s, 2015 | | 1,575,000 | 1,488,375 |
| PQ Corp. 144A company guaranty 7 1/2s, 2013 | | 184,000 | 173,420 |
| Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014 | EUR | 700,000 | 886,839 |

| | | | |
|---|---|---|---|
| Steel Dynamics, Inc. company guaranty 9 1/2s, 2009 | $ | 1,335,000 | 1,398,413 |
| Sterling Chemicals, Inc. sec. notes 10s, 2007 | | 289,802 | 276,036 |
| Stone Container Corp. sr. notes 9 3/4s, 2011 | | 25,000 | 25,281 |
| Stone Container Corp. sr. notes 8 3/8s, 2012 | | 465,000 | 445,238 |
| Stone Container Finance company guaranty 7 3/8s, 2014 (Canada) | | 290,000 | 258,825 |
| United States Steel Corp. sr. notes 9 3/4s, 2010 | | 635,000 | 692,150 |
| | | | 21,002,648 |
| Capital Goods (1.2%) | | | |
| Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008 | | 1,422,000 | 1,498,433 |
| BE Aerospace, Inc. sr. notes 8 1/2s, 2010 | | 36,000 | 38,790 |
| Blount, Inc. sr. sub. notes 8 7/8s, 2012 | | 1,076,000 | 1,129,800 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | | Value |
|---|---|---|---|
| Capital Goods *continued* | | | |
| Browning-Ferris Industries, Inc. debs. 7.4s, 2035 | $ | 630,000 | $ 560,700 |
| Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008 | | 780,000 | 776,100 |
| Crown Euro Holdings SA company guaranty 6 1/4s, 2011 (France) | EUR | 209,000 | 273,920 |
| Decrane Aircraft Holdings Co. company guaranty zero %, 2008 (acquired 7/23/04, cost $633,705) □ | $ | 1,932,000 | 1,101,240 |
| L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015 | | 1,509,000 | 1,456,185 |
| Legrand SA debs. 8 1/2s, 2025 (France) | | 1,573,000 | 1,919,060 |
| Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012 | | 104,000 | 115,180 |
| Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011 | EUR | 335,000 | 435,194 |
| Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013 | $ | 425,000 | 447,313 |
| Milacron Escrow Corp. sec. notes 11 1/2s, 2011 | | 242,000 | 218,405 |
| Mueller Group, Inc. sr. sub. notes 10s, 2012 | | 510,000 | 540,600 |
| Owens-Brockway Glass company guaranty 7 3/4s, 2011 | | 186,000 | 194,370 |
| Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012 | | 1,737,000 | 1,867,275 |
| Owens-Illinois, Inc. debs. 7.8s, 2018 | | 496,000 | 500,960 |
| Siebe PLC 144A sr. unsub. 6 1/2s, 2010 (United Kingdom) | | 790,000 | 722,850 |
| Terex Corp. company guaranty 9 1/4s, 2011 | | 365,000 | 389,638 |
| Terex Corp. company guaranty Ser. B, 10 3/8s, 2011 | | 1,375,000 | 1,457,500 |
| | | | 15,643,513 |
| Communication Services (1.2%) | | | |
| Alamosa Delaware, Inc. company guaranty 12s, 2009 | | 516,000 | 560,505 |

| | | |
|---|---|---|
| Alamosa Delaware, Inc. company guaranty 11s, 2010 | 642,000 | 719,040 |
| American Cellular Corp. company guaranty 9 1/2s, 2009 | 375,000 | 391,406 |
| Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda) (In default) □ | 1,015,534 | 30,466 |
| Cincinnati Bell Telephone company guaranty 6.3s, 2028 | 285,000 | 256,500 |
| Cincinnati Bell, Inc. company guaranty 7s, 2015 | 1,040,000 | 1,019,200 |
| Cincinnati Bell, Inc. unsub. notes 7 1/4s, 2023 | 780,000 | 756,600 |
| Citizens Communications Co. sr. notes 6 1/4s, 2013 | 3,321,000 | 3,221,370 |
| Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica) | 625,000 | 656,250 |
| Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom) | 650,000 | 668,688 |
| Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 10/15/08), 2012 (United Kingdom) □□ | 1,466,000 | 1,222,278 |
| iPCS, Inc. sr. notes 11 1/2s, 2012 | 580,000 | 668,450 |
| IWO Holdings, Inc. sec. FRN 8.35s, 2012 | 160,000 | 166,000 |
| Qwest Communications International, Inc. company guaranty 7 1/2s, 2014 | 844,000 | 852,440 |
| Qwest Corp. notes 8 7/8s, 2012 | 2,424,000 | 2,684,580 |
| Qwest Corp. 144A sr. notes 7 5/8s, 2015 | 797,000 | 837,846 |
| Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada) | 335,000 | 407,025 |
| Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010 | 290,000 | 295,800 |
| SBA Communications Corp. sr. notes 8 1/2s, 2012 | 290,000 | 320,450 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Communication Services *continued* | | |
| SBA Telecommunications, Inc./SBA Communications Corp. sr. disc. notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 □□ | $ 404,000 | $ 379,760 |
| U S West, Inc. debs. 7 1/4s, 2025 | 382,000 | 375,315 |
| | | 16,489,969 |
| Consumer Cyclicals (4.2%) | | |
| ArvinMeritor, Inc. notes 8 3/4s, 2012 | 555,000 | 549,450 |
| Autonation, Inc. company guaranty 9s, 2008 | 1,705,000 | 1,830,744 |
| Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012 | 1,135,000 | 1,214,450 |
| Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012 | 315,000 | 328,388 |
| Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014 | 265,000 | 260,363 |
| CanWest Media, Inc. company guaranty 8s, 2012 (Canada) | 1,452,075 | 1,470,226 |
| Coinmach Corp. sr. notes 9s, 2010 | 1,192,000 | 1,245,640 |
| D.R. Horton, Inc. sr. notes 7 7/8s, 2011 | 1,230,000 | 1,334,550 |
| D.R. Horton, Inc. sr. notes 5 7/8s, 2013 | 820,000 | 796,308 |

| | | |
|---|---|---|
| Dana Corp. notes 9s, 2011 | 303,000 | 222,705 |
| Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s, 2010 | 1,150,000 | 1,214,688 |
| Dex Media, Inc. notes 8s, 2013 | 356,000 | 365,790 |
| FelCor Lodging LP company guaranty 9s, 2008 (R) | 1,012,000 | 1,114,465 |
| General Motors Acceptance Corp. FRN 5.55s, 2007 | 680,000 | 655,425 |
| General Motors Acceptance Corp. FRN Ser. MTN, 5.22s, 2007 | 1,360,000 | 1,318,338 |
| Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011 | 1,930,000 | 1,881,750 |
| Harrah□s Operating Co., Inc. company guaranty 8s, 2011 | 5,000 | 5,519 |
| HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 (R) | 328,000 | 331,280 |
| Host Marriott LP sr. notes Ser. M, 7s, 2012 (R) | 1,460,000 | 1,492,850 |
| JC Penney Co., Inc. debs. 7 1/8s, 2023 | 850,000 | 959,986 |
| JC Penney Co., Inc. notes 8s, 2010 | 55,000 | 60,034 |
| Jostens IH Corp. company guaranty 7 5/8s, 2012 | 1,393,000 | 1,389,518 |
| KB Home company guaranty 5 7/8s, 2015 | 451,000 | 425,397 |
| KB Home sr. notes 5 3/4s, 2014 | 649,000 | 611,348 |
| Levi Strauss & Co. sr. notes 12 1/4s, 2012 | 704,000 | 799,040 |
| Levi Strauss & Co. sr. notes 9 3/4s, 2015 | 1,275,000 | 1,343,531 |
| MeriStar Hospitality Corp. company guaranty 9 1/8s, 2011 (R) | 816,000 | 883,320 |
| Meritage Homes Corp. company guaranty 6 1/4s, 2015 | 455,000 | 416,325 |
| Meritage Homes Corp. sr. notes 7s, 2014 | 360,000 | 345,600 |
| Meritor Automotive, Inc. notes 6.8s, 2009 | 775,000 | 736,250 |
| MGM Mirage, Inc. company guaranty 8 1/2s, 2010 | 885,000 | 960,225 |
| MGM Mirage, Inc. company guaranty 6s, 2009 | 1,929,000 | 1,919,355 |
| Mirage Resorts, Inc. debs. 7 1/4s, 2017 | 346,000 | 360,705 |
| Movie Gallery, Inc. sr. unsecd. notes 11s, 2012 | 927,000 | 698,726 |
| Owens Corning notes 7 1/2s, 2006 (In default) □ | 1,036,000 | 947,940 |
| Oxford Industries, Inc. sr. notes 8 7/8s, 2011 | 880,000 | 900,900 |
| Park Place Entertainment Corp. sr. notes 7 1/2s, 2009 | 1,740,000 | 1,855,275 |
| Park Place Entertainment Corp. sr. notes 7s, 2013 | 945,000 | 1,004,583 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Consumer Cyclicals *continued* | | |
| Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008 | $ 745,000 | $ 806,463 |
| Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012 | 475,000 | 491,625 |
| PRIMEDIA, Inc. sr. notes 8s, 2013 | 1,336,000 | 1,162,320 |
| R.H. Donnelley Corp. sr. notes 6 7/8s, 2013 | 521,000 | 478,018 |
| R.H. Donnelley Corp. 144A sr. disc. notes 6 7/8s, 2013 | 129,000 | 118,035 |
| Reader□s Digest Association, Inc. (The) sr. notes 6 1/2s, 2011 | 705,000 | 696,188 |
| Resorts International Hotel and Casino, Inc. | | |

| | | |
|---|---|---|
| company guaranty 11 1/2s, 2009 | 875,000 | 966,875 |
| Russell Corp. company guaranty 9 1/4s, 2010 | 912,000 | 930,240 |
| Scientific Games Corp. company guaranty 6 1/4s, 2012 | 1,226,000 | 1,201,480 |
| Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014 | 1,425,000 | 1,471,313 |
| Standard Pacific Corp. sr. notes 7 3/4s, 2013 | 815,000 | 809,906 |
| Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 7/8s, 2012 | 1,085,000 | 1,188,075 |
| Starwood Hotels & Resorts Worldwide, Inc. debs. 7 3/8s, 2015 | 1,000,000 | 1,085,000 |
| Station Casinos, Inc. sr. notes 6s, 2012 | 910,000 | 910,000 |
| Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016 | 990,000 | 1,006,088 |
| Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014 | 823,000 | 827,115 |
| Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013 | 846,000 | 947,520 |
| Texas Industries, Inc. sr. unsecd. notes 7 1/4s, 2013 | 318,000 | 328,335 |
| THL Buildco, Inc. (Nortek Holdings, Inc.) sr. sub. notes 8 1/2s, 2014 | 1,207,000 | 1,173,808 |
| Toys R Us, Inc. notes 7 5/8s, 2011 | 142,000 | 117,860 |
| Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015 | 229,000 | 225,279 |
| United Auto Group, Inc. company guaranty 9 5/8s, 2012 | 985,000 | 1,046,563 |
| Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009 | 1,415,000 | 1,383,163 |
| Vertis, Inc. 144A sub. notes 13 1/2s, 2009 | 1,405,000 | 1,152,100 |
| WCI Communities, Inc. company guaranty 9 1/8s, 2012 | 1,570,000 | 1,601,400 |
| Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 1st mtge. 6 5/8s, 2014 | 1,087,000 | 1,058,466 |
| | | 57,434,222 |
| Consumer Staples (2.6%) | | |
| Affinity Group, Inc. sr. sub. notes 9s, 2012 | 1,055,000 | 1,036,538 |
| AMC Entertainment, Inc. sr. sub. notes 8s, 2014 | 884,000 | 764,660 |
| Archibald Candy Corp. company guaranty 10s, 2007 (In default) (F) □ | 173,688 | 9,076 |
| Ashtead Holdings PLC 144A sr. notes 8 5/8s, 2015 (United Kingdom) | 405,000 | 425,250 |
| Brand Services, Inc. company guaranty 12s, 2012 | 1,090,000 | 1,140,413 |
| CCH I Holdings LLC 144A company guaranty 11 1/8s, 2014 | 631,000 | 340,740 |
| CCH I Holdings LLC 144A company guaranty 10s, 2014 | 653,000 | 333,030 |
| CCH I Holdings LLC 144A company guaranty stepped-coupon zero % (12 1/8s, 1/15/07), 2015 □□ | 284,000 | 124,960 |
| CCH I Holdings LLC 144A company guaranty stepped-coupon zero % (11 3/4s, 5/15/06), 2014 □□ | 150,000 | 76,500 |
| CCH I LLC 144A secd. notes 11s, 2015 | 2,450,000 | 2,015,125 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Consumer Staples *continued* | | |
| Church & Dwight Co., Inc. company guaranty 6s, 2012 | $ 865,000 | $ 849,863 |
| Cinemark USA, Inc. sr. sub. notes 9s, 2013 | 50,000 | 52,813 |
| Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/09), 2014 □□ | 1,915,000 | 1,397,950 |
| Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012 | 805,000 | 843,238 |
| CSC Holdings, Inc. debs. 7 5/8s, 2018 | 382,000 | 364,810 |
| CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011 | 717,000 | 717,896 |
| CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012 | 2,008,000 | 1,917,640 |
| Dean Foods Co. sr. notes 6 5/8s, 2009 | 1,794,000 | 1,834,365 |
| Del Monte Corp. company guaranty 6 3/4s, 2015 | 640,000 | 635,200 |
| Del Monte Corp. sr. sub. notes 8 5/8s, 2012 | 1,085,000 | 1,150,100 |
| DirecTV Holdings, LLC company guaranty 6 3/8s, 2015 | 1,999,000 | 1,959,020 |
| Echostar DBS Corp. company guaranty 6 5/8s, 2014 | 4,144,000 | 4,019,680 |
| Interpublic Group of Companies, Inc. notes 6 1/4s, 2014 | 233,000 | 202,128 |
| Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada) | 1,025,000 | 1,025,000 |
| Jean Coutu Group, Inc. sr. sub. notes 8 1/2s, 2014 (Canada) | 505,000 | 481,013 |
| Kabel Deutscheland GmbH 144A company guaranty 10 5/8s, 2014 (Germany) | 894,000 | 938,700 |
| Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013 | 1,439,000 | 1,385,038 |
| Playtex Products, Inc. company guaranty 9 3/8s, 2011 | 518,000 | 544,548 |
| Playtex Products, Inc. sec. notes 8s, 2011 | 1,490,000 | 1,596,163 |
| Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012 | 873,000 | 876,274 |
| Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012 | 936,000 | 1,002,690 |
| Remington Arms Co., Inc. company guaranty 10 1/2s, 2011 | 1,435,000 | 1,313,025 |
| Sbarro, Inc. company guaranty 11s, 2009 | 1,410,000 | 1,417,050 |
| Scotts Co. (The) sr. sub. notes 6 5/8s, 2013 | 495,000 | 503,044 |
| Six Flags, Inc. sr. notes 9 5/8s, 2014 | 721,000 | 733,618 |
| Young Broadcasting, Inc. company guaranty 10s, 2011 | 844,000 | 765,930 |
| Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014 | 710,000 | 607,050 |
| | | 35,400,138 |
| Energy (3.5%) | | |
| Arch Western Finance, LLC sr. notes 6 3/4s, 2013 | 2,598,000 | 2,623,980 |
| Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands) | 940,000 | 1,012,850 |
| CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada) | 1,577,000 | 1,600,655 |
| Chesapeake Energy Corp. sr. notes 7 1/2s, 2013 | 1,991,000 | 2,112,949 |
| Comstock Resources, Inc. sr. notes 6 7/8s, 2012 | 995,000 | 986,294 |
| Dresser, Inc. company guaranty 9 3/8s, 2011 | 1,348,000 | 1,417,085 |
| Exco Resources, Inc. company guaranty 7 1/4s, 2011 | 1,410,000 | 1,431,150 |
| Forest Oil Corp. company guaranty 7 3/4s, 2014 | 665,000 | 694,925 |
| Forest Oil Corp. sr. notes 8s, 2011 | 1,465,000 | 1,604,175 |
| Forest Oil Corp. sr. notes 8s, 2008 | 390,000 | 408,525 |
| Gazprom OAO 144A notes 9 5/8s, 2013 (Germany) | 620,000 | 744,000 |

| | | |
|---|---|---|
| Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada) | 1,140,000 | 1,145,700 |
| Hornbeck Offshore Services, Inc. sr. notes Ser. B, 6 1/8s, 2014 | 1,013,000 | 1,013,000 |
| Massey Energy Co. sr. notes 6 5/8s, 2010 | 1,497,000 | 1,519,455 |
| Newfield Exploration Co. sr. notes 7 5/8s, 2011 | 1,360,000 | 1,468,800 |

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CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Energy *continued* | | |
| Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014 | $ 698,000 | $ 719,813 |
| Offshore Logistics, Inc. company guaranty 6 1/8s, 2013 | 910,000 | 873,600 |
| Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011 | 941,918 | 966,002 |
| Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014 | 695,000 | 722,800 |
| Peabody Energy Corp. sr. notes 5 7/8s, 2016 | 1,470,000 | 1,451,625 |
| Pemex Finance, Ltd. bonds 9.69s, 2009 (Cayman Islands) | 1,473,750 | 1,589,867 |
| Pemex Project Funding Master Trust company guaranty 8 5/8s, 2022 | 1,215,000 | 1,482,300 |
| Pemex Project Funding Master Trust company guaranty Ser. REGS, 10s, 2027 | 2,500,000 | 3,325,000 |
| Pemex Project Funding Master Trust 144A company guaranty 5 3/4s, 2015 | 3,492,000 | 3,451,842 |
| Pemex Project Funding Master Trust 144A notes 5 3/4s, 2015 | 3,855,000 | 3,810,668 |
| Plains Exploration & Production Co. sr. notes 7 1/8s, 2014 | 1,352,000 | 1,419,600 |
| Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012 | 1,230,000 | 1,325,325 |
| Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011 | 1,270,000 | 1,325,563 |
| Pride International, Inc. sr. notes 7 3/8s, 2014 | 1,619,000 | 1,740,425 |
| Seabulk International, Inc. company guaranty 9 1/2s, 2013 | 1,150,000 | 1,282,250 |
| Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013 | 222,000 | 220,890 |
| Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012 | 1,070,000 | 1,147,575 |
| Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011 | 285,000 | 297,825 |
| | | 46,936,513 |
| Financial (1.0%) | | |
| Bosphorus Financial Services, Ltd. 144A sec. FRN 6.14s, 2012 (Cayman Islands) | 2,828,000 | 2,842,547 |
| Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R) | 600,000 | 607,500 |
| Finova Group, Inc. notes 7 1/2s, 2009 | 937,440 | 323,417 |
| UBS Luxembourg SA for Sberbank sub. notes 6.23s, 2015 (Luxembourg) | 2,730,000 | 2,764,125 |
| VTB Capital SA bonds 6 1/4s, 2035 (Luxembourg) | 1,724,000 | 1,762,790 |

| | | |
|---|---|---|
| VTB Capital SA sr. notes 6 1/4s, 2035 (Luxembourg) | 1,065,000 | 1,088,963 |
| VTB Capital SA 144A notes 7 1/2s, 2011 (Luxembourg) | 2,595,000 | 2,796,113 |
| Western Financial Bank sub. debs. 9 5/8s, 2012 | 1,050,000 | 1,170,750 |
| | | 13,356,205 |

| | | |
|---|---|---|
| Health Care (1.7%) | | |
| Community Health Systems, Inc. | | |
| sr. sub. notes 6 1/2s, 2012 | 355,000 | 347,900 |
| Coventry Health Care, Inc. sr. notes 5 7/8s, 2012 | 630,000 | 633,150 |
| DaVita, Inc. company guaranty 7 1/4s, 2015 | 670,000 | 674,188 |
| DaVita, Inc. company guaranty 6 5/8s, 2013 | 335,000 | 338,350 |
| Extendicare Health Services, Inc. sr. sub. notes 6 7/8s, 2014 | 600,000 | 586,500 |
| HCA, Inc. debs. 7.19s, 2015 | 1,035,000 | 1,072,397 |
| HCA, Inc. notes 8.36s, 2024 | 990,000 | 1,069,899 |
| HCA, Inc. notes 7.69s, 2025 | 900,000 | 916,643 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Health Care *continued* | | |
| HCA, Inc. notes 6 1/4s, 2013 | $ 1,075,000 | $ 1,064,812 |
| Healthsouth Corp. notes 7 5/8s, 2012 | 1,651,000 | 1,696,403 |
| MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012 | 1,100,000 | 1,006,500 |
| MQ Associates, Inc. sr. disc. notes stepped-coupon zero % (12 1/4s, 8/15/08), 2012 □□ | 1,625,000 | 812,500 |
| Omnicare, Inc. sr. sub. notes 6 1/8s, 2013 | 1,450,000 | 1,406,500 |
| Service Corp. International debs. 7 7/8s, 2013 | 112,000 | 118,440 |
| Service Corp. International notes Ser.*, 7.7s, 2009 | 515,000 | 541,394 |
| Service Corp. International 144A sr. notes 7 1/4s, 2017 | 333,000 | 337,995 |
| Service Corp. International 144A sr. notes 6 3/4s, 2016 | 1,039,000 | 1,027,311 |
| Stewart Enterprises, Inc. 144A sr. notes 7 1/4s, 2013 | 1,412,000 | 1,369,640 |
| Tenet Healthcare Corp. notes 7 3/8s, 2013 | 750,000 | 682,500 |
| Tenet Healthcare Corp. sr. notes 9 7/8s, 2014 | 1,467,000 | 1,467,000 |
| Triad Hospitals, Inc. sr. notes 7s, 2012 | 1,585,000 | 1,626,606 |
| Triad Hospitals, Inc. sr. sub. notes 7s, 2013 | 409,000 | 412,579 |
| Universal Hospital Services, Inc. sr. notes 10 1/8s, 2011 (Canada) | 1,025,000 | 1,060,875 |
| US Oncology, Inc. company guaranty 9s, 2012 | 835,000 | 887,188 |
| Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014 | 1,081,000 | 1,140,455 |
| Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R) | 590,000 | 673,338 |
| Ventas Realty LP/Capital Corp. company guaranty 6 3/4s, 2010 (R) | 392,000 | 402,290 |
| Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R) | 337,000 | 343,740 |

| | | |
|---|---|---|
| | | 23,717,093 |
| Technology (0.6%) | | |
| Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012 | 999,000 | 1,051,448 |
| Freescale Semiconductor, Inc. sr. notes Ser. B, 7 1/8s, 2014 | 2,386,000 | 2,523,195 |
| Iron Mountain, Inc. company guaranty 8 5/8s, 2013 | 435,000 | 454,575 |
| Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011 | 770,000 | 783,475 |
| New ASAT Finance, Ltd. company guaranty 9 1/4s, 2011 (Cayman Islands) | 25,000 | 19,875 |
| SunGard Data Systems, Inc. 144A sr. unsecd. notes 9 1/8s, 2013 | 660,000 | 686,400 |
| Xerox Corp. notes Ser. MTN, 7.2s, 2016 | 343,000 | 363,580 |
| Xerox Corp. sr. notes 7 5/8s, 2013 | 1,837,000 | 1,951,813 |
| | | 7,834,361 |
| Transportation (0.1%) | | |
| Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008 | 1,490,000 | 1,355,900 |
| Utilities & Power (2.2%) | | |
| AES Corp. (The) sr. notes 8 7/8s, 2011 | 107,000 | 115,828 |
| AES Corp. (The) sr. notes 8 3/4s, 2008 | 60,000 | 63,000 |
| AES Corp. (The) 144A sec. notes 9s, 2015 | 1,113,000 | 1,218,735 |
| AES Corp. (The) 144A sec. notes 8 3/4s, 2013 | 895,000 | 971,075 |
| ANR Pipeline Co. debs. 9 5/8s, 2021 | 462,000 | 581,345 |
| Centrais Electricas Brasileirass SA 144A sr. notes 7 3/4s, 2015 (Brazil) | 1,476,000 | 1,526,184 |



CORPORATE BONDS AND NOTES (19.8%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Utilities & Power *continued* | | |
| CMS Energy Corp. sr. notes 8.9s, 2008 | $ 1,690,000 | $ 1,799,850 |
| CMS Energy Corp. sr. notes 7 3/4s, 2010 | 350,000 | 368,375 |
| Colorado Interstate Gas Co. debs. 6.85s, 2037 | 615,000 | 636,356 |
| Colorado Interstate Gas Co. sr. notes 5.95s, 2015 | 173,000 | 169,314 |
| DPL, Inc. sr. notes 6 7/8s, 2011 | 874,000 | 930,810 |
| Dynegy Holdings, Inc. 144A sec. notes 10 1/8s, 2013 | 1,702,000 | 1,921,133 |
| El Paso Natural Gas Co. debs. 8 5/8s, 2022 | 370,000 | 431,679 |
| El Paso Production Holding Co. company guaranty 7 3/4s, 2013 | 1,939,000 | 2,050,493 |
| Ferrellgas LP/Finance sr. notes 6 3/4s, 2014 | 1,010,000 | 972,125 |

| | | |
|---|---|---|
| Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034 | 1,321,000 | 1,446,495 |
| Mission Energy Holding Co. sec. notes 13 1/2s, 2008 | 1,445,000 | 1,668,975 |
| Monongahela Power Co. 1st mtge. 6.7s, 2014 | 775,000 | 840,461 |
| National Power Corp. FRB 8.63s, 2011 (Philippines) | 262,000 | 283,615 |
| National Power Corp. 144A foreign government guaranty FRN 8.63s, 2011 (Philippines) | 375,000 | 405,938 |
| Northwestern Corp. sec. notes 5 7/8s, 2014 | 624,000 | 619,563 |
| NRG Energy, Inc. company guaranty 8s, 2013 | 964,000 | 1,074,860 |
| Orion Power Holdings, Inc. sr. notes 12s, 2010 | 1,115,000 | 1,271,100 |
| SEMCO Energy, Inc. sr. notes 7 3/4s, 2013 | 993,000 | 1,031,986 |
| Teco Energy, Inc. notes 7.2s, 2011 | 350,000 | 371,875 |
| Teco Energy, Inc. notes 7s, 2012 | 550,000 | 581,625 |
| Teco Energy, Inc. sr. notes 6 3/4s, 2015 | 63,000 | 66,465 |
| Tennessee Gas Pipeline Co. debs. 7s, 2028 | 145,000 | 147,702 |
| Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017 | 291,000 | 316,728 |
| Texas Genco LLC/Texas Genco Financing Corp. 144A sr. notes 6 7/8s, 2014 | 1,143,000 | 1,237,298 |
| Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026 | 875,000 | 955,938 |
| Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada) | 1,188,000 | 1,220,670 |
| Utilicorp United, Inc. sr. notes 9.95s, 2011 | 706,000 | 780,130 |
| Williams Cos., Inc. (The) notes 8 3/4s, 2032 | 280,000 | 333,200 |
| Williams Cos., Inc. (The) notes 8 1/8s, 2012 | 290,000 | 317,188 |
| Williams Cos., Inc. (The) notes 7 5/8s, 2019 | 1,045,000 | 1,144,275 |
| Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010 | 336,000 | 337,680 |
| York Power Funding 144A notes 12s, 2007 (Cayman Islands) (In default) (F) □ | 419,508 | 34,987 |
| | | 30,245,056 |

| | | |
|---|---|---|
| Total corporate bonds and notes (cost $266,258,463) | $ | 269,415,618 |

FOREIGN GOVERNMENT BONDS AND NOTES (14.9%)*

| | | Principal amount | | Value |
|---|---|---|---|---|
| Argentina (Republic of ) FRB 4.005s, 2012 | | $ 12,433,750 | $ | 11,247,215 |
| Austria (Republic of ) 144A notes Ser. EMTN, 3.8s, 2013 | EUR | 8,000,000 | | 9,976,017 |
| Barbados (Government of ) 6 5/8s, 2035 | | $ 980,000 | | 983,724 |
| Brazil (Federal Republic of ) bonds 10 1/2s, 2014 | | 1,865,000 | | 2,331,250 |
| Brazil (Federal Republic of ) bonds 8 7/8s, 2019 | | 4,785,000 | | 5,514,713 |
| Brazil (Federal Republic of ) notes 11s, 2012 | | 5,195,000 | | 6,428,813 |

FOREIGN GOVERNMENT BONDS AND NOTES (14.9%)* *continued*

| | | Principal amount | Value |
|---|---|---|---|
| Brazil (Federal Republic of ) notes 8 3/4s, 2025 | | $ 5,112,000 | $ 5,840,460 |
| Canada (Government of ) bonds 5 1/2s, 2010 | CAD | 3,730,000 | 3,450,658 |
| Canada (Government of ) bonds Ser. WL43, 5 3/4s, 2029 | CAD | 1,340,000 | 1,422,065 |
| Colombia (Republic of ) notes 10s, 2012 | | $ 2,635,000 | 3,155,413 |
| Ecuador (Republic of ) 144A notes 9 3/8s, 2015 | | 750,000 | 754,500 |
| El Salvador (Republic of ) 144A bonds 7 3/4s, 2023 | | 1,260,000 | 1,404,900 |
| France (Government of ) bonds 5 3/4s, 2032 | EUR | 2,605,000 | 4,214,338 |
| France (Government of ) bonds 5 1/2s, 2010 | EUR | 6,300,000 | 8,406,064 |
| France (Government of ) bonds 4s, 2013 | EUR | 7,700,000 | 9,722,513 |
| France (Government of ) bonds 4s, 2009 | EUR | 1,520,000 | 1,901,718 |
| France (Government of ) bonds Ser. OATe, 3s, 2012 | EUR | 8,388,510 | 11,335,337 |
| Germany (Federal Republic of ) bonds Ser. 97, 6s, 2007 | EUR | 10,560,000 | 13,365,784 |
| Germany (Federal Republic of ) bonds Ser. 97, 6s, 2007 | EUR | 8,820,000 | 11,018,905 |
| Indonesia (Republic of ) 144A notes 7 1/4s, 2015 | | $ 545,000 | 559,988 |
| Ireland (Republic of ) bonds 5s, 2013 | EUR | 14,800,000 | 19,840,657 |
| Japan (Government of ) bonds Ser. 5, 0.8s, 2015 | JPY | 687,400,000 | 5,919,098 |
| Japan (Government of ) 30 yr. bonds Ser. 20, 2 1/2s, 2035 | JPY | 1,100,000,000 | 9,642,028 |
| Peru (Republic of ) bonds 7.35s, 2025 | | $ 1,300,000 | 1,348,750 |
| Philippines (Republic of ) bonds 9 1/2s, 2024 | | 7,195,000 | 8,346,200 |
| Russia (Federation of ) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 □□ | | 1,522,000 | 1,697,030 |
| Russia (Federation of ) 144A unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 □□ | | 5,612,700 | 6,258,161 |
| Russia (Ministry of Finance) debs. Ser. V, 3s, 2008 | | 4,040,000 | 3,833,152 |
| South Africa (Republic of ) notes 7 3/8s, 2012 | | 2,780,000 | 3,078,850 |
| South Africa (Republic of ) notes 6 1/2s, 2014 | | 2,585,000 | 2,789,215 |
| Spain (Kingdom of ) bonds 5s, 2012 | EUR | 4,600,000 | 6,121,007 |
| Sweden (Government of ) debs. Ser. 1041, 6 3/4s, 2014 | SEK | 59,875,000 | 9,726,168 |
| Turkey (Republic of ) 6 7/8s, 2036 | | $ 3,628,000 | 3,497,392 |
| United Mexican States bonds Ser. MTN, 8.3s, 2031 | | 4,545,000 | 5,722,155 |
| Venezuela (Republic of ) notes 10 3/4s, 2013 | | 1,975,000 | 2,458,875 |
| Total foreign government bonds and notes (cost $192,008,696) | | | $ 203,313,113 |

COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)*

| | Principal amount | Value |
|---|---|---|
| Banc of America Commercial Mortgage, Inc. 144A | | |
| Ser. 01-1, Class J, 6 1/8s, 2036 | $ 318,946 | $ 317,109 |
| Ser. 01-1, Class K, 6 1/8s, 2036 | 718,000 | 539,813 |

| | | |
|---|---|---|
| Banc of America Large Loan 144A | | |
| FRB Ser. 02-FL2A, Class L1, 7.419s, 2014 | 412,000 | 411,692 |
| FRB Ser. 02-FL2A, Class K1, 6.919s, 2014 | 100,000 | 99,981 |
| FRB Ser. 05-BOCA, Class M, 6.57s, 2016 | 693,000 | 695,055 |
| FRB Ser. 05-MIB1, Class K, 6.47s, 2022 | 1,973,000 | 1,918,228 |
| FRB Ser. 05-ESHA, Class K, 6.27s, 2020 | 1,396,000 | 1,396,706 |
| FRB Ser. 05-BOCA, Class L, 6.17s, 2016 | 300,000 | 300,636 |
| FRB Ser. 05-BOCA, Class K, 5.82s, 2016 | 275,000 | 275,584 |
| FRB Ser. 05-BOCA, Class J, 5.57s, 2016 | 200,000 | 200,340 |
| FRB Ser. 05-BOCA, Class H, 5.42s, 2016 | 100,000 | 100,187 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | | Principal amount | Value |
|---|---|---|---|
| Bear Stearns Commercial Mortgage Securities, Inc. 144A | | | |
| FRB Ser. 05-LXR1, Class J, 6.12s, 2018 | | $ 1,229,000 | $ 1,229,000 |
| Bear Stearns Commercial Mortgage Securitization Corp. | | | |
| Ser. 00-WF2, Class F, 8.199s, 2032 | | 481,000 | 547,147 |
| Broadgate Financing PLC sec. FRB Ser. D, 5.429s, 2023 | | | |
| (United Kingdom) | GBP | 906,500 | 1,605,947 |
| Commercial Mortgage Acceptance Corp. Ser. 97-ML1, | | | |
| IO (Interest only), 0.918s, 2017 | | $ 7,023,436 | 107,821 |
| Commercial Mortgage Pass-Through Certificates 144A | | | |
| FRB Ser. 01-FL5A, Class G, 5.152s, 2013 | | 2,104,000 | 2,093,480 |
| FRB Ser. 05-F10A, Class A1, 4.57s, 2017 | | 5,990,068 | 5,987,342 |
| Criimi Mae Commercial Mortgage Trust 144A | | | |
| Ser. 98-C1, Class B, 7s, 2033 | | 3,957,000 | 4,137,835 |
| CS First Boston Mortgage Securities Corp. 144A | | | |
| FRB Ser. 03-TF2A, Class L, 8.47s, 2014 | | 693,000 | 680,620 |
| Ser. 1998-C2, Class F, 6 3/4s, 2030 | | 3,176,400 | 3,369,119 |
| FRB Ser. 05-TFLA, Class L, 6.32s, 2020 | | 1,356,000 | 1,355,991 |
| Ser. 98-C1, Class F, 6s, 2040 | | 1,880,000 | 1,642,799 |
| FRB Ser. 05-TFLA, Class K, 5.77s, 2020 | | 758,000 | 757,995 |
| Ser. 02-CP5, Class M, 5 1/4s, 2035 | | 691,000 | 538,955 |
| Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, | | | |
| Class X, IO, 1.02s, 2031 | | 62,660,129 | 1,280,146 |
| DLJ Commercial Mortgage Corp. | | | |
| Ser. 98-CF2, Class B4, 6.04s, 2031 | | 552,708 | 539,412 |
| Ser. 98-CF2, Class B5, 5.95s, 2031 | | 1,771,365 | 1,289,258 |
| DLJ Mortgage Acceptance Corp. 144A | | | |
| Ser. 97-CF1, Class B2, 8.16s, 2030 | | 539,000 | 377,300 |
| Ser. 97-CF1, Class B1, 7.91s, 2030 | | 519,000 | 532,437 |
| European Loan Conduit FRB Ser. 6X, Class E, | | | |
| 6.34s, 2010 (United Kingdom) | GBP | 724,980 | 1,298,025 |
| European Loan Conduit 144A FRB Ser. 6A, | | | |

| | | | |
|---|---|---|---|
| Class F, 6.84s, 2010 (United Kingdom) | GBP | 261,640 | 469,284 |
| European Loan Conduit 144A FRB Ser. 22A, Class D, 5.45s, 2014 (Ireland) | GBP | 995,000 | 1,768,215 |
| European Prime Real Estate PLC 144A FRB Ser. 1-A, Class D, 5.445s, 2014 (United Kingdom) | GBP | 723,006 | 1,284,855 |
| Fannie Mae | | | |
| Ser. 92-15, Class L, IO, 10.38s, 2022 | | $ 748 | 7,870 |
| IFB Ser. 05-106, Class US, 7.96s, 2035 | | 3,059,796 | 3,207,846 |
| IFB Ser. 05-99, Class SA, 7.96s, 2035 | | 1,470,790 | 1,509,713 |
| IFB Ser. 05-74, Class CP, 8.14s, 2035 | | 1,252,524 | 1,309,553 |
| IFB Ser. 05-76, Class SA, 8.14s, 2034 | | 1,770,550 | 1,822,255 |
| Ser. 00-42, Class B2, 8s, 2030 | | 71,166 | 76,553 |
| Ser. 00-17, Class PA, 8s, 2030 | | 339,120 | 364,439 |
| Ser. 00-18, Class PA, 8s, 2030 | | 311,718 | 334,879 |
| Ser. 00-19, Class PA, 8s, 2030 | | 322,381 | 346,344 |
| Ser. 00-20, Class PA, 8s, 2030 | | 174,084 | 187,165 |
| Ser. 00-21, Class PA, 8s, 2030 | | 541,814 | 582,531 |
| Ser. 00-22, Class PA, 8s, 2030 | | 403,941 | 434,002 |
| Ser. 97-37, Class PB, 8s, 2027 | | 943,500 | 1,016,670 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Fannie Mae | | |
| Ser. 97-13, Class TA, 8s, 2027 | $ 138,689 | $ 149,508 |
| Ser. 97-21, Class PA, 8s, 2027 | 550,910 | 593,258 |
| Ser. 97-22, Class PA, 8s, 2027 | 1,066,853 | 1,149,278 |
| Ser. 97-16, Class PE, 8s, 2027 | 363,112 | 391,080 |
| Ser. 97-25, Class PB, 8s, 2027 | 350,707 | 377,566 |
| Ser. 95-12, Class PD, 8s, 2025 | 218,388 | 234,950 |
| Ser. 95-5, Class A, 8s, 2025 | 263,765 | 284,292 |
| Ser. 95-5, Class TA, 8s, 2025 | 69,235 | 74,805 |
| Ser. 95-6, Class A, 8s, 2025 | 168,523 | 181,658 |
| Ser. 95-7, Class A, 8s, 2025 | 232,921 | 251,156 |
| Ser. 94-106, Class PA, 8s, 2024 | 347,071 | 374,341 |
| Ser. 94-95, Class A, 8s, 2024 | 513,130 | 553,804 |
| IFB Ser. 05-114, Class PS, 7.682s, 2035 | 702,998 | 699,582 |
| IFB Ser. 05-74, Class CS, 7.563s, 2035 | 1,427,915 | 1,467,825 |
| Ser. 04-W8, Class 3A, 7 1/2s, 2044 | 954,517 | 1,004,380 |
| Ser. 04-W2, Class 5A, 7 1/2s, 2044 | 3,461,069 | 3,641,135 |
| Ser. 04-T2, Class 1A4, 7 1/2s, 2043 | 815,325 | 857,125 |
| Ser. 03-W4, Class 4A, 7 1/2s, 2042 | 256,616 | 268,482 |
| Ser. 03-W3, Class 1A3, 7 1/2s, 2042 | 525,649 | 551,348 |
| Ser. 02-T19, Class A3, 7 1/2s, 2042 | 662,852 | 695,136 |

| | | |
|---|---|---|
| Ser. 03-W2, Class 1A3, 7 1/2s, 2042 | 10,859 | 11,394 |
| Ser. 02-W1, Class 2A, 7 1/2s, 2042 | 1,107,515 | 1,154,858 |
| Ser. 02-14, Class A2, 7 1/2s, 2042 | 4,901 | 5,130 |
| Ser. 01-T10, Class A2, 7 1/2s, 2041 | 676,743 | 707,218 |
| Ser. 02-T4, Class A3, 7 1/2s, 2041 | 2,918 | 3,050 |
| Ser. 01-T8, Class A1, 7 1/2s, 2041 | 7,579 | 7,907 |
| Ser. 01-T7, Class A1, 7 1/2s, 2041 | 2,661,378 | 2,774,785 |
| Ser. 01-T3, Class A1, 7 1/2s, 2040 | 402,998 | 420,365 |
| Ser. 01-T1, Class A1, 7 1/2s, 2040 | 1,246,706 | 1,302,929 |
| Ser. 99-T2, Class A1, 7 1/2s, 2039 | 518,459 | 544,273 |
| Ser. 00-T6, Class A1, 7 1/2s, 2030 | 251,869 | 262,601 |
| Ser. 02-W7, Class A5, 7 1/2s, 2029 | 432,031 | 452,863 |
| Ser. 01-T4, Class A1, 7 1/2s, 2028 | 1,201,143 | 1,264,922 |
| Ser. 02-W3, Class A5, 7 1/2s, 2028 | 2,385 | 2,497 |
| IFB Ser. 05-114, Class SP, 7.123s, 2036 | 847,381 | 832,552 |
| Ser. 04-W12, Class 1A3, 7s, 2044 | 1,119,509 | 1,163,298 |
| Ser. 01-T10, Class A1, 7s, 2041 | 2,645,538 | 2,733,863 |
| IFB Ser. 05-95, Class CP, 6.43s, 2035 | 240,979 | 248,116 |
| IFB Ser. 05-95, Class OP, 6.363s, 2035 | 704,000 | 676,543 |
| IFB Ser. 04-46, Class QB, 5.88s, 2034 | 752,182 | 697,296 |
| IFB Ser. 05-83, Class QP, 5.616s, 2034 | 465,584 | 443,610 |
| IFB Ser. 05-93, Class AS, 5.55s, 2034 | 639,851 | 595,161 |
| Ser. 364, Class 10, IO, 5 1/2s, 2035 | 9,517,355 | 2,130,713 |
| Ser. 350, Class 2, IO, 5 1/2s, 2034 | 2,129,019 | 470,310 |
| Ser. 06-08, Class HP, 5s, 2036 | 2,001,000 | 2,056,000 |
| Ser. 06-8, Class WK, 5s, 2036 | 1,664,000 | 1,710,281 |
| IFB Ser. 05-56, Class TP, 4.56s, 2033 | 569,659 | 524,977 |
| IFB Ser. 02-36, Class QH, IO, 3.52s, 2029 | 670,426 | 12,910 |
| IFB Ser. 03-66, Class SA, IO, 3.12s, 2033 | 3,036,376 | 222,050 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Fannie Mae | | |
| IFB Ser. 03-48, Class S, IO, 3.02s, 2033 | $ 1,390,212 | $ 102,306 |
| IFB Ser. 05-113, Class DI, IO, 2.7s, 2036 | 2,213,696 | 142,719 |
| IFB Ser. 04-51, Class S0, IO, 2.52s, 2034 | 754,447 | 41,730 |
| IFB Ser. 05-72, Class WS, IO, 2.22s, 2035 | 2,221,384 | 148,388 |
| IFB Ser. 05-105, Class S, IO, 2.17s, 2035 | 2,210,266 | 108,441 |
| IFB Ser. 05-95, Class CI, IO, 2.17s, 2035 | 3,172,379 | 231,717 |
| IFB Ser. 05-84, Class SG, IO, 2.17s, 2035 | 5,674,950 | 385,393 |
| IFB Ser. 05-87, Class SG, IO, 2.17s, 2035 | 7,228,116 | 379,476 |
| IFB Ser. 05-69, Class AS, IO, 2.17s, 2035 | 1,530,651 | 83,947 |
| IFB Ser. 05-104, Class NI, IO, 2.17s, 2035 | 2,661,264 | 200,490 |

| | | |
|---|---|---|
| IFB Ser. 04-92, Class S, IO, 2.17s, 2034 | 4,569,779 | 267,743 |
| IFB Ser. 05-104, Class SI, IO, 2.17s, 2033 | 7,036,883 | 464,691 |
| IFB Ser. 05-83, Class QI, IO, 2.16s, 2035 | 781,671 | 58,385 |
| IFB Ser. 05-92, Class SC, IO, 2.15s, 2035 | 7,523,313 | 462,007 |
| IFB Ser. 05-83, Class SL, IO, 2.14s, 2035 | 14,924,274 | 812,451 |
| IFB Ser. 05-95, Class OI, IO, 2.06s, 2035 | 435,786 | 32,621 |
| IFB Ser. 03-112, Class SA, IO, 1.97s, 2028 | 2,953,197 | 107,565 |
| IFB Ser. 05-67, Class BS, IO, 1.62s, 2035 | 3,838,088 | 169,715 |
| IFB Ser. 05-74, Class SE, IO, 1.57s, 2035 | 8,524,945 | 303,900 |
| IFB Ser. 05-87, Class SE, IO, 1.52s, 2035 | 28,606,569 | 1,050,397 |
| IFB Ser. 04-54, Class SW, IO, 1.47s, 2033 | 1,781,778 | 54,637 |
| Ser. 03-W10, Class 1A, IO, 1 1/4s, 2043 | 9,966,652 | 155,113 |
| Ser. 03-W10, Class 3A, IO, 1.229s, 2043 | 12,091,191 | 203,813 |
| Ser. 03-W17, Class 12, IO, 1.153s, 2033 | 6,741,604 | 199,741 |
| Ser. 00-T6, IO, 0.759s, 2030 | 10,598,477 | 152,353 |
| Ser. 02-T18, IO, 0.524s, 2042 | 18,789,187 | 223,989 |
| Ser. 05-113, Class DO, PO (Principal only), zero %, 2036 | 340,273 | 275,504 |
| Ser. 363, Class 1, PO, zero %, 2035 | 700,934 | 521,666 |
| Ser. 361, Class 1, PO, zero %, 2035 | 2,049,713 | 1,633,208 |
| Ser. 04-38, Class A0, PO, zero %, 2034 | 1,186,106 | 869,564 |
| Ser. 342, Class 1, PO, zero %, 2033 | 604,797 | 479,355 |
| Ser. 02-82, Class TO, PO, zero %, 2032 | 413,424 | 322,018 |
| Ser. 04-61, Class C0, PO, zero %, 2031 | 919,000 | 715,671 |
| Ser. 99-51, Class N, PO, zero %, 2029 | 189,815 | 157,309 |
| Ser. 99-52, Class MO, PO, zero %, 2026 | 26,132 | 25,306 |
| Federal Home Loan Mortgage Corp. Structured Pass-Through Securities | | |
| Ser. T-59, Class 1A3, 7 1/2s, 2043 | 1,115,109 | 1,174,360 |
| Ser. T-58, Class 4A, 7 1/2s, 2043 | 15,095 | 15,811 |
| Ser. T-41, Class 3A, 7 1/2s, 2032 | 2,634,448 | 2,752,982 |
| Ser. T-60, Class 1A2, 7s, 2044 | 5,032,933 | 5,223,200 |
| Ser. T-57, Class 1AX, IO, 0.451s, 2043 | 6,124,664 | 59,811 |
| FFCA Secured Lending Corp. Ser. 00-1, Class X, IO, 1.477s, 2020 | 17,785,417 | 1,086,033 |
| First Union Commercial Mortgage Trust 144A | | |
| Ser. 99-C1, Class G, 5.35s, 2035 | 891,000 | 565,367 |
| Freddie Mac | | |
| IFB Ser. 2963, Class SV, 10.72s, 2034 | 613,000 | 676,024 |
| IFB Ser. 2763, Class SC, 10.72s, 2032 | 806,349 | 866,607 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Freddie Mac | | |

| | | |
|---|---|---|
| IFB Ser. 3081, Class DC, 9.045s, 2035 | $ 1,168,104 | $ 1,199,350 |
| IFB Ser. 3102, Class SD, 8.177s, 2036 | 870,000 | 894,244 |
| IFB Ser. 2979, Class AS, 7.883s, 2034 | 524,508 | 524,508 |
| IFB Ser. 3051, Class PS, 7.773s, 2035 | 646,452 | 653,422 |
| IFB Ser. 3072, Class SA, 7.737s, 2035 | 458,297 | 448,701 |
| IFB Ser. 2996, Class SA, 7.508s, 2035 | 1,035,079 | 1,001,439 |
| Ser. 2229, Class PD, 7 1/2s, 2030 | 381,602 | 404,259 |
| Ser. 2224, Class PD, 7 1/2s, 2030 | 379,631 | 402,171 |
| Ser. 2217, Class PD, 7 1/2s, 2030 | 393,020 | 416,356 |
| Ser. 2187, Class PH, 7 1/2s, 2029 | 890,996 | 943,898 |
| Ser. 1989, Class C, 7 1/2s, 2027 | 133,692 | 141,630 |
| Ser. 1990, Class D, 7 1/2s, 2027 | 362,357 | 383,872 |
| Ser. 1969, Class PF, 7 1/2s, 2027 | 308,672 | 327,000 |
| Ser. 1975, Class E, 7 1/2s, 2027 | 84,050 | 89,041 |
| Ser. 1943, Class M, 7 1/2s, 2027 | 200,277 | 212,168 |
| Ser. 1932, Class E, 7 1/2s, 2027 | 274,458 | 290,754 |
| Ser. 1938, Class E, 7 1/2s, 2027 | 110,053 | 116,587 |
| Ser. 1941, Class E, 7 1/2s, 2027 | 91,357 | 96,781 |
| Ser. 1924, Class H, 7 1/2s, 2027 | 299,820 | 317,622 |
| Ser. 1928, Class D, 7 1/2s, 2027 | 118,782 | 125,834 |
| Ser. 1915, Class C, 7 1/2s, 2026 | 264,165 | 279,850 |
| Ser. 1923, Class D, 7 1/2s, 2026 | 321,725 | 340,827 |
| Ser. 1904, Class D, 7 1/2s, 2026 | 346,117 | 366,668 |
| Ser. 1905, Class H, 7 1/2s, 2026 | 309,474 | 327,848 |
| Ser. 1890, Class H, 7 1/2s, 2026 | 291,054 | 308,336 |
| Ser. 1895, Class C, 7 1/2s, 2026 | 145,213 | 153,835 |
| IFB Ser. 3072, Class SM, 7.407s, 2035 | 727,853 | 703,402 |
| IFB Ser. 3072, Class SB, 7.26s, 2035 | 687,085 | 660,246 |
| IFB Ser. 3065, Class DC, 6.45s, 2035 | 1,781,708 | 1,697,671 |
| IFB Ser. 3050, Class SA, 5.7s, 2034 | 1,258,579 | 1,170,314 |
| Ser. 2515, Class IG, IO, 5 1/2s, 2032 | 2,795,200 | 623,510 |
| Ser. 2590, Class IH, IO, 5 1/2s, 2028 | 1,438,200 | 260,674 |
| Ser. 2833, Class IK, IO, 5 1/2s, 2023 | 991,406 | 114,914 |
| Ser. 3114, Class TS, IO, 5s, 2036 | 12,276,973 | 575,483 |
| IFB Ser. 2828, Class TI, IO, 2.58s, 2030 | 1,773,980 | 124,179 |
| IFB Ser. 3033, Class SF, IO, 2.33s, 2035 | 2,622,693 | 132,774 |
| IFB Ser. 3028, Class ES, IO, 2.28s, 2035 | 8,476,494 | 669,093 |
| IFB Ser. 3042, Class SP, IO, 2.28s, 2035 | 2,017,000 | 150,065 |
| IFB Ser. 3045, Class DI, IO, 2.26s, 2035 | 20,702,601 | 1,019,618 |
| IFB Ser. 3054, Class CS, IO, 2.23s, 2035 | 2,020,076 | 111,104 |
| IFB Ser. 3066, Class SI, IO, 2.23s, 2035 | 5,730,886 | 447,042 |
| IFB Ser. 3031, Class BI, IO, 2.22s, 2035 | 1,665,471 | 136,818 |
| IFB Ser. 3067, Class SI, IO, 2.18s, 2035 | 6,609,990 | 518,256 |
| IFB Ser. 3065, Class DI, IO, 2.15s, 2035 | 1,293,105 | 102,351 |
| IFB Ser. 3016, Class SP, IO, 1.64s, 2035 | 1,736,945 | 67,307 |
| IFB Ser. 3016, Class SQ, IO, 1.64s, 2035 | 4,147,040 | 160,034 |
| IFB Ser. 2937, Class SY, IO, 1.63s, 2035 | 1,764,659 | 60,440 |
| IFB Ser. 2815, Class S, IO, 1.53s, 2032 | 4,204,195 | 141,917 |

| | | |
|---|---|---|
| Ser. 3045, Class DO, PO, zero %, 2035 | 1,583,154 | 1,246,390 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Freddie Mac | | |
| Ser. 231, PO, zero %, 2035 | $ 15,226,559 | $ 11,481,646 |
| Ser. 228, PO, zero %, 2035 | 6,905,073 | 5,447,122 |
| Ser. 227, PO, zero %, 2034 | 6,838,598 | 4,990,805 |
| Ser. 215, PO, zero %, 2031 | 389,839 | 336,780 |
| Ser. 2235, PO, zero %, 2030 | 431,138 | 344,506 |
| FRB Ser. 3022, Class TC, zero %, 2035 | 383,561 | 426,951 |
| FRB Ser. 2986, Class XT, zero %, 2035 | 222,092 | 236,493 |
| FRB Ser. 3046, Class WF, zero %, 2035 | 558,714 | 547,414 |
| FRB Ser. 3054, Class XF, zero %, 2034 | 230,665 | 233,946 |
| GE Capital Commercial Mortgage Corp. 144A | | |
| Ser. 00-1, Class F, 7.514s, 2033 | 251,000 | 266,949 |
| Ser. 00-1, Class G, 6.131s, 2033 | 1,159,000 | 1,075,866 |
| GMAC Commercial Mortgage Securities, Inc. 144A | | |
| Ser. 99-C3, Class G, 6.974s, 2036 | 1,022,427 | 991,112 |
| Government National Mortgage Association | | |
| IFB Ser. 05-66, Class SP, 5.933s, 2035 | 1,063,885 | 994,719 |
| IFB Ser. 05-65, Class SI, IO, 1.86s, 2035 | 4,529,270 | 202,834 |
| IFB Ser. 05-68, Class SI, IO, 1.81s, 2035 | 14,404,057 | 729,476 |
| IFB Ser. 05-51, Class SJ, IO, 1.71s, 2035 | 4,332,648 | 203,115 |
| IFB Ser. 05-68, Class S, IO, 1.71s, 2035 | 8,594,880 | 396,564 |
| Ser. 98-2, Class EA, PO, zero %, 2028 | 184,512 | 147,091 |
| GS Mortgage Securities Corp. II 144A FRB Ser. 03-FL6A, Class L, 7.72s, 2015 | 417,000 | 417,521 |
| LB Commercial Conduit Mortgage Trust 144A | | |
| Ser. 99-C1, Class G, 6.41s, 2031 | 492,082 | 463,356 |
| Ser. 98-C4, Class J, 5.6s, 2035 | 965,000 | 865,537 |
| Lehman Brothers Floating Rate Commercial Mortgage Trust 144A FRB Ser. 03-LLFA, Class L, 8.22s, 2014 | 1,181,000 | 1,179,858 |
| Mach One Commercial Mortgage Trust 144A | | |
| Ser. 04-1A, Class J, 5.45s, 2040 | 1,154,000 | 952,636 |
| Ser. 04-1A, Class K, 5.45s, 2040 | 411,000 | 331,594 |
| Ser. 04-1A, Class L, 5.45s, 2040 | 187,000 | 136,035 |
| Merrill Lynch Mortgage Investors, Inc. Ser. 96-C2, Class JS, IO, 2.148s, 2028 | 9,161,401 | 402,240 |
| Mezz Cap Commercial Mortgage Trust 144A | | |
| Ser. 04-C1, Class X, IO, 8.052s, 2037 | 1,436,088 | 559,626 |
| Morgan Stanley Capital I Ser. 98-CF1, Class E, 7.35s, 2032 | 2,455,000 | 2,627,926 |
| Morgan Stanley Capital I 144A Ser. 04-RR, Class F7, 6s, 2039 | 3,360,000 | 2,405,502 |

| | | | |
|---|---|---|---|
| Mortgage Capital Funding, Inc. | | | |
| FRB Ser. 98-MC2, Class E, 7.098s, 2030 | | 459,501 | 477,801 |
| Ser. 97-MC2, Class X, IO, 1.426s, 2012 | | 6,578,005 | 83,251 |
| Permanent Financing PLC FRB Ser. 8, Class 2C, 4.88s, 2042 (United Kingdom) | | 1,112,000 | 1,111,745 |
| PNC Mortgage Acceptance Corp. 144A Ser. 00-C1, Class J, 6 5/8s, 2010 | | 285,000 | 269,564 |
| QFA Royalties, LLC 144A Ser. 05-1, 7.3s, 2025 | | 1,281,837 | 1,268,534 |
| Quick Star PLC FRB Class 1-D, 5.501s, 2011 (United Kingdom) | GBP | 891,589 | 1,584,443 |
| SBA CMBS Trust 144A Ser. 05-1A, Class E, 6.706s, 2035 | $ | 595,000 | 596,983 |



COLLATERALIZED MORTGAGE OBLIGATIONS (13.7%)* *continued*

| | | Principal amount | Value |
|---|---|---|---|
| STRIPS 144A | | | |
| Ser. 03-1A, Class M, 5s, 2018 (Cayman Islands) | $ | 316,000 | $ 261,736 |
| Ser. 03-1A, Class N, 5s, 2018 (Cayman Islands) | | 376,000 | 283,617 |
| Ser. 04-1A, Class M, 5s, 2018 (Cayman Islands) | | 345,000 | 285,757 |
| Ser. 04-1A, Class N, 5s, 2018 (Cayman Islands) | | 325,000 | 245,148 |
| Titan Europe PLC 144A | | | |
| FRB Ser. 05-CT2A, Class E, 5.64s, 2014 (Ireland) | GBP | 674,000 | 1,197,765 |
| FRB Ser. 05-CT1A, Class D, 5.64s, 2014 (Ireland) | GBP | 819,178 | 1,455,762 |
| FRB Ser. 04-2A, Class D, 3.408s, 2014 (Ireland) | EUR | 686,117 | 833,015 |
| FRB Ser. 04-2A, Class C, 3.008s, 2014 (Ireland) | EUR | 862,270 | 1,046,883 |
| URSUS EPC 144A FRB Ser. 1-A, Class D, 5.489s, 2012 (Ireland) | GBP | 816,414 | 1,450,849 |
| Wachovia Bank Commercial Mortgage Trust 144A FRB Ser. 05-WL5A, Class L, 7.77s, 2018 | $ | 917,000 | 911,975 |
| Total collateralized mortgage obligations (cost $187,144,678) | | | $ 185,965,490 |

U.S. TREASURY OBLIGATIONS (12.7%)*

| | | Principal amount | Value |
|---|---|---|---|
| U.S. Treasury Bonds | | | |
| 7 1/2s, November 15, 2016 | $ | 27,040,000 | $ 33,588,750 |
| 6 1/4s, May 15, 2030 | | 46,303,000 | 56,460,721 |
| 6 1/4s, August 15, 2023 | | 18,225,000 | 21,459,938 |
| U.S. Treasury Notes | | | |
| 4 1/4s, August 15, 2013 | | 29,883,000 | 29,322,694 |

| | | |
|---|---|---|
| 4s, November 15, 2012 | 3,000 | 2,908 |
| 3 1/4s, August 15, 2008 | 20,856,000 | 20,238,466 |
| U.S. Treasury Strip zero %, November 15, 2024 | 28,450,000 | 11,686,973 |
| Total U.S. treasury obligations (cost $165,727,869) | | $ 172,760,450 |

ASSET-BACKED SECURITIES (12.1%)*

| | Principal amount | Value |
|---|---|---|
| ABSC NIMS Trust 144A Ser. 03-HE5, Class A, 7s, 2033 | $ 124,001 | $ 123,846 |
| Aegis Asset Backed Securities Trust 144A | | |
| Ser. 04-2N, Class N1, 4 1/2s, 2034 | 59,436 | 59,250 |
| Americredit Automobile Receivables Trust 144A | | |
| Ser. 05-1, Class E, 5.82s, 2012 | 1,270,000 | 1,266,812 |
| Ameriquest Finance NIM Trust 144A Ser. 04-RN9, | | |
| Class N2, 10s, 2034 (Cayman Islands) | 591,000 | 549,630 |
| Arcap REIT, Inc. 144A | | |
| Ser. 03-1A, Class E, 7.11s, 2038 | 743,000 | 760,182 |
| Ser. 04-1A, Class E, 6.42s, 2039 | 420,000 | 418,625 |
| Asset Backed Funding Corp. NIM Trust 144A | | |
| Ser. 04-0PT5, Class N1, 4.45s, 2034 (Cayman Islands) | 76,032 | 75,838 |
| Ser. 04-FF1, Class N1, 5s, 2034 (Cayman Islands) | 62,567 | 62,478 |
| Aviation Capital Group Trust 144A FRB | | |
| Ser. 03-2A, Class G1, 5.19s, 2033 | 560,991 | 561,824 |



ASSET-BACKED SECURITIES (12.1%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Bank One Issuance Trust FRB Ser. 03-C4, Class C4, | | |
| 5 1/2s, 2011 | $ 740,000 | $ 753,962 |
| Bayview Financial Asset Trust 144A Ser. 03-X, Class A, IO, | | |
| 0.61s, 2006 | 15,683,337 | 225,448 |
| Bear Stearns Asset Backed Securities NIM Trust 144A | | |
| Ser. 04-HE10, Class A1, 4 1/4s, 2034 (Cayman Islands) | 102,820 | 102,177 |
| Ser. 04-HE6, Class A1, 5 1/4s, 2034 (Cayman Islands) | 110,552 | 110,414 |
| Ser. 04-HE7N, Class A1, 5 1/4s, 2034 | 102,424 | 102,296 |
| Bear Stearns Asset Backed Securities, Inc. | | |
| Ser. 04-FR3, Class M6, 7.78s, 2034 | 507,000 | 506,683 |
| Bombardier Capital Mortgage Securitization Corp. | | |
| Ser. 00-A, Class A2, 7.575s, 2030 | 318,342 | 218,858 |
| Ser. 00-A, Class A4, 8.29s, 2030 | 1,168,688 | 832,690 |

| | | |
|---|---|---|
| Ser. 99-B, Class A3, 7.18s, 2015 | 2,204,686 | 1,405,487 |
| Ser. 99-B, Class A4, 7.3s, 2016 | 1,502,640 | 1,054,465 |
| FRB Ser. 00-A, Class A1, 4.63s, 2030 | 335,804 | 171,260 |
| CARSSX Finance, Ltd. 144A | | |
| FRB Ser. 04-AA, Class B3, 7.82s, 2011 (Cayman Islands) | 93,487 | 95,258 |
| FRB Ser. 04-AA, Class B4, 9.97s, 2011 (Cayman Islands) | 330,105 | 348,343 |
| Chase Credit Card Master Trust FRB Ser. 03-3, Class C, 5.55s, 2010 | 860,000 | 875,033 |
| CHEC NIM Ltd., 144A | | |
| Ser. 04-2, Class N1, 4.45s, 2034 (Cayman Islands) | 71,265 | 71,101 |
| Ser. 04-2, Class N2, 8s, 2034 (Cayman Islands) | 183,000 | 180,713 |
| Ser. 04-2, Class N3, 8s, 2034 (Cayman Islands) | 112,000 | 96,926 |
| Conseco Finance Securitizations Corp. | | |
| Ser. 00-2, Class A4, 8.48s, 2030 | 271,816 | 270,272 |
| Ser. 00-4, Class A4, 7.73s, 2031 | 1,876,023 | 1,774,155 |
| Ser. 00-4, Class A5, 7.97s, 2032 | 470,000 | 387,087 |
| Ser. 00-4, Class A6, 8.31s, 2032 | 6,661,000 | 5,633,208 |
| Ser. 00-6, Class A5, 7.27s, 2032 | 199,000 | 184,326 |
| Ser. 00-6, Class M2, 8.2s, 2032 | 344,578 | 13,783 |
| Ser. 01-1, Class A5, 6.99s, 2032 | 1,709,000 | 1,577,838 |
| Ser. 01-3, Class A3, 5.79s, 2033 | 17,576 | 17,586 |
| Ser. 01-3, Class A4, 6.91s, 2033 | 5,996,000 | 5,760,513 |
| Ser. 01-3, Class M2, 7.44s, 2033 | 402,424 | 50,303 |
| Ser. 01-4, Class A4, 7.36s, 2033 | 523,000 | 516,430 |
| Ser. 01-4, Class B1, 9.4s, 2033 | 439,657 | 59,354 |
| Ser. 02-1, Class A, 6.681s, 2033 | 3,205,138 | 3,261,209 |
| FRB Ser. 01-4, Class M1, 6.135s, 2033 | 573,000 | 220,605 |
| Consumer Credit Reference IDX Securities 144A | | |
| FRB Ser. 02-1A, Class A, 6.501s, 2007 | 1,494,000 | 1,511,779 |
| Countrywide Asset Backed Certificates 144A | | |
| Ser. 04-6N, Class N1, 6 1/4s, 2035 | 671,612 | 665,351 |
| Ser. 04-BC1N, Class Note, 5 1/2s, 2035 | 77,555 | 76,655 |
| Countrywide Home Loans Ser. 05-2, Class 2X, IO, 1.196s, 2035 | 16,509,671 | 389,526 |
| Crest, Ltd. 144A Ser. 03-2A, Class E2, 8s, 2038 (Cayman Islands) | 838,000 | 818,165 |



ASSET-BACKED SECURITIES (12.1%)* *continued*

| | Principal amount | Value |
|---|---|---|
| First Chicago Lennar Trust 144A Ser. 97-CHL1, Class E, 7.674s, 2039 | $ 3,460,001 | $ 3,521,091 |
| First Consumers Master Trust FRB Ser. 01-A, Class A, 4.78s, 2008 | 106,364 | 105,832 |

| | | | |
|---|---|---|---|
| First Franklin Mortgage Loan Asset Backed Certificates | | | |
| FRB Ser. 04-FF7, Class A4, 4.83s, 2034 | | 13,239,000 | 13,260,129 |
| First Franklin Mortgage Loan NIM Trust 144A | | | |
| Ser. 04-FF10, Class N1, 4.45s, 2034 (Cayman Islands) | | 118,997 | 118,661 |
| Fremont NIM Trust 144A | | | |
| Ser. 04-3, Class A, 4 1/2s, 2034 | | 233,802 | 231,847 |
| Ser. 04-3, Class B, 7 1/2s, 2034 | | 92,360 | 90,041 |
| Gears Auto Owner Trust Ser. 05-AA, Class E1, 8.22s, 2012 | | 1,347,000 | 1,343,034 |
| Granite Mortgages PLC | | | |
| FRB Ser. 02-1, Class 1C, 5.901s, 2042 (United Kingdom) | | 680,000 | 685,130 |
| FRB Ser. 03-2, Class 2C1, 5.2s, 2043 (United Kingdom) | EUR | 2,785,000 | 3,584,145 |
| FRB Ser. 03-2, Class 3C, 6.138s, 2043 (United Kingdom) | GBP | 2,090,000 | 3,839,305 |
| Green Tree Financial Corp. | | | |
| Ser. 93-1, Class B, 8.45s, 2018 | $ | 1,612,741 | 1,571,453 |
| Ser. 94-4, Class B2, 8.6s, 2019 | | 724,937 | 569,347 |
| Ser. 94-6, Class B2, 9s, 2020 | | 1,703,968 | 1,476,524 |
| Ser. 95-4, Class B1, 7.3s, 2025 | | 726,329 | 715,888 |
| Ser. 95-8, Class B1, 7.3s, 2026 | | 704,416 | 556,347 |
| Ser. 95-F, Class B2, 7.1s, 2021 | | 164,259 | 164,567 |
| Ser. 96-8, Class M1, 7.85s, 2027 | | 754,000 | 644,812 |
| Ser. 99-3, Class A5, 6.16s, 2031 | | 102,142 | 102,780 |
| Ser. 99-3, Class A7, 6.74s, 2031 | | 1,438,000 | 1,385,517 |
| Ser. 99-5, Class A5, 7.86s, 2030 | | 8,746,000 | 7,705,341 |
| Greenpoint Manufactured Housing | | | |
| Ser. 00-3, Class IA, 8.45s, 2031 | | 3,746,532 | 3,530,623 |
| Ser. 99-5, Class A4, 7.59s, 2028 | | 120,099 | 122,842 |
| GS Auto Loan Trust 144A Ser. 04-1, Class D, 5s, 2011 | | 1,005,516 | 997,260 |
| GSAMP Trust 144A | | | |
| Ser. 04-NIM1, Class N1, 5 1/2s, 2034 | | 434,730 | 434,643 |
| Ser. 04-NIM1, Class N2, zero %, 2034 | | 1,013,000 | 746,075 |
| Ser. 04-NIM2, Class N, 4 7/8s, 2034 | | 778,028 | 774,683 |
| Ser. 04-SE2N, Class Note, 5 1/2s, 2034 | | 506 | 506 |
| Guggenheim Structured Real Estate Funding, Ltd. | | | |
| FRB Ser. 05-1A, Class E, 6.33s, 2030 (Cayman Islands) | | 721,000 | 717,949 |
| Guggenheim Structured Real Estate Funding, Ltd. | | | |
| 144A FRB Ser. 05-2A, Class E, 6.53s, 2030 (Cayman Islands) | | 729,000 | 729,583 |
| HASCO NIM Trust 144A Ser. 05-OP1A, Class A, | | | |
| 6 1/4s, 2035 | | 836,771 | 808,286 |
| Holmes Financing PLC | | | |
| FRB Ser. 4, Class 3C, 5.9s, 2040 (United Kingdom) | | 410,000 | 411,389 |
| FRB Ser. 8, Class 2C, 5.32s, 2040 (United Kingdom) | | 458,000 | 458,687 |
| Home Equity Asset Trust 144A Ser. 02-5N, | | | |
| Class A, 8s, 2033 | | 36,217 | 36,217 |
| LNR CDO, Ltd. 144A | | | |
| FRB Ser. 02-1A, Class FFL, 7.269s, 2037 (Cayman Islands) | | 2,440,000 | 2,458,788 |
| FRB Ser. 03-1A, Class EFL, 7.51s, 2036 (Cayman Islands) | | 1,485,000 | 1,595,454 |

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ASSET-BACKED SECURITIES (12.1%)* *continued*

| | Principal amount | | Value |
|---|---|---|---|
| Long Beach Asset Holdings Corp. NIM Trust 144A Ser. 04-5, Class Note, 5s, 2034 | $ | 78,356 | $ 78,163 |
| Long Beach Mortgage Loan Trust Ser. 04-3, Class S1, IO, 4 1/2s, 2006 | | 1,994,534 | 64,224 |
| Lothian Mortgages PLC 144A FRB Ser. 3A, Class D, 5.388s, 2039 (United Kingdom) | GBP | 1,700,000 | 3,051,885 |
| Madison Avenue Manufactured Housing Contract FRB Ser. 02-A, Class B1, 7.78s, 2032 | $ | 2,025,781 | 1,012,891 |
| Mastr Asset Backed Securities NIM Trust 144A | | | |
| Ser. 04-Cl5, Class N2, 9s, 2034 (Cayman Islands) | | 219,736 | 219,824 |
| Ser. 04-HE1A, Class Note, 5.191s, 2034 (Cayman Islands) | | 77,561 | 77,484 |
| MBNA Credit Card Master Note Trust FRB Ser. 03-C5, Class C5, 5.65s, 2010 | | 860,000 | 878,089 |
| Merrill Lynch Mortgage Investors, Inc. Ser. 03-WM3N, Class N1, 8s, 2034 | | 9,225 | 9,193 |
| Merrill Lynch Mortgage Investors, Inc. 144A | | | |
| Ser. 04-FM1N, Class N1, 5s, 2035 (Cayman Islands) | | 43,456 | 43,470 |
| Ser. 04-HE1N, Class N1, 5s, 2006 | | 41,772 | 41,628 |
| Mid-State Trust Ser. 11, Class B, 8.221s, 2038 | | 287,995 | 285,694 |
| Morgan Stanley ABS Capital I FRB Ser. 04-HE8, Class B3, 7.73s, 2034 | | 458,000 | 456,964 |
| Morgan Stanley Auto Loan Trust 144A Ser. 04-HB2, Class E, 5s, 2012 | | 335,000 | 327,528 |
| Morgan Stanley Dean Witter Capital I | | | |
| FRB Ser. 01-NC3, Class B1, 6.98s, 2031 | | 127,467 | 127,467 |
| FRB Ser. 01-NC4, Class B1, 7.03s, 2032 | | 159,367 | 159,450 |
| Morgan Stanley Mortgage Loan Trust Ser. 05-5AR,Class 2A1, 5.433s, 2035 | | 4,375,686 | 4,370,728 |
| Navistar Financial Corp. Owner Trust | | | |
| Ser. 04-B, Class C, 3.93s, 2012 | | 242,186 | 235,813 |
| Ser. 05-A, Class C, 4.84s, 2014 | | 560,000 | 552,679 |
| Oakwood Mortgage Investors, Inc. | | | |
| Ser. 00-A, Class A2, 7.765s, 2017 | | 373,485 | 305,244 |
| Ser. 00-D, Class A4, 7.4s, 2030 | | 1,945,000 | 1,304,181 |
| Ser. 01-C, Class A2, 5.92s, 2017 | | 2,465,013 | 1,362,891 |
| Ser. 01-D, Class A2, 5.26s, 2019 | | 348,464 | 242,020 |
| Ser. 01-D, Class A4, 6.93s, 2031 | | 1,616,213 | 1,184,472 |
| Ser. 01-E, Class A2, 5.05s, 2019 | | 2,417,425 | 1,872,208 |
| Ser. 02-A, Class A2, 5.01s, 2020 | | 800,140 | 627,791 |
| Ser. 02-B, Class A4, 7.09s, 2032 | | 867,000 | 773,618 |
| Ser. 02-C, Class A1, 5.41s, 2032 | | 3,198,616 | 2,762,324 |

| | | |
|---|---|---|
| Ser. 99-B, Class A4, 6.99s, 2026 | 2,524,380 | 2,235,843 |
| Ser. 99-D, Class A1, 7.84s, 2029 | 2,365,257 | 2,117,129 |
| Oakwood Mortgage Investors, Inc. 144A Ser. 01-B, Class A4, 7.21s, 2030 | 649,754 | 588,429 |
| Ocean Star PLC 144A | | |
| FRB Ser. 04-A, Class E, 10.832s, 2018 (Ireland) | 1,695,000 | 1,795,005 |
| FRB Ser. 05-A, Class E, 8.896s, 2012 (Ireland) | 466,000 | 465,953 |



ASSET-BACKED SECURITIES (12.1%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Park Place Securities, Inc. FRB Ser. 04-MCW1, Class A2, 4.91s, 2034 | $ 7,400,311 | $ 7,387,360 |
| People□s Choice Net Interest Margin Note 144A Ser. 04-2, Class B, 5s, 2034 | 200,000 | 192,629 |
| Permanent Financing PLC | | |
| FRB Ser. 1, Class 3C, 5.68s, 2042 (United Kingdom) | 530,000 | 530,260 |
| FRB Ser. 3, Class 3C, 5.63s, 2042 (United Kingdom) | 680,000 | 690,048 |
| FRB Ser. 6, Class 3C, 5.36s, 2042 (United Kingdom) | GBP 1,731,000 | 3,076,160 |
| Residential Asset Securities Corp. Ser. 01-KS3, Class AII, 4.76s, 2031 | $ 8,891,602 | 8,892,287 |
| Residential Asset Securities Corp. 144A Ser. 04-N10B, Class A1, 5s, 2034 | 289,195 | 288,111 |
| Residential Mortgage Securities 144A FRB Ser. 20A, Class B1A, 5.356s, 2038 (United Kingdom) | GBP 250,000 | 441,565 |
| Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026 | $ 275,012 | 277,247 |
| SAIL Net Interest Margin Notes 144A | | |
| Ser. 03-10A, Class A, 7 1/2s, 2033 (Cayman Islands) | 106,467 | 88,809 |
| Ser. 03-3, Class A, 7 3/4s, 2033 (Cayman Islands) | 36,914 | 32,152 |
| Ser. 03-4, Class A, 7 1/2s, 2033 (Cayman Islands) | 343 | 318 |
| Ser. 03-5, Class A, 7.35s, 2033 (Cayman Islands) | 34,438 | 28,880 |
| Ser. 03-6A, Class A, 7s, 2033 (Cayman Islands) | 7,190 | 5,316 |
| Ser. 03-7A, Class A, 7s, 2033 (Cayman Islands) | 46,726 | 39,328 |
| Ser. 03-8A, Class A, 7s, 2033 (Cayman Islands) | 15,386 | 4,842 |
| Ser. 03-9A, Class A, 7s, 2033 (Cayman Islands) | 27,606 | 7,580 |
| Ser. 03-BC2A, Class A, 7 3/4s, 2033 (Cayman Islands) | 145,799 | 61,745 |
| Ser. 04-10A, Class A, 5s, 2034 (Cayman Islands) | 447,915 | 444,914 |
| Ser. 04-4A, Class A, 5s, 2034 (Cayman Islands) | 105,546 | 105,362 |
| Ser. 04-7A, Class A, 4 3/4s, 2034 (Cayman Islands) | 54,367 | 54,209 |
| Ser. 04-8A, Class A, 5s, 2034 (Cayman Islands) | 240,948 | 240,237 |
| Ser. 04-AA, Class A, 4 1/2s, 2034 (Cayman Islands) | 126,578 | 125,660 |
| Sasco Net Interest Margin Trust 144A | | |
| Ser. 03-BC1, Class B, zero %, 2033 (Cayman Islands) | 530,404 | 159,121 |
| Ser. 05-WF1A, Class A, 4 3/4s, 2035 | 264,120 | 261,680 |

| | | |
|---|---|---|
| Sharps SP I, LLC Net Interest Margin Trust 144A | | |
| Ser. 04-HE2N, Class NA, 5.43s, 2034 | 52,346 | 51,561 |
| Ser. 04-HS1N, Class Note, 5.92s, 2034 | 12,441 | 12,441 |
| South Coast Funding 144A FRB Ser. 3A, Class A2, | | |
| 5.51s, 2038 (Cayman Islands) | 200,000 | 201,000 |
| Structured Asset Investment Loan Trust | | |
| Ser. 03-BC1A, Class A, 7 3/4s, 2033 (Cayman Islands) | 30,865 | 30,865 |
| FRB Ser. 04-9, Class A4, 4.83s, 2034 | 13,337,000 | 13,350,275 |
| Structured Asset Receivables Trust 144A FRB Ser. 05-1, | | |
| 5.114s, 2015 | 3,516,883 | 3,466,328 |
| TIAA Real Estate CDO, Ltd. Ser. 03-1A, Class E, 8s, | | |
| 2038 (Cayman Islands) | 904,000 | 876,433 |
| TIAA Real Estate CDO, Ltd. 144A Ser. 02-1A, Class IV, | | |
| 6.84s, 2037 (Cayman Islands) | 756,000 | 705,306 |
| Wells Fargo Home Equity Trust 144A | | |
| Ser. 04-2, Class N1, 4.45s, 2034 (Cayman Islands) | 277,856 | 274,527 |
| Ser. 04-2, Class N2, 8s, 2034 (Cayman Islands) | 419,000 | 410,627 |



ASSET-BACKED SECURITIES (12.1%)* *continued*

| | Principal amount | Value |
|---|---|---|
| Wells Fargo Mortgage Backed Securities Trust | | |
| Ser. 05-AR13, Class 1A4, IO, 0.742s, 2035 | $ 32,351,160 | $ 225,811 |
| Whinstone Capital Management, Ltd. 144A FRB | | |
| Ser. 1A, Class B3, 5.523s, 2044 (United Kingdom) | 1,438,000 | 1,437,775 |
| Whole Auto Loan Trust 144A | | |
| Ser. 03-1, Class D, 6s, 2010 | 207,962 | 207,794 |
| Ser. 04-1, Class D, 5.6s, 2011 | 692,940 | 687,674 |
| Total asset-backed securities (cost $168,110,655) | | $ 164,717,039 |

U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (11.2%)*

| | Principal amount | Value |
|---|---|---|
| Federal Home Loan Mortgage Corporation | | |
| Pass-Through Certificates | | |
| 7 1/2s, with due dates from March 1, 2026 to May 1, 2027 | $ 24,017 | $ 25,325 |
| Federal National Mortgage Association Pass-Through Certificates | | |
| 8s, July 1, 2024 | 1,492 | 1,576 |
| 7 1/2s, with due dates from October 1, 2022 to August 1, 2030 | 110,316 | 115,775 |
| 6 1/2s, October 1, 2034 | 321,966 | 330,380 |
| 6 1/2s, April 1, 2016 | 68,350 | 69,825 |

| | | |
|---|---|---|
| 6s, TBA, February 1, 2036 | 23,500,000 | 23,722,148 |
| 5 1/2s, with due dates from June 1, 2035 to February 1, 2036 | 7,100,458 | 7,026,462 |
| 5 1/2s, TBA, February 1, 2036 | 80,900,000 | 80,002,512 |
| 5 1/2s, TBA, February 1, 2021 | 30,100,000 | 30,274,014 |
| 5s, with due dates from June 1, 2019 to February 1, 2020 | 3,548,987 | 3,510,786 |
| 5s, TBA, February 1, 2036 | 500,000 | 483,047 |
| 4 1/2s, with due dates from August 1, 2033 to June 1, 2034 | 6,209,931 | 5,851,647 |
| 4 1/2s, TBA, February 1, 2021 | 673,000 | 653,020 |
| Total U.S. government and agency mortgage obligations (cost $152,444,487) | | $ 152,066,517 |

SENIOR LOANS (8.0%)* (c)

| | Principal amount | Value |
|---|---|---|
| Basic Materials (0.6%) | | |
| Celanese Corp. bank term loan FRN Ser. B, 6.527s, 2011 | $ 562,591 | $ 568,499 |
| Graphic Packaging Corp. bank term loan FRN Ser. C, 6.984s, 2010 | 262,187 | 266,011 |
| Hercules, Inc. bank term loan FRN Ser. B, 6.308s, 2010 | 796,191 | 804,816 |
| Huntsman International Corp. bank term loan FRN Ser. B, 6.233s, 2012 | 1,190,838 | 1,196,607 |
| IAP Worldwide Services, Inc. bank term loan FRN Ser. B, 7.563s, 2011 | 498,750 | 503,738 |
| Innophos, Inc. bank term loan FRN 6.707s, 2010 | 497,368 | 503,378 |
| Mosaic Co. (The) bank term loan FRN Ser. B, 6.185s, 2012 | 992,500 | 1,001,184 |
| Nalco Co. bank term loan FRN Ser. B, 6.56s, 2010 | 521,892 | 528,089 |
| Novelis, Inc. bank term loan FRN 6.011s, 2012 | 403,618 | 408,032 |
| Novelis, Inc. bank term loan FRN Ser. B, 6.011s, 2012 | 701,020 | 708,688 |



SENIOR LOANS (8.0%)* (c) *continued*

| | Principal amount | Value |
|---|---|---|
| Basic Materials *continued* | | |
| Rockwood Specialties Group, Inc. bank term loan FRN Ser. D, 6.466s, 2012 | $ 2,019,013 | $ 2,042,359 |
| Smurfit-Stone Container Corp. bank term loan FRN 4.29s, 2010 | 43,665 | 44,042 |
| Smurfit-Stone Container Corp. bank term loan FRN Ser. B, 6.709s, 2011 | 314,916 | 317,711 |
| Smurfit-Stone Container Corp. bank term loan FRN Ser. C, 6.73s, 2011 | 106,833 | 107,782 |

| | | |
|---|---|---|
| | | 9,000,936 |
| Capital Goods (0.6%) | | |
| Allied Waste Industries, Inc. bank term loan FRN Ser. A, 4.385s, 2012 | 334,938 | 337,533 |
| Allied Waste Industries, Inc. bank term loan FRN Ser. B, 6.348s, 2012 | 862,697 | 868,807 |
| Amsted Industries, Inc. bank term loan FRN 7.104s, 2010 | 189,567 | 191,858 |
| Avio Holding SpA bank term loan FRN Ser. B, 6.531s, 2011 (Italy) | 6,994 | 6,998 |
| Avio Holding SpA bank term loan FRN Ser. C, 7.556s, 2012 (Italy) | 7,024 | 7,041 |
| Graham Packaging Co., Inc. bank term loan FRN Ser. B, 6.845s, 2011 | 795,980 | 805,219 |
| Hexcel Corp. bank term loan FRN Ser. B, 6.3s, 2012 | 1,219,013 | 1,230,188 |
| Invensys, PLC bank term loan FRN Ser. B-1, 7.791s, 2009 (United Kingdom) | 134,462 | 135,807 |
| Mueller Group, Inc. bank term loan FRN Ser. B, 6.539s, 2012 | 1,215,953 | 1,229,198 |
| Solo Cup Co. bank term loan FRN 7.027s, 2011 | 540,126 | 544,402 |
| Terex Corp. bank term loan FRN 6.839s, 2009 | 299,225 | 302,404 |
| Terex Corp. bank term loan FRN Ser. C, 7.339s, 2009 | 1,396,392 | 1,412,101 |
| Transdigm, Inc. bank term loan FRN Ser. C, 6.58s, 2010 | 988,936 | 1,000,062 |
| | | 8,071,618 |
| Communication Services (0.5%) | | |
| Centennial Cellular Operating Co., LLC bank term loan FRN Ser. B, 6.621s, 2011 | 1,761,369 | 1,783,386 |
| Cincinnati Bell, Inc. bank term loan FRN Ser. B, 5.895s, 2012 | 199,500 | 200,872 |
| Consolidated Communications Holdings bank term loan FRN Ser. D, 6.238s, 2011 | 297,884 | 300,739 |
| Fairpoint Communications, Inc. bank term loan FRN Ser. B, 6.313s, 2012 | 541,884 | 542,697 |
| Madison River Capital, LLC. bank term loan FRN Ser. B, 7.05s, 2012 | 1,219,013 | 1,229,679 |
| Qwest Communications International, Inc. bank term loan FRN Ser. A, 9.22s, 2007 | 349,500 | 357,451 |
| Syniverse Holdings, Inc. bank term loan FRN Ser. B, 6.28s, 2012 | 1,042,837 | 1,050,658 |
| Valor Telecommunications Enterprises LLC/Finance Corp. bank term loan FRN Ser. B, 6.023s, 2012 | 1,219,333 | 1,222,001 |
| | | 6,687,483 |

| | Principal amount | Value |
|---|---|---|
| Consumer Cyclicals (2.0%) | | |
| Adams Outdoor Advertising, LP bank term loan FRN 6.62s, 2012 | $ 834,967 | $ 846,100 |
| Affinion Group, Inc. bank term loan FRN Ser. B, 7.103s, 2013 | 2,020,930 | 2,003,247 |
| American Media Operations bank term loan FRN Ser. C, 7.14s, 2007 | 198,943 | 199,606 |
| BLB (Wembley) bank term loan FRN 6.08s, 2011 (United Kingdom) | 248,750 | 252,326 |
| Boise Cascade Corp. bank term loan FRN Ser. D, 6.264s, 2011 | 1,436,557 | 1,454,334 |
| Borgata Resorts bank term loan FRN Ser. B, 6.139s, 2011 | 792,000 | 795,465 |
| Boyd Gaming Corp. bank term loan FRN Ser. B, 5.863s, 2010 | 1,243,687 | 1,255,346 |
| CCM Merger, Inc. bank term loan FRN Ser. B, 6.489s, 2012 | 1,193,004 | 1,198,670 |
| Coinmach Service Corp. bank term loan FRN Ser. B, 7.031s, 2012 | 550,000 | 558,021 |
| Cooper Tire & Rubber Co. bank term loan FRN Ser. B, 6.563s, 2012 | 759,000 | 760,897 |
| Cooper Tire & Rubber Co. bank term loan FRN Ser. C, 6.563s, 2012 | 1,221,000 | 1,224,053 |
| Custom Building Products bank term loan FRN Ser. B, 6.776s, 2011 | 1,187,480 | 1,193,418 |
| Dex Media West, LLC/Dex Media Finance Co. bank term loan FRN Ser. B, 6.251s, 2010 | 511,013 | 515,272 |
| Dex Media West, LLC/Dex Media Finance Co. bank term loan FRN Ser. B, 5.565s, 2010 | 1,170,000 | 1,175,607 |
| Goodyear Tire & Rubber Co. (The) bank term loan FRN 7.06s, 2010 | 465,000 | 469,359 |
| Hayes Lemmerz International, Inc. bank term loan FRN 7.646s, 2009 | 255,663 | 254,933 |
| Jostens IH Corp. bank term loan FRN Ser. C, 6.777s, 2010 | 1,204,264 | 1,219,317 |
| Landsource, Inc. bank term loan FRN Ser. B, 7s, 2010 | 150,000 | 151,219 |
| Masonite International Corp. bank term loan FRN 6.629s, 2013 (Canada) | 375,353 | 365,226 |
| Masonite International Corp. bank term loan FRN Ser. B, 6.629s, 2013 (Canada) | 376,022 | 365,877 |
| Mega Bloks, inc. bank term loan FRN Ser. B, 6.039s, 2012 (Canada) | 249,375 | 252,492 |
| Neiman Marcus Group, Inc. bank term loan FRN Ser. B, 6.947s, 2013 | 712,025 | 719,009 |
| Nortek Holdings, Inc. bank term loan FRN Ser. B, 6.948s, 2011 | 396,985 | 399,838 |
| Penn National Gaming, Inc. bank term loan FRN Ser. B, 6.294s, 2012 | 548,625 | 555,140 |
| PRIMEDIA, Inc. bank term loan FRN Ser. B, 6.648s, 2013 | 300,000 | 296,175 |
| R.H. Donnelley Finance Corp. bank term loan FRN Ser. A-3, 6.273s, 2009 | 263,762 | 264,422 |
| R.H. Donnelley Finance Corp. bank term loan FRN Ser. D, 6.259s, 2011 | 1,120,967 | 1,128,404 |
| R.H. Donnelley Finance Corp. bank term loan FRN Ser. D, | | |

| | | |
|---|---|---|
| 5.696s, 2011 | 947,384 | 953,670 |
| R.H. Donnelley Finance Corp. bank term loan FRN Ser. D1, 5.993s, 2011 | 780,000 | 782,925 |
| Raycom Media, Inc. bank term loan FRN Ser. B, 6.563s, 2012 | 1,700,000 | 1,700,000 |
| Sealy Mattress Co. bank term loan FRN Ser. D, 6.145s, 2012 | 453,116 | 457,647 |



SENIOR LOANS (8.0%)* (c) *continued*

| | Principal amount | Value |
|---|---|---|
| Consumer Cyclicals *continued* | | |
| Trump Hotel & Casino Resort, Inc. bank term loan FRN Ser. B, 7.17s, 2012 | $ 168,826 | $ 170,567 |
| Trump Hotel & Casino Resort, Inc. bank term loan FRN Ser. DD, 5.62s, 2012 (U) | 170,000 | 171,771 |
| TRW Automotive, Inc. bank term loan FRN Ser. B, 6 1/4s, 2010 | 1,051,102 | 1,050,226 |
| TRW Automotive, Inc. bank term loan FRN Ser. B2, 6 1/8s, 2010 | 236,000 | 236,000 |
| Venetian Casino Resort, LLC bank term loan FRN Ser. B, 6.28s, 2011 | 1,012,507 | 1,021,051 |
| Venetian Casino Resort, LLC bank term loan FRN Ser. DD, 6.28s, 2011 | 208,764 | 210,526 |
| William Carter Holdings Co. (The) bank term loan FRN Ser. B, 5.718s, 2012 | 215,016 | 216,987 |
| | | 26,845,143 |
| Consumer Staples (1.9%) | | |
| Affinity Group Holdings bank term loan FRN Ser. B1, 6.613s, 2009 | 65,421 | 66,075 |
| Affinity Group Holdings bank term loan FRN Ser. B2, 6.967s, 2009 | 162,834 | 164,462 |
| AMF Bowling Worldwide bank term loan FRN Ser. B, 7.518s, 2009 | 208,027 | 209,457 |
| Ashtead Group PLC bank term loan FRN Ser. B, 6 1/8s, 2009 (United Kingdom) | 643,500 | 648,728 |
| Avago Technologies Finance bank term loan FRN 6.661s, 2013 | 350,000 | 353,063 |
| Burger King Corp. bank term loan FRN Ser. B, 6.313s, 2012 | 296,510 | 299,228 |
| Century Cable Holdings bank term loan FRN 9 1/4s, 2009 | 1,220,000 | 1,185,941 |
| Charter Communications PLC bank term loan FRN Ser. B, 7 1/2s, 2011 (United Kingdom) | 1,215,927 | 1,223,949 |
| Cinemark, Inc. bank term loan FRN Ser. C, 6.529s, 2011 | 497,468 | 503,189 |
| Constellation Brands, Inc. bank term loan FRN Ser. B, 5.9s, 2011 | 1,219,013 | 1,231,660 |
| DirecTV Holdings, LLC bank term loan FRN Ser. B, 6.011s, 2013 | 1,366,667 | 1,379,907 |
| Dole Food Co., Inc. bank term loan FRN Ser. B, 6.047s, 2012 | 490,047 | 491,447 |
| Domino□s, Inc. bank term loan FRN 6.063s, 2010 | 800,322 | 807,992 |
| Emmis Communications Corp. bank term loan FRN Ser. B, 6.292s, 2010 | 201,141 | 201,895 |
| Gray Television, Inc. bank term loan FRN Ser. B, 6.03s, 2012 | 250,000 | 251,500 |
| Insight Midwest LP/Insight Capital, Inc. bank term loan FRN 6.563s, 2009 | 137,200 | 138,984 |

| | | |
|---|---|---|
| Intelsat Bermuda, Ltd. bank term loan FRN Ser. B, 6.313s, 2011 (Bermuda) | 1,193,970 | 1,204,417 |
| Jack-in-the-Box, Inc. bank term loan FRN 5.81s, 2008 | 846,079 | 853,483 |
| Jean Coutu Group, Inc. bank term loan FRN Ser. B, 6 1/2s, 2011 (Canada) | 1,024,548 | 1,036,501 |
| Mediacom Communications Corp. bank term loan FRN Ser. B, 6.64s, 2012 | 990,000 | 1,002,375 |
| MGM Studios, Inc. bank term loan FRN Ser. B, 6.78s, 2011 | 1,219,013 | 1,230,787 |
| Olympus Cable Holdings, LLC bank term loan FRN Ser. B, 9 1/4s, 2010 | 735,000 | 714,788 |
| PanAmSat Corp. bank term loan FRN Ser. B1, 6.489s, 2010 | 1,215,979 | 1,229,455 |
| Prestige Brands, Inc. bank term loan FRN Ser. B, 6.31s, 2011 | 956,978 | 964,155 |
| Prestige Brands, Inc. bank term loan FRN Ser. B-1, 6.894s, 2011 | 414,780 | 417,891 |
| Regal Cinemas, Inc. bank term loan FRN Ser. B, 6.527s, 2010 | 1,215,919 | 1,228,838 |
| Six Flags, Inc. bank term loan FRN Ser. B, 6.955s, 2009 | 812,312 | 820,562 |



SENIOR LOANS (8.0%)* (c) *continued*

| | Principal amount | Value |
|---|---|---|
| Consumer Staples *continued* | | |
| Spanish Broadcasting Systems, Inc. bank term loan FRN 6.53s, 2012 | $ 795,990 | $ 805,940 |
| Spectrum Brandd, Inc. bank term loan FRN Ser. B, 6.664s, 2013 | 1,130,695 | 1,139,175 |
| Sun Media Corp. bank term loan FRN Ser. B, 6.243s, 2009 (Canada) | 302,332 | 306,111 |
| Universal City Development bank term loan FRN Ser. B, 6.504s, 2011 | 1,215,943 | 1,229,115 |
| Warner Music Group bank term loan FRN Ser. B, 6.502s, 2011 | 966,010 | 974,462 |
| Young Broadcasting, Inc. bank term loan FRN Ser. B, 6.703s, 2012 | 1,215,958 | 1,216,338 |
| | | 25,531,870 |
| Energy (0.4%) | | |
| Dresser, Inc. bank term loan FRN 7.99s, 2010 | 360,000 | 365,400 |
| EPCO, Inc. bank term loan FRN Ser. B, 6.738s, 2010 | 594,000 | 601,611 |
| Key Energy Services, Inc. bank term loan FRN Ser. B, 7.683s, 2012 | 1,750,000 | 1,773,333 |
| Petroleum Geo-Services ASA bank term loan FRN Ser. B, 7s, 2012 (Norway) | 200,000 | 202,375 |
| Targa Resources, Inc. bank term loan FRN 6.637s, 2012 | 981,411 | 990,408 |
| Targa Resources, Inc. bank term loan FRN 4.402s, 2012 | 236,129 | 238,294 |
| Universal Compression, Inc. bank term loan FRN Ser. B, 6.03s, 2012 | 596,499 | 601,718 |
| Vulcan Energy Corp. bank term loan FRN 6.401s, 2011 | 841,374 | 850,839 |

| | | |
|---|---|---|
| | | 5,623,978 |
| Financial (0.7%) | | |
| Ameritrade, Inc. bank term loan FRN 6.036s, 2013 | 2,000,000 | 2,009,500 |
| Capital Automotive bank term loan FRN 6.31s, 2010 (R) | 2,300,000 | 2,306,900 |
| Fidelity National Information Solutions bank term loan FRN Ser. B, 6.129s, 2013 | 1,215,671 | 1,222,257 |
| General Growth Properties, Inc. bank term loan FRN Ser. A, 6.22s, 2007 (R) | 828,656 | 829,037 |
| General Growth Properties, Inc. bank term loan FRN Ser. B, 6.39s, 2008 (R) | 1,784,582 | 1,787,185 |
| Hilb, Rogal & Hamilton Co. bank term loan FRN Ser. B, 6.813s, 2011 | 430,429 | 434,195 |
| NASDAQ, Inc bank term loan FRN Ser. B, 6.137s, 2011 | 650,000 | 654,875 |
| | | 9,243,949 |
| Health Care (0.5%) | | |
| Alderwoods Group, Inc. bank term loan FRN 6.48s, 2009 | 860,993 | 870,141 |
| Beverly Enterprises, Inc. bank term loan FRN 6.973s, 2008 | 244,375 | 244,375 |
| Community Health Systems, Inc. bank term loan FRN Ser. B, 6.16s, 2011 | 633,985 | 641,910 |
| DaVita, Inc. bank term loan FRN Ser. B, 6.729s, 2012 | 1,102,140 | 1,117,294 |
| Hanger Orthopedic Group, Inc. bank term loan FRN 8.271s, 2009 | 195,500 | 197,699 |
| Healthsouth Corp. bank term loan FRN 6.89s, 2010 | 548,494 | 549,865 |
| Healthsouth Corp. bank term loan FRN 4.39s, 2010 | 148,750 | 149,122 |



SENIOR LOANS (8.0%)* (c) *continued*

| | Principal amount | Value |
|---|---|---|
| Health Care *continued* | | |
| Kinetic Concepts, Inc. bank term loan FRN Ser. B, 6.28s, 2011 | $ 131,191 | $ 132,449 |
| LifePoint, Inc. bank term loan FRN Ser. B, 6.185s, 2012 | 1,182,638 | 1,188,716 |
| Mylan Laboratories, Inc. bank term loan FRN Ser. B, 6.06s, 2010 | 696,500 | 704,336 |
| Psychiatric Solutions, Inc. bank term loan FRN Ser. B, 6.15s, 2012 | 307,692 | 310,769 |
| Stewart Enterprises, Inc. bank term loan FRN Ser. B, 5.987s, 2011 | 249,342 | 251,523 |
| Veterinary Centers of America, Inc. bank term loan FRN Ser. B, 5.938s, 2011 | 578,042 | 582,377 |
| | | 6,940,576 |
| Technology (0.4%) | | |
| AMI Semiconductor, Inc. bank term loan FRN 6.06s, 2012 | 1,215,953 | 1,221,020 |

| | | |
|---|---|---|
| Aspect Software, Inc. bank term loan FRN Ser. B, 6.563s, 2010 | 500,000 | 503,750 |
| Avago, Inc. Ser. DD, 6.565s, 2012 (Singapore) | 300,000 | 301,750 |
| Avago, Inc. bank term loan FRN Ser. B, 6.565s, 2012 (Singapore) | 700,000 | 701,532 |
| SunGard Data Systems, Inc. bank term loan FRN Ser. B, 6.81s, 2013 | 1,215,958 | 1,227,610 |
| UGS Corp. bank term loan FRN Ser. C, 6.389s, 2012 | 902,483 | 912,636 |
| Xerox Corp. bank term loan FRN 6.22s, 2008 | 400,000 | 402,700 |
| | | 5,270,998 |
| Transportation (0.1%) | | |
| Kansas City Southern Railway Co. bank term loan FRN Ser. B, 5.907s, 2008 | 582,239 | 584,665 |
| Midwestern Air Systems bank term loan FRN Ser. B, 6.85s, 2012 | 248,750 | 251,859 |
| Travelcenters of America bank term loan FRN Ser. B, 6.279s, 2011 | 1,050,000 | 1,059,975 |
| | | 1,896,499 |
| Utilities & Power (0.3%) | | |
| Allegheny Energy, Inc. bank term loan FRN Ser. C, 5.883s, 2011 | 646,887 | 652,008 |
| El Paso Corp. bank term loan FRN 4.29s, 2009 | 406,000 | 407,410 |
| El Paso Corp. bank term loan FRN Ser. B, 7.313s, 2009 | 809,708 | 814,994 |
| NRG Energy, Inc. bank term loan FRN 4.427s, 2011 | 481,373 | 481,875 |
| NRG Energy, Inc. bank term loan FRN Ser. B, 6.264s, 2011 | 612,720 | 613,358 |
| Texas Genco Holdings, Inc. bank term loan FRN Ser. B, 6.468s, 2011 | 700,615 | 700,615 |
| Texas Genco Holdings, Inc. bank term loan FRN Ser. DD, 6.47s, 2011 | 389,791 | 389,791 |
| Williams Cos., Inc. (The) bank term loan FRN Ser. C, 6.72s, 2007 | 224,273 | 226,656 |
| | | 4,286,707 |
| Total senior loans (cost $109,336,570) | | $ 109,399,757 |



COMMON STOCKS (0.2%)*

| | Shares | Value |
|---|---|---|
| Coinmach Service Corp. IDS (Income Deposit Securities) | 46,000 | $ 743,360 |
| Comdisco Holding Co., Inc. | 905 | 13,593 |
| Contifinancial Corp. Liquidating Trust Units | 5,273,336 | 1,648 |
| Crown Castle International Corp. □ | 956 | 30,238 |
| Dobson Communications Corp. □ | 6,077 | 45,091 |

| | | | |
|---|---|---|---|
| Genesis HealthCare Corp. □ | 2,143 | | 78,541 |
| iPCS, Inc. □ | 646 | | 30,653 |
| Knology, Inc. □ | 381 | | 1,410 |
| Northwestern Corp. (S) | 11,242 | | 352,324 |
| Sterling Chemicals, Inc. □ | 497 | | 5,268 |
| Sun Healthcare Group, Inc. □ | 1,662 | | 11,135 |
| USA Mobility, Inc. | 27 | | 755 |
| VFB LLC (acquired various dates from 06/22/99 to 12/08/03, cost $1,311,474) (F) □ □ | 1,795,382 | | 38,152 |
| WHX Corp. □ | 36,177 | | 370,814 |
| Williams Cos., Inc. (The) | 60,689 | | 1,446,826 |
| Total common stocks (cost $10,388,776) | | $ | 3,169,808 |

PREFERRED STOCKS (0.2%)*

| | Shares | | Value |
|---|---|---|---|
| Dobson Communications Corp. 13.00% pfd. | 16 | $ | 20,319 |
| First Republic Capital Corp. 144A 10.50% pfd. | 750 | | 825,000 |
| Paxson Communications Corp. 14.25% cum. pfd. □□ | 133 | | 1,143,800 |
| Rural Cellular Corp. Ser. B, 11.375% cum. pfd. | 828 | | 977,040 |
| Total preferred stocks (cost $2,664,662) | | $ | 2,966,159 |

CONVERTIBLE PREFERRED STOCKS (0.1%)*

| | Shares | | Value |
|---|---|---|---|
| Emmis Communications Corp. Ser. A, $3.125 cum. cv. pfd. | 4,826 | $ | 196,660 |
| Paxson Communications Corp. 144A 9.75% cv. pfd. □□ | 122 | | 829,600 |
| Total convertible preferred stocks (cost $1,316,396) | | $ | 1,026,260 |

UNITS (0.1%)* (cost $2,676,027)

| | Units | | Value |
|---|---|---|---|
| XCL Equity Units zero % (F) | 1,327 | $ | 904,889 |

CONVERTIBLE BONDS AND NOTES (0.1%)*

| | Principal amount | | Value |
|---|---|---|---|
| Manor Care, Inc. 144A cv. sr. notes 2 1/8s, 2035 | $ 165,000 | $ | 167,888 |
| WCI Communities, Inc. cv. sr. sub. notes 4s, 2023 | 525,000 | | 593,250 |
| Total convertible bonds and notes (cost $762,662) | | $ | 761,138 |

PURCHASED OPTIONS OUTSTANDING (□%)*

| | Expiration date/ strike price | Contract amount | | Value |
|---|---|---|---|---|
| Three month Euro Euribor future (Put) | Dec-06 / 96.88 | 221 | $ | 130,804 |
| Three month Euro Euribor future (Call) | Dec-06 / 96.88 | 221 | | 110,680 |
| Total purchased options outstanding (cost $251,361) | | | $ | 241,484 |

WARRANTS (□%)* □

| | Expiration date | Strike price | Warrants | | Value |
|---|---|---|---|---|---|
| Dayton Superior Corp. 144A | 6/15/09 | .01 | 1,980 | $ | 20 |
| MDP Acquisitions PLC 144A (Ireland) | 10/1/13 | EUR .001 | 960 | | 26,880 |
| Mikohn Gaming Corp. 144A | 8/15/08 | 7.7 | 760 | | 76 |
| TravelCenters of America, Inc. | 5/1/09 | .001 | 1,260 | | 1,575 |
| Ubiquitel, Inc. 144A | 4/15/10 | 22.74 | 3,210 | | 32 |
| Total warrants (cost $219,537) | | | | $ | 28,583 |

EQUITY VALUE CERTIFICATES (□%)* □ (cost $107,609)

| | Maturity date | Certificates | | Value |
|---|---|---|---|---|
| ONO Finance PLC 144A (United Kingdom) | 2/15/11 | 780 | $ | 8 |

SHORT-TERM INVESTMENTS (14.9%)*

| | Principal amount/shares | | Value |
|---|---|---|---|
| Putnam Prime Money Market Fund (e) | 160,748,509 | $ | 160,748,509 |
| Interest in $437,000,000 joint tri-party | | | |

| | | |
|---|---|---|
| repurchase agreement dated January 31, 2006 with Bank of America Securities, LLC due February 1, 2006 with respect to various U.S. Government obligations □ maturity value of $4,981,616 for an effective yield of 4.45% (collaterized by Fannie Mae and Freddie Mac with yields ranging 4.31% to 6.38% and due dates ranging from June 1, 2020 to May 1, 2038, valued at $445,740,000) | $ 4,981,000 | 4,981,000 |



SHORT-TERM INVESTMENTS (14.9%)* *continued*

| | Principal amount | | Value |
|---|---|---|---|
| Interest in $450,000,000 joint tri-party repurchase agreement dated January 31, 2006 with Bank of America Securities, LLC due February 1, 2006 with respect to various U.S. Government obligations □ maturity value of $33,298,097 for an effective yield of 4.43% (collaterized by Fannie Mae and Freddie Mac with yields ranging 5.00% to 5.50% and due dates ranging from May 1, 2019 to December 1, 2035, valued at $459,000,000) | $ 33,294,000 | $ | 33,294,000 |
| Short-term investments held as collateral for loaned securities with yields ranging from 4.33% to 4.65% and due dates ranging from February 1, 2006 to March 24, 2006 (d) | 262,526 | | 262,400 |
| U.S. Treasury Bills 4.31%, April 13, 2006 # | 3,958,000 | | 3,924,630 |
| Total short-term investments (cost $203,210,539) | | $ | 203,210,539 |

| | | |
|---|---|---|
| TOTAL INVESTMENTS | | |
| Total investments (cost $1,462,628,987) | $ | 1,469,946,852 |

* *Percentages indicated are based on net assets of $1,359,962,086.*

□ *Non-income-producing security.*

*(S) Securities on loan, in part or in entirety, at January 31, 2006.*

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

□ *Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at January 31, 2006 was $3,727,382 or 0.3% of net assets.*

□□ *Income may be received in cash or additional securities at the discretion of the issuer.*

*# This security was pledged and segregated with the custodian to cover margin requirements for futures contracts at January 31, 2006.*

*(R) Real Estate Investment Trust.*

*(c) Senior loans are exempt from registration under the Security Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rate shown for senior loans are the current interest rates at January 31, 2006. Senior loans are also subject to mandatory and/or optional prepayment which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown (Notes 1 and 6).*

*(d) See Note 1 to the financial statements.*

*(e) See Note 5 to the financial statements regarding investments in Putnam Prime Money Market Fund.*

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

*(U) A portion of the position represents unfunded loan commitments (Note 7).*

*At January 31, 2006, liquid assets totaling $246,638,344 have been designated as collateral for open forward commitments, swap contracts and forward contracts.*

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

*TBA after the name of a security represents to be announced securities (Note 1).*

*The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at January 31, 2006.*

*Inverse Floating Rate Bonds (IFB) are securities that pay interest rates that vary inversely to changes in the market interest rates. As interest rates rise, inverse floaters produce less current income. The interest rates shown are the current interest rates at January 31, 2006.*



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*DIVERSIFICATION BY COUNTRY*

*Distribution of investments by country of issue at January 31, 2006: (as a percentage of Portfolio Value)*

| | |
|---|---|
| *Argentina* | *0.8%* |
| *Austria* | *0.7* |
| *Brazil* | *1.5* |
| *Canada* | *1.2* |
| *Cayman Islands* | *1.3* |
| *France* | *2.6* |
| *Germany* | *1.8* |
| *Ireland* | *2.1* |
| *Japan* | *1.1* |
| *Luxembourg* | *0.6* |
| *Philippines* | *0.6* |
| *Russia* | *0.8* |
| *Sweden* | *0.7* |
| *United Kingdom* | *2.0* |
| *United States* | *79.9* |
| *Other* | *2.3* |
| *Total* | *100.0%* |

WRITTEN OPTIONS OUTSTANDING at 1/31/06 (premiums received $438,176)
(Unaudited)

| | Contract amount | Expiration date/ strike price | Value |
|---|---|---|---|
| Option on an interest rate swap with Citibank dated January 27, 2006 for the right to pay a fixed rate of 0.60% versus the six month JPY LIBOR maturing on January 31, 2008. | JPY 30,355,300,000 | Jan-08 / $0.60 | $438,118 |

FORWARD CURRENCY CONTRACTS TO BUY at 1/31/06 (aggregate face value $130,537,304) (Unaudited)

| | Value | Aggregate face value | Delivery date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Australian Dollar | $23,289,986 | $23,135,742 | 4/19/06 | $ 154,244 |
| British Pound | 15,018,160 | 14,912,782 | 3/15/06 | 105,378 |
| Canadian Dollar | 11,997,860 | 11,966,320 | 4/19/06 | 31,540 |
| Danish Krone | 2,273,019 | 2,205,003 | 3/15/06 | 68,016 |
| Euro | 20,913,044 | 20,848,705 | 3/15/06 | 64,339 |
| Japanese Yen | 21,190,035 | 21,368,410 | 2/15/06 | (178,375) |
| Norwegian Krone | 3,240,893 | 3,209,754 | 3/15/06 | 31,139 |
| Polish Zloty | 1,018,787 | 978,702 | 3/15/06 | 40,085 |
| Singapore Dollar | 3,404,896 | 3,399,741 | 2/15/06 | 5,155 |
| South Korean Won | 13,402 | 12,361 | 2/15/06 | 1,041 |
| Swedish Krona | 6,882,602 | 6,745,045 | 3/15/06 | 137,557 |
| Swiss Franc | 15,153,745 | 14,851,321 | 3/15/06 | 302,424 |
| Taiwan Dollar | 6,918,681 | 6,903,418 | 2/15/06 | 15,263 |
| Total | | | | $ 777,806 |



FORWARD CURRENCY CONTRACTS TO SELL at 1/31/06 (aggregate face value $206,176,250) (Unaudited)

| | Value | Aggregate face value | Delivery date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Australian Dollar | $ 45,888 | $ 45,384 | 4/19/06 | $ (504) |
| British Pound | 17,278,809 | 16,887,043 | 3/15/06 | (391,766) |
| Canadian Dollar | 11,154,223 | 10,984,695 | 4/19/06 | (169,528) |
| Euro | 122,022,461 | 119,917,378 | 3/15/06 | (2,105,083) |

| | | | | |
|---|---|---|---|---|
| Japanese Yen | 10,582,996 | 10,698,258 | 2/15/06 | 115,262 |
| Norwegian Krone | 17,096,381 | 16,917,915 | 3/15/06 | (178,466) |
| Swedish Krona | 24,497,866 | 23,677,938 | 3/15/06 | (819,928) |
| Swiss Franc | 7,147,130 | 7,047,639 | 3/15/06 | (99,491) |
| Total | | | | $ (3,649,504) |

FUTURES CONTRACTS OUTSTANDING at 1/31/06 (Unaudited)

| | Number of contracts | Value | Expiration date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Euro 90 day (Long) | 1,754 | $416,903,875 | Jun-06 | $(479,123) |
| Euro 90 day (Long) | 11 | 3,233,438 | Dec-06 | (691) |
| Euro 90 day (Short) | 1,754 | 417,276,600 | Mar-07 | 483,585 |
| Euro-Bobl 5 yr (Long) | 139 | 18,938,245 | Mar-06 | (153,984) |
| Euro-Bund 10 yr (Short) | 232 | 33,921,678 | Mar-06 | 196,450 |
| Japanese Government Bond - TSE 10 yr (Long) | 25 | 29,216,147 | Mar-06 | 40,485 |
| U.K. Gilt 10 yr (Long) | 65 | 13,177,541 | Mar-06 | 88,731 |
| U.S. Treasury Bond 10 yr (Short) | 396 | 44,686,125 | Mar-06 | 49,517 |
| U.S. Treasury Note 2 yr (Short) | 160 | 32,775,000 | Mar-06 | 97,019 |
| U.S. Treasury Note 5 yr (Short) | 1 | 105,734 | Mar-06 | 92 |
| U.S. Treasury Note 10 yr (Short) | 1,007 | 109,196,563 | Mar-06 | 639,312 |
| Total | | | | $ 961,393 |

TBA SALE COMMITMENTS OUTSTANDING at 1/31/06 (proceeds receivable $42,837,477) (Unaudited)

| | Principal amount | Settlement date | Value |
|---|---|---|---|
| FNMA, 6s, February 1, 2036 | $23,500,000 | 2/13/06 | $23,722,148 |
| FNMA, 5 1/2s, February 1, 2036 | 18,700,000 | 2/13/06 | 18,492,546 |
| FNMA, 5s, February 1, 2036 | 500,000 | 2/13/06 | 483,047 |
| Total | | | $42,697,741 |



INTEREST RATE SWAP CONTRACTS OUTSTANDING at 1/31/06 (Unaudited)

| | Notional amount | Termination date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Agreement with Citibank N.A. dated January 11, 2006 to receive semi-annually the notional amount multiplied by 0.35% and pay semi-annually the notional amount multiplied by the six month JPY-BBA-LIBOR. | JPY | 20,000,000,000 | 1/13/08 | $ (82,659) |
| Agreement with Citibank N.A. dated January 11, 2006 to pay semi-annually the notional amount multiplied by 1.235% and receive semi-annually the notional amount multiplied by the six month JPY-BBA-LIBOR. | JPY | 5,600,000,000 | 1/13/13 | 312,489 |
| Agreement with Citibank N.A. dated July 12, 2005 to receive annually the notional amount multiplied by 3.4% and pay semi-annually the notional amount multiplied by the six month NOKDOM-NIBR. | NOK | 93,000,000 | 7/14/10 | 17,368 |
| Agreement with Citibank N.A. dated July 12, 2005 to pay annually the notional amount multiplied by 2.7515% and receive semi-annually the notional amount multiplied by the six month EURIBOR-T248. | EUR | 11,000,000 | 7/14/10 | 145,099 |
| Agreement with Citibank N.A. dated July 20, 2005 to pay annually the notional amount multiplied by 2.825% and receive semi-annually the notional amount multiplied by the six month EURIBOR-T248. | EUR | 4,600,000 | 7/22/10 | 42,714 |
| Agreement with Citibank N.A. dated July 20, 2005 to receive annually the notional amount multiplied by 3.52% and pay semi-annually the notional amount multiplied by the six month NOKDOM-NIBR. | NOK | 36,700,000 | 7/22/10 | 34,752 |
| Agreement with Credit Suisse First Boston dated November 16, 2005 to receive annually the notional amount multiplied by 1.72% and pay semi-annually the notional amount multiplied by the six month CHF-LIBOR. | CHF | 92,387,000 | 11/18/07 | 92,344 |
| Agreement with Credit Suisse First Boston dated November 16, 2005 to pay annually the notional amount multiplied by 2.33% and receive semi-annually the notional amount multiplied by the six month CHF-LIBOR. | CHF | 45,158,000 | 11/18/12 | (39,324) |
| Agreement with Credit Suisse First Boston dated November 16, 2005 to receive annually the notional amount multiplied by 2.71% and pay semi-annually the notional amount multiplied by the six month CHF-LIBOR. | CHF | 11,310,100 | 11/18/20 | 101,815 |

INTEREST RATE SWAP CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | | Notional amount | Termination date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. dated September 28, 2005 to receive annually the notional amount multiplied by 2.47% and pay semi-annually the notional amount multiplied by the six month EURIBOR. | EUR | 110,000,000 | 9/28/07 | $(1,138,987) |
| Agreement with Lehman Brothers Special Financing, Inc. dated September 28, 2005 to pay annually the notional amount multiplied by 3.2385% and receive semi-annually the notional amount multiplied by the six month EURIBOR. | EUR | 59,000,000 | 9/30/15 | 1,984,798 |
| Agreement with Lehman Brothers Special Financing, Inc. dated October 19, 2005 to pay semi-annually the notional amount multiplied by 1.61% and receive semi-annually the notional amount multiplied by the six month JPY-LIBOR-BBA. | JPY | 4,600,000,000 | 10/21/15 | (12,276) |
| Agreement with Lehman Brothers Special Financing, Inc. dated September 28, 2005 to receive annually the notional amount multiplied by 3.734% and pay semi-annually the notional amount multiplied by the six month EURIBOR. | EUR | 20,000,000 | 9/30/35 | (815,158) |
| Agreement with Merrill Lynch Capital Services Inc. dated July 22, 2005 to receive annually the notional amount multiplied by 3.54% and pay semi-annually the notional amount multiplied by the six month NIBOR. | NOK | 54,900,000 | 7/26/10 | 61,448 |
| Agreement with Merrill Lynch Capital Services, Inc. dated February 16, 2005 to receive semi-annually the notional amount multiplied by the six month EURIBOR and pay annually the notional amount multiplied by 2.5645%. | EUR | 92,500,000 | 2/19/07 | (1,215,631) |
| Agreement with Merrill Lynch Capital Services, Inc. dated October 5, 2005 to receive annually the notional amount multiplied by 2.526% and pay semi-annually the notional amount multiplied by the six month EUR-EURIBOR-Telerate. | EUR | 60,000,000 | 10/7/07 | (571,396) |

| | | | | |
|---|---|---|---|---|
| Agreement with Merrill Lynch Capital Services, Inc. dated October 5, 2005 to pay annually the notional amount multiplied by 3.2685% and receive semi-annually the notional amount multiplied by the six month EUR-EURIBOR-BBAM | EUR | 31,000,000 | 10/7/07 | 964,722 |



INTEREST RATE SWAP CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | | Notional amount | Termination date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Agreement with Merrill Lynch Capital Services, Inc. dated October 5, 2005 to receive annually the notional amount multiplied by 3.736% and pay semi-annually the notional amount multiplied by the six month EUR-EURIBOR-BBAM. | EUR | 11,000,000 | 10/7/07 | $ (449,622) |
| Agreement with Merrill Lynch Capital Services Inc. dated July 22, 2005 to pay annually the notional amount multiplied by 2.801% and receive semi-annually the notional amount multiplied by the six month EURIBOR. | EUR | 6,900,000 | 7/26/10 | 71,900 |
| Agreement with Citibank N.A. dated December 14, 2005 to pay annually the notional amount multiplied by 2.973% and receive semi-annually the notional amount multiplied by the six month EURIBOR-T248. | EUR | 200,000,000 | 12/17/07 | 539,113 |
| Agreement with Citibank N.A. dated December 14, 2005 to receive annually the notional amount multiplied by 3.485% and pay semi-annually the notional amount multiplied by the six month EURIBOR-T248. | EUR | 53,000,000 | 12/16/15 | (741,048) |
| Agreement with Goldman Sachs dated December 23, 2005 to receive/(pay) a premium based on the difference between the market price of Ford Credit Auto Owner Trust Series 2005-B Class D and par on day of execution and receive monthly the notional amount multiplied by 678 basis points and pay monthly the one month USD-LIBOR. At maturity/ termination the fund receives the coupon and | | | | |

| | | | | |
|---|---|---|---|---|
| price appreciation of Ford Credit Auto Owner Trust 2005-B Class D and pays the one month USD LIBOR and the price depreciation of Ford Credit Auto Owner Trust 2005-B Class D. | $ | 2,644,000 | 9/5/11 | 12,940 |
| Agreement with Bank of America, N.A. dated March 25, 2004 to pay semi-annually the notional amount multiplied by 3.075% and receive quarterly the notional amount multiplied by the three month USD-LIBOR. | | 32,700,000 | 3/30/09 | 1,745,316 |
| Agreement with Bank of America, N.A. dated January 22, 2004 to pay semi-annually the notional amount multiplied by 4.35% and receive quarterly the notional amount multiplied by the three month USD-LIBOR. | | 6,900,000 | 1/27/14 | 295,441 |



INTEREST RATE SWAP CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | | Notional amount | Termination date | Unrealized appreciation/ (depreciation) |
|---|---|---|---|---|
| Agreement with Bank of America, N.A. dated August 30, 2005 to receive semi-annually the notional amount multiplied by 4.53% and pay quarterly the notional amount multiplied by the three month USD-LIBOR-BBA. | $ | 900,000 | 9/1/15 | $ (23,598) |
| Agreement with Credit Suisse First Boston International dated July 7, 2004 to pay semi-annually the notional amount multiplied by 4.945% and receive quarterly the notional amount multiplied by the three month USD-LIBOR. | | 11,257,600 | 7/9/14 | 46,550 |
| Agreement with Credit Suisse First Boston International dated July 7, 2004 to receive semi-annually the notional amount multiplied by 2.931% and pay quarterly the notional amount multiplied by the three month USD-LIBOR. | | 9,973,300 | 7/9/06 | (91,214) |
| Agreement with JPMorgan Chase Bank, N.A. dated May 6, 2005 to pay semi-annually the notional amount multiplied by 4.062% and receive quarterly the notional amount multiplied by the three month USD-LIBOR. | | 56,000,000 | 5/10/07 | 643,857 |

| | | | |
|---|---|---|---|
| Agreement with JPMorgan Chase Bank, N.A. dated May 6, 2005 to receive semi-annually the notional amount multiplied by 4.687% and pay quarterly the notional amount multiplied by the three month USD-LIBOR. | 30,000,000 | 5/10/15 | (720,636) |
| Agreement with JPMorgan Chase Bank, N.A. dated May 6, 2005 to pay semi-annually the notional amount multiplied by 5.062% and receive quarterly the notional amount multiplied by the three month USD-LIBOR. | 13,000,000 | 5/10/35 | 156,357 |
| Agreement with Lehman Brothers Special Financing, Inc. dated December 9, 2003 to receive semi-annually the notional amount multiplied by 4.641% and pay quarterly the notional amount multiplied by the three month USD-LIBOR-BBA. | 18,032,000 | 12/15/13 | (619,131) |
| Agreement with Lehman Brothers Special Financing, Inc. dated January 22, 2004 to pay semi-annually the notional amount multiplied by 4.3375% and receive quarterly the notional amount multiplied by the three month USD-LIBOR-BBA. | 6,900,000 | 1/26/14 | 301,042 |
| Total | | | $ 1,049,385 |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited)

| | | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. on July 27, 2005, maturing on June 20, 2012, to receive quarterly 19 basis points times the notional amount. Upon a credit default event of any reference entity within the DJ iTraxx Index, S3 tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ iTraxx Index, S3 tranche. | EUR | 4,823,000 | $ 29,602 |
| Agreement with Lehman Brothers Special Financing, Inc. on August 24, 2005, maturing on June 20, 2012, to receive quarterly 46.375 basis points times the notional amount. Upon a credit default event of any reference entity within the DJ iTraxx Index, 6-9% tranche, the fund makes a payment of the proportional | | | |

| | | | |
|---|---|---|---|
| notional amount times the difference between the par value and the then-market value of the reference entity within the DJ iTraxx Index, 6-9% tranche. | EUR | 4,514,000 | 36,997 |
| Agreement with Lehman Brothers Special Financing, Inc. on July 27, 2005, maturing on June 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and to receive quarterly 45 basis points times the notional amount. Upon a credit default event of any reference entity within the DJ iTraxx Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ iTraxx Index. | EUR | 4,514,000 | (4,182) |
| Agreement with Lehman Brothers Special Financing, Inc. on July 27, 2005, maturing on June 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and to receive quarterly 45 basis points times the notional amount. Upon a credit default event of any reference entity within the DJ iTraxx Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ iTraxx Index. | EUR | 3,617,250 | (847) |
| Agreement with Morgan Stanley Capital Services, Inc. on September 8, 2005, maturing on June 20, 2015, to receive quarterly 479 basis points times the notional amount. Upon a credit default event of any reference entity within the iTraxx Eur 3 Index,3-6% tranche. the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the iTraxx EUR 3 Index, 3-6% tranche. | EUR | 2,050,000 | 42,272 |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Bank of America, N.A. effective August 16, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference | | |

| | | |
|---|---|---|
| entity within the CDX HY Series 4 Index. | $ 9,700,000 | $ (356,020) |
| Agreement with Bank of America, N.A. on September 13, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 90 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ CDX IG HVOL Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ CDX IG HVOL Series 4 Index. | 6,744,000 | 5,158 |
| Agreement with Bank of America, N.A. effective August 17, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX HY Series 4 Index. | 4,850,000 | (183,006) |
| Agreement with Bank of America, N.A. effective April 14, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and receive quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index. | 3,589,000 | 192,960 |
| Agreement with Bank of America, N.A. on September 8, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX HY Series 4 Index. | 1,988,500 | (72,031) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|

| | | |
|---|---|---|
| Agreement with Bank of America, N.A. effective April 13, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and receive quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 3 Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 3 Index. | $ 1,746,000 | $ 92,183 |
| Agreement with Goldman Sachs Capital Markets, L.P. on November 17, 2005, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 85 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG HVOL Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG HVOL Series 5 Index. | 3,177,000 | (21,830) |
| Agreement with Citigroup Financial Products, Inc. on April 28, 2005, maturing on June 20, 2010, to receive quarterly 201 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index 25-35% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index 25-35% tranche. | 4,600,000 | 320,716 |
| Agreement with Citigroup Financial Products, Inc. on April 15, 2005, maturing on June 20, 2010, to receive quarterly 180 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index 25-35% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index 25-35% tranche. | 4,600,000 | 277,058 |
| Agreement with Citigroup Financial Products, Inc. on June 10, 2005, maturing on June 20, 2010, to pay quarterly 677.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 5 year Series 4 Index 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 5 year Series 4 Index 3-7% tranche. | 4,761,000 | (66,690) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | | Unrealized |
|---|---|---|

| | Notional amount | appreciation/ (depreciation) |
|---|---|---|
| Agreement with Citigroup Financial Products, Inc. on August 19, 2005, maturing on June 20, 2012, to receive quarterly 62 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index,7-10% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index, 7-10% tranche. | $ 4,452,000 | $ 40,694 |
| Agreement with Citigroup Financial Products, Inc. effective June 10, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 5 year Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 5 year Series 4 Index. | 4,618,170 | (228,384) |
| Agreement with Citigroup Financial Products, Inc. effective August 19, 2005, maturing on June 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the t hen-market value of the reference entity within the DJ IG CDX Series 4 Index. | 4,452,000 | (8,524) |
| Agreement with Deutsche Bank AG on April 15, 2005, maturing on June 20, 2010, to receive quarterly 183 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index 25-35% tranche, the fund make a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index 25-35% tranche. | 4,600,000 | 244,484 |
| Agreement with Goldman Sachs Capital Markets, L.P. on October 12, 2005, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 395 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX HY Series 5 Index. | 27,244,000 | (1,168,532) |

CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Goldman Sachs Capital Markets, L.P. on October 14, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 90 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 4 Index. | $20,970,000 | $ (171,376) |
| Agreement with Goldman Sachs Capital Markets, L.P. on October 21, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 90 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 4 Index. | 5,164,000 | (12,770) |
| Agreement with Goldman Sachs Capital Markets, L.P. effective August 19, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the t hen-market value of the reference entity within the CDX HY Series 4 Index. | 4,850,000 | (138,692) |
| Agreement with Goldman Sachs Capital Markets, L.P. on August 12, 2005, maturing on June 20, 2015, to receive quarterly 600 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index,3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index,3-7% tranche. | 5,000,000 | (353,461) |
| Agreement with Goldman Sachs Capital Markets, L.P. on December 2, | | |

| | | |
|---|---|---|
| 2005, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 85 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG HVOL Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG HVOL Series 5 Index. | 3,177,000 | (15,070) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Goldman Sachs Capital Markets, L.P. on June 22, 2005, maturing on June 20, 2015, to receive quarterly 656 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 5 year Series 4 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 5 year Series 4 Index 3-7% tranche. | $ 2,884,800 | $ (78,314) |
| Agreement with Goldman Sachs Capital Markets, L.P. on December 2, 2005, maturing on December 20, 2012, to receive quarterly 31.25 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 5 Index, 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 5 Index,10-15% tranche. | 2,342,000 | 9,122 |
| Agreement with Goldman Sachs Capital Markets, L.P. effective April 13, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 3 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 3 Index. | 1,843,000 | 84,932 |
| Agreement with Goldman Sachs Capital Markets, L.P. on December 2, 2005, maturing on December 20, 2010, to pay quarterly 113 basis points per annum times the notional amount. | | |

| | | |
|---|---|---|
| Upon a credit default event of a reference entity within the CDX IG Series 5 Index, 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 5 Index, 3-7% tranche. | 1,589,000 | 6,966 |
| Agreement with Goldman Sachs Capital Markets, L.P. on December 2, 2005, maturing on December 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 5 Index. | 1,171,000 | (3,785) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Goldman Sachs International on September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.461% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. | $ 7,487,000 | $ 28,991 |
| Agreement with JPMorgan Chase Bank, N.A. effective June 23, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 5 year Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 5 year Series 4 Index. | 4,656,000 | (216,865) |
| Agreement with JPMorgan Securities Inc. effective December 12, 2005, maturing on June 20, 2012, to receive quarterly 30.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 4 Index, 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX | | |

| | | |
|---|---|---|
| 4 Index10-15% tranche. | 4,750,000 | 5,216 |
| Agreement with Lehman Brothers Special Financing, Inc. on December 1, 2005, maturing on June 20, 2010, to pay quarterly 124.5 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the DJ IG CDX Series 4 Index, 3-7% tranche,the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index, 3-7% tranche. | 4,248,500 | (38,405) |
| Agreement with JPMorgan Securities Inc. effective December 12, 2005, maturing on June 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pays quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 4 Index. | 2,375,000 | (5,987) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. effective August 10, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and to pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the CDX HY Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX HY Series 4 Index. | $ 9,700,000 | $ (284,576) |
| Agreement with Lehman Brothers Special Financing, Inc. on September 8, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and to pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the DJ HY CDX Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX | | |

| | | |
|---|---|---|
| Series 4 Index. | 4,850,000 | (178,211) |
| Agreement with Lehman Brothers Special Financing, Inc. effective June 17, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 5 year Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 5 year Series 4 Index. | 4,618,170 | (201,141) |
| Agreement with Lehman Brothers Special Financing, Inc. effective June 14, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 5 year Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 5 year Series 4 Index. | 2,780,990 | (123,836) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. on September 19, 2005, maturing on June 20, 2015, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 65 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 4 Index. | $ 2,284,000 | $ (2,510) |
| Agreement with Lehman Brothers Special Financing, Inc. on September 21, 2005, maturing on December 20, 2015, to receive quarterly 57.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 5 Index 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the | | |

| | | |
|---|---|---|
| DJ IG CDX 5 Index 10-15% tranche. | 2,285,000 | 4,708 |
| Agreement with Lehman Brothers Special Financing, Inc. on September 19, 2005, maturing on June 20, 2015, to receive quarterly 59 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 4 Index, 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 4 Index, 10-15% tranche. | 2,284,000 | (5) |
| Agreement with Lehman Brothers Special Financing, Inc. on September 21, 2005, maturing on December 20, 2015, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 70 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 4 Index. | 2,285,000 | (8,378) |
| Agreement with Lehman Brothers Special Financing, Inc. effective April 14, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 3 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 3 Index. | 1,746,000 | 95,548 |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. on April 18, 2005, maturing on June 20, 2010, to pay quarterly 194 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index 25-35% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index 25-35% tranche. | $ 1,100,000 | $ 68,918 |

| | | |
|---|---|---|
| Agreement with Lehman Brothers Special Financing, Inc. on December 19, 2005, maturing on June 20, 2012, to receive quarterly 309 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the DJ IG CDX Series 4 Index, 3-7% tranche,the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index, 3-7% tranche. | 1,082,000 | 15,702 |
| Agreement with Lehman Brothers Special Financing, Inc. on December 19, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and to pay quarterly 90 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the DJ IG CDX HVOL Series 4 Index,the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX HVOL Series 4 Index. | 1,082,000 | (3,825) |
| Agreement with Merrill Lynch International effective April 14, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and receives quarterly 360 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX 4 Index, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX 4 Index. | 2,231,000 | 119,235 |
| Agreement with Morgan Stanley Capital Services, Inc. effective May 24, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 90 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 5 year Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 5 year Series 4 Index. | 19,404,000 | (293,023) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|

| | | |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on September 8, 2005, maturing on June 20, 2012, to receive quarterly 285 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 3-7% tranche. | $ 5,125,000 | $ 54,687 |
| Agreement with Morgan Stanley Capital Services, Inc. on December 20, 2005, maturing on June 20, 2010, to pays quarterly 114 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 3-7% tranche. | 4,864,000 | 10,370 |
| Agreement with Morgan Stanley Capital Services, Inc. on December 8, 2005, maturing on December 20, 2012, to receive quarterly 29 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 10-15% tranche. | 4,702,000 | 12,537 |
| Agreement with Morgan Stanley Capital Services, Inc. on November 30, 2005, maturing on December 20, 2012, to receive quarterly 30 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 10-15% tranche. | 4,685,000 | 7,830 |
| Agreement with Morgan Stanley Capital Services, Inc. on September 19, 2005, maturing on June 20, 2012, to receive quarterly 48 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 7-10% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 7-10% tranche. | 4,570,000 | 14,210 |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional | Unrealized appreciation/ |
|---|---|---|

| | amount | (depreciation) |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on September 19, 2005, maturing on June 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index. | $ 4,570,000 | $ (4,043) |
| Agreement with Morgan Stanley Capital Services, Inc. on October 13, 2005, maturing on December 20, 2010, to receive quarterly 145 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX Series 5 Index 25-35% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX Series 5 Index 25-35% tranche. | 4,296,000 | 105,822 |
| Agreement with Morgan Stanley Capital Services, Inc. on September 13, 2005, maturing on June 20, 2012, to receive quarterly 275 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 3-7% tranche. | 3,372,000 | 8,799 |
| Agreement with Morgan Stanley Capital Services, Inc. on November 16, 2005, maturing on December 20, 2012, to receive quarterly 305 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 3-7% tranche. | 3,177,000 | 144,192 |
| Agreement with Morgan Stanley Capital Services, Inc. on May 24, 2005, maturing on June 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and receive quarterly 500 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX 5 year Series 4 Index 0-3% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX 5 year Series 4 Index 0-3% tranche. | 4,411,000 | 385,547 |

CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on October 14, 2005, maturing on December 20, 2010, to receive quarterly 127 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ HY CDX Series 5 Index 25-35% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ HY CDX Series 5 Index 25-35% tranche. | $ 2,592,000 | $ 41,615 |
| Agreement with Morgan Stanley Capital Services, Inc. on December 8, 2005, maturing on December 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index. | 2,351,000 | (7,611) |
| Agreement with Morgan Stanley Capital Services, Inc. on November 30, 2005, maturing on December 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 55 basis per annum points times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index. | 2,342,500 | (7,541) |
| Agreement with Morgan Stanley Capital Services, Inc. on September 7, 2005, maturing on June 20, 2015, to receive quarterly 70.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 10-15% tranche. | 2,253,000 | 32,982 |
| Agreement with Morgan Stanley Capital Services, Inc. on September 7, 2005, maturing on June 20, 2015, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly | | |

| | | |
|---|---|---|
| 65 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index. | 2,253,000 | (5,761) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on October 13, 2005, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 395 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ CDX HY Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ CDX HY Series 5 Index. | $ 2,105,040 | $ (94,791) |
| Agreement with Morgan Stanley Capital Services, Inc. on October 14, 2005, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pays quarterly 395 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX HY Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX HY Series 5 Index. | 1,270,080 | (51,776) |
| Agreement with Morgan Stanley Capital Services, Inc. on December 19, 2005, maturing on June 20, 2010, to pays quarterly 110.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 4 Index 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 4 Index 3-7% tranche. | 1,082,000 | 777 |
| Agreement with Morgan Stanley Capital Services, Inc. on January 6, 2006, maturing on December 20, 2012, to receive quarterly 28.5 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX | | |

| | | |
|---|---|---|
| Series 5 Index 10-15% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 10-15% tranche. | 2,621,000 | 5,587 |
| Agreement with Morgan Stanley Capital Services, Inc. on January 13, 2006, maturing on December 20, 2012, to receive quarterly 248 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 3-7% tranche. | 1,480,000 | 10,211 |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on January 13, 2006, maturing on December 20, 2010, to pay quarterly 115 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 3-7% tranche. | $ 1,480,000 | $ 4,857 |
| Agreement with Merrill Lynch International & Co. C.V. on January 13, 2006, maturing on December 20, 2012, to receive quarterly 246 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the DJ IG CDX Series 5 Index 3-7% tranche, the fund makes a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX Series 5 Index 3-7% tranche. | 1,480,000 | 7,024 |
| Agreement with Lehman Brothers Special Financing, Inc. on January 13, 2006, maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 85 basis points per annum times the notional amount. Upon a credit default event of any reference entity within the DJ IG CDX HVOL Series 5 Index,the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the DJ IG CDX HVOL Series 5 Index. | 1,480,000 | (4,879) |

| | | |
|---|---|---|
| Agreement with Morgan Stanley Capital Services, Inc. on January 13, 2006 maturing on December 20, 2010, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pay quarterly 85 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG HVOL Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG HVOLSeries 5 Index. | 1,480,000 | (5,270) |



CREDIT DEFAULT CONTRACTS OUTSTANDING at 1/31/06 (Unaudited) *continued*

| | Notional amount | Unrealized appreciation/ (depreciation) |
|---|---|---|
| Agreement with Goldman Sachs Capital Markets, L.P. on January 13, 2006, maturing on December 20, 2010, to pay quarterly 115 basis points times per annum the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 5 Index, 3-7% tranche, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 5 Index, 3-7% tranche. | $ 1,480,000 | $ (7,776) |
| Agreement with Morgan Stanley Capital Services, Inc. on January 6, 2006 maturing on December 20, 2012, to receive/(pay) a premium based on the difference between the original spread on issue and the market spread on day of execution and pays quarterly 55 basis points per annum times the notional amount. Upon a credit default event of a reference entity within the CDX IG Series 5 Index, the fund receives a payment of the proportional notional amount times the difference between the par value and the then-market value of the reference entity within the CDX IG Series 5 Index. | 1,310,500 | (1,019) |
| Total | | $(1,862,234) |

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



# Statement of assets and liabilities 1/31/06 (Unaudited)

ASSETS

| | |
|---|---|
| Investment in securities, at value, including $256,578 of securities on loan (Note 1): | |
| Unaffiliated issuers (identified cost $1,301,880,478) | $1,309,198,343 |
| Affiliated issuers (identified cost $160,748,509) (Note 5) | 160,748,509 |
| Cash | 13,361,691 |
| Foreign currency (cost $5,387,545) (Note 1) | 5,500,718 |
| Interest and other receivables | 14,528,326 |
| Receivable for securities sold | 27,565,416 |
| Receivable for sales of delayed delivery securities (Note 1) | 42,919,593 |
| Unrealized appreciation on open swap contracts (Note 1) | 10,138,574 |
| Receivable for open forward currency contracts (Note 1) | 1,190,963 |
| Receivable for closed forward currency contracts (Note 1) | 1,240,728 |
| Receivable for closed swap contracts (Note 1) | 539,201 |
| Total assets | 1,586,932,062 |
| LIABILITIES | |
| Payable for variation margin (Note 1) | 90,965 |
| Distributions payable to shareholders | 5,769,703 |
| Payable for securities purchased | 20,133,887 |
| Payable for purchases of delayed delivery securities (Note 1) | 135,945,476 |
| Payable for shares of the fund repurchased | 589,928 |
| Payable for compensation of Manager (Notes 2 and 5) | 2,224,138 |
| Payable for investor servicing and custodian fees (Note 2) | 42,841 |
| Payable for Trustee compensation and expenses (Note 2) | 152,082 |
| Payable for administrative services (Note 2) | 2,417 |
| Payable for open forward currency contracts (Note 1) | 4,062,661 |
| Payable for closed forward currency contracts (Note 1) | 2,877,442 |

| | |
|---|---|
| Written options outstanding, at value (premiums received $438,176) (Note 1) | 438,118 |
| Unrealized depreciation on swap contracts (Note 1) | 10,951,423 |
| Premiums received on credit default contracts (Note1) | 557,960 |
| TBA sales commitments, at value (proceeds receivable $42,837,477) (Note 1) | 42,697,741 |
| Collateral on securities loaned, at value (Note 1) | 262,400 |
| Other accrued expenses | 170,794 |
| Total liabilities | 226,969,976 |
| Net assets applicable to common shares outstanding | $1,359,962,086 |

(Continued on next page)



## Statement of assets and liabilities (Continued)

| | |
|---|---|
| REPRESENTED BY | |
| Paid-in capital (Unlimited shares authorized) (Note 1) | $1,643,567,832 |
| Undistributed net investment income (Note 1) | 8,154,327 |
| Accumulated net realized loss on investments and foreign currency transactions (Note 1) | (296,692,344) |
| Net unrealized appreciation of investments and assets and liabilities in foreign currencies | 4,932,271 |
| Total  Representing net assets applicable to capital shares outstanding | $1,359,962,086 |

| | |
|---|---|
| COMPUTATION OF NET ASSET VALUE | |
| Net asset value per share ($1,359,962,086 divided by 191,971,836 shares) | $7.08 |

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

## Statement of operations Six months ended 1/31/06 (Unaudited)

| | |
|---|---|
| INVESTMENT INCOME | |
| Interest (including interest income of $2,434,964 from investments in affiliated issuers) (Note 5) | $ 40,026,647 |
| Dividends | 105,929 |
| Securities lending | 717 |
| Total investment income | 40,133,293 |
| EXPENSES | |
| Compensation of Manager (Note 5) | 4,675,468 |
| Investor servicing fees (Note 2) | 344,716 |
| Custodian fees (Note 2) | 183,593 |
| Trustee compensation and expenses (Note 2) | 20,473 |
| Administrative services (Note 2) | 13,289 |
| Other | 449,513 |
| Fees waived and reimbursed by Manager (Note 5) | (83,384) |
| Total expenses | 5,603,668 |
| Expense reduction (Note 2) | (278,121) |
| Net expenses | 5,325,547 |
| Net investment income | 34,807,746 |
| Net realized loss on investments (Notes 1 and 3) | (3,867,325) |
| Net realized gain on swap contracts (Note 1) | 1,844,228 |
| Net realized loss on futures contracts (Note 1) | (209,564) |
| Net realized loss on foreign currency transactions (Note 1) | (2,980,096) |
| Net unrealized depreciation of assets and liabilities in foreign currencies during the period | (5,537,242) |

| | |
|---|---|
| Net unrealized depreciation of investments, futures contracts, swap contracts, written options and TBA sale commitments during the period | (6,564,947) |
| Net loss on investments | (17,314,946) |
| Net increase in net assets resulting from operations | $ 17,492,800 |

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



# Statement of changes in net assets

INCREASE (DECREASE) IN NET ASSETS

| | Six months ended 1/31/06* | Year ended 7/31/05 |
|---|---|---|
| *Operations:* | | |
| Net investment income | $ 34,807,746 | $ 58,856,328 |
| Net realized gain (loss) on investments and foreign currency transactions | (5,212,757) | 19,641,735 |
| Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies | (12,102,189) | 15,978,413 |
| Net increase in net assets resulting from operations | 17,492,800 | 94,476,476 |
| Distributions to shareholders: (Note 1) | | |
| From net investment income | (34,978,091) | (80,509,420) |
| Increase from issuance of shares in connection with the merger of Putnam Master Income Trust (Note 9) | □ | 390,337,325 |
| Decrease from shares repurchased (Note 4) | (19,532,810) | □ |
| Total increase (decrease) in net assets | (37,018,101) | 404,304,381 |
| NET ASSETS | | |
| Beginning of period | 1,396,980,187 | 992,675,806 |
| End of period (including undistributed net investment | | |

| | | |
|---|---|---|
| income of $8,154,327 and undistributed net investment income of $8,324,672, respectively) | $1,359,962,086 | $1,396,980,187 |
| NUMBER OF FUND SHARES | | |
| Shares outstanding at beginning of period | 195,156,300 | 141,198,870 |
| Shares issued in connection with the merger of Putnam Master Income Trust (Note 9) | □ | 53,957,430 |
| Shares repurchased (Note 4) | (3,184,464) | □ |
| Shares outstanding at end of period | 191,971,836 | 195,156,300 |

* *Unaudited*

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



## Financial highlights (For a common share outstanding throughout the period)

PER-SHARE OPERATING PERFORMANCE

| | Six months ended** | | | Year ended | | |
|---|---|---|---|---|---|---|
| | 1/31/06 | 7/31/05 | 7/31/04 | 7/31/03 | 7/31/02 | 7/31/01 |
| Net asset value, beginning of period | $7.16 | $7.03 | $6.75 | $6.22 | $6.68 | $7.19 |
| *Investment operations:* | | | | | | |
| Net investment income (a) | .18(d) | .36(d) | .44(d) | .51 | .55 | .61 |
| Net realized and unrealized gain (loss) on investments | (.10) | .28 | .31 | .54 | (.47) | (.50) |
| Total from investment operations | .08 | .64 | .75 | 1.05 | .08 | .11 |
| *Less distributions:* | | | | | | |
| From net investment income | (.18) | (.51) | (.47) | (.52) | (.53) | (.51) |
| From return of capital | □ | □ | □ | □ | (.01) | (.11) |
| Total distributions | (.18) | (.51) | (.47) | (.52) | (.54) | (.62) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Increase from shares repurchased | .02 | | | | | |
| Net asset value, end of period | $7.08 | $7.16 | $7.03 | $6.75 | $6.22 | $6.68 |
| Market price, end of period | $6.21 | $6.31 | $6.29 | $6.31 | $6.03 | $6.29 |
| Total return at market price (%)(b) | 1.32* | 8.35 | 7.18 | 13.41 | 4.44 | 8.56 |
| RATIOS AND SUPPLEMENTAL DATA | | | | | | |
| Net assets, end of period (in thousands) | $1,359,962 | $1,396,980 | $992,676 | $952,730 | $877,649 | $942,125 |
| Ratio of expenses to average net assets (%)(c) | .41(d)* | .84(d) | .83(d) | .85 | .86 | .85 |
| Ratio of net investment income to average net assets (%) | 2.52(d)* | 4.99(d) | 6.19(d) | 7.91 | 8.39 | 8.87 |
| Portfolio turnover (%) | 59.87(e)* | 139.74(e) | 78.43 | 96.21(f ) | 175.78(f ) | 231.58 |

** Not annualized.*

*** Unaudited.*

(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 arrangements (Note 2).*

(d) *Reflects waivers of certain fund expenses in connection with Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of the fund for the periods ended January 31, 2006, July 31, 2005 and July 31, 2004 reflect a reduction of 0.01%, 0.02% and less than 0.01% of average net assets, respectively (Note 5).*

(e) *Portfolio turnover excludes dollar roll transactions.*

(f) *Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.*

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



# Notes to financial statements 1/31/06 (Unaudited)

**Note 1: Significant accounting policies**

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

securities market. The fund invests in higher yielding, lower-rated bonds that have a higher rate of default due to the nature of the investments.

In the normal course of business, the fund enters into contracts that may include agreements to indemnify another party under given circumstances. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be, but have not yet been, made against the fund. However, the fund expects the risk of material loss to be remote.

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

A) Security valuation Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported  as in the case of some securities traded over-the-counter  a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected by Putnam Management. 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 equity 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, if any, are translated into U.S. dollars at the current exchange rate. Other investments, including certain restricted securities, are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees.

B) Joint trading account Pursuant to an exemptive order from the Securities and Exchange Commission, 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 issues of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.



C) 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 coun-terparty. 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 (the 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, if any, are recognized as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. All premiums/discounts are amortized/accreted on a yield-to-maturity basis. Securities purchased or sold on a forward commitment or delayed delivery basis may be settled a month or more after the trade date; interest income is accrued based on the terms of the securities. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract. The fund earned certain fees in connection with its senior loan purchasing activities. These fees are

treated as market discount and are recorded as income in the statement of operations.

E) Stripped mortgage-backed securities The fund may invest in stripped mortgage-backed securities which represent a participation in mortgage loans and may be structured in classes with rights to receive different portions of the interest and principal. Interest-only securities receive all of the interest and principal-only securities receive all of the principal. If the interest-only securities experience greater than anticipated prepayments of principal, the fund may fail to recoup fully its initial investment in these securities. Conversely, principal-only securities increase in value if prepayments are greater than anticipated and decline if prepayments are slower than anticipated. The market value of these securities is highly sensitive to changes in interest rates.

F) 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.



G) 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), or for other investment purposes. 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.

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

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. Risks may exceed amounts recognized on the statement of assets and liabilities. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments.

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

I) Interest rate swap contracts The fund may enter into interest rate swap contracts, which are arrangements between two parties to exchange cash flows based on a notional principal amount, to manage the fund's exposure to interest rates. Interest rate swap contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made are recorded as realized gains or loss. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or if the counterparty defaults on its obligation to perform. Risk of loss may exceed amounts recognized on the statement of assets and liabilities. Interest rate



swap contracts outstanding at period end, if any, are listed after the fund's portfolio.

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

K) TBA purchase commitments The fund may enter into "TBA" (to be announced) commitments to purchase securities for a fixed unit price at a future date beyond customary settlement time. Although the unit price has been established, the principal value has not been finalized. However, the amount of the commitments will not significantly differ from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the fund's other assets. Unsettled TBA purchase commitments are valued at fair value of the underlying securities, according to the procedures described under "Security valuation" above. The contract is "marked-to-market" daily and the change in market value is recorded by the fund as an unrealized gain or loss.

Although the fund will generally enter into TBA purchase commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the fund may dispose of a commitment prior to settlement if Putnam Management deems it appropriate to do so.

L) TBA sale commitments The fund may enter into TBA sale commitments to hedge its portfolio positions or to sell mortgage-backed securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover" for the transaction.

Unsettled TBA sale commitments are valued at fair value of the underlying securities, generally according to the procedures described under "Security valuation" above. The contract is "marked-to-market" daily and the change in market value is recorded by the fund as an unrealized gain or loss. If the TBA sale commitment is closed through the acquisition of an offsetting



purchase commitment, the fund realizes a gain or loss. If the fund delivers securities under the commitment, the fund realizes a gain or a loss from the sale of the securities based upon the unit price established at the date the commitment was entered into. TBA sale commitments outstanding at period end, if any, are listed after the fund's portfolio.

M) Dollar rolls To enhance returns, the fund may enter into dollar rolls (principally using TBAs) in which the fund sells securities for delivery in the current month and simultaneously contracts to purchase similar securities on a specified future date. During the period between the sale and subsequent purchase, the fund will not be entitled to receive income and principal payments on the securities sold. The fund will, however, retain the difference between the initial sales price and the forward price for the future purchase. The fund will also be able to earn interest on the cash proceeds that are received from the initial sale. The fund may be exposed to market or credit risk if the price of the security changes unfavorably or the counterparty fails to perform under the terms of the agreement.

N) Security lending The fund may lend securities, through its agents, to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by the fund's agents; the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the statement of operations. At January 31, 2006, the value of securities loaned amounted to $256,578. The fund received cash collateral of $262,400 which is pooled with collateral of other Putnam funds into 22 issues of high grade short-term investments.

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

At July 31, 2005, the fund had a capital loss carryover of $289,635,841 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 |
|---|---|
| $14,335,502 | July 31, 2006 |
| 37,732,461 | July 31, 2007 |
| 60,809,014 | July 31, 2008 |
| 51,721,443 | July 31, 2009 |
| 44,917,486 | July 31, 2010 |
| 80,119,935 | July 31, 2011 |

The aggregate identified cost on a tax basis is $1,464,667,401, resulting in gross unrealized appreciation and depreciation of $36,351,463 and $31,072,012, respectively, or net unrealized appreciation of $5,279,451.

P) 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. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital



cannot be determined until final tax calculations are completed after the end of the fund's fiscal year. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

**Note 2: Management fee, administrative services and other transactions**

Putnam Management is paid for management and investment advisory services quarterly based on the "average weekly assets" of the fund. "Average weekly assets" is defined to mean the average of the weekly determinations of the difference between the total assets of the fund (including any assets attributable to leverage for investment purposes through incurrence of indebtedness) and the total liabilities of the fund (excluding liabilities incurred in connection with leverage for investment purposes). This fee is based on the following annual rates: 0.75% of the first $500 million of average weekly assets, 0.65% of the next $500 million, 0.60% of the next $500 million, and 0.55% of the next $5 billion, with additional breakpoints at higher asset levels.

Prior to January 1, 2006, the fund's management fee was based on the following annual rates: 0.75% of the first $500 million of average weekly assets, 0.65% of the next $500 million, 0.60% of the next $500 million and 0.55% thereafter.

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 weekly assets (calculated in the same manner as under the fund's management contract with Putnam Management) 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. PFTC receives fees for custody services based on the fund's asset level, the number of its security holdings and transaction volumes. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. Putnam Investor Services is paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund's average net assets. During the period ended January 31, 2006, the fund incurred $528,308 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. For the six months ended January 31, 2006, the fund's expenses were reduced by $278,121 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which $496, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings, industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

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 noncontribu-tory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years and were first elected prior to 2004. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years ended December 31, 2005. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

**Note 3: Purchases and sales of securities**

During the six months ended January 31, 2006, cost of purchases and proceeds from sales of investment securities other than U.S. government securities and short-term investments aggregated $716,147,324 and $734,488,078, respectively. Purchases and sales of U.S. government securities aggregated $12,213,152 and $12,246,000, respectively.

**Note 4: Share repurchase program**

On October 7, 2005, the Trustees authorized Putnam Management to implement a share repurchase program pursuant to which the fund may, over the 12 months following the announcement, repurchase up to 5% of its common shares outstanding as of such date. In March 2006, the Trustees approved an extension of this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period. Repurchases will only be made when the fund's shares are trading at less than net asset value and in accordance with procedures approved by the fund's Trustees.

For the period ended January 31, 2006, the fund repurchased 3,184,464 common shares for an aggregate purchase price of $19,532,810, which reflects a weighted-average discount from net asset value per share of 13.9% .

**Note 5: Investment in Putnam Prime Money Market Fund**

Pursuant to an exemptive order from the Securities and Exchange Commission, the fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Management fees paid by the fund are reduced by an amount equal to the management and administrative services fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the period ended January 31, 2006, management fees paid were reduced by $83,384 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 $2,434,964 for the period ended January 31, 2006. During the period ended January 31, 2006, cost of purchases and cost of sales of investments in Putnam Prime Money Market Fund aggregated $363,893,850 and $395,766,490, respectively.

**Note 6: Senior loan commitments**

Senior loans are purchased or sold on a when-issued or delayed delivery basis and may be settled a month or more after the trade date, which from time to time can delay the actual investment of available cash balances; interest income is accrued based on the terms of the securities. Senior loans can be acquired through an agent, by assignment from another holder of the loan, or as a participation interest in another holder's portion of the loan. When the fund invests in a loan or participation, the fund is subject to the risk that an intermediate participant between the fund and the borrower will fail to meet its obligations to the fund, in addition to the risk that the borrower under the loan may default on its obligations.

**Note 7: Unfunded loan commitments**

As of January 31, 2006, the fund had unfunded loan commitments of $169,250, which could be extended at the option of the borrower, pursuant to the following loan agreements with the following borrowers:

| Borrower | Unfunded commitments |
|---|---|
| Trump Casino | $169,250 |

**Note 8: Regulatory matters and litigation**

Putnam Management has entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division settling charges connected with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. Pursuant to these settlement agreements, Putnam Management will pay a total of $193.5 million in penalties and restitution, with $153.5 million being paid to certain open-end funds and their shareholders. The amount will be allocated to shareholders and funds pursuant to a plan developed by an independent consultant, and will be paid following approval of the plan by the SEC and the Massachusetts Securities Division.

The Securities and Exchange Commission□s and Massachusetts Securities Division□s allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management will bear any costs incurred by Putnam funds in connection with these lawsuits. Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to provide investment management services to its clients, including the Putnam funds.

The Staff of the SEC has indicated that it believes that Putnam Management did not comply with certain disclosure requirements in connection with dividend payments to shareholders of your fund. Putnam Management is currently engaged in settlement negotiations with the SEC Staff regarding this matter.

Putnam Management and Putnam Retail Management are named as defendants in a civil suit in which the plaintiffs allege that the management and distribution fees paid by certain Putnam funds were excessive and seek recovery under the Investment Company Act of 1940. Putnam Management and Putnam Retail Management have contested the plaintiffs□ claims and the matter is currently pending in the U.S. District Court for the District of Massachusetts. Based on currently available information, Putnam Management believes that this action is without merit and that it is unlikely to have a material effect on Putnam Management□s and Putnam Retail Management□s ability to provide services to their clients, including the fund.

**Note 9: Acquisition of Putnam Master Income Trust**

On February 25, 2005, the fund issued 53,957,430, shares in exchange for 53,329,917 shares of Putnam Master Income Trust to acquire that fund□s net assets in a tax-free exchange approved by the shareholders of each fund. The net assets of the fund and Putnam Master Income Trust on the February 25, 2005 valuation date, were $1,021,456,879 and $390,337,325, respectively. On February 25, 2005, Putnam Master Income Trust had distributions in excess of net investment income of $6,574,029, accumulated net realized loss of $79,376,154 and unrealized appreciation of $8,668,150. The aggregate net assets of the fund immediately following the acquisition were $1,411,794,204.

Information presented in the Statement of operations and changes in net assets reflect only operations of Putnam Premier Income Trust.

# The Putnam family of funds

The following is a complete list of Putnam's open-end mutual funds*Investors should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. For a prospectus containing this and other information for any Putnam fund or product, call your financial advisor at 1-800-225-1581 and ask for a prospectus. Please read the prospectus carefully before investing.*

**Growth funds**
Discovery Growth Fund
Growth Opportunities Fund
Health Sciences Trust
International New Opportunities Fund*
New Opportunities Fund
OTC & Emerging Growth Fund
Small Cap Growth Fund
Vista Fund
Voyager Fund

**Value funds**
Classic Equity Fund
Convertible Income-Growth Trust
Equity Income Fund
The George Putnam Fund of Boston
The Putnam Fund for Growth and Income
International Growth and Income Fund*
Mid Cap Value Fund
New Value Fund
Small Cap Value Fund

**Blend funds**
Capital Appreciation Fund
Capital Opportunities Fund
Europe Equity Fund*
Global Equity Fund*
Global Natural Resources Fund*
International Capital Opportunities Fund*
International Equity Fund*
Investors Fund
Research Fund
Tax Smart Equity Fund®
Utilities Growth and Income Fund

**Income funds**
American Government Income Fund
Diversified Income Trust
Floating Rate Income Fund
Global Income Trust*
High Yield Advantage Fund*
High Yield Trust*
Income Fund
Limited Duration Government Income Fund
Money Market Fund§
U.S. Government Income Trust

** A 1% redemption fee on total assets redeemed or exchanged between 6 and 90 days of purchase may be imposed for all share classes of these funds.*

 *Closed to new investors.*
 *Formerly Putnam Intermediate U.S. Government Income Fund.*

*§ An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve your investment at $1.00 per share, it is possible to lose money by investing in the fund.*



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**Tax-free income funds**
AMT-Free Insured Municipal Fund**
Tax Exempt Income Fund

Tax Exempt Money Market Fund§
Tax-Free High Yield Fund

*State tax-free income funds:*
Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania

**Asset allocation funds**
Income Strategies Fund

Putnam Asset Allocation Funds  three investment portfolios that spread your money across a variety of stocks, bonds, and money market investments.

*The three portfolios:*
Asset Allocation: Balanced Portfolio
Asset Allocation: Conservative Portfolio
Asset Allocation: Growth Portfolio

**Putnam RetirementReady® Funds**

Putnam RetirementReady Funds  ten investment portfolios that offer diversification among stocks, bonds, and money market instruments and adjust to become more conservative over time based on a target date for withdrawing assets.

*The ten funds:*
Putnam RetirementReady 2050 Fund
Putnam RetirementReady 2045 Fund
Putnam RetirementReady 2040 Fund
Putnam RetirementReady 2035 Fund
Putnam RetirementReady 2030 Fund
Putnam RetirementReady 2025 Fund
Putnam RetirementReady 2020 Fund
Putnam RetirementReady 2015 Fund
Putnam RetirementReady 2010 Fund
Putnam RetirementReady Maturity Fund

** *Formerly Putnam Tax-Free Insured Fund.*

*With the exception of money market funds, a 2% redemption fee may be applied to shares exchanged or sold within 5 days of purchase.*

*Check your account balances and the most recent month-end performance at www.putnam.com.*



# Fund information

## About Putnam Investments

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 manage over 100 mutual funds in growth, value, blend, fixed income, and international.

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

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

Marketing Services
Putnam Retail Management
One Post Office Square
Boston, MA 02109

Custodian
Putnam Fiduciary
Trust Company

Legal Counsel
Ropes & Gray LLP

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

Officers
George Putnam, III
*President*

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

Jonathan S. Horwitz
*Senior Vice President*

*and Treasurer*

Steven D. Krichmar
*Vice President and*
*Principal Financial Officer*

Michael T. Healy
*Assistant Treasurer and*
*Principal Accounting Officer*

Daniel T. Gallagher
*Senior Vice President,*
*Staff Counsel and*
*Compliance Liaison*

Beth S. Mazor
*Vice President*

James P. Pappas
*Vice President*

Richard S. Robie, III
*Vice President*

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

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

Mark C. Trenchard
*Vice President and*
*BSA Compliance Officer*

Judith Cohen
*Vice President, Clerk and*
*Assistant Treasurer*

Wanda M. McManus
*Vice President, Senior Associate*
*Treasurer and Assistant Clerk*

Nancy E. Florek
*Vice President, Assistant Clerk,*
*Assistant Treasurer*
*and Proxy Manager*

Call 1-800-225-1581 weekdays between 9:00 a.m. and 5:00 p.m. Eastern Time, or visit our Web site (www.putnam.com) anytime for up-to-date information about the fund□s NAV.

Item 2. Code of Ethics:

Not applicable

Item 3. Audit Committee Financial Expert:

Not applicable

Item 4. Principal Accountant Fees and Services:

Not applicable

Item 5. Audit Committee

Not applicable

Item 6. Schedule of Investments:

The registrant□s schedule of investments in unaffiliated issuers is included in the report to shareholders in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies:

Not applicable

Item 8. Portfolio Managers of Closed-End Investment Companies

Not applicable

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers:

Registrant Purchase of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value ) of Shares that May Yet Be Purchased under the Plans or Programs * |
|---|---|---|---|---|
| October 7 □ October 31, 2005 | 257,121 | $6.10 | 257,121 | 19,258,509 |
| November 1- November 30, 2005 | 975,781 | $6.04 | 975,781 | 18,282,728 |
| December 1- December 31, 2005 | 975,781 | $6.10 | 975,781 | 17,306,947 |
| January 1- January 31, 2006 | 975,781 | $6.27 | 975,781 | 16,331,166 |

The Board of Trustees announced a repurchase plan on October 7, 2005 for which 9,757,815 shares were approved for repurchase by the fund. The repurchase plan was approved through October 6, 2006. On March 10, 2006, the Trustees announced that the repurchase program was extended to allow repurchases of up to a total of 19,515,630 shares over the original term of the program

*Information is based on the total number of shares eligible for repurchase under the program, as amended on March 10, 2006.

Item 10. Submission of Matters to a Vote of Security Holders:

Not applicable

Item 11. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting:

Not applicable

Item 12. Exhibits:

(a)(1) Not applicable

(a)(2) Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

(b) The certifications required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

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

Putnam Premier Income Trust

By (Signature and Title):

/s/Michael T. Healy
Michael T. Healy
Principal Accounting Officer
Date: March 29, 2006

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

By (Signature and Title):

/s/Charles E. Porter
Charles E. Porter
Principal Executive Officer
Date: March 29, 2006

By (Signature and Title):

/s/Steven D. Krichmar
Steven D. Krichmar
Principal Financial Officer
Date: March 29, 2006