

PUTNAM MANAGED HIGH YIELD TRUST
Form N-30D
July 30, 2002

Putnam
Managed
High Yield
Trust

ANNUAL REPORT ON PERFORMANCE AND OUTLOOK

5-31-02

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

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

Dear Fellow Shareholder:

In a challenging market and economic environment during the fiscal year ended May 31, 2002, Putnam Managed High Yield Trust delivered slightly negative absolute returns at net asset value. As the year was marked by geopolitical turmoil and corporate accounting problems, Putnam's extensive research capabilities became an even more valuable asset to shareholders.

On the following pages, the report from your fund's management team will provide a full discussion of what has been driving the fund's performance as well as a view of prospects for the remainder of 2002.

You may notice as you read this report that we are now listing the team that manages your fund. We do this to reflect more accurately how your fund is managed as well as Putnam's firm belief in the value of team management. The names of the individuals who comprise the management team are shown at the end of management's discussion of performance.

We know that Putnam Investments values its relationship with you and its other shareholders and that it appreciates your loyalty and patience as your management team steers the fund through this period of market uncertainty.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill
Chairman of the Trustees
July 17, 2002

George Putnam, III
President of the Funds

REPORT FROM FUND MANAGEMENT

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

The fiscal year ended May 31, 2002, was marked by significant global turmoil, including the terrorist attacks in the United States on September 11. The U.S. economy experienced a significant slowdown, exacerbated by the events of September 11, although it began to show signs of recovery in the late fall and through the first quarter of

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2002. The high-yield market also evolved during the 12-month period, generating lackluster returns last summer, strong returns in the late fall, and then more moderately positive returns during the first five months of 2002.

While your fund's absolute return at net asset value for the period may not appear impressive on its own, it is important to realize that this result was well ahead of the average for closed-end high-yield funds tracked by Lipper over the same period. The fund's performance at market price reflects a change in investors' perception of the fund, possibly due to increased volatility in the high-yield market over the past several months. This change in perception caused the fund's return at market price to be lower than its return at net asset value. While the fund underperformed its benchmark, the CSFB High Yield Index, it is important to keep in mind that your fund's benchmark is not an investment vehicle. See the performance comparisons on page 7 for more information.

Total return for 12 months ended 5/31/02

NAV	Market price
-0.93%	-2.91%

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

[GRAPHIC OMITTED: horizontal bar chart TOP INDUSTRY SECTORS]

TOP INDUSTRY SECTORS*

Basic materials	11.3%
Communications services	8.8%
Capital goods	7.7%
Broadcasting	7.1%
Health care	7.0%

Footnote reads:

*Based on net assets as of 5/31/02. Holdings will vary over time.

* HIGH-YIELD MARKET TURNED AROUND AFTER SEPTEMBER 11

In the past year, high-yield bonds have, to some degree, followed the volatile trends of the economy and the equity markets. During the summer of 2001, several high-yield sectors had solid performance, including cable television, broadcasting, gaming, chemicals, and automotive. The Federal Reserve Board's short-term interest-rate reductions that occurred throughout 2001 caused a dramatic steepening of the yield curve (meaning that the difference between short-term and long-term bond yields increased significantly). This was positive for the bond market in general and for high-yield bonds, but the latter continued to suffer from the woes of the telecommunications industry. Defaults and large

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price declines in the telecommunications sector plagued the high-yield market throughout the summer of 2001. Fortunately, the stronger-performing sectors helped offset those that lagged.

After September 11, high-yield bond prices fell sharply, as did those in practically every asset class and market sector except for the highest-quality bonds, short-term U.S. Treasuries. High-yield sectors such as airlines, gaming, lodging, and other travel-related industries all experienced undue price declines. In October and November, however, the high-yield market quickly turned around on reports of a recovering U.S. economy, positive news from the war in Afghanistan, and a resurgent stock market. High-yield returns for October and November were strong, even though the bond market generally was volatile, and the sector finished 2001 well ahead of the major equity indexes.

This year, high-yield performance has continued to follow the ups and downs of the stock market and the economy, but performance remained solidly in positive territory for the first five months of the year. As a result of the Enron scandal, credit quality and corporate financial health have become important in a way that has not been the case for many years. While the increased scrutiny has caused volatility in both the equity and high-yield markets in the short term, it should be a positive going forward. However, there may be further problematic events, such as the recent difficulties reported by Worldcom in June. This holding represented a fractional percentage of the fund's net assets. As a result of our research, most of the fund's Worldcom holdings were sold well before the scandal was reported.

Fund Profile

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

* "FALLEN ANGELS" HAVE CHANGED THE HIGH-YIELD LANDSCAPE

In the past year, companies that previously had been high-grade bond issuers have entered the high-yield bond market. Many of these so-called "fallen angels" still have strong cash flow, significant assets that remain valuable, and the ability to generate consistent earnings. They have come upon hard times, but remain attractive because of their liquidity and their potential for higher returns.

At Putnam, we are fortunate to have a large fixed-income department with a sizeable group of analysts on the investment-grade side who know these companies well. This is a distinct advantage for Putnam over many of our peers. Through our Knowledge Management initiative, in which we regularly share information across different investing groups, we are able to quickly gather valuable analytical insights from the investment-grade bond analysts within our firm.

* MANAGEMENT STRATEGIES PRODUCED STRONG RELATIVE PERFORMANCE

Going into September 2001, the fund was positioned defensively, which helped when the market declined in the wake of September 11. We had improved the credit quality among the holdings throughout 2000 and into 2001, adding more BB-rated bonds. In addition, the fund was well diversified across a range of industries outside telecommunications. Our

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reduction of holdings in the telecommunications industry -- particularly wireline companies (as opposed to wireless) -- was particularly helpful in boosting the fund's relative performance, especially during the month of September. These reductions were difficult to achieve, given the significance of the telecom industry in the high-yield market and the extent of the former's collapse.

In October and November of 2001, we increased the fund's weightings in some of the beaten-down sectors, such as media, cable, broadcasting, airlines, gaming, and lodging. This contrarian strategy paid off, as the bonds in these sectors have seen solid performance since we acquired them. The market in the weeks after September 11 was extremely bearish, but we were not as pessimistic as many other investors were at the time. For example, bonds that we acquired in the broadcasting industry have benefited from higher-than-expected advertising revenues, as well as a more favorable regulatory climate that has allowed companies to expand.

The gaming and lodging industries also benefited from the post-September 11 environment. Understandably, people were much less willing to travel after the events of September 11, but there was a somewhat irrational belief that travel and hotel occupancy would decline much more than it actually did. As a result, our holdings in these sectors, acquired in October and November, performed well when travel and hotel use recovered more quickly than had been anticipated.

* LOWER MARKET YIELDS, DEFAULTS LED TO DIVIDEND REDUCTION

During the past 12 months, the fund's dividend was reduced for several reasons. Market yields have come down significantly in the past year and a half. In addition, your fund's managers have been replacing poor-performing telecommunications bonds with higher-quality bonds, which typically have lower yields. Finally, some bonds in the fund have defaulted, and when a bond defaults its income is eliminated. As a result of these factors, the fund did not earn its dividend for the entire fiscal year; therefore, the fund had a non-taxable return of capital to shareholders as part of its distributions (see page 37 for details).

* OUTLOOK REMAINS POSITIVE FOR HIGH-YIELD BONDS

There are several reasons to remain optimistic about high-yield bonds going forward. First, it appears default rates have peaked, which is positive because it should signal a generally improving market environment. Second, technical factors are quite positive. Money has flowed into the market from both individual and institutional investors, with several billion dollars invested in high-yield bonds already in 2002. Third, the yield curve is still steep, with short-term rates at a 40-year low. This gives investors incentive to take on more risk in order to receive higher yields. Finally, after several years of focusing solely on growth, the renewed emphasis on reducing debt should result in higher credit quality.

[GRAPHIC OMITTED: TOP 10 HOLDINGS]

TOP 10 HOLDINGS

PSF Group Holdings, Inc., Class A
common stock
Basic materials

Echostar Broadband Corp.

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senior notes, 10.375%, 2007
Broadcasting

Allied Waste Industries, Inc.
company guaranty, Series B, 10%, 2009
Capital goods

HMH Properties, Inc.
company guaranty, Series B, 7.875%, 2008
Lodging/tourism

Coinmach Corp.
144A senior notes, 9%, 2010
Commercial and consumer services

CSC Holdings, Inc.
series M, \$11.125 cumulative preferred
Communication services

Southland Corp.
debentures, Series A, 4.5%, 2004
Retail

Paxson Communications Corp.
13.25% cumulative preferred
Broadcasting

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

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

Footnote reads:

These holdings represent 9.1% of the fund's net assets as of 5/31/02.
Portfolio holdings will vary over time.

There are risks, as always. First, the Federal Reserve Board will eventually begin raising short-term interest rates. We believe that this will happen later than many are expecting (perhaps as late as 2003), and that when the Fed does begin to raise rates, the increases will probably be larger and will occur at regular intervals. Secondly, while the impact of September 11 has receded significantly from an economic and market psychology standpoint, corporate accounting scandals and geopolitical events are still having a dampening effect on the equity markets, which does influence high-yield bonds peripherally. We remain acutely aware of these and other risks, and will continue to make adjustments to your fund as are warranted by changes in the market and economic environment.

The views expressed here are exclusively those of Putnam Management. They are not meant as investment advice. Although the described holdings were viewed favorably as of 5/31/02, there is no guarantee the fund will continue to hold these securities in the future. Lower-rated bonds may offer higher yields in return for more risk.

This fund is managed by the Putnam Core Fixed-Income High-Yield Team. The members of this team are Stephen Peacher (Portfolio Leader), Jeffrey Kaufman, Geoffrey Kelley, Krishna Memani, Neal Reiner, Paul

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Scanlon, Rosemary Thomsen, and Joseph Towell.

PUTNAM'S POLICY ON CONFIDENTIALITY

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

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

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

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

PERFORMANCE SUMMARY

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

TOTAL RETURN FOR PERIODS ENDED 5/31/02

	NAV	Market price	CSFB High Yield Index	Consumer price index
1 year	-0.93%	-2.91%	3.64%	1.13%
5 years	1.42	10.79	16.58	12.12
Annual average	0.28	2.07	3.12	2.31
Life of fund (since 6/25/93)	50.23	56.50	70.23	24.31
Annual average	4.66	5.14	6.15	2.47

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

LIPPER INFORMATION:

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The average annualized return for the 7 funds in the Lipper High Current Yield Funds (closed-end) category over the 12 months ended 5/31/02 was -9.45%. Over the 5- and life of fund periods ended 5/31/02, annualized returns for the category were -4.61% and 1.12%, respectively.

PRICE AND DISTRIBUTION INFORMATION 12 MONTHS ENDED 5/31/02

Distributions		
Number	12	
Income	\$0.8696	
Capital gains	--	
Return of capital 1	\$0.1214	
Total	\$0.9910	
Share value:	NAV	Market price
5/31/01	\$9.49	\$10.80
5/31/02	8.50	9.48
Current return (end of period)		
Current dividend rate 2	9.60%	8.61%

1 See page 37 for more information.

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

TOTAL RETURN FOR PERIODS ENDED 6/30/02 (most recent calendar quarter)

	NAV	Market price
1 year	-4.03%	-10.91%
5 years	-5.46	-5.46
Annual average	-1.12	-1.12
Life of fund (since 6/25/93)	42.91	35.73
Annual average	4.04	3.45

Past performance does not indicate future results. More recent returns may be more or less than those shown. They do not take into account any adjustment for taxes payable on reinvested distributions. Investment returns, net asset value, and market price will fluctuate so that an investor's shares when sold may be worth more or less than their original cost.

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TERMS AND DEFINITIONS

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

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

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

COMPARATIVE BENCHMARKS

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

Credit Suisse First Boston (CSFB) High Yield Index is an unmanaged list of lower-rated higher-yielding U.S. corporate bonds. It assumes reinvestment of all distributions and interest payments and does not take into account brokerage fees or taxes. Securities in the fund do not match those in the index and performance of the fund will differ. It is not possible to invest directly in an index.

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

A GUIDE TO THE FINANCIAL STATEMENTS

These sections of the report, as well as the accompanying Notes, preceded by the Report of independent accountants, constitute the fund's financial statements.

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

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

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

Statement of changes in net assets shows how the fund's net assets were

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

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

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Trustees and Shareholders
Putnam Managed High Yield Trust:

We have audited the accompanying statement of assets and liabilities of Putnam Managed High Yield Trust, including the fund's portfolio, as of May 31, 2002, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended and financial highlights for each of the years in the two-year period then ended. These financial statements and financial highlights are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for each of the years in the three-year period ended May 31, 2000 were audited by other auditors whose report dated July 11, 2000, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2002 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Putnam Managed High Yield Trust as of May 31, 2002, the results of its operations for the year then ended, and changes in its net assets and financial highlights for each of the years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts
July 2, 2002

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THE FUND'S PORTFOLIO
May 31, 2002

CORPORATE BONDS AND NOTES (84.3%) (a)
PRINCIPAL AMOUNT

Advertising and Marketing Services (0.2%)

\$ 196,618 Interact Operating Co. notes 14s, 2003 (PIK)
40,000 Lamar Media Corp. company guaranty 9 5/8s, 2006
67,000 Lamar Media Corp. sr. sub. notes 9 1/4s, 2007

Automotive (2.4%)

80,000 Asbury Automotive Group, Inc. 144A sr. sub. notes 9s, 2012
135,000 Collins & Aikman Products, Inc. company guaranty 11 1/2s, 2006
140,000 Collins & Aikman Products, Inc. 144A sr. notes 10 3/4s, 2011
200,000 Dana Corp. notes 9s, 2011
20,000 Dana Corp. notes 7s, 2029
50,000 Delco Remy International, Inc. company guaranty 11s, 2009
10,000 Delco Remy International, Inc. company guaranty 10 5/8s, 2006
20,000 Delco Remy International, Inc. sr. notes 8 5/8s, 2007
190,000 Dura Operating Corp. company guaranty Ser. D, 9s, 2009
80,000 Dura Operating Corp. 144A sr. notes 8 5/8s, 2012
110,000 Exide Corp. sr. notes 10s, 2005 (In default) (NON)
80,000 Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON)
150,000 Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON)
30,000 Ford Motor Credit Corp. notes 7 3/8s, 2009
50,000 Hayes Lemmerz International, Inc. 144A company guaranty
11 7/8s, 2006 (In default) (NON)
130,000 Lear Corp. company guaranty Ser. B, 8.11s, 2009
180,000 Lear Corp. company guaranty Ser. B, 7.96s, 2005
30,000 Tenaga Nasional Berhad company guaranty 11 5/8s, 2009
70,000 United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012
30,000 Venture Holdings Trust 144A sr. notes Ser. B, 9 1/2s, 2005

Basic Materials (9.0%)

150,000 Acetex Corp. sr. notes 10 7/8s, 2009 (Canada)
50,000 AK Steel Corp. company guaranty 7 7/8s, 2009
100,000 AK Steel Corp. sr. notes 9 1/8s, 2006
190,000 Appleton Papers, Inc. 144A sr. sub. notes 12 1/2s, 2008
140,000 ARCO Chemical Co. deb. 9.8s, 2020
80,000 Armco, Inc. sr. notes 8 7/8s, 2008
170,000 Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)
130,000 Better Minerals & Aggregates Co. company guaranty 13s, 2009
90,000 Centaur Mining & Exploration company guaranty 11s, 2007 (Australia)
(In default) (NON)
100,000 Compass Minerals Group, Inc. 144A sr. sub. notes 10s, 2011
170,000 Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005
(In default) (NON)
20,000 Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005
(In default) (NON)
50,000 Doe Run Resources Corp. company guaranty FRN Ser. B, 8.536s, 2003
(In default) (NON)
300,000 Equistar Chemicals LP/Equistar Funding Corp. company guaranty
10 1/8s, 2008

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50,000 Ferro Corp. sr. notes 9 1/8s, 2009
150,000 Four M Corp. sr. notes Ser. B, 12s, 2006
30,000 Georgia Gulf Corp. company guaranty 10 3/8s, 2007
30,000 Georgia-Pacific Corp. notes 8 7/8s, 2031
80,000 Georgia-Pacific Corp. notes 8 1/8s, 2011
30,000 Georgia-Pacific Corp. notes 7 1/2s, 2006
40,000 Haynes International, Inc. sr. notes 11 5/8s, 2004
200,000 Hercules, Inc. company guaranty 11 1/8s, 2007
350,000 Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009
50,000 Huntsman International, LLC 144A sr. notes 9 7/8s, 2009
150,000 IMC Global, Inc. company guaranty Ser. B, 10 7/8s, 2008
270,000 ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011
10,000 Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s, 2006
(In default) (NON)
305,000 Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003
(In default) (NON)
195,000 LTV Corp. company guaranty 11 3/4s, 2009 (In default) (NON)
190,000 LTV Corp. company guaranty 8.2s, 2007 (In default) (NON)
60,000 Lyondell Chemical Co. company guaranty 9 1/2s, 2008
40,000 Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007
140,000 Lyondell Chemical Co. sec. notes Ser. B, 9 7/8s, 2007
20,000 Lyondell Chemical Co. sr. sub. notes 10 7/8s, 2009
50,000 Millenium America, Inc. company guaranty 9 1/4s, 2008
50,000 Norske Skog Canada, Ltd. company guaranty 8 5/8s, 2011 (Canada)
80,000 Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008
10,000 Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011
60,000 Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007
70,000 Noveon, Inc. company guaranty Ser. B, 11s, 2011
120,000 OM Group, Inc. company guaranty 9 1/4s, 2011
90,000 Oregon Steel Mills 1st mtge. 11s, 2003
32,000 P&L Coal Holdings Corp. company guaranty Ser. B, 9 5/8s, 2008
140,000 Pacifica Papers, Inc. sr. notes 10s, 2009 (Canada)
31,547 PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)
90,000 Phelps Dodge Corp. sr. notes 8 3/4s, 2011
73,849 Pioneer Companies, Inc. sec. FRN 5.381s, 2006
60,000 Polymer Group, Inc. company guaranty Ser. B, 9s, 2007 (In default) (NON)
140,000 Potlatch Corp. company guaranty 10s, 2011
365,000 Riverwood International Corp. company guaranty 10 7/8s, 2008
160,000 Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009
80,000 Steel Dynamics, Inc. 144A sr. notes 9 1/2s, 2009
30,000 Sterling Chemicals Holdings sr. disc. notes 13 1/2s, 2008 (In default) (NON)
100,000 Sterling Chemicals, Inc. company guaranty Ser. B, 12 3/8s, 2006
(In default) (NON)
40,000 Stone Container Corp. sr. notes 9 3/4s, 2011
140,000 Stone Container Corp. sr. notes 9 1/4s, 2008
80,000 Stone Container Corp. 144A company guaranty 11 1/2s,
2006 (Canada)
70,000 Tembec Industries, Inc. company guaranty 8 1/2s, 2011 (Canada)
60,000 Tembec Industries, Inc. company guaranty 7 3/4s, 2012 (Canada)
40,000 Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006
140,000 United States Steel, LLC 144A company guaranty 10 3/4s, 2008
90,000 WCI Steel, Inc. sr. notes Ser. B, 10s, 2004
20,000 Weirton Steel Corp 144A sr. notes 10 3/4s, 2005 (In default) (NON)
120,000 Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007 (In default) (NON)
80,000 WHX Corp. sr. notes 10 1/2s, 2005

Beverage (0.3%)

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

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Broadcasting (5.9%)

190,000 Acme Television company guaranty 10 7/8s, 2004
120,000 Benedek Communications Corp. sr. disc. notes 13 1/4s, 2006
(In default) (NON)
70,000 British Sky Broadcasting PLC company guaranty 8.2s, 2009
(United Kingdom)
210,000 British Sky Broadcasting PLC company guaranty 6 7/8s, 2009
(United Kingdom)
70,000 CD Radio, Inc. sec. notes 14 1/2s, 2009
140,000 Chancellor Media Corp. company guaranty 8s, 2008
440,000 Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B, zero %
(12 5/8s, 3/1/03), 2008 (STP)
790,000 Echostar Broadband Corp. sr. notes 10 3/8s, 2007
150,000 Echostar DBS Corp. 144A sr. notes 9 1/8s, 2009
50,000 Emmis Communications Corp. company guaranty Ser. B, 8 1/8s, 2009
80,000 Emmis Communications Corp. sr. disc. notes stepped-coupon zero %
(12 1/2s, 3/15/06), 2011 (STP)
162,877 Fox Family Worldwide, Inc. sr. disc. notes 10 1/4s, 2007
195,000 Fox Family Worldwide, Inc. sr. notes 9 1/4s, 2007
110,000 Fox/Liberty Networks, LLC sr. disc. notes stepped-coupon zero %
(9 3/4s, 8/15/02), 2007 (STP)
110,000 Fox/Liberty Networks, LLC sr. notes 8 7/8s, 2007
110,000 Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005
120,000 Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008
10,000 Knology Holdings, Inc. sr. disc. notes stepped-coupon zero %
(11 7/8s, 10/15/02), 2007 (STP)
70,000 LIN Holdings Corp. sr. disc. notes stepped-coupon zero %
(10s, 3/1/03), 2008 (STP)
70,000 LIN Television Corp. company guaranty 8 3/8s, 2008
70,000 Pegasus Satellite sr. notes 12 3/8s, 2006
350,375 Quorum Broadcast Holdings, LLC notes stepped-coupon zero %
(15s, 5/15/06), 2009 (acquired 5/15/01, cost \$139,227) (RES) (STP)
52,000 RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero %
(9.8s, 2/15/03), 2008 (STP)
30,000 Sinclair Broadcast Group, Inc. company guaranty 9s, 2007
260,000 Sinclair Broadcast Group, Inc. 144A sr. sub. notes 8 3/4s, 2011
130,000 XM Satellite Radio Holdings, Inc. sec. notes 14s, 2010
260,000 Young Broadcasting, Inc. company guaranty 10s, 2011
30,000 Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007

Building Materials (0.6%)

50,000 Atrium Companies, Inc. company guaranty Ser. B, 10 1/2s, 2009
60,000 Building Materials Corp. company guaranty 8s, 2008
160,000 Dayton Superior Corp. company guaranty 13s, 2009
160,000 Morrison Knudsen Corp. 144A sr. notes 11s, 2010 (In default) (NON)
120,000 Owens Corning bonds 7 1/2s, 2018 (In default) (NON)
50,000 Owens Corning notes 7 1/2s, 2005 (In default) (NON)

Cable Television (2.8%)

70,000 Adelphia Communications Corp. sr. notes 10 1/4s, 2011 (In default) (NON)
120,000 Adelphia Communications Corp. sr. notes 7 7/8s, 2009 (In default) (NON)
20,000 Adelphia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009

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(In default) (NON)
9,407 Australis Media, Ltd. sr. disc. notes 15 3/4s, 2003 (Australia)
(In default) (NON) (PIK)
160,000 Century Communications Corp. sr. notes 8 7/8s, 2007
60,000 Century Communications Corp. sr. notes 8 3/8s, 2007
120,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes
stepped-coupon zero % (13 1/2s, 1/15/06), 2011 (STP)
410,000 Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes
stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)
280,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
11 1/8s, 2011
70,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
10 3/4s, 2009
10,000 Charter Communications Holdings, LLC/Capital Corp. sr. notes
10s, 2009
20,000 Charter Communications Holdings, LLC/Capital Corp. 144A sr. disc.
notes stepped-coupon zero % (12 1/8s, 1/15/07), 2012 (STP)
30,000 Charter Communications Holdings, LLC/Capital Corp. 144A sr. notes
10s, 2011
60,000 Charter Communications Holdings, LLC/Capital Corp. 144A sr. notes
9 5/8s, 2009
50,000 CSC Holdings, Inc. sr. sub. deb. 9 7/8s, 2013
775,000 Diamond Cable Communication PLC sr. disc. notes zero %, 2007
(United Kingdom) (In default) (NON)
150,000 Diamond Cable Communications PLC sr. disc. notes zero %, 2005
(United Kingdom) (In default) (NON)
80,000 Frontier Vision bank term loan FRN Ser. B, 4.045s, 2006
(acquired 5/20/02, cost \$74,000) (NON)
30,000 Insight Communications Company, Inc. sr. disc. notes stepped-coupon
zero % (12 1/4s, 2/15/06), 2011 (STP)
50,000 International Cabeltel, Inc. sr. disc. notes 11 1/2s, 2006 (In default) (NON)
20,000 NTL Communications Corp. sr. notes stepped-coupon Ser. B, zero %
(12 3/8s, 10/1/03), 2008 (In default) (NON) (STP)
100,000 ONO Finance PLC sr. notes 13s, 2009 (United Kingdom)
20,000 Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s, 2005 (Canada)
130,000 Rogers Cablesystems, Ltd. sr. sub. notes 8.8s, 2007 (Canada)
320,000 TeleWest Communications PLC deb. 11s, 2007 (United Kingdom)
146,000 United Pan-Europe NV sr. disc. notes 12 1/2s, 2009 (Netherlands)
260,000 United Pan-Europe NV sr. disc. notes stepped-coupon zero %
(13 3/4s, 2/1/05), 2010 (Netherlands) (STP)

Capital Goods (7.4%)

80,000 AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007
510,000 Allied Waste Industries, Inc. company guaranty Ser. B, 10s, 2009
330,000 Allied Waste Industries, Inc. company guaranty Ser. B, 7 5/8s, 2006
30,000 Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008
40,000 Amkor Technology, Inc. sr. notes 9 1/4s, 2008
80,000 Amkor Technology, Inc. sr. notes 9 1/4s, 2006
60,000 Applied Extrusion Technologies, Inc. company guaranty Ser. B,
10 3/4s, 2011
360,000 Argo-Tech Corp. company guaranty 8 5/8s, 2007
80,000 Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007
285,000 BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008
190,000 Blount, Inc. company guaranty 13s, 2009
150,000 Brand Scaffold Services, Inc. sr. notes 10 1/4s, 2008
60,000 Browning-Ferris Industries, Inc. deb. 7.4s, 2035
60,000 Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008
100,000 Day International Group, Inc. company guaranty 9 1/2s, 2008
240,000 Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008

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140,000 Earle M. Jorgensen Co. 144A sec. notes 9 3/4s, 2012
123,000 Flowserve Corp. company guaranty 12 1/4s, 2010
40,000 Hexcel Corp. sr. sub. notes 9 3/4s, 2009
90,000 High Voltage Engineering Corp. sr. notes 10 3/4s, 2004
180,000 Insilco Holding Co. sr. disc. notes stepped-coupon zero %
(14s, 8/15/03), 2008 (STP)
90,000 Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005
30,000 Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007
30,000 Joy Global, Inc. 144A company guaranty 8 3/4s, 2012
100,000 L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008
170,000 L-3 Communications Corp. sr. sub. notes Ser. B, 10 3/8s, 2007
100,000 Laidlaw, Inc. notes 7.65s, 2006 (Canada) (In default) (NON)
190,000 Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006
200,000 Owens-Brockway Glass 144A sec. notes 8 7/8s, 2009
50,000 Owens-Illinois, Inc. debs. 7.8s, 2018
95,000 Owens-Illinois, Inc. debs. 7 1/2s, 2010
10,000 Owens-Illinois, Inc. sr. notes 7.15s, 2005
80,000 Pliant Corp. company guaranty 13s, 2010
30,000 Pliant Corp. 144A sr. sub. notes 13s, 2010
130,000 Roller Bearing Company of America company guaranty Ser. B,
9 5/8s, 2007
190,000 Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010
40,000 Terex Corp. company guaranty 8 7/8s, 2008
100,000 Terex Corp. company guaranty Ser. B, 10 3/8s, 2011
70,000 Trimas Corp. 144A sr. sub. notes 9 7/8s, 2012
130,000 Waste Management, Inc. sr. notes 7 3/8s, 2010
80,000 Waste Management, Inc. sr. notes 6 1/2s, 2008

Commercial and Consumer Services (0.8%)

475,000 Coinmach Corp. 144A sr. notes 9s, 2010

Communication Services (7.1%)

200,000 360Networks, Inc. sr. notes 13s, 2008 (Canada) (In default) (NON)
120,000 Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011
50,000 Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011
10,000 Alamosa PCS Holdings, Inc. company guaranty stepped-coupon zero %
(12 7/8s, 2/15/05), 2010 (STP)
200,000 American Cellular Corp. company guaranty 9 1/2s, 2009
450,000 American Tower Corp. sr. notes 9 3/8s, 2009
20,000 Arch Communications, Inc. sr. notes 13 3/4s, 2008 (In default) (NON)
20,000 Arch Communications, Inc. sr. notes 13s, 2007 (In default) (NON)
40,000 Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda)
(In default) (NON)
100,000 Birch Telecommunications, Inc. sr. notes 14s, 2008 (In default) (NON)
14,000 Call-Net Enterprises, Inc. company guaranty 10 5/8s, 2008 (Canada)
318,870 Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON)
120,000 Crown Castle International Corp. sr. disc. notes stepped-coupon
zero % (10 3/8s, 5/15/04), 2011 (STP)
60,000 Crown Castle International Corp. sr. notes 10 3/4s, 2011
170,000 Crown Castle International Corp. sr. notes 9 3/8s, 2011
490,000 Cybernet Internet Services International, Inc. 144A sr. disc. notes
stepped-coupon zero % (13s, 8/15/04), 2009 (Denmark) (STP)
150,000 Dobson/Sygnet Communications, Inc. sr. notes 12 1/4s, 2008
230,000 Equinix, Inc. sr. notes 13s, 2007
120,000 Esprit Telecom Group PLC sr. notes 11 1/2s, 2007 (United Kingdom)
(In default) (NON)
420,000 Firstworld Communication Corp. sr. disc. notes stepped-coupon
zero % (13s, 4/15/03), 2008 (In default) (NON) (STP)

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90,000 FLAG, Ltd. 144A sr. notes 8 1/4s, 2008 (Bermuda) (In default) (NON)
20,000 Global Crossing Holdings, Ltd. company guaranty 9 5/8s, 2008
(Bermuda) (In default) (NON)
30,000 Global Crossing Holdings, Ltd. company guaranty 9 1/2s, 2009
(Bermuda) (In default) (NON)
430,000 Global Crossing Holdings, Ltd. company guaranty 9 1/8s, 2006
(Bermuda) (In default) (NON)
145,000 Globix Corp. sr. notes 12 1/2s, 2010 (In default) (NON)
350,000 Horizon PCS, Inc. company guaranty stepped-coupon zero %
(14s, 10/1/05), 2010 (STP)
20,000 Horizon PCS, Inc. 144A sr. notes 13 3/4s, 2011
20,000 Hyperion Telecommunications Corp., Inc. sr. disc. notes Ser. B, zero %,
2003 (In default) (NON)
230,000 Hyperion Telecommunications Corp., Inc. sr. sub. notes 12s, 2007
(In default) (NON)
200,000 iPCS, Inc. sr. disc. notes stepped-coupon zero % (14s, 7/15/05), 2010 (STP)
140,000 IWO Holdings, Inc. company guaranty 14s, 2011
260,000 Leap Wireless International, Inc. company guaranty 12 1/2s, 2010
99,000 Level 3 Communications, Inc. sr. disc. notes stepped-coupon zero %
(10 1/2s, 12/1/03), 2008 (STP)
20,000 Madison River Capital Corp. sr. notes 13 1/4s, 2010
390,000 McCaw International, Ltd. sr. disc. notes 13s, 2007 (In default) (NON)
120,000 MCI WorldCom, Inc. notes 7 3/4s, 2007
90,000 MCI WorldCom, Inc. sr. notes 6.4s, 2005
50,000 Metrocall, Inc. sr. sub. notes 11s, 2008 (In default) (NON)
20,000 Metrocall, Inc. sr. sub. notes 10 3/8s, 2007 (In default) (NON)
40,000 Metrocall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON)
200,000 Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s, 2008 (In default) (NON)
160,000 Microcell Telecommunications sr. disc. notes Ser. B, 14s, 2006 (Canada)
90,000 Millicom International Cellular SA sr. disc. notes 13 1/2s,
2006 (Luxembourg)
130,000 Nextel Communications, Inc. sr. disc. notes stepped-coupon zero %
(9 3/4s, 10/31/02), 2007 (STP)
300,000 Nextel Communications, Inc. sr. notes 12s, 2008
80,000 Nextel Communications, Inc. sr. notes 9 1/2s, 2011
420,000 Nextel Communications, Inc. sr. notes 9 3/8s, 2009
110,000 Nextel Partners, Inc. sr. notes 11s, 2010
30,000 Nextel Partners, Inc. sr. notes 11s, 2010
70,000 Nextel Partners, Inc. 144A sr. notes 12 1/2s, 2009
50,000 NorthEast Optic Network, Inc. sr. notes 12 3/4s, 2008 (In default) (NON)
200,000 Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005 (In default) (NON)
140,000 PanAmSat Corp. 144A sr. notes 8 1/2s, 2012
230,000 Price Communications Wireless, Inc. 144A sr. notes 9 1/8s, 2006
40,000 PSINet, Inc. sr. notes 11 1/2s, 2008 (In default) (NON)
40,000 PSINet, Inc. sr. notes Ser. B, 10s, 2005 (In default) (NON)
200,000 Qwest Capital Funding, Inc. company guaranty 7 3/4s, 2006
40,000 Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011
230,000 Qwest Capital Funding, Inc. company guaranty 7s, 2009
130,000 Qwest Capital Funding, Inc. company guaranty 6 3/8s, 2008
90,000 Qwest Communications International, Inc. sr. notes Ser. B, 7 1/2s, 2008
40,000 Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010 (In default) (NON)
50,000 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)
190,000 SBA Communications Corp. sr. notes 10 1/4s, 2009
130,000 Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon zero %
(11 1/8s, 4/15/04), 2009 (STP)
50,000 Tele1 Europe B.V. sr. notes 13s, 2009 (Netherlands)
143,000 Telecorp PCS, Inc. company guaranty 10 5/8s, 2010
13,000 Telecorp PCS, Inc. company guaranty stepped-coupon zero %
(11 5/8s, 4/15/04), 2009 (STP)
90,000 Telehub Communications Corp. company guaranty stepped-coupon
zero % (13 7/8s, 7/31/02), 2005 (In default) (NON) (STP)
100,000 Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008

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117,000 Tritel PCS, Inc. company guaranty 10 3/8s, 2011
30,000 Triton PCS, Inc. company guaranty 9 3/8s, 2011
140,000 Triton PCS, Inc. company guaranty 8 3/4s, 2011
90,000 TSI Telecommunication Services, Inc. 144A sr. sub. notes 12 3/4s, 2009
350,000 UbiqTel Operating Co. company guaranty stepped-coupon zero %
(14s, 4/15/05), 2010 (STP)
160,000 US UnWired, Inc. company guaranty stepped-coupon Ser. B, zero %
(13 3/8s, 11/1/04), 2009 (STP)
60,000 USA Mobile Communications, Inc. sr. notes 14s, 2004 (In default) (NON)
40,000 USA Mobile Communications, Inc. sr. notes 9 1/2s, 2004 (In default) (NON)
140,000 WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero %
(11 1/4s, 2/1/03), 2008 (STP)
30,000 Williams Communications Group, Inc. sr. notes 11 7/8s, 2010
(In default) (NON)
20,000 Williams Communications Group, Inc. sr. notes 11.7s, 2008 (In default) (NON)
30,000 Williams Communications Group, Inc. sr. notes 10.7s, 2007 (In default) (NON)
670,000 WinStar Communications, Inc. sr. disc. notes stepped-coupon zero %
(14 3/4s, 4/15/05), 2010 (In default) (NON) (STP)
190,000 WinStar Communications, Inc. sr. notes 12 3/4s, 2010 (In default) (NON)
20,000 WinStar Communications, Inc. sr. notes 12 1/2s, 2008 (In default) (NON)
180,000 World Access, Inc. sr. notes Ser. B, 13 1/4s, 2008 (In default) (NON)
30,000 WorldCom, Inc.-WorldCom Group notes 8 1/4s, 2010
40,000 WorldCom, Inc.-WorldCom Group notes 7 1/2s, 2011

Conglomerates (0.4%)

300,000 Tyco International Group SA company guaranty 6 3/8s,
2006 (Luxembourg)

Consumer (0.9%)

206,765 Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON)
EUR 117,131 Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON)
\$ 90,000 Icon Health & Fitness 144A sr. sub. notes 11 1/4s, 2012
210,000 Jostens, Inc. sr. sub. notes 12 3/4s, 2010
300,000 Samsonite Corp. sr. sub. notes 10 3/4s, 2008

Consumer Goods (0.7%)

60,000 Albecca, Inc. company guaranty 10 3/4s, 2008
70,000 Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009
70,000 French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007
10,000 French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007
100,000 Playtex Products, Inc. company guaranty 9 3/8s, 2011
40,000 Revlon Consumer Products sr. notes 9s, 2006
50,000 Revlon Consumer Products sr. notes 8 1/8s, 2006
70,000 Revlon Consumer Products sr. sub. notes 8 5/8s, 2008

Consumer Services (0.2%)

110,000 Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006
50,000 United Rentals (North America), Inc. company guaranty Ser. B,
10 3/4s, 2008

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Energy (5.2%)

130,000 Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007
110,000 BRL Universal Equipment sec. notes 8 7/8s, 2008
70,000 Chesapeake Energy Corp. company guaranty 8 3/8s, 2008
210,000 Chesapeake Energy Corp. company guaranty 8 1/8s, 2011
60,000 Comstock Resources, Inc. company guaranty 11 1/4s, 2007
60,000 Comstock Resources, Inc. 144A sr. notes 11 1/4s, 2007
20,000 Denbury Resources, Inc. company guaranty Ser. B, 9s, 2008
110,000 Dresser, Inc. company guaranty 9 3/8s, 2011
30,000 Dresser, Inc. 144A sr. sub. notes 9 3/8s, 2011
50,000 El Paso Energy Partners L.P. company guaranty Ser. B, 8 1/2s, 2011
50,000 Forest Oil Corp. sr. notes 8s, 2011
70,000 Forest Oil Corp. sr. notes 8s, 2008
70,000 Forest Oil Corp. 144A sr. notes 7 3/4s, 2014
20,000 Grant Prideco, Inc. company guaranty Ser. B, 9 5/8s, 2007
60,000 Key Energy Services, Inc. company guaranty Ser. C, 8 3/8s, 2008
125,000 Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009
50,000 Magnum Hunter Resources, Inc. 144A sr. notes 9.6s, 2012
130,000 Newfield Exploration Co. sr. notes 7 5/8s, 2011
10,000 Nuevo Energy Co. sr. sub. notes Ser. B, 9 1/2s, 2008
205,000 Ocean Energy, Inc. company guaranty Ser. B, 8 3/8s, 2008
100,000 Parker Drilling Co. company guaranty Ser. AI, 10 1/8s, 2009
20,000 Parker Drilling Co. 144A company guaranty 10 1/8s, 2009
50,000 Petronas Capital, Ltd. 144A company guaranty 7s, 2012 (Malaysia)
240,000 Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010
30,000 Pioneer Natural Resources Co. company guaranty 7 1/2s, 2012
70,000 Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011
10,000 Pride International, Inc. sr. notes 10s, 2009
130,000 Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007
70,000 Snyder Oil Corp. sr. sub. notes 8 3/4s, 2007
50,000 Stone Energy Corp. company guaranty 8 3/4s, 2007
80,000 Stone Energy Corp. sr. sub. notes 8 1/4s, 2011
30,000 Swift Energy Co. sr. sub. notes 10 1/4s, 2009
90,000 Swift Energy Co. sr. sub. notes 9 3/8s, 2012
60,000 Trico Marine Services, Inc. company guaranty Ser. G, 8 1/2s, 2005
100,000 Trico Marine Services, Inc. 144A sr. notes 8 7/8s, 2012
190,000 Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009
60,000 Vintage Petroleum, Inc. 144A sr. notes 8 1/4s, 2012
70,000 Westport Resources Corp. company guaranty 8 1/4s, 2011
70,000 XTO Energy, Inc. sr. notes 7 1/2s, 2012
60,000 XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009

Entertainment (1.5%)

80,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011
60,000 AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009
10,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 9 5/8s, 2008
150,000 Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008
120,000 Premier Parks, Inc. sr. notes 9 3/4s, 2007
130,000 Regal Cinemas, Inc. 144A sr. sub. notes 9 3/8s, 2012
100,000 Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON)
380,000 Six Flags, Inc. 144A sr. notes 8 7/8s, 2010

Financial (4.2%)

240,000 Advanta Corp. 144A company guaranty Ser. B, 8.99s, 2026
10,000 AMRESKO, Inc. sr. sub. notes Ser. 97-A, 10s, 2004 (In default) (NON)

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170,000 AMRESCO, Inc. sr. sub. notes Ser. 98-A, 9 7/8s, 2005 (In default) (NON)
70,000 Chevy Chase Savings Bank, Inc. sub. deb. 9 1/4s, 2005
70,000 CIT Group, Inc. sr. notes 7 3/4s, 2012
130,000 Colonial Capital II 144A company guaranty 8.92s, 2027
20,000 Comdisco, Inc. notes 7 1/4s, 2001 (In default) (NON) (DEF)
20,000 Comdisco, Inc. notes 6 3/8s, 2001 (In default) (NON) (DEF)
40,000 Comdisco, Inc. notes 5.95s, 2002 (In default) (NON) (DEF)
130,000 Conseco Finance Trust III, Inc. bonds 8.796s, 2027
80,000 Conseco Financing Trust II company guaranty 8.7s, 2026
200,000 Crescent Real Estate Equities LP 144A sr. notes 9 1/4s, 2009 (R)
15,000 Dime Capital Trust I bank guaranty Ser. A, 9.33s, 2027
414,000 Finova Group, Inc. notes 7 1/2s, 2009
430,000 GS Escrow Corp. sr. notes 7 1/8s, 2005
54,000 Imperial Credit Industries, Inc. sec. notes 12s, 2005
70,000 iStar Financial, Inc. sr. notes 8 3/4s, 2008 (R)
100,000 Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008 (In default) (NON)
60,000 Newcourt Credit Group, Inc. company guaranty 6 7/8s, 2005
65,000 Ocwen Capital Trust I company guaranty 10 7/8s, 2027
58,000 Ocwen Federal Bank sub. deb. 12s, 2005
160,000 Peoples Bank- Bridgeport sub. notes 9 7/8s, 2010
(acquired 1/12/01, cost \$166,509) (RES)
150,000 Provident Capital Trust company guaranty 8.6s, 2026
220,000 Resource America, Inc. 144A sr. notes 12s, 2004
150,000 Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006
140,000 Superior Financial Corp. 144A sr. notes 8.65s, 2003
80,000 Webster Capital Trust I 144A bonds 9.36s, 2027
100,000 Western Financial Bank sub. debs. 9 5/8s, 2012

Food (1.2%)

200,000 Archibald Candy Corp. company guaranty 10 1/4s, 2004 (In default) (NON)
10,000 Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007
230,000 Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007
40,000 Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011
130,000 Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008
110,000 Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom)
320,000 RAB Enterprises, Inc. company guaranty 10 1/2s, 2005
245,000 Vlastic Foods International, Inc. sr. sub. notes Ser. B, 10 1/4s, 2009
(In default) (NON)

Gaming & Lottery (6.0%)

80,000 Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon Ser. B,
zero % (13 1/2s, 3/1/03), 2010 (In default) (NON) (STP)
50,000 Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009
120,000 Argosy Gaming Co. company guaranty 10 3/4s, 2009
20,000 Argosy Gaming Co. sr. sub. notes 9s, 2011
125,000 Autotote Corp. company guaranty Ser. B, 12 1/2s, 2010
120,000 Boyd Gaming Corp. 144A sr. sub. notes 8 3/4s, 2012
86,021 Fitzgeralds Gaming Corp. company guaranty Ser. B, 12 1/4s, 2004
(In default) (NON)
110,000 Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008
170,000 Hollywood Casino Corp. company guaranty 11 1/4s, 2007
20,000 Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007
160,000 Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009
170,000 International Game Technology sr. notes 8 3/8s, 2009
210,000 Majestic Investor Holdings/Majestic Investor Capital Corp. 144A
company guaranty 11.653s, 2007

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10,000 Mandalay Resort Group sr. notes 9 1/2s, 2008
40,000 Mandalay Resort Group sr. sub. notes 9 3/8s, 2010
190,000 Mandalay Resort Group sr. sub. notes Ser. B, 10 1/4s, 2007
10,000 MGM Mirage, Inc. coll. sr. notes 6 7/8s, 2008
220,000 MGM Mirage, Inc. company guaranty 8 1/2s, 2010
110,000 MGM Mirage, Inc. company guaranty 8 3/8s, 2011
60,000 Mirage Resorts, Inc. notes 6 3/4s, 2008
40,000 Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006
130,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009
50,000 Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011
130,000 Mohegan Tribal Gaming Authority 144A sr. sub. notes 8s, 2012
160,000 Park Place Entertainment Corp. sr. notes 7 1/2s, 2009
160,000 Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008
30,000 Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008
140,000 Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010
70,000 Resorts International Hotel and Casino, Inc. 144A 1st mtge.
11 1/2s, 2009
70,000 Riviera Black Hawk, Inc. 1st mtge. 13s, 2005
140,000 Station Casinos, Inc. sr. notes 8 3/8s, 2008
40,000 Station Casinos, Inc. 144A sr. sub. notes 9 3/4s, 2007
30,000 Sun International Hotels, Ltd. 144A sr. sub. notes 8 7/8s,
2011 (Bahamas)
70,000 Trump Atlantic City Associates company guaranty 11 1/4s, 2006
10,000 Trump Atlantic City Associates company guaranty Ser. B, 11 1/4s, 2006
70,000 Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003
250,000 Venetian Casino Resort, LLC 144A 2nd mtge. 11s, 2010
140,000 Venetian Casino, Inc. company guaranty 12 1/4s, 2004
60,000 Wheeling Island Gaming, Inc. 144A sr. notes 10 1/8s, 2009

Health Care (6.3%)

150,000 ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006
80,000 ALARIS Medical Systems, Inc. 144A company guaranty 9 3/4s, 2006
10,000 ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero %
(11 1/8s, 8/1/03), 2008 (STP)
253,500 Alderwoods Group, Inc. company guaranty 12 1/4s, 2009
2,600 Alderwoods Group, Inc. company guaranty 11s, 2007
85,000 Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011
100,000 AmerisourceBergen Corp. sr. notes 8 1/8s, 2008
70,000 Bio-Rad Labs Corp. sr. sub. notes 11 5/8s, 2007
150,000 Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada)
200,000 Conmed Corp. company guaranty 9s, 2008
10,000 Hanger Orthopedic Group, Inc. sr. sub. notes 11 1/4s, 2009
140,000 Hanger Orthopedic Group, Inc. 144A sr. notes 10 3/8s, 2009
70,000 HCA, Inc. deb. 7.19s, 2015
70,000 HCA, Inc. med. term notes 7.69s, 2025
290,000 HCA, Inc. med. term notes 6.63s, 2045
100,000 HCA, Inc. notes 8 3/4s, 2010
60,000 HCA, Inc. notes 8.36s, 2024
10,000 HCA, Inc. notes 7s, 2007
20,000 HCA, Inc. sr. notes 7 7/8s, 2011
160,000 Healthsouth Corp. sr. sub. notes 10 3/4s, 2008
80,000 Insight Health Services Corp. company guaranty Ser. B, 9 7/8s, 2011
180,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s, 2007
(In default) (NON)
110,000 Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s, 2008
(In default) (NON)
130,000 Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007
290,000 Magellan Health Services, Inc. sr. sub. notes 9s, 2008
480,000 Mariner Post-Acute Network, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007

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(In default) (NON)

100,000 Mariner Post-Acute Network, Inc. sr. sub. notes stepped-coupon Ser. B, zero % (10 1/2s, 11/1/02), 2007 (In default) (NON) (STP)

170,000 Mediq, Inc. company guaranty 11s, 2008 (In default) (NON)

180,000 Mediq, Inc. deb. stepped-coupon zero % (13s, 6/1/03), 2009 (In default) (NON) (STP)

90,000 Omnicare, Inc. company guaranty Ser. B, 8 1/8s, 2011

230,000 PacifiCare Health Systems, Inc. 144A sr. notes 10 3/4s, 2009

110,000 Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012

40,000 Service Corp. International debs. 7 7/8s, 2013

20,000 Service Corp. International notes 7.7s, 2009

250,000 Service Corp. International notes 6s, 2005

130,000 Stewart Enterprises, Inc. notes 10 3/4s, 2008

140,000 Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009

200,000 Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009

100,000 Vanguard Health Systems, Inc. company guaranty 9 3/4s, 2011

120,000 Ventas Realty LP/Capital Corp. 144A sr. notes 9s, 2012

Homebuilding (2.0%)

100,000 Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011

10,000 D.R. Horton, Inc. company guaranty 8s, 2009

120,000 D.R. Horton, Inc. sr. notes 7 7/8s, 2011

50,000 D.R. Horton, Inc. 144A sr. notes 8 1/2s, 2012

110,000 Del Webb Corp. sr. sub. deb. 9 3/8s, 2009

30,000 K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007

80,000 K. Hovnanian Enterprises, Inc. 144A sr. notes 8s, 2012

10,000 K. Hovnanian Enterprises, Inc. 144A sr. sub. notes 8 7/8s, 2012

170,000 KB Home sr. sub. notes 9 1/2s, 2011

130,000 Lennar Corp. company guaranty Ser. B, 9.95s, 2010

20,000 M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008

160,000 Ryland Group, Inc. sr. notes 9 3/4s, 2010

40,000 Standard Pacific Corp. sr. notes 9 1/2s, 2010

20,000 Standard Pacific Corp. sr. notes 8 1/2s, 2009

110,000 Toll Corp. company guaranty 8 1/8s, 2009

80,000 WCI Communities, Inc. 144A sr. sub. notes 9 1/8s, 2012

Household Furniture and Appliances (0.4%)

130,000 Sealy Mattress Co. company guaranty stepped-coupon Ser. B, zero % (10 7/8s, 12/15/02), 2007 (STP)

105,000 Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007

Lodging/Tourism (2.7%)

210,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)

70,000 Felcor Lodging LP company guaranty 9 1/2s, 2008 (R)

35,000 Felcor Lodging LP company guaranty 8 1/2s, 2008 (R)

520,000 HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008

10,000 HMH Properties, Inc. sr. notes Ser. C, 8.45s, 2008

60,000 Host Marriott L.P. company guaranty Ser. G, 9 1/4s, 2007

50,000 Host Marriott L.P. sr. notes Ser. E, 8 3/8s, 2006

120,000 ITT Corp. notes 6 3/4s, 2005

190,000 John Q. Hamons Hotels 144A 1st mtge. 8 7/8s, 2012

60,000 Lodgian Financing Corp. company guaranty 12 1/4s, 2009 (In default) (NON)

90,000 Meristar Hospitality Corp. company guaranty 9 1/8s, 2011

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50,000 MeriStar Hospitality Operating Partnership/MeriStar Hospitality Finance Corp. 144A sr. notes 10 1/2s, 2009 (R)
70,000 Mikohn Gaming Corp. company guaranty Ser. B, 11 7/8s, 2008
90,000 RFS Partnership LP 144A sr. notes 9 3/4s, 2012
90,000 Starwood Hotels & Resorts Worldwide, Inc. 144A notes 7 7/8s, 2012

Media (0.5%)

310,000 Affinity Group Holdings sr. notes 11s, 2007

Publishing (2.6%)

50,000 Belo Corp. sr. notes 7 1/8s, 2007
80,000 Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011
50,000 Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009
70,000 Hollinger International Publishing, Inc. company guaranty 9 1/4s, 2007
312,338 Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK)
90,000 Key3media Group, Inc. company guaranty 11 1/4s, 2011
60,000 Mail-Well I Corp. 144A company guaranty 9 5/8s, 2012
110,000 Perry-Judd company guaranty 10 5/8s, 2007
520,000 PRIMEDIA, Inc. company guaranty 8 7/8s, 2011
80,000 PRIMEDIA, Inc. company guaranty 7 5/8s, 2008
130,000 PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006
60,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)
80,000 Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada)
110,000 Von Hoffman Press, Inc. 144A company guaranty 10 1/4s, 2009
90,931 Von Hoffman Press, Inc. 144A sr. sub. notes 13 1/2s, 2009

Restaurants (0.7%)

30,000 Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009
100,000 Sbarro, Inc. company guaranty 11s, 2009
90,000 Tricon Global Restaurants, Inc. sr. notes 8 7/8s, 2011
160,000 Tricon Global Restaurants, Inc. sr. notes 7.65s, 2008
70,000 Tricon Global Restaurants, Inc. sr. notes 7.45s, 2005

Retail (2.6%)

80,000 Amazon.com, Inc. sr. sub. notes stepped-coupon zero % (10s, 5/1/03), 2008 (STP)
160,000 Autonation, Inc. company guaranty 9s, 2008
110,000 Fleming Companies, Inc. company guaranty 10 1/8s, 2008
10,000 Fleming Companies, Inc. company guaranty Ser. D, 10 5/8s, 2007
100,000 Fleming Companies, Inc. 144A sr. sub. notes 9 7/8s, 2012
50,000 Great Atlantic & Pacific Tea Co. notes 7 3/4s, 2007
10,000 Iron Age Holdings Corp. sr. disc. notes stepped-coupon zero % (12 1/8s, 5/1/03), 2009 (STP)
50,000 JC Penney Company, Inc. debs. 7.4s, 2037
60,000 JC Penney Company, Inc. notes 7.6s, 2007
30,000 JC Penney Company, Inc. notes 7 3/8s, 2008
60,000 JC Penney Company, Inc. notes Ser. MTNA, 7.05s, 2005
150,000 K mart Corp. 144A notes 9 7/8s, 2008 (In default) (NON)
10,000 Mothers Work, Inc. sr. notes 12 5/8s, 2005
60,000 NBTY, Inc. sr. sub. notes Ser. B, 8 5/8s, 2007
80,000 Rite Aid Corp. notes 7 1/8s, 2007

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280,000 Saks, Inc. company guaranty 8 1/4s, 2008
500,000 Southland Corp. deb. Ser. A, 4 1/2s, 2004
40,000 Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003

Technology (2.0%)

40,000 Fairchild Semiconductor International, Inc. company guaranty
10 3/8s, 2007
20,000 Iron Mountain, Inc. company guaranty 8 3/4s, 2009
200,000 Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada)
10,000 Lucent Technologies, Inc. deb. 6 1/2s, 2028
360,000 Lucent Technologies, Inc. deb. 6.45s, 2029
100,000 ON Semiconductor Corp. 144A company guaranty 12s, 2008
70,000 Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON)
60,000 SCG Holding & Semiconductor Corp. company guaranty 12s, 2009
110,000 Seagate Technology Hdd Holdings 144A sr. notes 8s, 2009
250,000 Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008
90,000 Telecommunications Techniques, Inc. company guaranty 9 3/4s, 2008
64,685 Telex Communications Group, Inc. sr. sub. notes zero %, 2006
(In default) (NON)
10,000 Xerox Corp. notes 5 1/2s, 2003
230,000 Xerox Corp. 144A sr. notes 9 3/4s, 2009
10,000 Xerox Credit Corp. sr. notes 6.1s, 2003

Textiles (0.8%)

100,000 Galey & Lord, Inc. company guaranty 9 1/8s, 2008 (In default) (NON)
90,000 GFSI, Inc. sr. disc. notes stepped-coupon Ser. B, zero %
(11 3/8s, 9/15/04), 2009 (STP)
135,000 Kasper A.S.L., Ltd. sr. notes 12 3/4s, 2004 (In default) (NON)
120,000 Levi Strauss & Co. sr. notes 11 5/8s, 2008
80,000 Russell Corp. 144A sr. notes 9 1/4s, 2010
105,000 William Carter Holdings Co. (The) company guaranty Ser. B,
10 7/8s, 2011
230,000 Westpoint Stevens, Inc. sr. notes 7 7/8s, 2005

Transportation (2.7%)

10,000 Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada)
230,000 Airbus Industries 144A notes Ser. D, 12.266s, 2020
70,000 American Airlines, Inc. bonds Ser. 01-2, Class B, 8.608s, 2011
40,000 American Airlines, Inc. 144A pass-through certificates Ser. 01-2,
Class A-2, 7.858s, 2011
100,000 AMR Corp. debs. 9s, 2012
170,000 Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008
60,000 Continental Airlines, Inc. pass-through certificates Ser. D, 7.568s, 2006
70,000 Delta Air Lines, Inc. pass-through certificates Ser. 00-1, Class C,
7.779s, 2005
50,000 Delta Air Lines, Inc. pass-through certificates Ser. C, 7.779s, 2012
170,000 Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008
90,000 Kitty Hawk, Inc. company guaranty 9.95s, 2004 (In default) (NON)
120,000 Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006
80,000 Navistar International Corp. sr. notes Ser. B, 8s, 2008
10,000 Northwest Airlines, Inc. company guaranty 8.52s, 2004
120,000 Northwest Airlines, Inc. company guaranty 7 5/8s, 2005
100,000 Northwest Airlines, Inc. sr. notes 9 7/8s, 2007

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72,277 NWA Trust sr. notes Ser. A, 9 1/4s, 2012
170,000 RailAmerica Transportation company guaranty 12 7/8s, 2010
30,000 Transportation Manufacturing Operations, Inc. company guaranty
11 1/4s, 2009
40,000 Travel Centers of America, Inc. company guaranty 12 3/4s, 2009
110,000 US Air, Inc. pass-through certificates Ser. 93A3, 10 3/8s, 2013

Utilities & Power (4.2%)

60,000 AES Corp. (The) notes 8 3/4s, 2008
250,000 AES Corp. (The) sr. notes 9 3/8s, 2010
20,000 AES Corp. (The) sr. notes 8 7/8s, 2011
110,000 Calpine Canada Energy Finance company guaranty 8 1/2s,
2008 (Canada)
90,000 Calpine Corp. sr. notes 10 1/2s, 2006
10,000 Calpine Corp. sr. notes 8 3/4s, 2007
150,000 Calpine Corp. sr. notes 8 5/8s, 2010
300,000 Calpine Corp. sr. notes 8 1/2s, 2011
60,000 Calpine Corp. sr. notes 7 7/8s, 2008
130,000 CMS Energy Corp. sr. notes 8.9s, 2008
60,000 CMS Energy Corp. sr. notes 8 1/2s, 2011
40,000 CMS Energy Corp. sr. notes Ser. B, 6 3/4s, 2004
60,000 Edison Mission Energy sr. notes 10s, 2008
295,000 Midland Funding II debs. Ser. A, 11 3/4s, 2005
210,000 Mission Energy Holding Co. sec. notes 13 1/2s, 2008
90,000 Mission Resources Corp. company guaranty Ser. C, 10 7/8s, 2007
70,000 Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005 (In default) (NON)
160,000 Southern California Edison Co. notes 8.95s, 2003
20,000 Southern California Edison Co. notes 6 3/8s, 2006
150,000 Tiverton/Rumford Power Associates, LP 144A pass-through certificates
9s, 2018
125,000 Western Resources, Inc. 144A 1st mtge. 7 7/8s, 2007
105,000 Western Resources, Inc. 144A sr. notes 9 3/4s, 2007
360,000 York Power Funding 144A notes 12s, 2007 (Cayman Islands)
(In default) (NON)

Total Corporate Bonds and Notes (cost \$63,346,043)

PREFERRED STOCKS (3.2%) (a) NUMBER OF SHARES

7,806 AmeriKing, Inc. \$3.25 cum. pfd. (PIK)
5,075 Chevy Chase Preferred Capital Corp. Ser. A, \$5.188 pfd.
50,000 CSBI Capital Trust I 144A company guaranty Ser. A, 11.75%, 2027
5,279 CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd. (PIK)
220 Delta Financial Corp. Ser. A, \$10.00 cum. pfd.
66,000 Diva Systems Corp. 144A Ser. D, zero % pfd.
8,200 Doane Pet Care Co. \$7.125 pfd.
7 Dobson Communications Corp. 13.00% pfd.
160 Dobson Communications Corp. 12.25% pfd. (PIK)
80 First Republic Capital Corp. 144A 10.50% pfd.
91 Granite Broadcasting Corp. 12.75% cum. pfd. (PIK)
66 Nextel Communications, Inc. Ser. E, 11.125% pfd. (PIK)
6,365 North Atlantic Trading Co. zero % pfd. (PIK)
51 Paxson Communications Corp. 13.25% cum. pfd. (PIK)
100 PRIMEDIA, Inc. Ser. F, \$9.20 cum. pfd.

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338 Rural Cellular Corp. 12.25% pfd. (PIK)

Total Preferred Stocks (cost \$3,007,136)

FOREIGN GOVERNMENT BONDS AND NOTES (2.9%) (a)
PRINCIPAL AMOUNT

\$	42,450	Argentina (Republic of) bonds Ser. 2018, 2.89s, 2018 (In default) (NON)
	80,000	Brazil (Federal Republic of) bonds 10 1/8s, 2027
	90,000	Brazil (Federal Republic of) notes 14 1/2s, 2009
	75,000	Brazil (Federal Republic of) notes 11s, 2012
	65,000	Brazil (Federal Republic of) unsub. notes 11s, 2040
	175,000	Bulgaria (Republic of) 144A bonds 8 1/4s, 2015
	50,000	Colombia (Republic of) bonds 11 3/4s, 2020
EUR	15,000	Colombia (Republic of) notes Ser. EMTN, 11 1/2s, 2011
\$	15,000	Colombia (Republic of) unsub. bonds Ser. 15A, 11 3/8s, 2008
	20,000	Ecuador (Republic of) bonds Ser. REGS, 12s, 2012
	40,000	Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 5s (6s, 8/15/02), 2030 (STP)
	10,000	Malaysia (Government of) bonds 7 1/2s, 2011
	14,850	Peru (Republic of) bonds Ser. PDI, 4s, 2017
	60,000	Russia (Federation of) bonds 12 3/4s, 2028
	105,000	Russia (Federation of) unsub. notes 10s, 2007
	115,000	Russia (Federation of) unsub. notes 8 1/4s, 2010
	525,000	Russia (Federation of) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP)
	45,000	South Africa (Republic of) notes 7 3/8s, 2012
	15,000	Turkey (Republic of) bonds 11 3/4s, 2010
	20,000	Turkey (Republic of) notes 11 1/2s, 2012
	140,000	United Mexican States bonds 11 3/8s, 2016
	80,000	United Mexican States bonds Ser. MTN, 8.3s, 2031
	25,000	United Mexican States notes 8 1/8s, 2019
	155,000	United Mexican States notes Ser. A, 9 7/8s, 2010
	100,000	Venezuela (Republic of) bonds 9 1/4s, 2027

Total Foreign Government Bonds and Notes (cost \$1,726,585)

COMMON STOCKS (2.2%) (a)
NUMBER OF SHARES

384	Alderwoods Group, Inc. (NON)
100	AmeriKing, Inc. (NON)
9,148	Arch Wireless, Inc. (NON)
4,427	Aurora Foods, Inc. (NON)
683	Call-Net Enterprises, Inc. Class B (Canada) (NON)
50,942	Celcaribe SA (Colombia) (NON)
505,286	Contifinancial Corp. Liquidating Trust Units
3,010	Covad Communications Group, Inc. 144A (NON)
181	Delta Funding Residual Exchange Company, LLC (NON)
235	Delta Funding Residual Management, Inc. (NON)
4,680	Dorskocil Manufacturing Company, Inc. (NON)
8,769	Fitzgerald Gaming Corp. (NON)
1	Imperial Credit Industries, Inc. (NON)
20,000	Loewen Group International, Inc. (NON)
310,000	Paracelsus Healthcare Corp. (NON)
14,327	Pioneer Companies, Inc. (NON)
244	Premium Holdings (L.P.) 144A
576	PSF Group Holdings, Inc. Class A

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31 Quorum Broadcast Holdings, LLC Class E
 (acquired 5/15/01, cost \$30,765) (RES)
 102 RCN Corp. (NON)
 35 RSL Communications, Ltd. Class A (NON)
 12,750 Specialty Foods Acquisition Corp. 144A (NON)
 178 Sun Healthcare Group, Inc. (NON)
 434 Vast Solutions, Inc. Class B1 (NON)
 434 Vast Solutions, Inc. Class B2 (NON)
 434 Vast Solutions, Inc. Class B3 (NON)
 40,416 VS Holdings, Inc. (NON)

Total Common Stocks (cost \$3,749,551)

CONVERTIBLE BONDS AND NOTES (0.7%) (a)

PRINCIPAL AMOUNT

 \$ 90,000 American Tower Corp. cv. notes 5s, 2010
 170,000 DaVita, Inc. cv. sub. notes 7s, 2009
 120,000 Exide Corp. 144A cv. sr. sub. notes 2.9s, 2005 (In default) (NON)
 16,000 Hexcel Corp. cv. sub. notes 7s, 2003
 410,000 Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010

Total Convertible Bonds and Notes (cost \$603,704)

BRADY BONDS (0.5%) (a)

PRINCIPAL AMOUNT

 \$ 295,538 Brazil (Federal Republic of) bonds 8s, 2014
 25,000 Brazil (Federal Republic of) government guaranty FRB 3 1/8s, 2012
 105,000 Brazil (Federal Republic of) government guaranty Ser. 30YR,
 3.063s, 2024
 15,000 Peru (Republic of) coll. FLIRB 3 1/4s, 2017

Total Brady Bonds (cost \$345,080)

UNITS (0.3%) (a)

NUMBER OF UNITS

 550 Australis Media, Ltd. units 15 3/4s, 2003 (Australia) (In default) (NON)
 120 Hercules Trust II units 6.50% cum. cv. pfd.
 450 XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON)
 2,950 XCL, Ltd. 144A units 9.50% cum. cv. pfd. (In default) (NON) (PIK)

Total Units (cost \$1,314,632)

WARRANTS (0.1%) (a) (NON)

NUMBER OF WARRANTS

EXPIRATION
 DATE

 150 Birch Telecommunications, Inc. 144A (PIK) 6/15/08
 14,500 CGA Group, Ltd. 144A 2/11/07
 370 Colo.com, Inc. 144A 3/15/10
 250 Comunicacion Cellular 144A (Colombia) 11/15/0
 200 Dayton Superior Corp. 6/15/09
 10 Decrane Aircraft Holdings Co. 9/30/08
 3,286 Delta Financial Corp. 12/21/1

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1,250	Diva Systems Corp. 144A	3/1/08
200	Horizon PCS, Inc.	10/1/10
6,691	ICG Communications, Inc.	10/15/0
4,023	Imperial Credit Industries, Inc.	8/1/08
180	Insilco Holding Co.	8/15/08
200	iPCS, Inc. 144A	7/15/10
440	Iridium World Com 144A	7/15/05
110	IWO Holdings, Inc.	1/15/11
210	Jostens, Inc.	5/1/10
800	KMC Telecommunications Holdings, Inc. 144A	4/15/08
700	Knology Holdings, Inc.	10/22/0
106	Leap Wireless International, Inc. 144A	4/15/10
592	Loral Space & Communications, Ltd.	12/27/0
815	McCaw International, Ltd.	4/15/07
180	Mediq, Inc. 144A	6/1/09
70	Mikohn Gaming Corp. 144A	8/15/08
200	Orbital Imaging Corp. 144A	3/1/05
6,900	Pagemart, Inc. 144A	12/31/0
80	Pliant Corp. 144A	6/1/10
300	Raintree Resort 144A	12/1/04
155	Sterling Chemicals Holdings	8/15/08
447	Sun Healthcare Group, Inc.	2/28/05
90	Telehub Communications Corp. 144A	7/31/05
121	Telex Communications Group, Inc.	3/30/07
120	Travel Centers of America, Inc. 144A	5/1/09
350	Ubiquitel, Inc. 144A	4/15/10
1,045	UIH Australia/Pacific, Inc. 144A	5/15/06
3,700	United Artists Theatre	3/2/08
1,500	USN Communications Inc.	8/15/04
260	Veraldo Holdings, Inc. 144A	4/15/08
10	Versatel Telecom NV (Netherlands)	5/15/08
190	XM Satellite Radio Holdings, Inc. 144A	3/15/10

Total Warrants (cost \$653,962)

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

1,400	LTV Corp. 144A \$4.125 cv. pfd. (In default) (NON)
3,069	Telex Communications, Inc. zero % cv. pfd. (In default) (NON)
36	World Access, Inc. 144A Ser. D, zero % cv. pfd.
580	XCL, Ltd. 144A Ser. A, 9.50% cum. cv. pfd. (In default) (NON) (PIK)

Total Convertible Preferred Stocks (cost \$175,705)

SHORT-TERM INVESTMENTS (6.7%) (a)
PRINCIPAL AMOUNT

\$	3,657	Short-term investments held as collateral for loaned securities with yields ranging from 1.78% to 1.85% and due dates ranging from June 3, 2002 to July 30, 2002 (d)
	4,298,197	Short-term investments held in Putnam commingled cash account with yields ranging from 1.74% to 1.83% and due dates ranging from June 3, 2002 to July 29, 2002 (d)

Total Short-Term Investments (cost \$4,301,852)

Total Investments (cost \$79,224,250) (b)

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- (a) Percentages indicated are based on net assets of \$63,825,828.
- (b) The aggregate identified cost on a tax basis is \$79,441,041, resulting in gross unrealized appreciation and depreciation of \$1,960,090 and \$17,024,500, respectively, or net unrealized depreciation of \$15,064,410.
- (DEF) Security is in default of principal and interest.
- (NON) Non-income-producing security.
- (STP) The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest income at this rate.
- (RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at May 31, 2002 was \$462,348 or 0.7% of net assets.
- (PIK) Income may be received in cash or additional securities at the discretion of the issuer.
- (R) Real Estate Investment Trust.
- (d) See footnote 1 to the financial statements.

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

FLIRB represents Front Loaded Interest Reduction Bond.

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates shown at May 31, 2002, which are subject to change based on the terms of the security.

Written Options Outstanding at May 31, 2002
(premiums received \$169,993)

Contract amount	Expiration Date/ Strike Price	Market Value
\$990,000 JP Morgan HYDI Index 8.75 bond OTC option (Morgan Guaranty Trust) (Put)	May 07/100 USD	\$189,288

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

STATEMENT OF ASSETS AND LIABILITIES

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May 31, 2002

Assets

Investments in securities, at value, including \$3,211 of securities on loan (identified cost \$79,224,250) (Note 1)	\$ 64,376,631
Cash	90,511
Dividends, interest and other receivables	1,353,352
Receivable for securities sold	534,094
Total assets	66,354,588

Liabilities

Distributions payable to shareholders	510,426
Payable for securities purchased	1,653,621
Payable for compensation of Manager (Note 2)	123,206
Payable for investor servicing and custodian fees (Note 2)	23,185
Payable for compensation of Trustees (Note 2)	19,021
Payable for administrative services (Note 2)	988
Written options outstanding, at value (premiums received \$169,993) (Notes 1 and 3)	189,288
Collateral on securities loaned, at value (Note 1)	3,655
Other accrued expenses	5,370
Total liabilities	2,528,760
Net assets	\$ 63,825,828

Represented by

Paid-in capital (Note 1)	\$105,295,260
Distributions in excess of net investment income (Note 1)	(1,179,808)
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(25,422,710)
Net unrealized depreciation of investments	(14,866,914)
Total -- Representing net assets applicable to capital shares outstanding	\$ 63,825,828

Computation of net asset value

Net asset value per share (\$63,825,828 divided by 7,507,107 shares)	\$8.50
--	--------

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

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STATEMENT OF OPERATIONS
Year ended May 31, 2002

Investment income:

Interest	\$ 6,912,760
Dividends	312,350
Securities lending	141
Total investment income	7,225,251

Expenses:

Compensation of Manager (Note 2)	497,946
Investor servicing and custodian fees (Note 2)	160,924
Compensation of Trustees (Note 2)	9,734
Administrative services (Note 2)	5,931
Other	113,934
Total expenses	788,469
Expense reduction (Note 2)	(1,636)
Net expenses	786,833
Net investment income	6,438,418
Net realized loss on investments (Notes 1 and 3)	(9,808,431)
Net realized gain on written options (Notes 1 and 3)	14,401
Net realized and unrealized loss on foreign currency transactions (Note 1)	(879)
Net unrealized appreciation of investments and written options during the year	3,409,809
Net loss on investments	(6,385,100)
Net increase in net assets resulting from operations	\$ 53,318

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

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STATEMENT OF CHANGES IN NET ASSETS

	Year ended May 31	
	2002	

Decrease in net assets		

Operations:		

Net investment income	\$ 6,438,418	\$ 8,6

Net realized loss on investments and foreign currency transactions	(9,794,916)	(6,8

Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies during the year	3,409,816	(3,7

Net increase (decrease) in net assets resulting from operations	53,318	(1,9

Distributions to shareholders: (Note 1)		

From net investment income	(6,527,642)	(8,7

From return of capital	(911,084)	

Total decrease in net assets	(7,385,408)	(10,6

Net assets		

Beginning of year	71,211,236	81,8

End of year (including distributions in excess of net investment income of \$1,179,808 and \$983,040, respectively)	\$63,825,828	\$71,2

Number of fund shares		

Shares outstanding at beginning and end of year	7,507,107	7,5

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

FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

	Year ended May 31				
	2002	2001	2000	1999	1998

Per-share operating performance					

Net asset value, beginning of period	\$9.49	\$10.91	\$12.30	\$14.83	\$14.08

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Investment operations:

Net investment income (a)	.86	1.16	1.16	1.24	1.44
Net realized and unrealized gain (loss) on investments	(.86)	(1.41)	(1.27)	(2.23)	.69
Total from investment operations	--(d)	(.25)	(.11)	(.99)	2.13
Less distributions:					
From net investment income	(.87)	(1.17)	(1.21)	(1.38)	(1.38)
From net realized gain on investments	--	--	--	(.16)	--
From return of capital	(.12)	--	(.07)	--	--
Total distributions	(.99)	(1.17)	(1.28)	(1.54)	(1.38)
Net asset value, end of period	\$8.50	\$9.49	\$10.91	\$12.30	\$14.83
Market value, end of period	\$9.48	\$10.80	\$10.19	\$13.50	\$15.38
Total return at market value (%) (b)	(2.91)	18.34	(15.61)	(2.30)	16.96

Ratios and supplemental data

Net assets, end of period (in thousands)	\$63,826	\$71,211	\$81,898	\$92,368	\$111,333
Ratio of expenses to average net assets (%) (c)	1.19	1.14	1.08	1.11	1.05
Ratio of net investment income to average net assets (%)	9.69	11.41	9.92	9.50	9.75
Portfolio turnover (%)	73.39	97.63	97.22	47.56	85.45

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

(b) Total return assumes dividend reinvestment.

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

(d) Amount represents less than \$0.01 per share.

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

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May 31, 2002

Note 1

Significant accounting policies

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

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

A) Security valuation Investments for which market quotations are readily available are stated at market value, which is determined using the last reported sales price on its principal exchange, or if no sales are reported -- as in the case of some securities traded over-the-counter -- the last reported bid price. Securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate. Short-term investments having remaining maturities of 60 days or less are stated at amortized cost, which approximates market value. Other investments, including restricted securities, are stated at fair value following procedures approved by the Trustees. Market quotations are not considered to be readily available for certain debt obligations; such investments are stated at fair value on the basis of valuations furnished by an independent pricing service or dealers, approved by the Trustees, which determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and variable relationships, generally recognized by institutional traders, between securities.

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

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

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

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on the identified cost basis.

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

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

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

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

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

G) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional

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income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A., the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At May 31, 2002, the value of securities loaned amounted to \$3,211. The fund received cash collateral of \$3,655, which is pooled with collateral of other Putnam funds into 40 issuers of high-grade short-term investments.

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

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

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

I) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include temporary and permanent differences of losses on wash sale transactions, foreign currency gains and losses, post-October loss deferrals, defaulted bond interest, market discount and interest on payment-in-kind securities. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. For the year ended May 31, 2002, the fund reclassified \$107,544 to increase distributions in excess of net investment income and \$67,014 to increase paid-in-capital, with a decrease to accumulated net realized losses of \$40,530. As of May 31, 2002, there was no undistributed ordinary income on a tax basis.

Note 2

Management fee, administrative services and other transactions

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

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

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

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 year ended May 31, 2002, the fund's expenses were reduced by \$1,636 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$473 has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

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

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

Note 3

Purchases and sales of securities

During the year ended May 31, 2002, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$45,664,290 and \$49,134,822, respectively. There were no purchases and sales of U.S. government obligations.

Written option transactions during the year are summarized as follows:

	Contract Amounts	Premiums Received

Written options outstanding at beginning of year	\$ --	\$ --

Options opened	1,990,000	349,613
Options closed	(1,000,000)	(179,620)

Written options outstanding at end of year	\$ 990,000	\$ 169,993

Note 4

New accounting pronouncement

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As required, the fund has adopted the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. This Guide requires that the fund amortize premiums and accrete discounts on all fixed-income securities, and classify as interest income gains and losses realized on paydowns on mortgage-backed securities. Prior to June 1, 2001, the fund did not amortize premiums for certain fixed-income securities. Adopting these accounting principles did not affect the fund's net asset value, but did change the classification of certain amounts between interest income and realized and unrealized gain/loss in the Statement of operations. The adoption of this principle was not material to the financial statements.

FEDERAL TAX INFORMATION
(Unaudited)

The Form 1099 you receive in January 2003 will show the tax status of all distributions paid to your account in calendar 2002.

For the year ended May 31, 2002, a portion of the fund's distribution represents a return of capital and is therefore not taxable to shareholders.

The fund has designated 1.49% of the distributions from net investment income as qualifying for the dividends received deduction for corporations.

TRUSTEES

Name, Address, 1 Date of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee 2	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Trustee
Jameson A. Baxter (9/6/43), Trustee since 1994	President, Baxter Associates, Inc. (a management consulting and private investments firm)	Director of ASHTA Chemicals, Inc Banta Corporation (a printing and digital imaging firm), International Corporation (manufacturer of engine control products), Ryerson Tull, (a steel service corporation), Advocate Health Care, and the National Center for Nonprofit Boards. Chairman Emeritus of the Board of Trustees, Mount Holyoke College. Also held various positions in investment banking corporate finance, including Vice President and principal of the Regency Group and consultant to First Boston Corp.
Charles B. Curtis (4/27/40), Trustee since 2001	President and Chief Operating Officer, Nuclear Threat Initiative (a private foundation dedicated	Member of the Council on Foreign Relations, the Electric Power Research Institute Advisory Council, the Board of Directors of the Georgia Technology Institute, the Univer

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to reducing the threat of weapons of mass destruction), also serves as Senior Advisor to the United Nations Foundation

of Chicago Board of Governors for Argonne National Laboratory, the Board of Directors of the Environment and Natural Resource Program Steering Committee, John F. Kennedy School of Government, Harvard University. Prior to 2002, Mr. Curtis was a member of the Board of Directors of the Gas Technology Institute. Until 2001, Mr. Curtis was a Member of the Department of Defense's Policy Board and Director of EG&G Technical Services, Inc. (fossil fuel research and development support) and prior to May 1997, Mr. Curtis was Deputy Secretary of Energy.

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

Vice-Chairman and
Managing Director,
First Reserve
Corporation
(a registered investment
advisor investing in
companies in the
world-wide energy
industry on behalf of
institutional investors)

Director of Devon Energy Corporation (formerly known as Snyder Oil Corporation), TransMontaigne Oil Company, Continuum Health Partners of New York, Sarah Lawrence College and various private companies owned by First Reserve Corporation. Trustee of TH Lee, Putnam Investment Trust (a closed-end investment company). Prior to acquiring First Reserve in 1983, Mr. Hill held executive positions with several advisory firms and various positions with the federal government, including Associate Director of the Office of Management and Budget and Deputy Director of the Federal Energy Administration.

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

Private investor

Former Chairman, President, and Chief Executive Officer of Fisher Price, Inc. (a toy manufacturer). Previously served as President and Chief Executive Officer of Strid Rite, Inc. and Kenner Parker Toy. Also held financial and marketing positions with General Mills, Parke Brothers, and Talbots. President of the Kathleen and Ronald J. Jackson Foundation (charitable trust). Member of the Board of Overseers of WGBH (public television and radio). Member of the Board of Overseers of the Peabody Essex Museum.

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

Elizabeth and James
Killian Professor of
Economics and
Management and
Director of the Center
for Energy and
Environmental Policy

Director, National Grid Group (a UK-based holding company with interests in electric power and natural gas distribution, and telecommunications networks), and the Whitehead Institute for Biomedical Research (a non-profit

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	Research, Massachusetts Institute of Technology	research institution). President Yale University Council. Prior to February 2002, March 2000, and September 1998, Dr. Joskow was a Director of State Farm Indemnity Company (an automobile insurance company), Director of New England Electric System (a public utility holding company) and a consultant to National Economic Research Associates, respectively.
Elizabeth T. Kennan (2/25/38), Trustee since 1992	Chairman, Cambus- Kenneth Bloodstock (a limited liability company involved in thoroughbred horse breeding and farming), President Emeritus of Mount Holyoke College	Director, Northeast Utilities, a Talbots (a distributor of women's apparel). Trustee of Centre College. Prior to 2001, Dr. Kennan was a member of the Oversight Committee of Folger Shakespeare Library. Prior to September 2000, June 2000 and November 1999, Dr. Kennan was a Director of Chastain Real Estate, Bell Atlantic, and Kentucky Home Life Insurance, respectively. Prior to 1995, Dr. Kennan was a Trustee of Notre Dame University. For 12 years, she was on the faculty of Catholic University.
John H. Mullin, III (6/15/41), Trustee since 1997	Chairman and CEO of Ridgeway Farm (a limited liability company engaged in timber and farming)	Director Alex. Brown Realty, Inc., The Liberty Corporation (a company engaged in the broadcasting industry), and Progress Energy, (a utility company, formerly known as Carolina Power & Light). Trustee Emeritus of Washington & Lee University. Prior to October 1999, January 1998, and May 2001, Mr. Mullin was a Director of Dillon, Read and Co. Inc., The Ryland Group, Inc., and Graphic Packaging International Corp., respectively.
Robert E. Patterson (3/15/45), Trustee since 1984	Senior Partner of Cabot Properties, LLP and Chairman of Cabot Properties, Inc.	Chairman of the Joslin Diabetes Center, Trustee of SEA Education Association, and Director of Brandywine Trust Company (a trust company). Prior to February 1998, Mr. Patterson was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership. Prior to December 2001, Mr. Patterson was President and Trustee of Cabot Industrial Trust (publicly traded estate investment trust). Prior to 1990, Mr. Patterson was Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, the predecessor of Cabot Partners, a prior to that was Senior Vice President of the Beal Companies.

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<p>W. Thomas Stephens (9/2/42), Trustee since 1997</p>	<p>Corporate Director</p>	<p>Director of Qwest Communications (communications company), Xcel Energy Incorporated (public utility company), TransCanada Pipelines, Norske Canada, Inc. (paper manufacturer) and Mail-Well (printing and envelope company). Prior to July 2001 and October 1997, Mr. Stephens was Chairman of Mail-Well and MacMillan-Bloedel (forestry products company). Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville.</p>
<p>W. Nicholas Thorndike (3/28/33), Trustee since 1992</p>	<p>Director of various corporations and charitable organizations, including Courier Corporation (a book manufacturer) and Providence Journal Co. (a newspaper publisher)</p>	<p>Trustee of Northeastern University, Honorary Trustee of Massachusetts General Hospital. Prior to September 2000, April 2000, and December 2001, Mr. Thorndike was a Director of Bradley Real Estate Inc., a Trustee of Eastern Utility Associates, and a Trustee of Cabot Industrial Trust, respectively. Previously served as Chairman of Board and managing partner of Wellington Management/Thorndike Doran Paine & Lewis, and Chairman and Director of Ivest Fund.</p>
<p>Lawrence J. Lasser* (11/1/42), Trustee since 1992 Vice President since 1981</p>	<p>President and Chief Executive Officer of Putnam Investments, LLC, and Putnam Investment Management, LLC</p>	<p>Director of Marsh & McLennan Companies, Inc. and the United Way of Massachusetts Bay. Member of Board of Governors of the Investment Company Institute, Trustee of the Museum of Fine Arts, Boston, a Trustee and Member of the Finance and Executive Committees of Beth Israel Deaconess Medical Center, Boston, and a Member of the CareGroup Board of Managers Investment Committee, the Council on Foreign Relations, and the Commercial Club of Boston.</p>
<p>George Putnam, III* (8/10/51), Trustee since 1984 and President since 2000</p>	<p>President, New Generation Research, Inc. (a publisher of financial advisory and other research services relating to bankrupt and distressed companies) and New Generation Advisers, Inc. (a registered investment adviser)</p>	<p>Director of The Boston Family Office, L.L.C. (registered investment advisor), Trustee of the SEA Education Association, Trustee of St. Mark's School, and Trustee of Shore Country Day School. Previously, Mr. Putnam was an attorney with the firm of Decher Price & Rhoads.</p>
<p>A.J.C. Smith (4/13/34),* Trustee since 1986</p>	<p>Director of Marsh & McLennan Companies, Inc.</p>	<p>Director of Trident Corp. (a limited partnership with over 30 institutional investors). Trustee of the Carne Hall Society, the Educational</p>

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Broadcasting Corporation and the National Museums of Scotland. Chairman of the Central Park Conservancy. Member of the Board of Overseers of the Joan and Sanford I. Weill Graduate School of Medical Sciences of Cornell University. Fellow of the Faculty of Actuaries in Edinburgh, the Canadian Institute of Actuaries, the Conference of Actuaries. Associate of the Society of Actuaries. Member of the American Actuaries Association and the International Association of Consulting Actuaries. Prior to May 2000 and November 1999, Mr. Smith was Chairman and CEO, respectively, of Marsh & McLennan Companies, Inc.

 1 The address of each Trustee is One Post Office Square, Boston, MA 02109. As of May 31, 2002, there were 113 Putnam Funds.

2 Each Trustee serves for an indefinite term, until his or her resignation, death, or removal.

* Trustees who are or may be deemed to be "interested persons" (as defined in the Investment Company Act of 1940) of the fund, Putnam Management or Putnam Retail Management. Messrs. Putnam, III, Lasser, and Smith are deemed "interested persons" by virtue of their positions as officers or shareholders of the fund, or officers of Putnam Management, Putnam Retail Management, or Marsh & McLennan Companies, the parent company of Putnam Management and Putnam Retail Management. George Putnam, III, is the President of your Fund and each of the other Putnam Funds. Lawrence J. Lasser has been the President, Chief Executive Officer, and a Director of Putnam Investments, LLC, and Putnam Management since having begun his career there in 1969. Mr. Lasser currently also serves as a Director of Marsh & McLennan Companies, Inc., the parent company of Putnam Management. A.J.C. Smith is a Director of Marsh & McLennan Companies, Inc.

OFFICERS

Name, Address, 1 Date of Birth, Position(s) Held with Fund	Inception of Service with the Putnam Funds	Principal Occupation(s) During P
Charles E. Porter (7/26/38), Executive Vice President, Treasurer & Principal Financial Officer	Since 1989	Managing Director, Putnam Invest LLC and Putnam Management
Patricia C. Flaherty (12/1/46), Senior Vice President	Since 1993	Senior Vice President, Putnam Investments, LLC and Putnam Mana
Michael T. Healy (1/24/58), Assistant Treasurer and	Since 2000	Managing Director, Putnam Investments, LLC

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Principal Accounting
Officer

Gordon H. Silver (7/3/47), Vice President	Since 1990	Senior Managing Director, Putnam Investments, LLC and Putnam Mana
Brett C. Browchuk (2/27/63), Vice President	Since 1994	Managing Director, Putnam Invest LLC and Putnam Management
Ian Ferguson (7/3/57), Vice President	Since 1997	Senior Managing Director, Putnam Investments, LLC and Putnam Mana
Richard G. Leibovitch (10/31/63), Vice President	Since 1999	Managing Director of Putnam Inve LLC and Putnam Management. Prior February 1999, Managing Director J.P. Morgan.
Richard A. Monaghan (8/25/54), Vice President	Since 1998	Managing Director, Putnam Invest LLC, Putnam Management and Putna Retail Management
John R. Verani (6/11/39), Vice President	Since 1988	Senior Vice President, Putnam Investments, LLC and Putnam Mana
Stephen M. Oristaglio (8/21/55), Vice President	Since 1998	Senior Managing Director of Putn Investments LLC and Putnam Management.
Kevin M. Cronin (6/13/61), Vice President	Since 2001	Managing Director of Putnam Management. Prior to February 19 Vice President and Fund Manager, Investment Management.
Stephen C. Peacher, (6/15/64), Vice President	Since 2000	Managing Director of Putnam Management.

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

FUND INFORMATION

ABOUT PUTNAM INVESTMENTS

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

INVESTMENT MANAGER

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

MARKETING SERVICES

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Putnam Retail Management
One Post Office Square
Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

INDEPENDENT ACCOUNTANTS

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