

VAN KAMPEN BOND FUND
Form N-30D
February 27, 2002

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Van Kampen
wishes peace
and prosperity
to all

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

OVERVIEW

LETTER TO SHAREHOLDERS
January 18, 2002

Dear Shareholder,

As the new year begins, Van Kampen wishes peace, prosperity and hope to all.

With a legacy that spans nearly four generations, Van Kampen has helped investors pursue their goals through social, political and economic change. In the face of challenges and uncertainty, our core investment philosophy has been tested and, we believe affirmed. Whether you're new to the Van Kampen family or revisiting your investment strategy, we encourage you to focus on two fundamental investing principles:

SEEK FINANCIAL ADVICE BEFORE YOU INVEST. Your financial advisor can help you develop a tailored investment strategy based on several factors, including your age, family status and goals. While no portfolio is immune to volatility, your advisor can help you structure a portfolio designed to address your long-term financial goals.

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EXAMINE YOUR PORTFOLIO AND MODERATE YOUR INVESTMENT RISK--DIVERSIFY. Consider including a variety of stock and fixed-income funds in your portfolio, which may improve your long-term performance.

We are grateful for your continued trust in Van Kampen and appreciate the opportunity to manage your assets. In the new year, we hope you and your loved ones enjoy life's true wealth--family, friends and life's daily pleasures.

Sincerely,

[SIG]

Richard F. Powers, III
President and CEO
Van Kampen Asset Management Inc.

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ECONOMIC SNAPSHOT

THE ECONOMY

DECEMBER 2001 MARKED THE NINTH MONTH OF RECESSION FOR THE U.S. ECONOMY, BUT MIXED DATA AT YEAR'S END SUGGESTED THE WORST MAY BE OVER. GROSS DOMESTIC PRODUCT (GDP), THE PRIMARY MEASURE OF ECONOMIC GROWTH, INCREASED AT AN ANNUAL RATE OF 0.2 PERCENT FOR THE FOURTH QUARTER.

BUSINESS ACTIVITY, WHICH SLOWED PRIOR TO THE SEPTEMBER TERRORIST ATTACKS AND SPIRALED DOWNWARD AFTER, APPEARED TO RETURN TO MORE STABLE--ALBEIT WEAK--PRE-ATTACK LEVELS. MANUFACTURING, THE SECTOR HARDEST HIT BY THE INVENTORY CYCLE AND ITS EFFECT ON PRODUCTION DEMAND, CONTINUED TO CONTRACT IN DECEMBER--BUT AT A MUCH SLOWER RATE THAN IN PREVIOUS MONTHS.

CONSUMER SPENDING AND EMPLOYMENT

CONSUMER SPENDING, WHICH DRIVES TWO-THIRDS OF U.S. ECONOMIC GROWTH, REMAINED SURPRISINGLY RESILIENT THROUGHOUT THE REPORTING PERIOD. PRICE-CONSCIOUS CONSUMERS SHUNNED HIGH-PRICED DEPARTMENT AND SPECIALTY STORES FOR DISCOUNT STORES DURING THE HOLIDAY SHOPPING SEASON. MANY ALSO TOOK ADVANTAGE OF HISTORICALLY LOW MORTGAGE RATES TO REFINANCE THEIR LOANS OR PURCHASE NEW HOMES. BUT HOMES WEREN'T THE ONLY BIG-TICKET ITEMS POPULAR WITH CONSUMERS DURING THE REPORTING PERIOD. DEEP PRICE DISCOUNTING AND ZERO-PERCENT FINANCING OFFERED BY CARMAKERS DURING THE FIRST TWO MONTHS OF THE FOURTH QUARTER LURED MANY CAR BUYERS INTO DEALERS' SHOWROOMS.

CONSUMER CONFIDENCE, WHICH HAD FALLEN FOR FIVE CONSECUTIVE MONTHS, SHOT UP IN DECEMBER AS REPORTS OF THE U.S. MILITARY'S APPARENT VICTORIES IN AFGHANISTAN WERE CIRCULATED. HOWEVER, THIS NEWFOUND OPTIMISM WAS TEMPERED BY MOUNTING JOB REDUCTION ANNOUNCEMENTS AND RISING UNEMPLOYMENT. BY THE END OF DECEMBER, UNEMPLOYMENT LEVELS HAD SURGED TO 5.8 PERCENT.

INTEREST RATES AND INFLATION

CONSISTENT WITH ITS RECENT ACTIONS, THE FEDERAL RESERVE BOARD (THE FED) AGAIN ATTEMPTED TO STIMULATE THE FALTERING ECONOMY BY SLASHING INTEREST RATES. THE FED'S 0.25 PERCENT CUT ON DECEMBER 11--THE 11TH RATE-CUT TO OCCUR SINCE JANUARY 1, 2001--BROUGHT THE FEDERAL FUNDS RATE TO 1.75 PERCENT, A 40-YEAR LOW.

FINALLY, INFLATION REMAINED MODEST DURING THE REPORTING PERIOD. THE CONSUMER PRICE INDEX, A COMMON MEASURE OF THE INFLATION RATE, ROSE 1.6 PERCENT IN THE 12 MONTHS ENDED DECEMBER 31.

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U.S. GROSS DOMESTIC PRODUCT

SEASONALLY ADJUSTED ANNUALIZED RATES

(December 31, 1999--December 31, 2001)

[BAR GRAPH]

| | U.S. GROSS DOMESTIC PRODUCT ----- |
|--------|--------------------------------------|
| Dec 99 | 8.30 |
| Mar 00 | 4.80 |
| Jun 00 | 5.70 |
| Sep 00 | 1.30 |
| Dec 00 | 1.90 |
| Mar 01 | 1.30 |
| Jun 01 | 0.30 |
| Sep 01 | -1.30 |
| Dec 01 | 0.20 |

Source: Bureau of Economic Analysis

INTEREST RATES AND INFLATION

(December 31, 1999--December 31, 2001)

[LINE GRAPH]

| | INTEREST RATES ----- |
|--------|--------------------------|
| Dec 99 | 5.5 5.5 5.75 |
| Mar 00 | 6 6 6.5 |
| Jun 00 | 6.5 6.5 6.5 |
| Sep 00 | 6.5 6.5 6.5 6.5 |
| Dec 00 | 6.5 6.5 5.5 5.5 |
| Mar 01 | 5 4.5 4 |
| Jun 01 | 3.75 3.75 3.5 |
| Sep 01 | 3 2.5 |

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Dec 01

2
1.75

Interest rates are represented by the closing midline federal funds target rate on the last day of each month. Inflation is indicated by the annual percentage change of the Consumer Price Index for all urban consumers at the end of each month.

Source: Bloomberg

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PERFORMANCE SUMMARY

RETURN HIGHLIGHTS

(as of December 31, 2001)

NYSE Ticker Symbol - VBF

| | MARKET (1) | NAV (2) |
|---|------------|---------|
| Six-month total return | 4.16% | 5.08% |
| One-year total return | 18.57% | 9.51% |
| Five-year average annual total return | 8.43% | 6.69% |
| Ten-year average annual total return | 7.67% | 7.59% |
| Distribution rate as a % of closing common share price(3) | | 6.85% |
| Net asset value | | \$19.71 |
| Closing common share price | | \$19.27 |
| Six-month high common share price (07/03/01) | | \$20.35 |
| Six-month low common share price (09/24/01) | | \$17.85 |

- (1) Total return based on market price assumes an investment at the market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Fund's dividend reinvestment plan, and sale of all shares at the closing common share price at the end of the period indicated.
- (2) Total return based on net asset value (NAV) assumes an investment at the beginning of the period indicated, reinvestment of all distributions for the period, and sale of all shares at the end of the period, all at NAV.
- (3) Distribution rate represents the annualized distributions of the Fund at the end of the period and not the earnings of the Fund.

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Past performance is no guarantee of future results. Investment return, share price and net asset value will fluctuate and Fund shares, when sold, may be worth more or less than their original cost. An investment in the Fund is subject to investment risks, and you could lose money on your investment in the Fund. As a result of recent market activity, current performance may vary from the figures shown. For more up-to-date information, please visit vankampen.com or speak with your financial advisor.

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PORTFOLIO AT A GLANCE

CREDIT QUALITY

(as a percentage of long-term investments)

As of December 31, 2001

| | | |
|------------------|-------|-------------|
| - AAA/Aaa..... | 2.0% | [PIE CHART] |
| - AA/Aa..... | 4.9% | |
| - A/A..... | 35.5% | |
| - BBB/Baa..... | 48.9% | |
| - BB/Ba..... | 6.4% | |
| - B/B..... | 0.8% | |
| - CCC/Caa..... | 0.1% | |
| - Non-Rated..... | 1.4% | |

As of June 30, 2001

| | | |
|----------------|-------|-------------|
| - AAA/Aaa..... | 0.5% | [PIE CHART] |
| - AA/Aa..... | 8.4% | |
| - A/A..... | 31.4% | |
| - BBB/Baa..... | 49.1% | |
| - BB/Ba..... | 9.9% | |
| - B/B..... | 0.7% | |

Based upon the credit quality ratings as issued by Standard & Poor's Credit Market Services/Moody's Investor Services, respectively. Subject to change daily.

SIX-MONTH DIVIDEND HISTORY

(for the six months ending December 31, 2001)
[BAR GRAPH]

| | DIVIDENDS |
|-------|-----------|
| 9/01 | 0.35 |
| 12/01 | 0.33 |

The dividend history represents dividends that were paid on the fund and is no guarantee of the fund's future dividends.

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TOP FIVE SECTORS

(as a percentage of long-term investments--December 31, 2001)

[BAR GRAPH]

| | DECEMBER 31, 2001 ----- |
|--------------------|----------------------------|
| Telecommunications | 15.80 |
| Life Insurance | 7.60 |
| Media-Cable | 6.70 |
| Captive Finance | 5.90 |
| Electric | 5.70 |

Subject to change daily.

NET ASSET VALUE AND MARKET PRICE

(based upon quarter-end values--December 1991 through December 2001)

[LINE GRAPH]

| | NET ASSET VALUE ----- |
|-------|--|
| 12/91 | 19.8900 19.3600 19.8500 20.4100 |
| 12/92 | 20.0500 20.9400 21.3300 21.9500 |
| 12/93 | 21.2900 20.1200 19.0600 18.7900 |
| 12/94 | 18.5900 19.3000 20.4100 20.5700 |
| 12/95 | 21.2700 20.1800 19.6400 19.9600 |
| 12/96 | 20.3100 18.8700 20.4300 20.7700 |
| 12/97 | 20.9100 20.9200 21.1600 |

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| | |
|-------|---------|
| | 21.3500 |
| 12/98 | 21.0900 |
| | 20.4000 |
| | 19.5900 |
| | 19.3100 |
| 12/99 | 18.9800 |
| | 18.9800 |
| | 18.7000 |
| | 18.9200 |
| 12/00 | 19.2900 |
| | 19.5700 |
| | 19.4100 |
| | 19.7000 |
| 12/01 | 19.7100 |

The solid line above represents the trust's net asset value (NAV), which indicates overall changes in value among the trust's underlying securities. The trust's market price is represented by the dashed line, which indicates the price the market is willing to pay for shares of the trust at a given time. Market price is influenced by a range of factors, including supply and demand and market conditions.

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Q&A WITH YOUR PORTFOLIO MANAGERS

WE RECENTLY SPOKE WITH THE PORTFOLIO MANAGEMENT TEAM OF THE VAN KAMPEN BOND FUND ABOUT THE KEY EVENTS AND ECONOMIC FORCES THAT SHAPED THE MARKETS AND INFLUENCED THE FUND'S RETURN DURING THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2001. THE FUND IS MANAGED BY THE ADVISER'S HIGH YIELD AND HIGH GRADE TEAMS. CURRENT MEMBERS (1) OF THE HIGH YIELD TEAM INCLUDE GORDON W. LOERY, EXECUTIVE DIRECTOR. CURRENT MEMBERS (1) OF THE HIGH GRADE TEAM INCLUDE ANGELO G. MANIOUDAKIS, EXECUTIVE DIRECTOR. THE FOLLOWING DISCUSSION REFLECTS THEIR VIEWS ON THE FUND'S PERFORMANCE.

(1) Team members may change at any time without notice.

Q HOW WOULD YOU CHARACTERIZE

THE MARKET ENVIRONMENT IN WHICH THE PORTFOLIO OPERATED IN THE LAST SIX MONTHS, AND HOW DID THE PORTFOLIO PERFORM IN THAT ENVIRONMENT?

A The dominant factor in the market over the first four months of the period (as it was for most of the year) was the slowing U.S. economy. The tragic events of September 11 made a bad economic situation worse. Business activity came to a standstill nationwide and across industries, and the travel sector was especially hard hit. Employment, which had been weak to begin with, fell sharply as companies announced layoffs as part of a general move to cut costs to address a markedly weaker future. For the third quarter of 2001, gross domestic product (GDP) fell by 1.3 percent, its largest decline since the recession of the early 1990s.

The Federal Reserve Bank (the "Fed") responded to this economic weakness decisively. The group cut short-term rates 11 times over the course of the year, with four of those cuts occurring after September 11. The bond market reacted favorably to the interest-rate cuts through October. Rates fell across the yield curve, with the most dramatic declines happening on the short end of the yield curve, which is the most responsive to changes in monetary policy. This shift steepened the curve significantly as short- and intermediate-term paper rallied strongly. That trend only strengthened in the wake of September 11 as investors flocked to the perceived safety of shorter-duration, lower-risk assets.

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The market shifted in early November, as confidence appeared to be slowly returning to the investor psyche. A combination of stabilization in geopolitical events and a growing belief that the economy was likely to turn positive in the first half of 2002 led many investors to sell their long-duration Treasury holdings. This pushed interest rates at the long end of

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the curve higher while rates on the short end fell even further in response

to continued interest rate cuts (the last cut of the year came on December 11). This further steepened the yield curve.

Falling interest rates for U.S. Treasury bonds helped to make corporate bonds more attractive to investors searching for yield. Falling rates also prodded corporations to issue bonds at record levels to take advantage of low financing costs. As a result, the market was fairly evenly balanced between the supply of new issues and investors' demand for yield. While September proved to be a terrible month for corporate bonds, by the end of the year investors had started to bid up prices in anticipation of a potential economic recovery.

For the six months through December 31, 2001, the fund produced a total return of 4.16 percent based on market price. The fund's return reflects an increase in market price from \$19.15 per share on June 30, 2001, to \$19.27 per share on December 31, 2001. The fund's quarterly dividend of \$.3300 per share translates to a distribution rate of 6.85 percent based on the fund's closing market price on December 31, 2001. Of course, past performance is no guarantee of future results. As a result of recent market activity, current performance may vary from the figures shown. Investment return, share price and net asset value will fluctuate and fund shares, when sold, may be worth more or less than their original cost. For more up-to-date information, please visit vankampen.com or speak with your financial advisor.

By comparison, the Lehman Brothers BBB Corporate Bond Index posted a total return of 4.05 percent for the same period. The Lehman Brothers BBB Corporate Bond Index is a broad-based, unmanaged index which reflects the general performance of corporate bonds. Its returns do not include any sales charges or fees that would be paid by an investor purchasing the securities it represents. Such costs would lower performance. It is not possible to invest directly in an index. For additional performance results, please refer to the chart and footnotes on page 4.

Q HOW DID THESE FACTORS AFFECT THE WAY YOU MANAGED THE FUND?

A We kept the fund defensively positioned for much of the period based on our concern that continued economic uncertainty would have a negative impact on corporate bonds. One of the main ways we achieved this was by maintaining the fund's investment-grade orientation by limiting its exposure to what we believed were lower-quality bonds. Within the investment-grade segment of the market, we emphasized BBB credits for their yield advantage.

We were similarly conservative in our approach to sectors for the first months of the period. Information technology and telecommunications were two examples of sectors that we underweighted in the portfolio. Both industries faced steep business hurdles that caused us to be concerned about the underlying credit quality. We also took steps to underweight bonds issued

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by financial companies that we felt were too exposed to the slowing economy because of their lending activities.

In the fall, our analysis began to indicate that the outlook for the economy was improving going into 2002. Based on this analysis, we began to adjust the portfolio to potentially benefit from any improvements as well as to take advantage of attractively priced securities. Within the financial sector, we kept the fund's exposure in below-average banks low but added to brokerage holdings, which we expected to come back from their lows. We also added selectively to the fund's transportation, healthcare and retail holdings in those cases where we felt the market had oversold particular companies that we expected would see increased demand for their goods and services. In keeping with this theme, we added to the fund's aerospace holdings.

We also adjusted the portfolio's interest-rate profile to potentially benefit from economic developments. Given our expectations for the economy's recovery, we anticipated an end to the trend of falling interest rates. As a result, we moved to shorten the portfolio's duration slightly in the fourth quarter, and also adjusted the portfolio's exposure along the yield curve by shifting some assets out of the intermediate part of the curve.

Q WHAT IS YOUR OUTLOOK FOR
THE MARKET?

A In general, we expect a more constructive environment. We agree with the general sentiment that the economy may likely improve as we move through 2002, with economic growth turning positive. At the same time, we expect inflation to remain tame, coming in below 2 percent, and the dollar to remain stable.

Within that context, we anticipate that the bond markets will react as they typically have in times of strengthening economic conditions, with interest rates rising across the yield curve as investors demand more compensation for holding bonds. In this scenario, interest rates at the short end of the curve are likely to rise even more than on the long end; this would have the effect of flattening the yield curve. We expect this may occur throughout 2002.

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GLOSSARY OF TERMS

A HELPFUL GUIDE TO SOME OF THE COMMON TERMS YOU'RE LIKELY TO SEE IN THIS REPORT AND OTHER FINANCIAL PUBLICATIONS.

DEFENSIVE INVESTMENT STRATEGY: A method of portfolio allocation and management aimed at minimizing the risk of losing principal. Defensive investors place a high percentage of their investable assets in bonds, cash equivalents, and stocks that are less volatile than average.

DURATION: A measure of the sensitivity of a bond's price to changes in interest rates, expressed in years. Each year of duration represents an expected 1 percent change in the price of a bond for every 1 percent change in interest rates. The longer a bond's duration, the greater the effect of interest-rate movements on its price. Typically, funds with shorter durations perform better in rising-rate environments, while funds with longer durations perform better when rates decline.

FEDERAL RESERVE BOARD (THE FED): The governing body of the Federal Reserve System, which is the central bank of the United States. Its policy-making

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committee, called the Federal Open Market Committee, meets at least eight times a year to establish monetary policy and monitor the economic pulse of the United States.

INVESTMENT-GRADE BONDS: Securities rated BBB and above by Standard & Poor's Ratings Group or Baa and above by Moody's Investors Service. Bonds rated below BBB or Baa are noninvestment grade.

YIELD: The annual rate of return on an investment, expressed as a percentage.

YIELD CURVE: The pattern that results from viewing the yields of U.S. Treasury securities maturing in 1, 5, 10, and 30 years. When grouped together and graphed, a pattern of increasing yield is often reflected as the time to maturity extends. This pattern creates an upward sloping "curve." A "flat" yield curve represents little difference between short-and long-term interest rates, while a "negative" yield curve represents decreasing yields as the time to maturity extends.

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BY THE NUMBERS

YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

THE FOLLOWING PAGES DETAIL YOUR FUND'S PORTFOLIO OF INVESTMENTS AT THE END OF THE REPORTING PERIOD.

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|---------------------------------|--------|----------|-----------------|
| | CORPORATE BONDS 90.7% | | | |
| | AEROSPACE & DEFENSE 3.8% | | | |
| \$1,865 | Boeing Capital Corp. | 6.500% | 02/15/12 | \$ 1,859,327 |
| 900 | Lockheed Martin Corp. | 7.750 | 05/01/26 | 973,508 |
| 1,000 | Lockheed Martin Corp. | 8.500 | 12/01/29 | 1,197,412 |
| 2,250 | Northrop Grumman Corp. | 7.125 | 02/15/11 | 2,352,868 |
| 1,900 | Raytheon Co. | 8.300 | 03/01/10 | 2,111,187 |
| | | | | ----- |
| | | | | 8,494,302 |
| | | | | ----- |
| | AUTOMOTIVE 4.1% | | | |
| 2,000 | Daimler Chrysler NA Holding.... | 7.375 | 09/15/06 | 2,025,466 |
| 2,355 | Dana Corp., 144A-- | | | |
| | Private Placement (a)..... | 9.000 | 08/15/11 | 2,166,600 |
| 3,000 | Ford Motor Co. | 7.450 | 07/16/31 | 2,756,289 |
| 2,210 | TRW, Inc. | 7.625 | 03/15/06 | 2,278,103 |
| | | | | ----- |
| | | | | 9,226,458 |
| | | | | ----- |
| | BANKING 1.7% | | | |
| 500 | JP Morgan Chase & Co. | 6.750 | 02/01/11 | 512,702 |
| 2,250 | MBNA American Bank NA (b)..... | 6.500 | 06/20/06 | 2,210,015 |
| 1,000 | Washington Mutual Capital, | | | |
| | Inc. | 8.375 | 06/01/27 | 1,003,332 |
| | | | | ----- |
| | | | | 3,726,049 |
| | | | | ----- |

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| | | | | |
|-------|---|-------|----------|-----------|
| | BROKERAGE 2.9% | | | |
| 625 | Credit Suisse First Boston USA, Inc. | 5.875 | 08/01/06 | 636,424 |
| 1,000 | Goldman Sachs Group, Inc. | 7.800 | 01/28/10 | 1,081,434 |
| 2,225 | Goldman Sachs Group, Inc. | 6.875 | 01/15/11 | 2,282,627 |
| 2,000 | Lehman Brothers Holdings, Inc. | 8.500 | 05/01/07 | 2,222,068 |
| 256 | World Financial Prop., 144A-Private Placement (a)..... | 6.910 | 09/01/13 | 257,740 |
| | | | | ----- |
| | | | | 6,480,293 |
| | | | | ----- |
| | BUILDING MATERIALS 0.7% | | | |
| 1,445 | Centex Corp. | 7.875 | 02/01/11 | 1,474,466 |
| | | | | ----- |
| | CAPTIVE FINANCE 5.5% | | | |
| 180 | Case Credit Corp. | 6.125 | 02/15/03 | 169,726 |

See Notes to Financial Statements

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YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|--|--------|----------|-----------------|
| | CAPTIVE FINANCE (CONTINUED) | | | |
| \$2,000 | Ford Motor Credit Co. | 6.875% | 02/01/06 | \$ 2,004,638 |
| 2,335 | Ford Motor Credit Co. | 7.250 | 10/25/11 | 2,276,165 |
| 580 | General Motors Acceptance Corp. | 6.875 | 09/15/11 | 569,134 |
| 2,370 | General Motors Acceptance Corp. | 8.000 | 11/01/31 | 2,419,061 |
| 2,000 | Heller Financial, Inc. | 6.375 | 03/15/06 | 2,115,302 |
| 2,500 | International Lease Finance Corp. | 8.375 | 12/15/04 | 2,733,120 |
| | | | | ----- |
| | | | | 12,287,146 |
| | | | | ----- |
| | CONGLOMERATES 3.6% | | | |
| 2,350 | Honeywell International, Inc. | 6.125 | 11/01/11 | 2,329,480 |
| 1,350 | Hutchinson Whampoa Finance Corp., 144A-Private Placement (Cayman Islands) (a)..... | 7.500 | 08/01/27 | 1,277,965 |
| 3,000 | Tyco International Group SA (Luxembourg)..... | 6.125 | 11/01/08 | 2,966,394 |
| 1,495 | Tyco International Group SA (Luxembourg)..... | 6.375 | 10/15/11 | 1,463,124 |
| | | | | ----- |
| | | | | 8,036,963 |
| | | | | ----- |
| | CONSTRUCTION MACHINERY 0.1% | | | |

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| | | | | |
|-------|---|-------|----------|------------|
| 300 | Case Corp. | 6.250 | 12/01/03 | 279,647 |
| | | | | ----- |
| | ELECTRIC 5.3% | | | |
| 1,025 | American Electric Power, Inc. | 6.125 | 05/15/06 | 1,015,624 |
| 750 | Barrett Resources Corp. (c).... | 7.550 | 02/01/07 | 806,250 |
| 1,000 | Calpine Corp. | 8.625 | 08/15/10 | 895,000 |
| 1,000 | Cleveland Electric Illuminating Co. | 7.625 | 08/01/02 | 1,024,344 |
| 2,000 | CMS Energy Corp. (c)..... | 6.750 | 01/15/04 | 1,970,000 |
| 1,000 | Commonwealth Edison Co. | 8.625 | 02/01/22 | 1,017,757 |
| 865 | Detroit Edison Co. | 6.125 | 10/01/10 | 850,960 |
| 1,665 | Mirant Americas Generation LLC, 144A- Private Placement (a).... | 7.200 | 10/01/08 | 1,472,090 |
| 1,323 | Niagara Mohawk Power Corp. | 7.625 | 10/01/05 | 1,399,253 |
| 1,385 | PSEG Energy Holdings..... | 9.125 | 02/10/04 | 1,456,556 |
| | | | | ----- |
| | | | | 11,907,834 |
| | | | | ----- |
| | ENTERTAINMENT 1.0% | | | |
| 2,000 | Time Warner Entertainment Co. | 8.375 | 07/15/33 | 2,274,106 |
| | | | | ----- |

See Notes to Financial Statements

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YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|---|--------|----------|-----------------|
| | ENVIRONMENTAL SERVICES 2.4% | | | |
| \$ 830 | Republic Services, Inc. | 6.750% | 08/15/11 | \$ 832,567 |
| 1,750 | Waste Management, Inc. | 7.000 | 10/01/04 | 1,815,926 |
| 1,500 | Waste Management, Inc. | 7.000 | 10/15/06 | 1,543,242 |
| 550 | Waste Management, Inc. | 7.375 | 08/01/10 | 563,270 |
| 570 | Waste Management, Inc. | 7.000 | 07/15/28 | 528,472 |
| | | | | ----- |
| | | | | 5,283,477 |
| | | | | ----- |
| | FOOD 1.3% | | | |
| 2,000 | ConAgra Foods, Inc. | 7.500 | 09/15/05 | 2,160,638 |
| 675 | Smithfield Foods, Inc., 144A-Private Placement (a)..... | 8.000 | 10/15/09 | 695,250 |
| | | | | ----- |
| | | | | 2,855,888 |
| | | | | ----- |
| | GAMING 1.5% | | | |
| 550 | Harrahs Operating Co., Inc. ... | 8.000 | 02/01/11 | 567,473 |
| 2,000 | Park Place Entertainment Corp. | 7.950 | 08/01/03 | 2,039,850 |
| 180 | Park Place Entertainment | | | |

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| | | | | |
|-------|--|--------|----------|-----------|
| | Corp. | 7.500 | 09/01/09 | 175,612 |
| 500 | Station Casinos, Inc. | 8.375 | 02/15/08 | 510,000 |
| | | | | ----- |
| | | | | 3,292,935 |
| | | | | ----- |
| | HEALTHCARE 2.9% | | | |
| 3,365 | Aetna, Inc. | 7.375 | 03/01/06 | 3,376,912 |
| 310 | Amerisourcebergen Corp. | 8.125 | 09/01/08 | 319,300 |
| 1,275 | Columbia/HCA, Inc. | 6.910 | 06/15/05 | 1,310,062 |
| 1,700 | Tenet Healthcare Corp., 144A-Private Placement (a)..... | 6.875 | 11/15/31 | 1,569,151 |
| | | | | ----- |
| | | | | 6,575,425 |
| | | | | ----- |
| | HOME CONSTRUCTION 1.1% | | | |
| 2,575 | Pulte Homes, Inc., 144A-Private Placement (a)..... | 7.875 | 08/01/11 | 2,556,295 |
| | | | | ----- |
| | INDEPENDENT ENERGY 0.2% | | | |
| 455 | Equistar Chemicals LP..... | 10.125 | 09/01/08 | 459,550 |
| | | | | ----- |
| | INTEGRATED ENERGY 1.6% | | | |
| 2,025 | PDV America, Inc. | 7.875 | 08/01/03 | 2,072,721 |
| 1,500 | Tosco Corp. | 8.250 | 05/15/03 | 1,592,279 |
| | | | | ----- |
| | | | | 3,665,000 |
| | | | | ----- |
| | LIFE INSURANCE 7.1% | | | |
| 2,300 | Anthem Insurance Cos. Inc., 144A-Private Placement (a)..... | 9.125 | 04/01/10 | 2,475,226 |

See Notes to Financial Statements

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YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|--|--------|----------|-----------------|
| | LIFE INSURANCE (CONTINUED) | | | |
| \$2,045 | Cigna Corp. | 6.375% | 10/15/11 | \$ 2,011,644 |
| 1,805 | Hartford Life, Inc. | 7.375 | 03/01/31 | 1,867,455 |
| 1,560 | Health Net, Inc. | 8.375 | 04/15/11 | 1,610,939 |
| 2,210 | John Hancock Co., 144A-Private Placement (a)..... | 7.375 | 02/15/24 | 2,217,658 |
| 585 | Nationwide Financial Services, Inc. | 6.250 | 11/15/11 | 563,957 |
| 750 | Nationwide Mutual Insurance Co., 144A-Private Placement (a)..... | 7.500 | 02/15/24 | 676,538 |
| 550 | Nationwide Mutual Insurance Co., 144A-Private Placement | | | |

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| | | | | |
|-------|---------------------------------|-------|----------|------------|
| | (a)..... | 8.250 | 12/01/31 | 550,329 |
| 845 | Prudential Holdings, LLC, | | | |
| | 144A-Private Placement (a)..... | 7.245 | 12/18/23 | 868,076 |
| 2,840 | Prudential Holdings, LLC, | | | |
| | 144A-Private Placement (a)..... | 8.695 | 12/18/23 | 2,962,918 |
| | | | | ----- |
| | | | | 15,804,740 |
| | | | | ----- |
| | LODGING 1.0% | | | |
| 390 | Marriott International, | | | |
| | 144A-Private Placement (a)..... | 7.000 | 01/15/08 | 392,815 |
| 2,000 | Starwood Hotels & Resorts..... | 6.750 | 11/15/05 | 1,945,000 |
| | | | | ----- |
| | | | | 2,337,815 |
| | | | | ----- |
| | MEDIA-CABLE 6.3% | | | |
| 250 | Adelphia Communications | | | |
| | Corp. | 9.250 | 10/01/02 | 252,500 |
| 170 | Adelphia Communications | | | |
| | Corp. | 7.875 | 05/01/09 | 156,613 |
| 500 | Charter Communication Holdings | | | |
| | LLC..... | 8.250 | 04/01/07 | 481,250 |
| 1,095 | Comcast Cable Communications... | 8.375 | 05/01/07 | 1,208,650 |
| 2,000 | Comcast Cable Communications... | 8.125 | 05/01/04 | 2,156,538 |
| 2,500 | CSC Holdings, Inc. (c)..... | 7.875 | 02/15/18 | 2,437,500 |
| 7,000 | TCI Communications, Inc. | 9.250 | 01/15/23 | 7,395,724 |
| | | | | ----- |
| | | | | 14,088,775 |
| | | | | ----- |
| | MEDIA-NONCABLE 5.3% | | | |
| 460 | AOL Time Warner, Inc. | 7.625 | 04/15/31 | 488,048 |
| 285 | Belo Corp. | 8.000 | 11/01/08 | 291,462 |

See Notes to Financial Statements

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YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|---------------------------------|--------|----------|-----------------|
| | MEDIA-NONCABLE (CONTINUED) | | | |
| \$2,500 | Clear Channel Commerce, Inc. .. | 7.250% | 10/15/27 | \$ 2,326,948 |
| 1,750 | Harcourt General, Inc. | 8.875 | 06/01/22 | 2,044,935 |
| 1,000 | Harcourt General, Inc. | 7.200 | 08/01/27 | 928,392 |
| 2,880 | News America Holdings, Inc. ... | 8.875 | 04/26/23 | 3,121,776 |
| 470 | Reed Elsevier Capital, Inc. ... | 6.750 | 08/01/11 | 477,598 |
| 1,100 | Viacom, Inc. | 6.625 | 05/15/11 | 1,120,194 |
| 1,000 | Viacom, Inc. | 7.750 | 06/01/05 | 1,079,076 |
| | | | | ----- |
| | | | | 11,878,429 |
| | | | | ----- |
| | NATURAL GAS DISTRIBUTORS 0.4% | | | |
| 565 | Consolidated Natural Gas | | | |

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| | | | | |
|-------|---|-------|----------|-----------|
| | Co. | 6.250 | 11/01/11 | 553,950 |
| 425 | Midamerican Funding LLC..... | 6.750 | 03/01/11 | 417,624 |
| | | | | ----- |
| | | | | 971,574 |
| | | | | ----- |
| | NATURAL GAS PIPELINES 1.2% | | | |
| 1,000 | Transcontinental Gas Pipe Line Corp. | 7.250 | 12/01/26 | 929,751 |
| 850 | Transcontinental Gas Pipe Line Corp., 144A-Private Placement (a)..... | 7.000 | 08/15/11 | 831,051 |
| 1,000 | Williams Cos., Inc. | 7.500 | 01/15/31 | 977,036 |
| | | | | ----- |
| | | | | 2,737,838 |
| | | | | ----- |
| | NONCAPTIVE--CONSUMER FINANCE 2.5% | | | |
| 3,075 | American Express Co. | 5.500 | 09/12/06 | 3,080,547 |
| 1,000 | Household Finance Corp. | 7.875 | 03/01/07 | 1,075,656 |
| 150 | Household Finance Corp. | 8.000 | 07/15/10 | 161,724 |
| 1,200 | Household Finance Corp. | 6.750 | 05/15/11 | 1,195,268 |
| | | | | ----- |
| | | | | 5,513,195 |
| | | | | ----- |
| | NONCAPTIVE--DIVERSIFIED FINANCE 0.5% | | | |
| 1,000 | General Electric Capital Corp. | 6.500 | 12/10/07 | 1,063,793 |
| | | | | ----- |
| | OTHER INDUSTRIAL 0.3% | | | |
| 746 | Stewart Enterprises, Inc. | 6.400 | 05/01/03 | 747,865 |
| | | | | ----- |
| | PROPERTY & CASUALTY 1.6% | | | |
| 2,000 | Farmers Exchange Capital, 144A-Private Placement (a)..... | 7.050 | 07/15/28 | 1,592,788 |
| 1,815 | Farmers Insurance Exchange Surplus, 144A-Private Placement (a)..... | 8.625 | 05/01/24 | 1,742,525 |

See Notes to Financial Statements

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YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|--|--------|----------|-----------------|
| | PROPERTY & CASUALTY (CONTINUED) | | | |
| \$ 255 | Florida Windstorm Underwriting, 144A-Private Placement (a)..... | 7.125% | 02/25/19 | \$ 262,127 |
| | | | | ----- |
| | | | | 3,597,440 |
| | | | | ----- |
| | RAILROADS 4.0% | | | |

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| | | | | |
|-------|--|-------|----------|-----------|
| 1,000 | CSX Corp. | 6.750 | 03/15/11 | 1,017,639 |
| 7,000 | Union Pacific Corp. | 8.350 | 05/01/25 | 7,990,514 |
| | | | | ----- |
| | | | | 9,008,153 |
| | | | | ----- |
| | REAL ESTATE INVESTMENT TRUSTS 1.6% | | | |
| 1,310 | EOP Operating LP..... | 7.500 | 04/19/29 | 1,256,959 |
| 495 | Istar Financial, Inc. | 8.750 | 08/15/08 | 495,957 |
| 1,995 | Simon Property LP..... | 6.375 | 11/15/07 | 1,950,113 |
| | | | | ----- |
| | | | | 3,703,029 |
| | | | | ----- |
| | REFINING 0.1% | | | |
| 250 | Vintage Petroleum, Inc. | 7.875 | 05/15/11 | 246,250 |
| | | | | ----- |
| | RETAIL 3.0% | | | |
| 750 | Brunswick Corp. (c)..... | 7.125 | 08/01/27 | 617,780 |
| 1,500 | Federated Department Stores, Inc. | 6.625 | 09/01/08 | 1,497,068 |
| 1,000 | Federated Department Stores, Inc. | 6.300 | 04/01/09 | 975,996 |
| 250 | K-Mart Corp. (e) | 9.375 | 02/01/06 | 206,884 |
| 945 | K-Mart Corp., 144A-Private Placement (a) (e)..... | 9.875 | 06/15/08 | 784,350 |
| 1,200 | Lowe's Cos., Inc. | 6.500 | 03/15/29 | 1,162,850 |
| 490 | Lowe's Cos., Inc. | 6.875 | 02/15/28 | 491,699 |
| 820 | May Department Stores Co. | 5.950 | 11/01/08 | 823,856 |
| 205 | May Department Stores Co. | 6.700 | 09/15/28 | 196,771 |
| | | | | ----- |
| | | | | 6,757,254 |
| | | | | ----- |
| | SUPERMARKETS 1.0% | | | |
| 2,035 | Kroger Co. | 7.375 | 03/01/05 | 2,150,376 |
| | | | | ----- |
| | TECHNOLOGY 0.4% | | | |
| 905 | Sun Microsystems, Inc. | 7.650 | 08/15/09 | 919,941 |
| | | | | ----- |
| | TELECOMMUNICATIONS 14.7% | | | |
| 225 | AT&T Corp., 144A-Private Placement (a)..... | 7.300 | 11/15/11 | 230,980 |
| 2,530 | AT&T Corp., 144A-Private Placement (a)..... | 8.000 | 11/15/31 | 2,657,095 |

See Notes to Financial Statements

YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

| PAR AMOUNT (000) | DESCRIPTION | COUPON | MATURITY | MARKET VALUE |
|------------------------|-------------|--------|----------|-----------------|
|------------------------|-------------|--------|----------|-----------------|

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| TELECOMMUNICATIONS (CONTINUED) | | | | |
|--------------------------------|--|--------|----------------------|--------------|
| \$1,110 | AT&T Wireless Services, Inc. | 8.750% | 03/01/31 | \$ 1,261,659 |
| 1,000 | AT&T Wireless Services, Inc. | 7.875 | 03/01/11 | 1,070,765 |
| 2,095 | Cox Communications, Inc. | 7.750 | 11/01/10 | 2,240,684 |
| 1,380 | Deutsche Telekom International Finance (Netherlands)..... | 8.250 | 06/15/30 | 1,536,104 |
| 1,435 | Global Crossing Holdings Ltd. (Bermuda) (d) (e)..... | 9.125 | 11/15/06 | 157,850 |
| 475 | Global Crossing Holdings Ltd. (Bermuda) (d) (e)..... | 8.700 | 08/01/07 | 45,125 |
| 125 | McLeodUSA, Inc. (d) (e)..... | 11.375 | 01/01/09 | 28,750 |
| 915 | Nextel Communications, Inc. ... | 9.375 | 11/15/09 | 722,850 |
| 2,415 | Qwest Capital Funding, Inc. ... | 7.250 | 02/15/11 | 2,357,204 |
| 1,185 | Qwest Capital Funding, Inc. ... | 7.750 | 02/15/31 | 1,140,163 |
| 2,000 | Qwest Capital Funding, Inc. ... | 7.900 | 08/15/10 | 2,037,830 |
| 5,000 | United Telecommunication Kansas..... | 9.500 | 04/01/03 | 5,351,745 |
| 985 | Verizon Communications, Inc. | 6.940 | 04/15/28 | 980,037 |
| 1,250 | Verizon Global Funding Corp. | 6.750 | 12/01/05 | 1,319,180 |
| 590 | Verizon New England, Inc. | 6.500 | 09/15/11 | 600,923 |
| 1,000 | Vodafone Airtouch PLC (United Kingdom)..... | 7.750 | 02/15/10 | 1,099,969 |
| 7,600 | WorldCom, Inc. | 8.250 | 05/15/31 | 8,056,593 |
| | | | | ----- |
| | | | | 32,895,506 |
| | | | | ----- |
| | TOTAL CORPORATE BONDS 90.7%..... | | | 203,297,807 |
| | | | | ----- |
| | CONVERTIBLE CORPORATE OBLIGATION 0.1% | | | |
| 420 | Corning, Inc. (Convertible into 3,498,768 common shares)..... | * | 11/08/15 | 219,450 |
| | | | | ----- |
| | GOVERNMENT AND GOVERNMENT AGENCY OBLIGATIONS 2.4% | | | |
| 1 | Federal Home Loan Mortgage Corp. Pool..... | 7.375 | 01/01/03 | 541 |
| 4 | Government National Mortgage Association Pool..... | 10.000 | 10/15/16 to 07/15/20 | 4,875 |
| 1,400 | Ontario Province (Canada)..... | 7.625 | 06/22/04 | 1,522,346 |
| 500 | Republic of Italy (Italy)..... | 5.250 | 04/05/06 | 510,780 |
| 3,000 | Saskatchewan Province (Canada)..... | 8.000 | 07/15/04 | 3,262,503 |
| | | | | ----- |

See Notes to Financial Statements

YOUR FUND'S INVESTMENTS

December 31, 2001 (Unaudited)

MARKET

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| DESCRIPTION | VALUE |
|---|------------------------|
| TOTAL GOVERNMENT AND GOVERNMENT AGENCY OBLIGATIONS 2.4%..... | \$ 5,301,045 ----- |
| TOTAL LONG-TERM INVESTMENTS 93.2% (Cost \$206,451,687)..... | 208,818,302 ----- |
| SHORT-TERM INVESTMENTS 5.1% REPURCHASE AGREEMENT 4.8% Bank of America Securities (\$10,642,000 par collateralized by U.S. Government obligations in a pooled cash account, dated 12/31/01, to be sold on 01/02/02 at \$10,643,035)..... | 10,642,000 ----- |
| U.S. GOVERNMENT AGENCY OBLIGATIONS 0.3% United States Treasury Bill (\$250,000 par, yielding 2.005%, 01/17/02 maturity) (c)..... | 249,778 |
| United States Treasury Bill (\$500,000 par, yielding 1.82%, 04/18/02 maturity) (c)..... | 497,310 ----- |
| TOTAL U.S. GOVERNMENT AGENCY OBLIGATIONS..... | 747,088 ----- |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$11,389,088)..... | 11,389,088 ----- |
| TOTAL INVESTMENTS 98.3% (Cost \$217,840,775)..... | 220,207,390 |
| OTHER ASSETS IN EXCESS OF LIABILITIES 1.7%..... | 3,783,996 ----- |
| NET ASSETS 100.0%..... | \$223,991,386 ===== |

* Zero coupon bond

- (a) 144A securities are those which are exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.
- (b) These securities are restricted and may be resold only in transactions exempt from registration which are normally those transactions with qualified institutional buyers.
- (c) Assets segregated as collateral for open futures transactions.
- (d) Non-income producing as security is in default.
- (e) Subsequent to December 31, 2001, this company has filed for protection in federal bankruptcy court.

See Notes to Financial Statements

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FINANCIAL STATEMENTS

Statement of Assets and Liabilities

December 31, 2001 (Unaudited)

ASSETS:

| | |
|---|---------------|
| Total Investments (Cost \$217,840,775)..... | \$220,207,390 |
| Cash..... | 369 |
| Interest Receivable..... | 4,149,729 |
| Other..... | 47,241 |
| | ----- |
| Total Assets..... | 224,404,729 |
| | ----- |

LIABILITIES:

Payables:

| | |
|---|---------|
| Variation Margin on Futures..... | 118,797 |
| Investment Advisory Fee..... | 91,924 |
| Shareholder Reports..... | 32,185 |
| Affiliates..... | 2,948 |
| Trustees' Deferred Compensation and Retirement Plans..... | 108,907 |
| Accrued Expenses..... | 58,582 |
| | ----- |
| Total Liabilities..... | 413,343 |
| | ----- |

NET ASSETS..... \$223,991,386

NET ASSETS CONSIST OF:

| | |
|--|---------------|
| Common Shares (\$1.00 par value with 15,000,000 shares authorized, 11,362,465 shares issued and outstanding)..... | \$ 11,362,465 |
| Capital..... | 207,624,858 |
| Net Unrealized Appreciation..... | 3,039,735 |
| Accumulated Net Realized Gain..... | 2,085,762 |
| Accumulated Distributions in Excess of Net Investment Income..... | (121,434) |
| | ----- |

NET ASSETS..... \$223,991,386

NET ASSET VALUE PER COMMON SHARE (\$223,991,386 divided by
11,362,465 shares outstanding)..... \$ 19.71

See Notes to Financial Statements

Statement of Operations

For the Six Months Ended December 31, 2001 (Unaudited)

INVESTMENT INCOME:

| | |
|-------------------|--------------|
| Interest..... | \$ 8,115,780 |
| Other..... | 1,875 |
| | ----- |
| Total Income..... | 8,117,655 |
| | ----- |

EXPENSES:

| | |
|------------------------------|---------|
| Investment Advisory Fee..... | 548,515 |
|------------------------------|---------|

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| | |
|--|--------------|
| Shareholder Services..... | 51,081 |
| Trustees' Fees and Related Expenses..... | 17,780 |
| Custody..... | 14,237 |
| Legal..... | 4,877 |
| Other..... | 95,353 |
| | ----- |
| Total Expenses..... | 731,843 |
| Less Credits Earned on Cash Balances..... | 4,970 |
| | ----- |
| Net Expenses..... | 726,873 |
| | ----- |
| NET INVESTMENT INCOME..... | \$ 7,390,782 |
| | ===== |
| REALIZED AND UNREALIZED GAIN/LOSS: | |
| Realized Gain/Loss: | |
| Investments..... | \$ 4,343,916 |
| Futures..... | 755,939 |
| | ----- |
| Net Realized Gain..... | 5,099,855 |
| | ----- |
| Unrealized Appreciation/Depreciation: | |
| Beginning of the Period..... | 4,349,911 |
| End of the Period: | |
| Investments..... | 2,366,615 |
| Futures..... | 673,120 |
| | ----- |
| | 3,039,735 |
| | ----- |
| Net Unrealized Depreciation During the Period..... | (1,310,176) |
| | ----- |
| NET REALIZED AND UNREALIZED GAIN..... | \$ 3,789,679 |
| | ===== |
| NET INCREASE IN NET ASSETS FROM OPERATIONS..... | \$11,180,461 |
| | ===== |

See Notes to Financial Statements

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Statements of Changes in Net Assets
For the Six Months Ended December 31, 2001 and the Year Ended June 30, 2001
(Unaudited)

| | SIX MONTHS ENDED DECEMBER 31, 2001 | YEAR ENDED JUNE 30, 2001 |
|--|---------------------------------------|-----------------------------|
| | ----- | ----- |
| FROM INVESTMENT ACTIVITIES: | | |
| Operations: | | |
| Net Investment Income..... | \$ 7,390,782 | \$ 15,887,084 |
| Net Realized Gain..... | 5,099,855 | 1,117,893 |
| Net Unrealized Appreciation/Depreciation During the Period..... | (1,310,176) | 6,663,849 |
| | ----- | ----- |
| Change in Net Assets from Operations..... | 11,180,461 | 23,668,826 |
| Distributions from and in Excess of Net Investment Income..... | (7,726,054) | (15,565,382) |
| | ----- | ----- |

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| | | |
|---|---------------|---------------|
| NET CHANGE IN NET ASSETS FROM INVESTMENT ACTIVITIES..... | 3,454,407 | 8,103,444 |
| NET ASSETS: | | |
| Beginning of the Period..... | 220,536,979 | 212,433,535 |
| End of the Period (Including accumulated undistributed net investment income of (\$121,434) and \$802,655, respectively)..... | \$223,991,386 | \$220,536,979 |

See Notes to Financial Statements

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Financial Highlights

(Unaudited)

THE FOLLOWING SCHEDULE PRESENTS FINANCIAL HIGHLIGHTS FOR ONE SHARE OF THE FUND OUTSTANDING THROUGHOUT THE PERIODS INDICATED.

| | SIX MONTHS ENDED DECEMBER 31, | | | |
|--|-------------------------------------|---------|---------|----------|
| | 2001 (D) | 2001 | 2000 | 1999 |
| NET ASSET VALUE, BEGINNING OF THE PERIOD.... | \$19.41 | \$18.70 | \$19.59 | \$ 21.16 |
| Net Investment Income..... | .65 | 1.40 | 1.43 | 1.41 |
| Net Realized and Unrealized Gain/Loss..... | .33 | .68 | (.93) | (1.56) |
| Total from Investment Operations..... | .98 | 2.08 | .50 | (.15) |
| Less Distributions from Net Investment Income..... | .68 | 1.37 | 1.39 | 1.42 |
| NET ASSET VALUE, END OF THE PERIOD..... | \$19.71 | \$19.41 | \$18.70 | \$ 19.59 |
| Market Price Per Share at End of the Period..... | \$19.27 | \$19.15 | \$16.75 | \$17.875 |
| Total Investment Return at Market Price (a)..... | 4.16%* | 23.10% | 1.88% | -2.45% |
| Total Return at Net Asset Value (b)..... | 5.08%* | 11.37% | 2.67% | -0.87% |
| Net Assets at End of the Period (In millions)..... | \$224.0 | \$220.5 | \$212.4 | \$ 222.6 |
| Ratio of Operating Expenses to Average Net Assets..... | .64% | .68% | .64% | .66% |
| Ratio of Convertible Note Expenses to Average Net Assets (c)..... | -- | -- | -- | -- |
| Ratio of Net Investment Income to Average Net Assets..... | 6.51% | 7.25% | 7.48% | 6.79% |
| Portfolio Turnover..... | 69%* | 88% | 71% | 10% |
| Assuming full dilution of debt: (c) | | | | |
| Net Asset Value, End of the Period..... | -- | -- | -- | -- |
| Number of Shares Outstanding, End of the Period (000)..... | -- | -- | -- | -- |

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* Non-Annualized

- (a) Total return based on market price assumes an investment at the market price at the beginning of the period indicated, reinvestment of all distributions for the period in accordance with the Fund's dividend reinvestment plan, and sale of all shares at the closing common stock price at the end of the period indicated.
- (b) Total return based on net asset value (NAV) assumes an investment at the beginning of the period indicated, reinvestment of all distributions for the period, and sale of all shares at the end of the period, all at NAV.
- (c) On January 3, 1995, the Fund paid off its outstanding convertible extendible note.
- (d) As required, effective July 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium on fixed income securities. The effect of this change for the six months ended December 31, 2001 was to decrease net investment income per share by \$.02, increase net realized and unrealized gains and losses per share by \$.02 and decrease the ratio of net investment income to average net assets by .18%. Per share, ratios and supplemental data for periods prior to December 31, 2001 have not been restated to reflect this change in presentation.

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YEAR ENDED JUNE 30,

| 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|-----------|---------|----------|----------|----------|---------|---------|
| \$ 20.26 | \$19.97 | \$ 20.41 | \$ 19.07 | \$ 21.33 | \$19.85 | \$18.68 |
| 1.48 | 1.56 | 1.54 | 1.52 | 1.56 | 1.58 | 1.74 |
| .93 | .27 | (.44) | 1.36 | (2.28) | 1.55 | 1.11 |
| 2.41 | 1.83 | 1.10 | 2.88 | (.72) | 3.13 | 2.85 |
| 1.51 | 1.54 | 1.54 | 1.54 | 1.54 | 1.65 | 1.68 |
| \$ 21.16 | \$20.26 | \$ 19.97 | \$ 20.41 | \$ 19.07 | \$21.33 | \$19.85 |
| \$19.6875 | \$19.25 | \$18.125 | \$19.125 | \$18.125 | \$20.75 | \$19.75 |
| 10.08% | 15.06% | 2.61% | 14.89% | -5.59% | 13.76% | 17.12% |
| 12.19% | 9.46% | 5.94% | 16.54% | -3.37% | 16.35% | 15.79% |
| \$ 240.4 | \$230.2 | \$ 226.9 | \$ 231.9 | \$ 216.6 | \$235.6 | \$218.5 |
| .65% | .68% | .67% | .68% | .68% | .71% | .71% |
| -- | -- | -- | .39% | .82% | .98% | 1.05% |
| 7.04% | 7.70% | 7.47% | 7.92% | 7.29% | 7.65% | 8.90% |
| 27% | 8% | 11% | 8% | 2% | 19% | 39% |
| -- | -- | -- | -- | \$ 19.07 | \$21.09 | \$19.78 |
| -- | -- | -- | -- | 12,411 | 12,411 | 12,372 |

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Van Kampen Bond Fund (the "Fund") is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended. The Fund's investment objective is to seek interest income while conserving capital through investing in a diversified portfolio consisting primarily of high-quality debt 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 in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

A. SECURITY VALUATION Fixed income investments are stated at value using market quotations or indications of value obtained from an independent pricing service. Investments in securities listed on a securities exchange are valued at their sale price as of the close of such securities exchange. Listed securities and unlisted securities for which the last sales price is not available are valued at the mean of the bid and asked prices. For those securities where quotations or prices are not available as noted above, valuations are determined in accordance with procedures established in good faith by the Board of Trustees. Short-term securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates market value.

B. SECURITY TRANSACTIONS Security transactions are recorded on a trade date basis. Realized gains and losses are determined on an identified cost basis. The Fund may purchase and sell securities on a "when-issued" or "delayed delivery" basis, with settlement to occur at a later date. The value of the security so purchased is subject to market fluctuations during this period. The Fund will maintain, in a segregated account with its custodian, assets having an aggregate value at least equal to the amount of the when-issued or delayed delivery purchase commitments until payment is made. At December 31, 2001, there were no when-issued or delayed delivery purchase commitments.

The Fund may invest in repurchase agreements, which are short-term investments in which the Fund acquires ownership of a debt security and the seller agrees to repurchase the security at a future time and specified price. The Fund may invest independently in repurchase agreements, or transfer uninvested cash balances into a pooled cash account along with other investment companies

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NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (Unaudited)

advised by Van Kampen Asset Management Inc. (the "Adviser") or its affiliates, the daily aggregate of which is invested in repurchase agreements. Repurchase

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agreements are fully collateralized by the underlying debt security. The Fund will make payment for such securities only upon physical delivery or evidence of book entry transfer to the account of the custodian bank. The seller is required to maintain the value of the underlying security at not less than the repurchase proceeds due the Fund.

C. INVESTMENT INCOME Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date. Premiums are amortized and discounts are accreted over the expected life of each applicable security.

As required, effective July 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies (the "Guide") and began amortizing premium on fixed income securities. Prior to July 1, 2001, the Fund did not amortize premiums on fixed income securities. The cumulative effect of this accounting change had no impact on total net assets of the Fund, but resulted in a \$588,817 reduction in cost of securities and a corresponding \$588,817 increase in net unrealized appreciation based on securities held by the Fund on July 1, 2001.

The effect of this change for the six months ended December 31, 2001 was to decrease net investment income by \$201,934; decrease net unrealized appreciation by \$128,267, and increase net realized gains by \$330,201. The Statement of Changes in Net Assets and Financial Highlights for prior periods have not been restated to reflect this change in presentation.

The revised version of the Guide also requires that paydown gains and losses on mortgage- and asset-backed securities be presented as interest income. Previously, paydown gains and losses on mortgage- and asset-backed securities were shown as a component of realized gain/loss. The effect of this change for the six months ended December 31, 2001 was to decrease net investment income and increase realized gain/loss by \$27.

D. FEDERAL INCOME TAXES It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no provision for federal income taxes is required.

The Fund intends to utilize provisions of the federal income tax laws which allow it to carry a realized capital loss forward for eight years following the year of the loss and offset these losses against any future realized capital gains. At June 30, 2001, the Fund had an accumulated capital loss carryforward for tax purposes of \$2,737,618, which will expire between June 30, 2008 and June 30, 2009. Net

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NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (Unaudited)

realized gains or losses may differ for financial reporting and tax purposes primarily as a result of the deferral of losses relating to wash sale transactions.

At December 31, 2001, for federal income tax purposes, cost of long- and short-term investments is \$218,305,545, the aggregate gross unrealized appreciation is \$5,500,800 and the aggregate gross unrealized depreciation is \$3,598,955, resulting in net unrealized appreciation on long- and short-term investments of \$1,901,845.

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E. DISTRIBUTION OF INCOME AND GAINS The Fund declares and pays quarterly dividends from net investment income. Net realized gains, if any, are distributed annually. Distributions from net realized gains for book purposes may include short-term capital gains and gains on option and futures transactions. All short-term capital gains and a portion of option and futures gains are included in ordinary income for tax purposes.

Due to inherent differences in the recognition of income, expenses and realized gain/losses under generally accepted accounting principles and federal income tax purposes, the amount of net investment income may differ between book and federal income tax purposes for a particular period. These differences are temporary in nature, but may result in book basis distributions in excess of net investment income for certain periods.

F. EXPENSE REDUCTIONS During the six months ended December 31, 2001, the Fund's custody fee was reduced by \$4,970 as a result of credits earned on cash balances.

2. INVESTMENT ADVISORY AGREEMENT AND OTHER TRANSACTIONS WITH AFFILIATES

Under the terms of the Fund's Investment Advisory Agreement, the Adviser will provide investment advice and facilities to the Fund for an annual fee payable monthly as follows:

| AVERAGE DAILY NET ASSETS | % PER ANNUM |
|--------------------------|-------------|
| First \$150 million..... | 0.50% |
| Next \$100 million..... | 0.45% |
| Next \$100 million..... | 0.40% |
| Over \$350 million..... | 0.35% |

For the six months ended December 31, 2001, the Fund recognized expenses of approximately \$4,900 representing legal services provided by Skadden, Arps, Slate, Meagher, & Flom (Illinois), counsel to the Fund, of which a trustee of the Fund is an affiliated person.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (Unaudited)

Under an Accounting Services agreement, the Adviser provides accounting services to the Fund. The Adviser allocates the cost of such services to each fund. For the six months ended December 31, 2001, the Fund recognized expenses of approximately \$9,200 representing Van Kampen Investments Inc.'s or its affiliates' (collectively "Van Kampen") cost of providing accounting services to the Fund, which are reported as part of "Other" expenses in the Statement of Operations.

Certain officers and trustees of the Fund are also officers and directors of Van Kampen. The Fund does not compensate its officers or trustees who are officers of Van Kampen.

The Fund provides deferred compensation and retirement plans for its trustees who are not officers of Van Kampen. Under the deferred compensation

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plan, trustees may elect to defer all or a portion of their compensation to a later date. Benefits under the retirement plan are payable upon retirement for a ten-year period and are based upon each trustee's years of service to the Fund. The maximum annual benefit per trustee under the plan is \$2,500.

3. INVESTMENT TRANSACTIONS

During the period, the cost of purchases and proceeds from sales of investments, excluding short-term investments, were \$146,650,525 and \$155,385,197, respectively.

4. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative financial instrument in very general terms refers to a security whose value is "derived" from the value of an underlying asset, reference rate or index.

The Fund has a variety of reasons to use derivative instruments, such as to attempt to protect the Fund against possible changes in the market value of its portfolio or to generate potential gain. All of the Fund's portfolio holdings, including derivative instruments, are marked to market each day with the change in value reflected in the unrealized appreciation/depreciation. Upon disposition, a realized gain or loss is recognized accordingly, except when exercising a call option contract or taking delivery of a security underlying a futures contract. In these instances, the recognition of gain or loss is postponed until the disposal of the security underlying the option or futures contract. Risks may arise as a result of the potential inability of the counterparties to meet the terms of their contracts.

During the period, the Fund invested in futures contracts, a type of derivative. A futures contract is an agreement involving the delivery of a particular asset on a specified future date at an agreed upon price. The Fund generally invests in exchange traded stock index futures. These contracts are generally used as a substitute for purchasing and selling specific securities. Upon entering into futures contracts, the Fund maintains an amount of cash or liquid securities with a value

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NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (Unaudited)

equal to a percentage of the contract amount with either a future commission merchant pursuant to rules and regulations promulgated under the 1940 Act, as amended, or with its custodian in an account in the broker's name. This amount is known as initial margin. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the value of the contract (the variation margin).

Transactions in futures contracts for the six months ended December 31, 2001, were as follows:

| | CONTRACTS |
|-----------------------------------|-----------|
| Outstanding at June 30, 2001..... | -0- |
| Futures Opened..... | 989 |
| Futures Closed..... | (567) |

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Outstanding at December 31, 2001..... 422
 =====

The futures contracts outstanding as of December 31, 2001 and the descriptions and unrealized appreciation/depreciation are as follows:

| | CONTRACTS | UNREALIZED APPRECIATION/ (DEPRECIATION) |
|---|-----------|---|
| Long Contracts: | | |
| 5-Year U.S. Treasury Note Future, March 2002- (Current Notional Value of \$105,828 per contract)..... | 180 | \$151,099 |
| Short Contracts: | | |
| U.S. Treasury Bonds Future, March 2002- (Current Notional Value of \$101,531 per contract)..... | 181 | 546,538 |
| 2-Year U.S. Treasury Note Future, March 2002- (Current Notional Value of \$208,984 per contract)..... | 30 | (26,276) |
| 10-Year U.S. Treasury Note Future, March 2002- (Current Notional Value of \$105,141 per contract)..... | 31 | 1,759 |
| | --- | ----- |
| | 422 | \$673,120 |
| | === | ===== |

BOARD OF TRUSTEES AND IMPORTANT ADDRESSES
 VAN KAMPEN BOND FUND

BOARD OF TRUSTEES

DAVID C. ARCH
 ROD DAMMEYER
 HOWARD J KERR
 THEODORE A. MYERS
 RICHARD F. POWERS, III* - Chairman
 HUGO F. SONNENSCHNEIN
 WAYNE W. WHALEN*

INVESTMENT ADVISER

VAN KAMPEN ASSET MANAGEMENT INC.
 1 Parkview Plaza
 P.O. Box 5555
 Oakbrook Terrace, Illinois 60181-5555

CUSTODIAN AND SHAREHOLDER

SERVICING AGENT

STATE STREET BANK AND TRUST COMPANY
 c/o EquiServe LLP
 P.O. Box 43011
 Providence, Rhode Island 02940-3011

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MEAGHER, & FLOM (ILLINOIS)
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Chicago, Illinois 60606
INDEPENDENT AUDITORS

DELOITTE & TOUCHE LLP
180 North Stetson Avenue
Chicago, Illinois 60601

Inquiries about an investor's account should be referred to the Fund's transfer agent

State Street Bank and Trust Company
c/o EQUISERVE LLP
P.O. Box 43011
Providence, Rhode Island 02940-3011
Telephone: (800) 821-1238
Alaska and Hawaii
Call Collect: (781) 575-2000
Ask for Closed-End Fund Account Services

* "Interested persons" of the Fund, as defined in the Investment Company Act of 1940, as amended.

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Van Kampen Privacy Notice

The Van Kampen companies and investment products* respect your right to privacy. We also know that you expect us to conduct and process your business in an accurate and efficient manner. To do so, we must collect and maintain certain nonpublic personal information about you. This is information we collect from you on applications or other forms, and from the transactions you make with us, our affiliates, or third parties. We may also collect information you provide when using our web site, and text files (a.k.a. "cookies") may be placed on your computer to help us to recognize you and to facilitate transactions you initiate. We do not disclose any nonpublic personal information about you or any of our former customers to anyone, except as permitted by law. For instance, so that we may continue to offer you Van Kampen investment products and services that meet your investing needs, and to effect transactions that you request or authorize, we may disclose the information we collect to companies that perform services on our behalf, such as printers and mailers that assist us in the distribution of investor materials. These companies will use this information only for the services for which we hired them, and are not permitted to use or share this information for any other purpose. To protect your nonpublic personal information internally, we permit access to it only by authorized employees, and maintain physical, electronic and procedural safeguards to guard your nonpublic personal information.

* Includes Van Kampen Investments Inc., Van Kampen Investment Advisory Corp., Van Kampen Asset Management Inc., Van Kampen Advisors Inc., Van Kampen Management Inc., Van Kampen Funds Inc., Van Kampen Investor Services Inc., Van Kampen Trust Company, Van Kampen System Inc. and Van Kampen Exchange Corp., as well as the many Van Kampen mutual funds and Van Kampen unit investment trusts.

Van Kampen Funds Inc.

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