

SECURITIES AND EXCHANGE COMMISSION

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FILER

PUTNAM DIVERSIFIED INCOME TRUST

CIK: **836622** | IRS No.: **043017475** | State of Incorpor.: **MA** | Fiscal Year End: **0930**
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Putnam
Diversified
Income Trust

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

3-31-02

[SCALE LOGO OMITTED]

FROM THE TRUSTEES

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

Dear Fellow Shareholder:

Given the dramatic events that aggravated an already troubled economic environment, it is encouraging to report that Putnam Diversified Income Trust closed the first half of fiscal 2002 with a solid gain. On the following pages, your management team's report will provide a full discussion of the reasons behind these results.

The team's report will also afford you a good understanding of what has been driving your fund's performance as well as offer its view of the outlook for fiscal 2003. Since the economic recovery is likely to be gradual, we counsel patience as you view your fund's progress in the months ahead.

As you read this report, you may notice 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 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 appreciates your loyalty during these times of restructuring of staff and products in the pursuit of superior investment performance for the future.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill
Chairman of the Trustees
May 8, 2002

George Putnam, III
President of the Funds

REPORT FROM FUND MANAGEMENT

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

Thanks to positions in high-yield and emerging-market bonds, which benefited from increased optimism about economic recovery, Putnam Diversified Income Trust generated a solid return at net asset value for the six months ended March 31, 2002, outperforming its primary benchmark, the Lehman Aggregate Bond Index as well as an additional comparative index, the Salomon Smith Barney Non-U.S. World Government Bond Index. Your fund underperformed another comparative measure, the CSFB High Yield Index, primarily because the fund does not invest solely in high-yield bonds. The primary reason for the fund's generally strong relative performance was its high-yield and emerging-market emphasis.

Total return for 6 months ended 3/31/02

| Class A | | Class B | | Class C | | Class M | |
|---------|--------|---------|--------|---------|-------|---------|-------|
| NAV | POP | NAV | CDSC | NAV | CDSC | NAV | POP |
| 4.57% | -0.38% | 4.07% | -0.93% | 4.08% | 3.08% | 4.34% | 0.95% |

Past performance does not indicate future results. Performance

information for longer periods and explanation of performance calculation methods begin on page 6.

* INVESTORS FAVORED HIGHER-YIELDING BONDS AMID SIGNS OF RECOVERY

The fixed-income markets have been volatile in the past six months, due to changing economic expectations, equity market volatility, and geopolitical turmoil. As the fourth quarter of 2001 began, investors were still jittery in the wake of the terrorist attacks but a series of encouraging economic reports sparked a major shift in investor sentiment toward the end of the year. Overcoming their risk aversion, investors sold off investment-grade bonds and reallocated funds into riskier asset classes, such as equities and high-yield bonds. Meanwhile, emerging-market bonds performed well despite Argentina's default. As with the U.S., international bonds in developed markets lost steam toward the end of 2001, as positive economic data suggested that the fourth quarter of 2001 might represent the bottom of the current recession cycle, causing interest rates to begin moving upward in 2002.

[GRAPHIC OMITTED: horizontal bar chart TOP INDUSTRY SECTORS]

TOP INDUSTRY SECTORS*

| | |
|-------------------------|-------|
| Consumer cyclicals | 11.2% |
| Consumer staples | 10.0% |
| Basic materials | 6.3% |
| Communications services | 5.1% |
| Capital goods | 3.6% |

Footnote reads:

*Based on net assets as of 3/31/02. Holdings will vary over time.

However, central banks remained cautious and continued to lower interest rates through the end of 2001. The Federal Reserve Board cut rates three times during the period, leaving the federal funds rate at a 40-year low of 1.75%. As a result, the yield curve continued to steepen, as yields on short-term bonds declined as a result of the Fed's rate cuts.

Just as the overall market began to embrace the idea of an economic turnaround at the start of 2002, a new bout of investor risk aversion took hold in response to the bankruptcy of Enron. Questionable corporate accounting practices and credit concerns following the Enron collapse resulted in solid performance for the higher-quality bond sectors. However, increasingly robust economic data in January and February once again turned investors' attention toward the prospect of a strong economic rebound. In response, the investment-grade sector saw a sharp sell-off during March, with expectations that the Fed, having left interest rates unchanged at its January meeting, was positioning itself for a possible rate increase later this year. High-yield bonds, however, were buoyed by the improvement in investor sentiment and evidence of economic growth.

International bond markets, pressured by signs of a global economic recovery that could lead to higher interest rates, advanced only modestly. However, the improved economic outlook, rising oil prices, and attractive valuations of emerging-market bonds boosted returns in this sector. These events continue to underscore the value of diversifying across the different sectors of the fixed-income universe, as your fund has always been designed to do.

* HIGHER-QUALITY SECTORS LAGGED HIGHER-YIELD POSITIONS

The fund's emphasis on high yield, the strongest-performing sector for the semiannual period, benefited its performance overall. Within the fund's investment-grade holdings, our exposure to U.S. government bonds dampened performance somewhat, while its holdings of mortgage-backed securities, which performed relatively well, was a positive. With the

end of the Federal Reserve's easing cycle, higher-quality bonds have been much more sensitive to a potential increase in interest rates, which is typically the case after a long easing cycle. As reports on the economy through the first quarter of 2002 indicated that stronger growth was occurring, interest rates rose and prices for higher-quality bonds were negatively affected.

Fund Profile

Putnam Diversified Income Trust is a multi-sector fund that seeks income from three sectors: U.S. corporate and government investment-grade bonds, foreign bonds, and higher-yielding, lower-rated corporate bonds. The benchmark allocation for each sector is typically one-third of total assets, although management may adjust the weightings to between 15%-65% for each sector. The fund is designed for investors seeking high current income, asset class diversification, or both.

Strong performance from the fund's holdings of emerging-market bonds boosted performance. In particular, positions in Russia, Mexico, and Brazil were positive contributors to the fund's performance. Bonds in the international developed markets had a mixed impact on results. The U.S. dollar strengthened against most of the major foreign currencies, which was a negative factor for the international sector. Meanwhile, our holdings in Italy performed well and made a positive contribution.

* A MODEST RECOVERY IS UNDER WAY

The recession appears to have been much milder than both economists and investors thought it would be. A modest recovery is under way, due in large part to the deep tax and interest-rate cuts in 2001. Also, significant reductions in corporate inventories led to robust growth during the first quarter as companies restocked. However, we believe that growth in the second half of 2002 will be more moderate. Consumer spending should remain solid this year, although there is more uncertainty around business investments.

[GRAPHIC OMITTED: TOP THREE HOLDINGS PER SECTOR]

TOP THREE HOLDINGS PER SECTOR

HIGH-YIELD BONDS

Allied Waste Industries, Inc.
Company guaranty, Series B, 10%, 2009

Echostar Broadband Corp.
Senior notes, 10.375%, 2007

Adelphia Communications Corp.
Senior notes, 10.25%, 2011

FOREIGN BONDS

Brazil (Federal Republic of) bonds
8.0%, 2014

Sweden (Government of) bonds
Series 1044, 3.5%, 2006

Australia (Government of) bonds
Series 513, 6.5%, 2013

U.S. INVESTMENT-GRADE SECURITIES

U.S. Treasury Notes
3.5%, 11/15/06

U.S. Treasury Bonds
7.5%, 11/15/16

U.S. Treasury Bonds

Footnote reads:

These holdings represent 13.1% of the fund's net assets as of 3/31/02. Portfolio holdings will vary over time.

We are expecting that inflation will remain low, which should keep the Fed from raising interest rates at least until the end of the summer. We will continue to monitor these developments closely, and, as always, focus on securities with positive fundamentals and attractive valuations.

We remain cautiously optimistic on the high-yield market, which appears poised for solid performance in a recovering economic environment. Other positive factors for high-yield bonds include strong demand and manageable supply, an emphasis by companies on reducing debt, and evidence that default rates have peaked. In the short term, the market may be susceptible to any signs of economic weakness, so we will proceed with caution.

We also remain positive on the mortgage-backed sector, as it continues to offer attractive valuations relative to Treasuries.

Finally, we continue to find value in the international developed bond markets, while we are neutral toward emerging-market bonds. These securities remain attractive, as continued strong demand and evidence of a global economic recovery are offsetting the negative impact of specific countries.

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 3/31/02, there is no guarantee the fund will continue to hold these securities in the future. International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Lower-rated bonds may offer higher yields in return for more risk. Government securities guarantee principal and interest; mutual funds that invest in these securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

This fund is managed by the Putnam Core Fixed-Income Team. The members of this team are Kevin Cronin, Rob Bloemker, Andrea Burke, Joanne Driscoll, D. William Kohli, Krishna Memani, James Prusko, and David Waldman.

PUTNAM STRATEGIC INCOME FUND TO MERGE INTO PUTNAM DIVERSIFIED INCOME TRUST

Effective June 24, 2002, Putnam Strategic Income Fund will merge into your fund, Putnam Diversified Income Trust. This merger has been approved by a vote of your fund's Trustees and does not require the approval of shareholders, so there is no action that you need to take.

Putnam Strategic Income Fund and Putnam Diversified Income Trust invest in the same fixed-income sectors and are managed in the same style. Because the funds have substantially similar objectives and strategies, you should not need to reconsider any of your asset allocations and your long-term financial plans should be unaffected.

A NOTE ABOUT DUPLICATE MAILINGS

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

PERFORMANCE SUMMARY

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

TOTAL RETURN FOR PERIODS ENDED 3/31/02

| (inception dates) | Class A (10/3/88) | | Class B (3/1/93) | | Class C (2/1/99) | | Class M (12/1/94) | |
|----------------------------------|----------------------|--------|---------------------|--------|---------------------|-------|----------------------|-------|
| | NAV | POP | NAV | CDSC | NAV | CDSC | NAV | POP |
| 6 months | 4.57% | -0.38% | 4.07% | -0.93% | 4.08% | 3.08% | 4.34% | 0.95% |
| 1 year | 2.92 | -1.97 | 2.14 | -2.57 | 2.16 | 1.22 | 2.67 | -0.68 |
| 5 years | 15.54 | 10.09 | 11.28 | 9.75 | 11.23 | 11.23 | 14.09 | 10.35 |
| Annual average | 2.93 | 1.94 | 2.16 | 1.88 | 2.15 | 2.15 | 2.67 | 1.99 |
| 10 years | 78.17 | 69.65 | 65.19 | 65.19 | 65.22 | 65.22 | 73.46 | 67.83 |
| Annual average | 5.95 | 5.43 | 5.15 | 5.15 | 5.15 | 5.15 | 5.66 | 5.31 |
| Annual average (life of fund) | 7.11 | 6.73 | 6.28 | 6.28 | 6.31 | 6.31 | 6.80 | 6.54 |

<TABLE>
<CAPTION>

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 3/31/02

| | Lehman Aggregate Bond Index | SSB Non-U.S. World Govt. Bond Index | CSFB High Yield Index | Consumer price index |
|----------------------------------|-----------------------------------|---|-----------------------------|-------------------------|
| <S> | <C> | <C> | <C> | <C> |
| 6 months | 0.14% | -5.76% | 8.30% | 0.22% |
| 1 year | 5.35 | -0.45 | 3.34 | 1.30 |
| 5 years | 44.02 | 4.73 | 18.51 | 11.62 |
| Annual average | 7.57 | 0.93 | 3.46 | 2.22 |
| 10 years | 103.82 | 64.90 | 101.51 | 28.21 |
| Annual average | 7.38 | 5.13 | 7.26 | 2.52 |
| Annual average (life of fund) | 8.30 | 6.04 | 8.51 | 3.00 |

</TABLE>

Past performance does not indicate future results. More recent returns may be less or more than those shown. Investment return and principal value will fluctuate and you may have a gain or a loss when you sell your shares.

Performance assumes reinvestment of distributions and does not account for taxes. Returns at public offering price (POP) for class A and M shares reflect a sales charge of 4.75% and 3.25%, respectively. Class B share returns reflect the applicable contingent deferred sales charge (CDSC), which is 5% in the first year, declining to 1% in the sixth year, and is eliminated thereafter. Class C shares reflect a 1% CDSC the first year that is eliminated thereafter. Performance for class B, C, and M shares before their inception are derived from the historical performance of class A shares, adjusted for the applicable sales charge (or CDSC) and higher operating expenses for such shares.

PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 3/31/02

| | Class A | Class B | Class C | Class M |
|---------------------------|----------|----------|----------|----------|
| Distributions (number) | 6 | 6 | 6 | 6 |
| Income | \$0.3960 | \$0.3600 | \$0.3620 | \$0.3840 |

| Capital gains | -- | -- | -- | -- | -- | -- |
|--------------------------------|----------|----------|----------|----------|----------|--------|
| Total | \$0.3960 | \$0.3600 | \$0.3620 | \$0.3620 | \$0.3840 | |
| Share value: | NAV | POP | NAV | NAV | NAV | POP |
| 9/30/01 | \$9.26 | \$9.72 | \$9.22 | \$9.24 | \$9.22 | \$9.53 |
| 3/31/02 | 9.28 | 9.74 | 9.23 | 9.25 | 9.23 | 9.54 |
| Current return (end of period) | | | | | | |
| Current dividend rate 1 | 8.53% | 8.13% | 7.93% | 7.91% | 8.32% | 8.05% |
| Current 30-day SEC yield 2 | 8.12 | 7.73 | 7.37 | 7.36 | 7.87 | 7.61 |

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

2 Based only on investment income, calculated using SEC guidelines.

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 price, or value, of one share of a mutual fund, without a sales charge. NAVs fluctuate with market conditions. The NAV is calculated by dividing the net value of all the fund's assets by the number of outstanding shares.

Public offering price (POP) is the price of a mutual fund share plus the maximum sales charge levied at the time of purchase. POP performance figures shown here assume the 4.75% maximum sales charge for class A shares and 3.25% for class M shares.

Contingent deferred sales charge (CDSC) is a charge applied at the time of the redemption of class B or C shares and assumes redemption at the end of the period. Your fund's class B CDSC declines from a 5% maximum during the first year to 1% during the sixth year. After the sixth year, the CDSC no longer applies. The CDSC for class C shares is 1% for one year after purchase.

Class A shares are generally subject to an initial sales charge and no sales charge on redemption (except on certain redemptions of shares bought without an initial sales charge).

Class B shares may be subject to a sales charge upon redemption.

Class C shares are not subject to an initial sales charge and are subject to a contingent deferred sales charge only if the shares are redeemed during the first year.

Class M shares have a lower initial sales charge and a higher 12b-1 fee than class A shares and no sales charge on redemption (except on certain redemptions of shares bought without an initial sales charge).

COMPARATIVE BENCHMARKS

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

Salomon Smith Barney Non-U.S. World Government Bond Index is an unmanaged index of government bonds from 10 countries.

Credit Suisse First Boston (CSFB) High Yield Index is an unmanaged index of high-yield debt securities.

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

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

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

A GUIDE TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

<TABLE>
<CAPTION>

THE FUND'S PORTFOLIO March 31, 2002 (Unaudited)

CORPORATE BONDS AND NOTES (47.1%) (a)

PRINCIPAL AMOUNT

<S> <C>

<C>

VALUE

Basic Materials (5.7%)

| | | | | |
|----|-----------|--|----|-----------|
| \$ | 4,115,000 | Acetex Corp. sr. notes 10 7/8s, 2009 (Canada) | \$ | 4,259,025 |
| | 4,800,000 | AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007 | | 4,908,000 |
| | 1,590,000 | Airgas, Inc. company guaranty 9 1/8s, 2011 | | 1,685,400 |
| | 5,860,000 | AK Steel Corp. company guaranty 7 7/8s, 2009 | | 5,860,000 |
| | 1,890,000 | AK Steel Corp. sr. notes 9 1/8s, 2006 | | 1,946,700 |

| | | |
|-----------|---|-----------|
| 3,439,842 | Alabama River Newsprint bank term loan FRN 4s, 2002 (acquired various dates from 4/14/98 to 4/30/98, cost \$3,084,875) (RES) | 3,233,451 |
| 2,121,495 | Anker Coal Group, Inc. company guaranty Ser. B, 14 1/4s, 2007 (PIK) | 742,523 |
| 5,850,000 | Appleton Papers, Inc. 144A sr. sub. notes 12 1/2s, 2008 | 5,733,000 |
| 1,040,000 | Applied Extrusion Technologies, Inc. company guaranty Ser. B, 10 3/4s, 2011 | 1,084,200 |
| 4,610,000 | ARCO Chemical Co. deb. 9.8s, 2020 | 4,425,600 |
| 1,980,000 | Avecia Group PLC company guaranty 11s, 2009 (United Kingdom) | 2,049,300 |
| 2,250,000 | Ball Corp. company guaranty 8 1/4s, 2008 | 2,340,000 |
| 4,740,000 | Better Minerals & Aggregates Co. company guaranty 13s, 2009 | 4,716,300 |
| 1,380,000 | Bowater Canada Finance company guaranty 7.95s, 2011 (Canada) | 1,401,942 |
| 2,820,000 | Centaur Mining & Exploration company guaranty 11s, 2007 (Australia) (In default) (NON) | 141,000 |
| 3,000,000 | Compass Minerals Group, Inc. bank term loan FRN Ser. B, 7 1/4s, 2009 (acquired 11/26/01, cost \$2,985,000) (RES) | 3,031,251 |
| 500,000 | Compass Minerals Group, Inc. 144A sr. sub. notes 10s, 2011 | 527,500 |
| 5,200,000 | Doe Run Resources Corp. company guaranty Ser. B, 11 1/4s, 2005 | 1,092,000 |
| 680,000 | Doe Run Resources Corp. company guaranty Ser. B(a), 11 1/4s, 2005 | 136,000 |
| 1,590,000 | Doe Run Resources Corp. company guaranty FRN Ser. B, 8.536s, 2003 | 318,000 |
| 9,080,000 | Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008 | 9,397,800 |
| 1,470,000 | Ferro Corp. sr. notes 9 1/8s, 2009 | 1,528,800 |
| 1,270,000 | Foamex-LP/Capital Corp. 144A sec. notes 10 3/4s, 2009 | 1,295,400 |
| 4,539,000 | Four M Corp. sr. notes Ser. B, 12s, 2006 | 4,607,085 |
| 900,000 | Georgia Gulf Corp. company guaranty 10 3/8s, 2007 | 967,500 |
| 960,000 | Georgia-Pacific Corp. notes 8 7/8s, 2031 | 894,835 |
| 3,370,000 | Georgia-Pacific Corp. notes 8 1/8s, 2011 | 3,288,210 |
| 830,000 | Georgia-Pacific Corp. notes 7 1/2s, 2006 | 813,657 |
| 650,000 | Haynes International, Inc. sr. notes 11 5/8s, 2004 | 448,500 |
| 6,370,000 | Hercules, Inc. company guaranty 11 1/8s, 2007 | 6,975,150 |
| 691,107 | Huntsman Corp. bank term loan FRN Ser. B, 5.131s, 2004 (acquired various dates from 3/11/02 to 3/15/02, cost \$541,669) (RES) | 549,430 |
| 1,493,709 | Huntsman Corp. bank term loan FRN Ser. C, 5.381s, 2005 (acquired various dates from 3/6/02 to 3/22/02, cost \$1,183,612) (RES) | 1,188,992 |
| 1,377,419 | Huntsman Corp. bank term loan FRN Ser. L, 5.881s, 2002 (acquired various dates from 3/1/02 to 3/28/02, cost \$1,016,074) (RES) | 1,096,426 |
| 708,706 | Huntsman Corp. bank term loan FRN Ser. L, 5.881s, 2002 (acquired various dates from 3/11/02 to 3/28/02, cost \$564,384) (RES) | 563,421 |
| 8,740,000 | Huntsman ICI Chemicals, Inc. company guaranty 10 1/8s, 2009 | 8,215,600 |
| 1,710,000 | Huntsman ICI Holdings sr. disc. notes zero %, 2009 | 461,700 |
| 4,150,000 | Huntsman International, LLC 144A sr. notes 9 7/8s, 2009 | 4,191,500 |
| 1,510,000 | IMC Global, Inc. company guaranty Ser. B, 11 1/4s, 2011 | 1,666,889 |
| 4,800,000 | IMC Global, Inc. company guaranty Ser. B, 10 7/8s, 2008 | 5,298,144 |
| 250,000 | IMC Global, Inc. debs. 7 3/8s, 2018 | 206,905 |
| 8,390,000 | ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011 | 8,956,325 |
| 350,000 | Kaiser Aluminum & Chemical Corp. sr. notes Ser. B, 10 7/8s, 2006 (In default) (NON) | 257,250 |
| 8,753,000 | Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003 (In default) (NON) | 1,838,130 |
| 5,970,000 | LTV Corp. company guaranty 11 3/4s, 2009 (In default) (NON) | 29,850 |
| 3,230,000 | Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007 | 3,286,525 |
| 1,961,000 | Lyondell Chemical Co. sec. notes Ser. B, 9 7/8s, 2007 | 1,995,318 |
| 1,050,000 | Lyondell Chemical Co. sr. sub. notes 10 7/8s, 2009 | 1,036,875 |
| 1,810,000 | Lyondell Chemical Co. 144A sec. notes 9 1/2s, 2008 | 1,828,100 |
| 1,110,000 | Messer Griesheim Holdings AG sr. notes 10 3/8s, 2011 (Germany) | 1,044,625 |
| 3,480,000 | Millenium America, Inc. company guaranty 9 1/4s, 2008 | 3,584,400 |
| 1,440,000 | Norske Skog Canada, Ltd. 144A sr. notes 8 5/8s, 2011 (Canada) | 1,461,600 |
| 1,790,000 | Noveon, Inc. company guaranty Ser. B, 11s, 2011 | 1,915,300 |
| 3,870,000 | OM Group, Inc. 144A sr. sub. notes 9 1/4s, 2011 | 4,024,800 |
| 1,470,000 | Oregon Steel Mills 1st mtge. 11s, 2003 | 1,471,838 |
| 1,030,000 | Owens-Illinois, Inc. debs. 7.8s, 2018 | 901,250 |
| 870,000 | Owens-Illinois, Inc. debs. 7 1/2s, 2010 | 796,050 |
| 2,840,000 | Owens-Illinois, Inc. sr. notes 8.1s, 2007 | 2,740,600 |
| 645,000 | Owens-Illinois, Inc. sr. notes 7.35s, 2008 | 596,625 |
| 360,000 | Owens-Illinois, Inc. sr. notes 7.15s, 2005 | 343,800 |
| 1,643,000 | P&L Coal Holdings Corp. company guaranty Ser. B, 9 5/8s, 2008 | 1,749,795 |
| 5,050,000 | Pacific Papers, Inc. sr. notes 10s, 2009 (Canada) | 5,378,250 |
| 2,723,725 | PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada) | 2,042,794 |
| 907,908 | Pioneer Companies, Inc. sec. FRN 5.538s, 2006 | 671,852 |
| 680,000 | Polymer Group, Inc. company guaranty Ser. B, 9s, 2007 (In default) (NON) | 238,000 |
| 1,328,000 | Polymer Group, Inc. company guaranty Ser. B, 8 3/4s, 2008 (In default) (NON) | 464,800 |
| 4,710,000 | Potlatch Corp. company guaranty 10s, 2011 | 5,063,250 |
| 310,000 | Potlatch Corp. debs. 6.95s, 2015 | 265,577 |
| 5,950,000 | Premium Standard Farms, Inc. sr. notes 9 1/4s, 2011 | 6,083,875 |

EUR
\$

| | | |
|------------|---|-------------|
| 10,800,000 | Riverwood International Corp. company guaranty 10 7/8s, 2008 | 11,178,000 |
| 680,000 | Riverwood International Corp. company guaranty 10 5/8s, 2007 | 719,100 |
| 5,140,000 | Royster-Clark, Inc. 1st mtge. 10 1/4s, 2009 | 3,392,400 |
| 2,560,000 | Steel Dynamics, Inc. 144A sr. notes 9 1/2s, 2009 | 2,636,800 |
| 5,010,000 | Sterling Chemicals Holdings sr. disc. notes 13 1/2s, 2008 (In default) (NON) | 25,050 |
| 2,960,000 | Sterling Chemicals, Inc. company guaranty Ser. B, 12 3/8s, 2006 (In default) (NON) | 2,501,200 |
| 3,296,056 | Stone Container Corp. bank term loan FRN Ser. F, 5.188s, 2006 (acquired various dates from 5/3/00 to 10/19/01, cost \$3,283,125) (RES) | 3,296,646 |
| 7,080,000 | Stone Container Corp. sr. notes 9 3/4s, 2011 | 7,628,700 |
| 1,760,000 | Stone Container Corp. sr. notes 9 1/4s, 2008 | 1,883,200 |
| 5,860,000 | Tekni-Plex, Inc. company guaranty Ser. B, 12 3/4s, 2010 | 6,123,700 |
| 5,140,000 | Tembec Industries, Inc. company guaranty 8 5/8s, 2009 (Canada) | 5,294,200 |
| 1,420,000 | Tembec Industries, Inc. company guaranty 8 1/2s, 2011 (Canada) | 1,448,400 |
| 440,000 | Texas Petrochemical Corp. sr. sub. notes 11 1/8s, 2006 | 378,400 |
| 970,000 | Texas Petrochemical Corp. sr. sub. notes Ser. B, 11 1/8s, 2006 | 814,800 |
| 4,300,000 | United States Steel, LLC 144A company guaranty 10 3/4s, 2008 | 4,278,500 |
| 2,830,000 | WCI Steel, Inc. sr. notes Ser. B, 10s, 2004 | 1,075,400 |
| 360,000 | Weirton Steel Corp 144A sr. notes 10 3/4s, 2005 (In default) (NON) | 57,600 |
| 2,590,000 | Wheeling-Pittsburgh Steel Corp. sr. notes 9 1/4s, 2007 (In default) (NON) | 51,800 |
| 2,340,000 | WHX Corp. sr. notes 10 1/2s, 2005 | 1,287,000 |
| | | ----- |
| | | 217,425,486 |

Capital Goods (3.6%)

| | | |
|------------|---|------------|
| 5,350,000 | Airbus Industries 144A notes Ser. D, 12.266s, 2020 | 3,986,710 |
| 2,833,322 | Alliant Techsystems, Inc. bank term loan FRN Ser. B, 4.938s, 2009 (acquired 6/22/01, cost \$2,882,433) (RES) | 2,858,114 |
| 4,928,155 | Allied Waste Industries, Inc. bank term loan FRN 5.05s, 2007 (acquired various dates 10/18/01 to 2/27/02, cost \$4,835,511) (RES) | 4,903,879 |
| 784,727 | Allied Waste Industries, Inc. bank term loan FRN 4.766s, 2006 (acquired various dates 10/18/01 to 10/22/01, cost \$769,375) (RES) | 780,862 |
| 26,325,000 | Allied Waste Industries, Inc. company guaranty Ser. B, 10s, 2009 | 26,785,669 |
| 1,820,000 | Amkor Technologies, Inc. sr. notes 9 1/4s, 2006 | 1,788,150 |
| 1,950,000 | Amkor Technologies, Inc. Structured Note 12.58s, 2005 (issued by STEERS Credit Linked Trust 2000) | 1,813,500 |
| 3,430,000 | Argo-Tech Corp. company guaranty Ser. D, 8 5/8s, 2007 | 3,069,850 |
| 5,855,000 | Argo-Tech Corp. 144A company guaranty 8 5/8s, 2007 | 5,240,225 |
| 1,780,000 | BE Aerospace, Inc. sr. sub. notes 9 1/2s, 2008 | 1,673,200 |
| 6,920,000 | BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008 | 6,331,800 |
| 8,790,000 | Blount, Inc. company guaranty 13s, 2009 | 5,537,700 |
| 3,000,000 | Briggs & Stratton company guaranty 8 7/8s, 2011 | 3,105,180 |
| 5,750,000 | Browning-Ferris Industries, Inc. deb. 7.4s, 2035 | 4,312,500 |
| 2,350,000 | Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008 | 2,068,000 |
| 190,000 | Case Corp. notes 7 1/4s, 2016 | 134,900 |
| 3,950,000 | Decrane Aircraft Holdings Co. company guaranty Ser. B, 12s, 2008 | 3,653,750 |
| 3,485,181 | Flowserve Corp. bank term loan FRN Ser. B, 5.375s, 2006 (acquired 10/24/01, cost \$3,487,360) (RES) | 3,491,172 |
| 3,700,000 | Flowserve Corp. company guaranty 12 1/4s, 2010 | 4,199,500 |
| 2,990,000 | High Voltage Engineering Corp. sr. notes 10 3/4s, 2004 | 1,121,250 |
| 2,260,000 | Insilco Holding Co. sr. disc. notes stepped-coupon zero % (14s, 8/15/03), 2008 (STP) | 293,800 |
| 2,870,000 | Jackson Products, Inc. company guaranty Ser. B, 9 1/2s, 2005 | 1,435,000 |
| 895,000 | Jordan Industries, Inc. sr. notes Ser. D, 10 3/8s, 2007 | 519,100 |
| 1,060,000 | Joy Global, Inc. 144A company guaranty 8 3/4s, 2012 | 1,091,800 |
| 2,500,000 | L-3 Communications Corp. company guaranty Ser. B, 8s, 2008 | 2,537,500 |
| 2,005,000 | L-3 Communications Corp. sr. sub. notes 8 1/2s, 2008 | 2,055,125 |
| 2,630,000 | L-3 Communications Corp. sr. sub. notes Ser. B, 10 3/8s, 2007 | 2,781,225 |
| 1,000,000 | L-3 Communications Corp. Structured Notes 8.82s, 2009 (Issued by COUNTS Trust, Series 2001-5) | 1,027,500 |
| 930,000 | L-3 Communications Corp. 144A Structured Notes 8 1/2s, 2006 (Cayman Islands) (Issued by Credit and Repackaged Securities) | 985,800 |
| 2,100,000 | Moog, Inc. sr. sub. notes Ser. B, 10s, 2006 | 2,147,250 |
| 5,260,000 | Owens-Brockway Glass 144A sec. notes 8 7/8s, 2009 | 5,325,750 |
| 2,000,000 | Pliant Corp. company guaranty 13s, 2010 | 2,110,000 |
| 3,340,000 | Roller Bearing Company of America company guaranty Ser. B, 9 5/8s, 2007 | 3,006,000 |
| 8,601,000 | Sequa Corp. sr. notes 9s, 2009 | 8,601,000 |
| 2,506,000 | Sequa Corp. sr. notes Ser. B, 8 7/8s, 2008 | 2,506,000 |
| 1,321,528 | Terex Corp. bank term loan FRN Ser. B, 4.8s, 2005 (acquired 10/30/01, cost \$1,315,478) (RES) | 1,321,253 |

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|-----------|--|-------------|
| 1,321,528 | Terex Corp. bank term loan FRN Ser. C, 5.05s, 2006 (acquired 10/30/01, cost \$1,315,295) (RES) | 1,324,171 |
| 1,010,000 | Terex Corp. company guaranty 8 7/8s, 2008 | 1,020,100 |
| 1,650,000 | Terex Corp. company guaranty Ser. B, 10 3/8s, 2011 | 1,777,875 |
| 500,000 | Terex Corp. company guaranty Ser. D, 8 7/8s, 2008 | 511,250 |
| 2,979,168 | U.S. Can Corp. bank term loan FRN Ser. B, 6.14s, 2008 (acquired various dates 10/22/00, cost \$2,829,073) (RES) | 2,560,687 |
| 1,810,000 | U.S. Can Corp. company guaranty Ser. B, 12 3/8s, 2010 | 1,122,200 |
| 2,505,240 | United Defense Industries, Inc. bank term loan FRN Ser. B 4.85s, 2009 (acquired 10/19/01, cost \$2,506,117) (RES) | 2,516,985 |
| | | ----- |
| | | 135,433,282 |

Communication Services (4.0%)

| | | |
|------------|---|-----------|
| 5,270,000 | 360Networks, Inc. sr. notes 13s, 2008 (Canada) (In default) (NON) | 52,700 |
| 2,600,000 | Airgate PCS, Inc. sr. sub. notes stepped-coupon zero % (13 1/2s, 10/1/04), 2009 (STP) | 1,742,000 |
| 3,630,000 | Alamosa Delaware, Inc. company guaranty 13 5/8s, 2011 | 3,103,650 |
| 1,510,000 | Alamosa Delaware, Inc. company guaranty 12 1/2s, 2011 | 1,253,300 |
| 480,000 | Alamosa PCS Holdings, Inc. company guaranty stepped-coupon zero % (12 7/8s, 2/15/05), 2010 (STP) | 230,400 |
| 1,393,680 | American Cellular Corp. bank term loan FRN Ser. B, 4.88s, 2008 (acquired 11/1/01, cost \$1,369,290) (RES) | 1,247,343 |
| 1,591,245 | American Cellular Corp. bank term loan FRN Ser. C, 5.13s, 2009 (acquired 11/1/01, cost \$1,563,398) (RES) | 1,424,164 |
| 5,935,000 | American Cellular Corp. company guaranty 9 1/2s, 2009 | 4,362,225 |
| 13,455,000 | American Tower Corp. sr. notes 9 3/8s, 2009 | 9,956,700 |
| 2,050,000 | Arch Communications, Inc. sr. notes 13 3/4s, 2008 (In default) (NON) | 10,250 |
| 1,540,000 | Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda) | 246,400 |
| 3,630,000 | Birch Telecommunications, Inc. sr. notes 14s, 2008 | 435,600 |
| 2,000,000 | Call-Net Enterprises, Inc. sr. notes 8s, 2008 (Canada) | 490,000 |
| 2,160,000 | Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON) | 43,200 |
| 2,150,000 | Dobson/Sygnel Communications, Inc. sr. notes 12 1/4s, 2008 | 2,117,750 |
| 7,975,000 | Econophone, Inc. company guaranty 13 1/2s, 2007 (In default) (NON) | 19,938 |
| 2,420,000 | Esprit Telecom Group PLC sr. notes 11 1/2s, 2007 (United Kingdom) (In default) (NON) | 12,100 |
| 3,480,000 | FLAG, Ltd. 144A sr. notes 8 1/4s, 2008 (Bermuda) | 678,600 |
| 520,000 | Global Crossing Holdings, Ltd. company guaranty 9 5/8s, 2008 (Bermuda) (In default) (NON) | 11,050 |
| 880,000 | Global Crossing Holdings, Ltd. company guaranty 9 1/2s, 2009 (Bermuda) (In default) (NON) | 18,700 |
| 12,600,000 | Global Crossing Holdings, Ltd. company guaranty 9 1/8s, 2006 (Bermuda) (In default) (NON) | 267,750 |
| 9,780,000 | Horizon PCS, Inc. company guaranty stepped-coupon zero % (14s, 10/1/05), 2010 (STP) | 3,520,800 |
| 1,240,000 | Horizon PCS, Inc. 144A sr. notes 13 3/4s, 2011 | 961,000 |
| 3,000,000 | Hughes Electronics bank term loan FRN Ser. L, 4.881s, 2002 (acquired 3/15/02, cost \$2,997,000) (RES) | 3,001,251 |
| 850,000 | Hyperion Telecommunications Corp., Inc. sr. disc. notes Ser. B, zero %, 2003 | 18,063 |
| 6,420,000 | Hyperion Telecommunications Corp., Inc. sr. sub. notes 12s, 2007 | 128,400 |
| 310,000 | Intermedia Communications, Inc. sr. notes Ser. B, 8.6s, 2008 | 268,150 |
| 1,990,000 | Intermedia Communications, Inc. sr. notes Ser. B, 8 1/2s, 2008 | 1,711,400 |
| 4,650,000 | Intermedia Communications, Inc. sr. sub. notes stepped-coupon Ser. B, zero % (12 1/4s, 3/1/04), 2009 (STP) | 3,394,500 |
| 4,410,000 | iPCS, Inc. sr. disc. notes stepped-coupon zero % (14s, 7/15/05), 2010 (STP) | 2,469,600 |
| 315,000 | Knology Holdings, Inc. sr. disc. notes stepped-coupon zero % (11 7/8s, 10/15/02), 2007 (STP) | 119,700 |
| 5,710,000 | Leap Wireless International, Inc. company guaranty 12 1/2s, 2010 | 3,711,500 |
| 2,957,000 | Level 3 Communications, Inc. sr. disc. notes stepped-coupon zero % (10 1/2s, 12/1/03), 2008 (STP) | 754,035 |
| 8,880,000 | McCaw International, Ltd. sr. disc. notes stepped-coupon zero % (13s, 4/15/02), 2007 (STP) | 532,800 |
| 180,000 | McLeodUSA, Inc. sr. disc. notes 10 1/2s, 2007 | 41,850 |
| 540,000 | McLeodUSA, Inc. sr. notes 8 3/8s, 2008 | 130,950 |
| 1,070,000 | Metrolcall, Inc. sr. sub. notes 11s, 2008 (In default) (NON) | 10,700 |
| 860,000 | Metrolcall, Inc. sr. sub. notes 10 3/8s, 2007 (In default) (NON) | 6,450 |
| 910,000 | Metrolcall, Inc. sr. sub. notes 9 3/4s, 2007 (In default) (NON) | 9,100 |
| 3,555,000 | Metromedia Fiber Network, Inc. sr. notes 10s, 2009 (In default) (NON) | 231,075 |
| 2,500,000 | Metromedia Fiber Network, Inc. sr. notes Ser. B, 10s, 2008 (In default) (NON) | 162,500 |
| 5,010,000 | Microcell Telecommunications sr. disc. notes Ser. B, 14s (0s, 12/1/01), 2006 (Canada) | 3,557,100 |
| 3,248,000 | Millicom International Cellular SA sr. disc. notes 13 1/2s, 2006 | |

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|------------|--|-------------|
| | (Luxembourg) | 1,818,880 |
| 3,166,000 | Nextel Communications, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 10/31/02), 2007 (STP) | 2,042,070 |
| 7,710,000 | Nextel Communications, Inc. sr. notes 12s, 2008 | 5,782,500 |
| 8,215,000 | Nextel Communications, Inc. sr. notes 9 1/2s, 2011 | 5,339,750 |
| 4,090,000 | Nextel Communications, Inc. sr. notes 9 3/8s, 2009 | 2,689,175 |
| 2,680,000 | Nextel Partners, Inc. sr. notes 11s, 2010 | 1,715,200 |
| 1,310,000 | Nextel Partners, Inc. sr. notes 11s, 2010 | 838,400 |
| 2,470,000 | Nextel Partners, Inc. 144A sr. notes 12 1/2s, 2009 | 1,704,300 |
| 1,360,000 | NorthEast Optic Network, Inc. sr. notes 12 3/4s, 2008 (In default) (NON) | 272,000 |
| 2,870,000 | PanAmSat Corp. bank term loan FRN Ser. B, 5.35s, 2009 (acquired 2/21/02, cost \$2,866,413) (RES) | 2,858,041 |
| 6,460,000 | PanAmSat Corp. 144A sr. notes 8 1/2s, 2012 | 6,392,891 |
| 6,300,000 | Price Communications Wireless, Inc. 144A sr. notes 9 1/8s, 2006 | 6,615,000 |
| 480,000 | Qwest Capital Funding, Inc. company guaranty 7 1/4s, 2011 | 388,661 |
| 6,940,000 | Qwest Capital Funding, Inc. company guaranty 7s, 2009 | 5,646,731 |
| 1,140,000 | Qwest Capital Funding, Inc. company guaranty 6 3/8s, 2008 | 923,286 |
| 780,000 | Rogers Cablesystems, Ltd. debs. 10 1/8s, 2012 (Canada) | 819,000 |
| 2,000,000 | Rogers Cablesystems, Ltd. debs. 9 3/8s, 2008 (Canada) | 1,840,000 |
| 620,000 | Rogers Cablesystems, Ltd. notes 11s, 2015 (Canada) | 675,800 |
| 2,870,000 | Rogers Cablesystems, Ltd. sr. notes Ser. B, 10s, 2005 (Canada) | 3,099,600 |
| 1,230,000 | Rogers Cablesystems, Ltd. sr. sub. notes 8.8s, 2007 (Canada) | 1,063,950 |
| 2,145,000 | Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada) | 1,994,850 |
| 1,000,000 | RSL Communications PLC company guaranty stepped-coupon zero % (10 1/8s, 3/1/03), 2008 (Bermuda) (STP) | 40,000 |
| 1,505,000 | RSL Communications PLC 144A company guaranty 10 1/2s, 2008 (United Kingdom) (In default) (NON) | 60,200 |
| 3,976,000 | RSL Communications, Ltd. company guaranty 12 1/4s, 2006 (Bermuda) (In default) (NON) | 159,040 |
| 951,900 | Rural Cellular Corp. bank term loan FRN Ser. B, 5.11s, 2008 (acquired 11/5/01, cost \$931,763) (RES) | 860,676 |
| 1,996,031 | Rural Cellular Corp. bank term loan FRN Ser. C, 5.36s, 2009 (acquired 3/20/00, cost \$1,996,031) (RES) | 1,804,745 |
| 1,390,000 | Rural Cellular Corp. sr. sub. notes Ser. B, 9 5/8s, 2008 | 1,125,900 |
| 5,790,000 | SBA Communications Corp. sr. notes 10 1/4s, 2009 | 3,937,200 |
| 6,955,000 | Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12 7/8s, 3/15/05), 2010 (STP) | 1,773,525 |
| 4,315,000 | Spectrasite Holdings, Inc. sr. disc. notes stepped-coupon zero % (11 1/8s, 4/15/04), 2009 (STP) | 1,186,625 |
| 4,710,000 | Startec Global Communications Corp. sr. notes 12s, 2008 (In default) (NON) | 94,200 |
| 6,890,000 | Telecorp PCS, Inc. company guaranty 10 5/8s, 2010 | 7,854,600 |
| 260,000 | Telecorp PCS, Inc. company guaranty stepped-coupon zero % (11 5/8s, 4/15/04), 2009 (STP) | 226,200 |
| 3,600,000 | Time Warner Telecom, Inc. sr. notes 9 3/4s, 2008 | 2,403,000 |
| 4,900,000 | Tritel PCS, Inc. company guaranty 10 3/8s, 2011 | 5,537,000 |
| 590,000 | Triton PCS, Inc. company guaranty 9 3/8s, 2011 | 567,875 |
| 4,195,000 | Triton PCS, Inc. company guaranty 8 3/4s, 2011 | 3,943,300 |
| 410,000 | Triton PCS, Inc. company guaranty zero %, 2008 | 360,800 |
| 2,850,000 | TSI Telecommunication Services, Inc. 144A sr. sub. notes 12 3/4s, 2009 | 2,736,000 |
| 2,200,000 | U S West, Inc. notes 5 5/8s, 2008 | 1,868,350 |
| 8,325,000 | UbiquiTel Operating Co. company guaranty stepped-coupon zero % (14s, 4/15/05), 2010 (STP) | 3,080,250 |
| 4,990,000 | US UnWired, Inc. company guaranty stepped-coupon Ser. B, zero % (13 3/8s, 11/1/04), 2009 (STP) | 3,243,500 |
| 800,000 | US West Capital Funding, Inc. company guaranty 6 7/8s, 2028 | 565,424 |
| 90,000 | USA Mobile Communications, Inc. sr. notes 9 1/2s, 2004 (In default) (NON) | 3,600 |
| 1,910,000 | Versatel Telecom B.V. sr. notes 13 1/4s, 2008 (Netherlands) | 515,700 |
| 1,275,000 | Versatel Telecom B.V. sr. notes 13 1/4s, 2008 (Netherlands) | 344,250 |
| 19,295 | Voicestream Wireless Corp. sr. notes 10 3/8s, 2009 | 20,719 |
| 4,710,000 | WebLink Wireless, Inc. sr. disc. notes stepped-coupon zero % (11 1/4s, 2/1/03), 2008 (STP) | 11,775 |
| 720,000 | Williams Communications Group, Inc. sr. notes 11 7/8s, 2010 | 108,000 |
| 665,000 | Williams Communications Group, Inc. sr. notes 11.7s, 2008 | 96,425 |
| 980,000 | Williams Communications Group, Inc. sr. notes 10.7s, 2007 | 151,900 |
| 23,148,000 | WinStar Communications, Inc. sr. disc. notes stepped-coupon zero % (14 3/4s, 4/15/05), 2010 (STP) | 2,315 |
| 3,360,000 | WinStar Communications, Inc. sr. notes 12 3/4s, 2010 (In default) (NON) | 336 |
| | | ----- |
| | | 151,668,259 |

Conglomerates (0.4%)

| | | |
|-----------|---|-----------|
| 4,970,000 | Autonation, Inc. company guaranty 9s, 2008 | 5,218,500 |
| 2,145,000 | Nortek, Inc. sr. notes Ser. B, 8 7/8s, 2008 | 2,198,625 |

| | | |
|-----------|---|------------|
| 540,000 | Nortek, Inc. sr. sub. notes Ser. B, 9 7/8s, 2011 | 558,900 |
| 2,010,000 | Nortek, Inc. 144A sr. notes Ser. B, 9 1/8s, 2007 | 2,070,300 |
| 1,590,000 | Tenneco, Inc. company guaranty 11 5/8s, 2009 | 1,248,150 |
| 5,600,000 | Tyco International Group SA company guaranty 6 3/8s, 2006 (Luxembourg) | 5,186,104 |
| | | ----- |
| | | 16,480,579 |

Consumer Cyclical (10.6%)

| | | | |
|-----|------------|---|-----------|
| | 3,122,175 | Adams Outdoor Advertising bank term loan FRN Ser. B, 7 1/4s (acquired 8/1/01, cost \$3,118,272) (RES) | 3,143,640 |
| | 3,350,000 | Aftermarket Technology Corp. sr. sub. notes 12s, 2004 | 3,417,000 |
| | 1,413,000 | Aftermarket Technology Corp. sr. sub. notes Ser. D, 12s, 2004 | 1,441,260 |
| | 2,420,000 | Aladdin Gaming Holdings, LLC sr. disc. notes stepped-coupon Ser. B, zero % (13 1/2s, 3/1/03), 2010 (STP) | 72,600 |
| | 2,635,000 | Amazon.com, Inc. sr. sub. notes stepped-coupon zero % (10s, 5/1/03), 2008 (STP) | 2,266,100 |
| | 5,570,000 | American Standard Companies, Inc. company guaranty 7 5/8s, 2010 | 5,625,700 |
| | 370,000 | American Standard Companies, Inc. company guaranty 7 1/8s, 2003 | 377,400 |
| | 1,560,000 | Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009 | 1,704,300 |
| | 3,140,000 | Argosy Gaming Co. company guaranty 10 3/4s, 2009 | 3,485,400 |
| | 510,000 | Argosy Gaming Co. sr. sub. notes 9s, 2011 | 538,050 |
| | 2,440,000 | ArvinMeritor, Inc. notes 8 3/4s, 2012 | 2,538,514 |
| | 1,340,000 | Atrium Companies, Inc. company guaranty Ser. B, 10 1/2s, 2009 | 1,326,600 |
| | 2,487,374 | Autotote Corp. bank term loan FRN Ser. B, 6.188s, 2007 (acquired 10/29/01, cost \$2,489,115) (RES) | 2,492,555 |
| | 3,890,000 | Autotote Corp. company guaranty Ser. B, 12 1/2s, 2010 | 4,356,800 |
| | 2,740,000 | Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011 | 2,849,600 |
| | 3,240,000 | Belo Corp. sr. notes 7 1/8s, 2007 | 3,204,068 |
| | 2,090,000 | Belo Corp. sr. unsub. notes 8s, 2008 | 2,135,980 |
| | 6,330,078 | Blackstone Hotel Acquisition Co. jr. mtge. loan FRN 9.794s, 2003 (United Kingdom) | 8,562,126 |
| | 2,890,000 | Boyd Gaming Corp. 144A sr. sub. notes 8 3/4s, 2012 | 2,918,900 |
| | 1,610,000 | Building Materials Corp. company guaranty 8s, 2008 | 1,304,100 |
| | 5,000,000 | Coinmach Corp. bank term loan FRN Ser. B, 4 5/8s, 2009 (acquired 1/31/02, cost \$4,993,750) (RES) | 5,035,415 |
| | 7,640,000 | Coinmach Corp. 144A sr. notes 9s, 2010 | 7,792,800 |
| | 3,491,250 | Collins & Aikman Products, Inc. bank term loan FRN Ser. B, 7s, 2005 (acquired 12/20/01, cost \$3,456,338) (RES) | 3,499,978 |
| | 3,826,000 | Collins & Aikman Products, Inc. company guaranty 11 1/2s, 2006 | 3,510,355 |
| | 4,800,000 | Collins & Aikman Products, Inc. 144A sr. notes 10 3/4s, 2011 | 4,860,000 |
| | 12,250,000 | Cybernet Internet Services International, Inc. 144A sr. disc. notes stepped-coupon zero % (13s, 8/15/04), 2009 (Denmark) (STP) | 122,500 |
| | 454,000 | D.R. Horton, Inc. company guaranty 8s, 2009 | 447,190 |
| | 3,410,000 | D.R. Horton, Inc. sr. notes 7 7/8s, 2011 | 3,392,950 |
| | 6,660,000 | Dana Corp. notes 9s, 2011 | 6,610,050 |
| | 595,000 | Dana Corp. notes 7s, 2029 | 458,150 |
| | 1,354,000 | Dana Corp. notes 6 1/4s, 2004 | 1,286,300 |
| | 4,000,000 | Dayton Superior Corp. company guaranty 13s, 2009 | 4,020,000 |
| | 3,563,000 | Del Webb Corp. sr. sub. deb. 9 3/8s, 2009 | 3,750,058 |
| | 2,265,000 | Delco Remy International, Inc. company guaranty 11s, 2009 | 2,219,700 |
| | 750,000 | Delco Remy International, Inc. company guaranty 10 5/8s, 2006 | 693,750 |
| | 650,000 | Delco Remy International, Inc. sr. notes 8 5/8s, 2007 | 594,750 |
| | 2,358,841 | Derby Cycle Corp. (The) sr. notes 10s, 2008 (In default) (NON) | 47,177 |
| EUR | 8,108,697 | Derby Cycle Corp. (The) sr. notes 9 3/8s, 2008 (In default) (NON) | 72,321 |
| \$ | 2,984,772 | Dura Operating Corp. bank term loan FRN Ser. B, 4.85s, 2006 (acquired 10/25/01, cost \$2,930,548) (RES) | 2,979,175 |
| | 7,680,000 | Dura Operating Corp. company guaranty Ser. D, 9s, 2009 | 7,641,600 |
| | 770,000 | Dura Operating Corp. sr. sub. notes Ser. B, 9s, 2009 | 661,520 |
| | 1,591,697 | Exide Corp. bank term loan FRN 7.197s, 2005 (acquired 11/7/01, cost \$1,090,312) (RES) | 981,547 |
| | 890,000 | Exide Corp. sr. notes 10s, 2005 | 97,900 |
| | 740,000 | Federal Mogul Corp. notes 7 7/8s, 2010 (In default) (NON) | 125,800 |
| | 910,000 | Federal Mogul Corp. notes 7 3/4s, 2006 (In default) (NON) | 154,700 |
| | 3,905,000 | Felcor Lodging LP company guaranty 9 1/2s, 2008 (R) | 4,119,775 |
| | 2,802,000 | Felcor Lodging LP company guaranty 8 1/2s, 2011 (R) | 2,851,035 |
| | 3,180,000 | Felcor Lodging LP 144A company guaranty 9 1/2s, 2008 (R) | 3,354,900 |
| EUR | 1,462,349 | Fitzgeralds Gaming Corp. company guaranty Ser. B, 12 1/4s, 2004 (In default) (NON) | 511,822 |
| \$ | 2,720,000 | Galey & Lord, Inc. company guaranty 9 1/8s, 2008 | 353,600 |
| | 2,440,000 | Garden State Newspapers, Inc. sr. sub. notes 8 5/8s, 2011 | 2,415,600 |
| | 1,860,000 | Garden State Newspapers, Inc. sr. sub. notes Ser. B, 8 3/4s, 2009 | 1,860,000 |
| | 2,190,000 | GFSI, Inc. sr. disc. notes stepped-coupon Ser. B, zero % | |

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| | (11 3/8s, 9/15/04), 2009 (STP) | 109,500 |
| 2,810,000 | Harrah's Operating Company, Inc. company guaranty 8s, 2011 | 2,887,038 |
| 3,910,000 | Harrah's Operating Company, Inc. company guaranty 7 1/2s, 2009 | 3,927,634 |
| 480,000 | Hasbro, Inc. notes 7.95s, 2003 | 483,600 |
| 660,000 | Hayes Lemmerz International, Inc. company guaranty Ser. B, 9 1/8s, 2007 (In default) (NON) | 39,600 |
| 1,830,000 | Hayes Lemmerz International, Inc. 144A company guaranty 11 7/8s, 2006 (In default) (NON) | 969,900 |
| 3,440,000 | Herbst Gaming, Inc. sec. notes Ser. B, 10 3/4s, 2008 | 3,646,400 |
| 11,720,000 | HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 | 11,485,600 |
| 625,000 | HMH Properties, Inc. sr. notes Ser. C, 8.45s, 2008 | 631,250 |
| 1,810,000 | Hollinger International Publishing, Inc. company guaranty 9 1/4s, 2007 | 1,846,200 |
| 9,614,995 | Hollinger Participation Trust 144A sr. notes 12 1/8s, 2010 (Canada) (PIK) | 9,422,695 |
| 5,235,000 | Hollywood Casino Corp. company guaranty 11 1/4s, 2007 | 5,823,938 |
| 470,000 | Hollywood Park, Inc. company guaranty Ser. B, 9 1/4s, 2007 | 448,850 |
| 5,290,000 | Horseshoe Gaming Holdings company guaranty 8 5/8s, 2009 | 5,528,050 |
| 790,000 | Host Marriott L.P. company guaranty Ser. G, 9 1/4s, 2007 | 821,600 |
| 3,440,000 | Host Marriott L.P. sr. notes Ser. E, 8 3/8s, 2006 | 3,457,200 |
| 4,517,067 | Interact Operating Co. notes 14s, 2003 (PIK) | 452 |
| 4,490,000 | International Game Technology sr. notes 8 3/8s, 2009 | 4,725,725 |
| 160,000 | Iron Age Holdings Corp. sr. disc. notes stepped-coupon zero % (12 1/8s, 5/1/03), 2009 (STP) | 11,200 |
| 1,290,000 | Isle of Capri Casinos, Inc. 144A sr. sub. notes 9s, 2012 | 1,293,225 |
| 3,226,000 | ITT Corp. notes 6 3/4s, 2005 | 3,157,964 |
| 830,000 | JC Penney Company, Inc. debs. 7.95s, 2017 | 697,200 |
| 210,000 | JC Penney Company, Inc. debs. 7.4s, 2037 | 201,600 |
| 1,250,000 | JC Penney Company, Inc. notes Ser. MTNA, 7.05s, 2005 | 1,193,750 |
| 730,000 | John Q. Hammons Hotels, Inc. 1st mtge. 8 7/8s, 2004 | 724,525 |
| 4,819,505 | Jostens, Inc. bank term loan FRN Ser. B, 5.39s, 2002 (acquired various dates 10/25/01 to 11/7/01, cost \$4,770,770) (RES) | 4,827,940 |
| 5,830,000 | Jostens, Inc. sr. sub. notes 12 3/4s, 2010 | 6,515,025 |
| 3,000,000 | K mart Corp. bank term loan FRN Ser. B, 5.13s, 2004 (acquired 3/7/02, cost \$3,000,000) (RES) | 3,013,125 |
| 4,000,000 | K mart Corp. pass-through certificates Ser. 95K4, 9.35s, 2020 (In default) (NON) | 2,150,000 |
| 2,440,000 | K. Hovnanian Enterprises, Inc. company guaranty 10 1/2s, 2007 | 2,659,600 |
| 3,945,000 | Kasper A.S.L., Ltd. sr. notes 12 3/4s, 2004 (In default) (NON) | 789,000 |
| 4,460,000 | KB Home sr. sub. notes 9 1/2s, 2011 | 4,638,400 |
| 1,000,000 | Lamar Advertising Co. Structured Notes 9.84s, 2006 (Issued by COUNTS Trust, Series 2001-6) | 1,025,000 |
| 900,000 | Lamar Media Corp. company guaranty 9 5/8s, 2006 | 947,250 |
| 280,000 | Lear Corp. company guaranty Ser. B, 8.11s, 2009 | 286,000 |
| 6,845,000 | Lear Corp. company guaranty Ser. B, 7.96s, 2005 | 7,007,979 |
| 2,650,000 | Lear Corp. Structured Notes 8.46s, 2006 (Issued by STEERS Credit Linked Trust 2001) | 2,696,375 |
| 180,000 | Lennar Corp. company guaranty Ser. B, 9.95s, 2010 | 198,900 |
| 3,830,000 | Lennar Corp. sr. notes 7 5/8s, 2009 | 3,839,575 |
| 4,960,000 | Levi Strauss & Co. sr. notes 11 5/8s, 2008 | 5,170,800 |
| 410,000 | M.D.C. Holdings, Inc. sr. notes 8 3/8s, 2008 | 418,200 |
| 8,020,000 | Majestic Investor Holdings/Majestic Investor Capital Corp. 144A company guaranty 11.653s, 2007 | 7,659,100 |
| 430,000 | Mandalay Resort Group sr. notes 9 1/2s, 2008 | 465,475 |
| 5,535,000 | Mandalay Resort Group sr. sub. notes Ser. B, 10 1/4s, 2007 | 6,005,475 |
| 1,695,000 | Mandalay Resort Group 144A sr. sub. notes 9 3/8s, 2010 | 1,792,463 |
| 2,480,000 | Meristar Hospitality Corp. company guaranty 9 1/8s, 2011 | 2,529,600 |
| 1,000,000 | Meristar Hospitality Corp. company guaranty 9s, 2008 | 1,016,250 |
| 1,680,000 | MeriStar Hospitality Operating Partnership/MeriStar Hospitality Finance Corp. 144A sr. notes 10 1/2s, 2009 (R) | 1,789,200 |
| 550,000 | MGM Mirage, Inc. coll. sr. notes 6 7/8s, 2008 | 530,052 |
| 5,630,000 | MGM Mirage, Inc. company guaranty 8 1/2s, 2010 | 5,901,816 |
| 3,070,000 | MGM Mirage, Inc. company guaranty 8 3/8s, 2011 | 3,127,563 |
| 2,090,000 | Mikohn Gaming Corp. company guaranty Ser. B, 11 7/8s, 2008 | 2,058,650 |
| 4,485,000 | Mohegan Tribal Gaming Authority sr. notes 8 1/8s, 2006 | 4,563,488 |
| 4,999,000 | Mohegan Tribal Gaming Authority sr. sub. notes 8 3/4s, 2009 | 5,061,488 |
| 2,749,000 | Mohegan Tribal Gaming Authority sr. sub. notes 8 3/8s, 2011 | 2,755,873 |
| 4,355,000 | Morrison Knudsen Corp. 144A sr. notes 11s, 2010 (In default) (NON) | 914,550 |
| 330,000 | Mothers Work, Inc. sr. notes 12 5/8s, 2005 | 310,200 |
| 1,890,000 | Park Place Entertainment Corp. sr. notes 7 1/2s, 2009 | 1,807,729 |
| 7,960,000 | Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008 | 8,288,350 |
| 820,000 | Penn National Gaming, Inc. company guaranty Ser. B, 11 1/8s, 2008 | 893,800 |
| 1,980,000 | Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010 | 1,960,200 |
| 4,520,000 | Perry-Judd company guaranty 10 5/8s, 2007 | 4,294,000 |
| 8,310,000 | PRIMEDIA, Inc. company guaranty 8 7/8s, 2011 | 7,562,100 |
| 1,785,000 | PRIMEDIA, Inc. company guaranty 7 5/8s, 2008 | 1,517,250 |

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| 3,890,000 | PRIMEDIA, Inc. company guaranty Ser. B, 8 1/2s, 2006 | 3,539,900 |
| 2,130,000 | Resorts International Hotel and Casino, Inc. 144A 1st mtge. 11 1/2s, 2009 | 2,012,850 |
| 3,150,000 | Ryland Group, Inc. sr. notes 9 3/4s, 2010 | 3,433,500 |
| 590,000 | Ryland Group, Inc. sr. sub. notes 8 1/4s, 2008 | 595,900 |
| 10,157,000 | Saks, Inc. company guaranty 8 1/4s, 2008 | 9,903,075 |
| 10,235,000 | Samsonite Corp. sr. sub. notes 10 3/4s, 2008 | 7,497,138 |
| 2,270,000 | Scotts Co. (The) company guaranty 8 5/8s, 2009 | 2,349,450 |
| 598,534 | Sealy Mattress Co. bank term loan FRN Ser. , 4.063s, 2004 (acquired 12/17/01, cost \$660,040) (RES) | 598,284 |
| 399,097 | Sealy Mattress Co. bank term loan FRN Ser. C, 4.313s, 2005 (acquired 12/17/01, cost \$400,072) (RES) | 398,930 |
| 498,895 | Sealy Mattress Co. bank term loan FRN Ser. D, 4.563s, 2005 (acquired 12/17/01, cost \$500,076) (RES) | 498,687 |
| 2,010,000 | Sealy Mattress Co. company guaranty stepped-coupon Ser. B, zero % (10 7/8s, 12/15/02), 2007 (STP) | 1,909,500 |
| 3,930,000 | Sealy Mattress Co. sr. sub. notes Ser. B, 9 7/8s, 2007 | 4,028,250 |
| 1,840,000 | Standard Pacific Corp. sr. notes 9 1/2s, 2010 | 1,913,600 |
| 3,500,000 | Starwood Hotels & Resorts Worldwide, Inc. bank term loan FRN 4.62s, 2003 (acquired 11/14/01, cost \$3,446,250) (RES) | 3,503,647 |
| 3,690,000 | Station Casinos, Inc. sr. notes 8 3/8s, 2008 | 3,800,700 |
| 650,000 | Station Casinos, Inc. sr. sub. notes 9 7/8s, 2010 | 692,250 |
| 1,100,000 | Station Casinos, Inc. 144A sr. sub. notes 9 3/4s, 2007 | 1,133,000 |
| 2,900,000 | Telehub Communications Corp. company guaranty stepped-coupon zero % (13 7/8s, 7/31/02), 2005 (STP) | 3 |
| 3,330,000 | The William Carter Holdings Co. company guaranty Ser. B, 10 7/8s, 2011 | 3,554,775 |
| 3,350,000 | Toll Corp. company guaranty 8 1/8s, 2009 | 3,387,688 |
| 955,000 | Tommy Hilfiger USA, Inc. company guaranty 6 1/2s, 2003 | 944,256 |
| 930,000 | Travel Centers of America, Inc. company guaranty 12 3/4s, 2009 | 1,023,000 |
| 240,000 | Trump A.C. company guaranty Ser. B, 11 1/4s, 2006 | 168,000 |
| 2,294,000 | Trump Atlantic City Associates company guaranty 11 1/4s, 2006 | 1,623,005 |
| 3,045,000 | Trump Castle Funding, Inc. sr. sub. notes 11 3/4s, 2003 | 2,405,550 |
| 11,360,000 | Trump Castle Funding, Inc. sub. notes 10 1/4s, 2003 | 11,502,000 |
| 2,340,000 | United Auto Group, Inc. 144A sr. sub. notes 9 5/8s, 2012 | 2,392,650 |
| 3,440,000 | Venetian Casino, Inc. company guaranty 12 1/4s, 2004 | 3,612,000 |
| 1,040,000 | Venture Holdings Trust 144A sr. notes Ser. B, 9 1/2s, 2005 | 967,200 |
| 3,050,000 | Von Hoffman Press, Inc. 144A company guaranty 10 1/4s, 2009 | 3,095,750 |
| 1,440,565 | Von Hoffman Press, Inc. 144A sr. sub. notes 13 1/2s, 2009 | 1,368,537 |
| 1,805,000 | Von Hoffman Press, Inc. 144A sr. sub. notes 10 3/8s, 2007 | 1,678,650 |
| 3,480,000 | Westpoint Stevens, Inc. sr. notes 7 7/8s, 2008 | 1,653,000 |
| 3,670,000 | Westpoint Stevens, Inc. sr. notes 7 7/8s, 2005 | 1,816,650 |
| 2,280,000 | Wheeling Island Gaming, Inc. 144A sr. notes 10 1/8s, 2009 | 2,359,800 |
| | | ----- |
| | | 404,166,823 |

Consumer Staples (9.7%)

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| 5,785,000 | Acme Television company guaranty 10 7/8s, 2004 | 5,871,775 |
| 4,730,000 | Adelphia Communications Corp. sr. notes 10 7/8s, 2010 | 4,540,800 |
| 12,880,000 | Adelphia Communications Corp. sr. notes 10 1/4s, 2011 | 11,849,600 |
| 630,000 | Adelphia Communications Corp. sr. notes 10 1/4s, 2006 | 585,900 |
| 1,370,000 | Adelphia Communications Corp. sr. notes 7 7/8s, 2009 | 1,178,200 |
| 8,840,000 | Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 | 8,309,600 |
| 1,380,000 | Adelphia Communications Corp. sr. notes Ser. B, 8 3/8s, 2008 | 1,207,500 |
| 2,880,000 | Adelphia Communications Corp. sr. notes Ser. B, 7 3/4s, 2009 | 2,505,600 |
| 1,825,000 | Albecca, Inc. company guaranty 10 3/4s, 2008 | 2,053,125 |
| 1,460,000 | Allbritton Communications Co. sr. sub. notes Ser. B, 8 7/8s, 2008 | 1,525,700 |
| 3,760,000 | AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2011 | 3,741,200 |
| 1,925,000 | AMC Entertainment, Inc. sr. sub. notes 9 1/2s, 2009 | 1,915,375 |
| 3,030,000 | AMF Bowling Worldwide bank term loan FRN Ser. B, 8 1/4s, 2008 (acquired 3/1/02, cost \$3,022,425) (RES) | 3,030,000 |
| 6,600,000 | Archibald Candy Corp. company guaranty 10 1/4s, 2004 (In default) (NON) | 3,366,000 |
| 2,190,000 | Armkel, LLC/Armkel Finance sr. sub. notes 9 1/2s, 2009 | 2,332,350 |
| 977,444 | Aurora Foods, Inc. bank term loan FRN Ser. B, 6.1s, 2010 (acquired 3/13/00, cost \$889,474) (RES) | 967,180 |
| 2,145,000 | Aurora Foods, Inc. sr. sub. notes Ser. B, 9 7/8s, 2007 | 2,145,000 |
| 3,410,000 | Aurora Foods, Inc. 144A sr. sub. notes Ser. D, 9 7/8s, 2007 | 3,410,000 |
| 50,635 | Australis Media, Ltd. sr. disc. notes 15 3/4s, 2003 (Australia) (In default) (NON) (PIK) | 5 |
| 3,395,000 | Benedek Communications Corp. sr. disc. notes 13 1/4s, 2006 (In default) (NON) | 2,342,550 |
| 1,230,000 | British Sky Broadcasting PLC company guaranty 8.2s, 2009 (United Kingdom) | 1,239,065 |

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| 8,440,000 | British Sky Broadcasting PLC company guaranty 6 7/8s, 2009 (United Kingdom) | 7,917,902 |
| 3,689,490 | Carmike Cinemas, Inc. bank term loan FRN, 7.75s, 2005 (acquired various dates 9/5/00 to 3/5/02, cost \$2,776,253) (RES) | 3,615,700 |
| 3,380,000 | Century Communications Corp. sr. notes 8 7/8s, 2007 | 3,177,200 |
| 6,890,000 | Chancellor Media Corp. company guaranty 8s, 2008 | 7,234,500 |
| 7,000,000 | Charter Communications Holdings, LLC bank term loan FRN Ser. B, 4.52s, 2008 (acquired 10/22/01, cost \$1,955,000) (RES) | 6,773,081 |
| 7,280,000 | Charter Communications Holdings, LLC sr. notes 11 1/8s, 2011 | 7,334,600 |
| 2,200,000 | Charter Communications Holdings, LLC sr. notes 10 3/4s, 2009 | 2,211,000 |
| 7,250,000 | Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP) | 4,205,000 |
| 1,830,000 | Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (13 1/2s, 1/15/06), 2011 (STP) | 1,178,063 |
| 2,880,000 | Charter Communications Holdings, LLC/Capital Corp. sr. notes 10s, 2009 | 2,764,800 |
| 3,860,000 | Charter Communications Holdings, LLC/Capital Corp. 144A sr. disc. notes stepped-coupon zero % (12 1/8s, 1/15/07), 2012 (STP) | 2,103,700 |
| 810,000 | Charter Communications Holdings, LLC/Capital Corp. 144A sr. notes 10s, 2011 | 773,550 |
| 1,680,000 | Charter Communications Holdings, LLC/Capital Corp. 144A sr. notes 9 5/8s, 2009 | 1,604,400 |
| 2,080,000 | Cinemark USA, Inc. sr. sub. notes Ser. B, 9 5/8s, 2008 | 2,043,600 |
| 1,970,000 | Cinemark USA, Inc. sr. sub. notes Ser. B, 8 1/2s, 2008 | 1,970,000 |
| 730,000 | Constellation Brands, Inc. company guaranty 8 1/2s, 2009 | 759,200 |
| 3,550,000 | Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008 | 3,621,000 |
| 4,800,000 | Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012 | 4,896,000 |
| 2,410,000 | CSC Holdings, Inc. deb. 7 5/8s, 2018 | 2,144,442 |
| 5,560,000 | CSC Holdings, Inc. sr. sub. deb. 10 1/2s, 2016 | 6,102,100 |
| 1,000,000 | Cumulus Media, Inc. bank term loan FRN Ser. B, 4.909s, 2007 (acquired 3/20/02, cost \$1,000,000) (RES) | 1,008,333 |
| 1,170,000 | Del Monte Corp. company guaranty Ser. B, 9 1/4s, 2011 | 1,228,500 |
| 5,205,000 | Diamond Cable Communications PLC sr. disc. notes 10 3/4s 2007 (United Kingdom) | 1,665,600 |
| 900,000 | Diamond Cable Communications PLC sr. disc. notes 11 3/4s 2005 (United Kingdom) | 288,000 |
| 11,178,000 | Diva Systems Corp. sr. disc. notes stepped-coupon Ser. B, zero % (12 5/8s, 3/1/03), 2008 (STP) | 1,564,920 |
| 5,200,000 | Doane Pet Care Co. sr. sub. deb. 9 3/4s, 2007 | 4,316,000 |
| 1,970,000 | Domino's, Inc. company guaranty Ser. B, 10 3/8s, 2009 | 2,137,450 |
| 310,000 | Eagle Family Foods company guaranty Ser. B, 8 3/4s, 2008 | 248,000 |
| 20,520,000 | Echostar Broadband Corp. sr. notes 10 3/8s, 2007 | 22,007,700 |
| 4,265,000 | Echostar DBS Corp. sr. notes 9 3/8s, 2009 | 4,435,600 |
| 4,660,000 | Echostar DBS Corp. 144A sr. notes 9 1/8s, 2009 | 4,776,500 |
| 9,093,700 | Edwards Theatres bank term loan FRN Ser. B, 5.91s, 2006 (acquired various dates 12/20/01 to 2/28/02, cost \$8,986,339) (RES) | 9,048,232 |
| 740,000 | Emmis Communications Corp. bank term loan FRN Ser. A, 4.938s, 2009 (acquired 1/31/02, cost \$737,225) (RES) | 738,520 |
| 3,377,953 | Emmis Communications Corp. bank term loan FRN Ser. B, 5.375s, 2009 (acquired various dates 1/2/01 to 10/23/01, cost \$3,352,760) (RES) | 3,393,306 |
| 960,000 | Emmis Communications Corp. company guaranty Ser. B, 8 1/8s, 2009 | 979,200 |
| 1,980,000 | Emmis Communications Corp. sr. disc. notes stepped-coupon zero % (12 1/2s, 3/15/06), 2011 (STP) | 1,445,400 |
| 3,770,000 | Fleming Companies, Inc. company guaranty 10 1/8s, 2008 | 3,920,800 |
| 790,000 | Fleming Companies, Inc. company guaranty Ser. B, 10 1/2s, 2004 | 793,950 |
| 4,144,305 | Fox Family Worldwide, Inc. sr. disc. notes stepped-coupon zero % (10 1/4s, 11/1/02), 2007 (STP) | 4,475,849 |
| 7,087,000 | Fox Family Worldwide, Inc. sr. notes 9 1/4s, 2007 | 7,449,429 |
| 1,070,000 | Fox/Liberty Networks, LLC sr. disc. notes zero % (9 3/4s, 8/15/02), 2007 (STP) | 1,091,400 |
| 5,660,000 | Fox/Liberty Networks, LLC sr. notes 8 7/8s, 2007 | 5,900,550 |
| 1,650,000 | French Fragrances, Inc. company guaranty Ser. D, 10 3/8s, 2007 | 1,419,000 |
| 890,000 | French Fragrances, Inc. sr. notes Ser. B, 10 3/8s, 2007 | 785,425 |
| 450,000 | Granite Broadcasting Corp. sr. sub. notes 10 3/8s, 2005 | 418,500 |
| 1,010,000 | Granite Broadcasting Corp. sr. sub. notes 9 3/8s, 2005 | 898,900 |
| 2,850,000 | Granite Broadcasting Corp. sr. sub. notes 8 7/8s, 2008 | 2,365,500 |
| 2,380,000 | Great Atlantic & Pacific Tea Co. notes 7 3/4s, 2007 | 2,362,150 |
| 3,010,000 | Icon Health & Fitness 144A sr. sub. notes 11 1/4s, 2012 | 2,967,529 |
| 3,360,000 | Insight Communications Company, Inc. sr. disc. notes stepped-coupon zero % (12 1/4s, 2/15/06), 2011 (STP) | 2,192,400 |
| 3,500,000 | Insight Midwest LP/Insight Capital, Inc. bank term loan FRN 5.063s, 2009 (acquired 11/5/01, cost \$3,493,438) (RES) | 3,513,853 |
| 3,440,000 | Insight Midwest LP/Insight Capital, Inc. sr. notes 10 1/2s, 2010 | 3,732,400 |
| 2,350,000 | International Cabletel, Inc. sr. disc. notes 11 1/2s, 2006 | 810,750 |

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| 2,830,000 | Key3media Group, Inc. company guaranty 11 1/4s, 2011 | 2,575,300 |
| 3,540,000 | Leiner Health Products sr. sub. notes 9 5/8s, 2007 (In default) (NON) | 495,600 |
| 3,550,000 | LIN Holdings Corp. sr. disc. notes stepped-coupon zero % (10s, 3/1/03), 2008 (STP) | 3,195,000 |
| 660,000 | LIN Holdings Corp. sr. disc. notes stepped-coupon zero % (10s, 3/1/03), 2008 (STP) | 574,200 |
| 4,195,000 | LIN Television Corp. company guaranty 8 3/8s, 2008 | 4,195,000 |
| 5,675,000 | North Atlantic Trading Co. company guaranty Ser. B, 11s, 2004 | 5,277,750 |
| 9,572,000 | NTL Communications Corp. sr. notes Ser. B, 11 7/8s, 2010 | 3,302,340 |
| 6,260,000 | NTL Communications Corp. sr. notes Ser. B, 11 1/2s, 2008 | 2,159,700 |
| 2,000,000 | NTL Communications Corp. sr. notes Ser. B, 9 1/4s, 2006 | 540,764 |
| 3,310,000 | NTL Communications Corp. sr. notes stepped-coupon Ser. B, zero % (12 3/8s, 10/1/03), 2008 (STP) | 1,141,950 |
| 5,310,000 | NTL, Inc. sr. notes Ser. A, 12 3/4s, 2005 | 1,725,750 |
| 1,610,000 | NTL, Inc. sr. notes Ser. B, 10s, 2007 (United Kingdom) | 555,450 |
| 3,425,000 | Outsourcing Solutions, Inc. sr. sub. notes Ser. B, 11s, 2006 | 2,894,125 |
| 30,000 | Pegasus Communications Corp. sr. notes 12 1/2s, 2007 | 23,700 |
| 860,000 | Pegasus Communications Corp. sr. notes Ser. B, 9 3/4s, 2006 | 645,000 |
| 2,230,000 | Pegasus Satellite sr. notes 12 3/8s, 2006 | 1,784,000 |
| 2,760,000 | Playtex Products, Inc. company guaranty 9 3/8s, 2011 | 2,939,400 |
| 3,440,000 | Premier International Foods PLC sr. notes 12s, 2009 (United Kingdom) | 3,766,800 |
| 2,487,500 | Premier Parks, Inc. bank term loan FRN Ser. B, 4.88s, 2005 (acquired various dates 4/23/01 to 11/5/01, cost \$2,487,500) (RES) | 2,501,664 |
| 3,000,000 | Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP) | 2,010,000 |
| 2,120,000 | Quebecor Media, Inc. sr. notes 11 1/8s, 2011 (Canada) | 2,316,100 |
| 9,583,797 | Quorum Broadcast Holdings, LLC notes stepped-coupon zero % (15s, 5/15/06), 2009 (acquired 5/15/01, cost \$3,808,280) (RES) (STP) | 3,808,601 |
| 6,900,000 | RAB Enterprises, Inc. company guaranty 10 1/2s, 2005 | 2,415,000 |
| 1,777,000 | RCN Corp. sr. disc. notes stepped-coupon Ser. B, zero % (9.8s, 2/15/03), 2008 (STP) | 319,860 |
| 987,500 | Regal Cinemas, Inc. bank term loan FRN Ser. B, 5 3/8s, 2008 (acquired 1/31/02, cost \$985,031) (RES) | 996,141 |
| 2,920,000 | Regal Cinemas, Inc. 144A sr. sub. notes 9 3/8s, 2012 | 3,080,600 |
| 1,580,000 | Revlon Consumer Products sr. notes 9s, 2006 | 1,098,100 |
| 1,340,000 | Revlon Consumer Products sr. notes 8 1/8s, 2006 | 911,200 |
| 2,020,000 | Revlon Consumer Products sr. sub. notes 8 5/8s, 2008 | 919,100 |
| 150,000 | Rite Aid Corp. notes 7 1/8s, 2007 | 108,000 |
| 3,560,000 | Sbarro, Inc. company guaranty 11s, 2009 | 3,653,450 |
| 4,610,000 | Silver Cinemas, Inc. sr. sub. notes 10 1/2s, 2005 (In default) (NON) | 461 |
| 1,400,000 | Sinclair Broadcast Group, Inc. bank term loan FRN Ser. B 5.9s, 2009 (acquired 10/23/01, cost \$1,374,625) (RES) | 1,409,100 |
| 2,429,000 | Sinclair Broadcast Group, Inc. company guaranty 9s, 2007 | 2,483,653 |
| 3,456,000 | Sinclair Broadcast Group, Inc. sr. sub. notes 8 3/4s, 2007 | 3,525,120 |
| 2,240,000 | Sinclair Broadcast Group, Inc. 144A sr. sub. notes 8 3/4s, 2011 | 2,318,400 |
| 6,320,000 | Six Flags, Inc. sr. notes 9 1/2s, 2009 | 6,572,800 |
| 4,190,000 | Six Flags, Inc. 144A sr. notes 8 7/8s, 2010 | 4,258,088 |
| 900,000 | Smithfield Foods, Inc. sr. notes Ser. B, 8s, 2009 | 918,000 |
| 1,270,000 | Southland Corp. deb. Ser. A, 4 1/2s, 2004 | 1,178,116 |
| 670,000 | Southland Corp. sr. sub. deb. 5s, 2003 | 639,609 |
| 3,995,000 | Suiza Foods Corp. bank term loan FRN Ser. B, 4.91s, 2008 (acquired 12/10/01, cost \$4,021,633) (RES) | 4,020,684 |
| 1,400,000 | TDL Infomedia Group, Ltd. 144A bonds 12 1/8s, 2009 (United Kingdom) | 2,172,719 |
| 4,890,000 | TeleWest Communications PLC deb. 11s, 2007 (United Kingdom) | 2,493,900 |
| 1,310,000 | TeleWest Communications PLC Structured Notes 10 7/8s, 2005 (Issued by DLJ International Capital) (United Kingdom) | 694,300 |
| 1,060,000 | Tricon Global Restaurants, Inc. sr. notes 8 7/8s, 2011 | 1,139,500 |
| 5,150,000 | Tricon Global Restaurants, Inc. sr. notes 7.65s, 2008 | 5,227,250 |
| 2,670,000 | Tricon Global Restaurants, Inc. sr. notes 7.45s, 2005 | 2,710,050 |
| 3,960,428 | United Artists Theatre Co. bank term loan 5.85s, 2005 (acquired various dates 2/2/01 to 6/4/01, cost \$5,269,904) (RES) | 3,942,040 |
| 5,625,000 | United Pan-Europe NV sr. disc. notes 12 1/2s, 2009 (Netherlands) | 618,750 |
| 14,740,000 | United Pan-Europe NV sr. disc. notes stepped-coupon zero % (13 3/4s, 2/1/05), 2010 (Netherlands) (STP) | 1,474,000 |
| 1,320,000 | United Pan-Europe NV sr. disc. notes stepped-coupon zero % (12 1/2s, 8/1/04), 2009 (Netherlands) (STP) | 145,200 |
| 1,470,000 | United Rentals (North America), Inc. company guaranty Ser. B, 10 3/4s, 2008 | 1,605,975 |
| 4,180,000 | Vlasic Foods International, Inc. sr. sub. notes Ser. B, 10 1/4s, 2009 (In default) (NON) | 898,700 |
| 8,190,000 | XM Satellite Radio Holdings, Inc. sec. notes 14s, 2010 | 5,814,900 |
| 9,335,000 | Young Broadcasting, Inc. company guaranty 10s, 2011 | 9,708,400 |
| 380,000 | Young Broadcasting, Inc. company guaranty Ser. B, 8 3/4s, 2007 | 372,400 |

Energy (2.4%)

| | | |
|-----------|--|------------|
| 3,870,000 | Belco Oil & Gas Corp. sr. sub. notes Ser. B, 8 7/8s, 2007 | 3,947,400 |
| 3,470,000 | BRL Universal Equipment sec. notes 8 7/8s, 2008 | 3,574,100 |
| 2,210,000 | Chesapeake Energy Corp. company guaranty 8 3/8s, 2008 | 2,243,150 |
| 6,860,000 | Chesapeake Energy Corp. company guaranty 8 1/8s, 2011 | 6,877,150 |
| 1,030,000 | Comstock Resources, Inc. company guaranty 11 1/4s, 2007 | 1,071,200 |
| 1,930,000 | Comstock Resources, Inc. 144A sr. notes 11 1/4s, 2007 | 2,007,200 |
| 2,610,000 | Dresser, Inc. company guaranty 9 3/8s, 2011 | 2,662,200 |
| 2,485,000 | El Paso Energy Partners L.P. company guaranty Ser. B, 8 1/2s, 2011 | 2,559,550 |
| 1,460,000 | Forest Oil Corp. company guaranty 10 1/2s, 2006 | 1,556,725 |
| 2,900,000 | Forest Oil Corp. sr. notes 8s, 2008 | 2,958,000 |
| 1,790,000 | Forest Oil Corp. 144A sr. notes 8s, 2011 | 1,834,750 |
| 600,000 | Grant Prideco, Inc. company guaranty Ser. B, 9 5/8s, 2007 | 624,000 |
| 1,990,000 | Key Energy Services, Inc. company guaranty Ser. B, 8 3/8s, 2008 | 2,039,750 |
| 2,790,000 | Leviathan Gas Corp. company guaranty Ser. B, 10 3/8s, 2009 | 3,027,150 |
| 1,910,000 | Magnum Hunter Resources, Inc. 144A sr. notes 9.6s, 2012 | 1,976,850 |
| 3,940,000 | Newfield Exploration Co. sr. notes 7 5/8s, 2011 | 3,841,500 |
| 332,000 | Nuevo Energy Co. sr. sub. notes Ser. B, 9 1/2s, 2008 | 318,720 |
| 1,420,000 | Nuevo Energy Co. sr. sub. notes Ser. B, 9 3/8s, 2010 | 1,373,850 |
| 5,940,000 | Ocean Energy, Inc. company guaranty Ser. B, 8 3/8s, 2008 | 6,280,124 |
| 3,092,000 | Parker Drilling Corp. company guaranty Ser. D, 9 3/4s, 2006 | 3,153,840 |
| 4,610,000 | PDVSA Finance, Ltd. bonds 7.4s, 2016 (Cayman Islands) | 3,277,987 |
| 8,620,000 | Pioneer Natural Resources Co. company guaranty 9 5/8s, 2010 | 9,482,000 |
| 1,450,000 | Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011 | 1,504,375 |
| 3,870,000 | Pride Petroleum Services, Inc. sr. notes 9 3/8s, 2007 | 4,024,800 |
| 1,545,000 | Seven Seas Petroleum, Inc. sr. notes Ser. B, 12 1/2s, 2005 | 896,100 |
| 2,220,000 | Snyder Oil Corp. sr. sub. notes 8 3/4s, 2007 | 2,301,518 |
| 3,440,000 | Stone Energy Corp. sr. sub. notes 8 1/4s, 2011 | 3,491,600 |
| 7,960,000 | Vintage Petroleum, Inc. sr. sub. notes 9 3/4s, 2009 | 8,119,200 |
| 840,000 | Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011 | 785,400 |
| 2,010,000 | Westport Resources Corp. company guaranty 8 1/4s, 2011 | 2,070,300 |
| 1,760,000 | XTO Energy, Inc. 144A sr. sub. notes Ser. B, 8 3/4s, 2009 | 1,839,200 |
| | | 91,719,689 |

Financial (2.6%)

| | | |
|------------|--|-----------|
| 7,290,000 | Advanta Corp. 144A company guaranty Ser. B, 8.99s, 2026 | 4,228,200 |
| 8,725,000 | Affinity Group Holdings sr. notes 11s, 2007 | 8,572,313 |
| 4,920,000 | AMRESKO, Inc. sr. sub. notes Ser. 97-A, 10s, 2004 (In default) (NON) | 1,279,200 |
| 35,000 | Chevy Chase Savings Bank, Inc. sub. deb. 9 1/4s, 2008 | 35,175 |
| 3,025,000 | Chevy Chase Savings Bank, Inc. sub. deb. 9 1/4s, 2005 | 3,040,125 |
| 2,230,000 | CIT Group, Inc. sr. notes 7 3/4s, 2012 | 2,237,649 |
| 3,015,000 | Colonial Capital II 144A company guaranty 8.92s, 2027 | 2,663,827 |
| 560,000 | Comdisco, Inc. notes 7 1/4s, 2001 (In default) (NON) | 457,800 |
| 630,000 | Comdisco, Inc. notes 6 3/8s, 2049 (In default) (NON) | 521,325 |
| 1,213,000 | Comdisco, Inc. notes 5.95s, 2002 (In default) (NON) | 979,498 |
| 3,120,000 | Conseco, Inc. sr. notes 10 3/4s, 2008 | 1,606,800 |
| 440,000 | Dime Capital Trust I bank guaranty Ser. A, 9.33s, 2027 | 462,700 |
| 12,349,000 | Finova Group, Inc. notes 7 1/2s, 2009 | 4,291,278 |
| 4,000,000 | Ford Motor Credit Corp. notes 8s, 2002 | 4,014,320 |
| 1,050,000 | Ford Motor Credit Corp. notes 7 3/8s, 2009 | 1,029,966 |
| 850,000 | Green Tree Financial notes Ser. A, 6 1/2s, 2002 | 845,750 |
| 5,630,000 | GS Escrow Corp. sr. notes 7 1/8s, 2005 | 5,543,242 |
| 8,000,000 | Hanvit Bank 144A sub. notes 11 3/4s, 2010 (South Korea) | 9,140,000 |
| 1,680,000 | Imperial Credit Industries, Inc. sec. notes 12s, 2005 | 88,200 |
| 3,830,000 | iStar Financial, Inc. sr. notes 8 3/4s, 2008 | 3,906,600 |
| 9,000,000 | Liberty Mutual Insurance 144A notes 7.697s, 2097 | 6,916,770 |
| 3,310,000 | Madison River Capital Corp. sr. notes 13 1/4s, 2010 | 2,581,800 |
| 2,085,000 | Nationwide Credit, Inc. sr. notes Ser. A, 10 1/4s, 2008 | 594,225 |
| 2,270,000 | Newcourt Credit Group Inc. 6 7/8s, 2005 | 2,205,827 |
| 635,000 | North Fork Capital Trust I company guaranty 8.7s, 2026 | 594,474 |
| 1,875,000 | Ocwen Capital Trust I company guaranty 10 7/8s, 2027 | 1,406,250 |
| 1,775,000 | Ocwen Federal Bank sub. deb. 12s, 2005 | 1,739,500 |
| 1,170,000 | Ocwen Financial Corp. notes 11 7/8s, 2003 | 1,146,600 |
| 1,970,000 | ONO Finance PLC sr. notes 14s, 2011 (United Kingdom) | 906,200 |
| 480,000 | ONO Finance PLC sr. notes 13s, 2009 (United Kingdom) | 206,400 |
| 660,000 | Peoples Heritage Capital Trust company guaranty Ser. B, 9.06s, 2027 | 659,545 |
| 120,000 | Port Arthur Finance Corp. company guaranty 12 1/2s, 2009 | 132,000 |
| 2,400,000 | Provident Capital Trust company guaranty 8.6s, 2026 | 2,081,160 |

| | | |
|-----------|--|------------|
| 4,310,000 | Resource America, Inc. 144A sr. notes 12s, 2004 | 4,331,550 |
| 2,270,000 | RFS Partnership LP 144A sr. notes 9 3/4s, 2012 | 2,338,100 |
| 8,490,000 | Sovereign Bancorp, Inc. sr. notes 10 1/2s, 2006 | 9,275,325 |
| 500,000 | Sun Life Canada Capital Trust 144A company guaranty 8.526s, 2049 | 511,165 |
| 3,320,000 | Superior Financial Corp. 144A sr. notes 8.65s, 2003 | 3,388,849 |
| 1,695,000 | Webster Capital Trust I 144A bonds 9.36s, 2027 | 1,654,032 |
| 1,650,000 | Willis Corroon Corp. 144A company guaranty 9s, 2009 | 1,724,250 |
| | | ----- |
| | | 99,337,990 |

Health Care (3.1%)

| | | |
|------------|---|-----------|
| 2,000,000 | Accredo Health, Inc. bank term loan FRN Ser. B, 4.556s, 2009 (acquired 3/20/02, cost \$1,995,000) (RES) | 2,010,000 |
| 4,370,000 | ALARIS Medical Systems, Inc. sec. notes Ser. B, 11 5/8s, 2006 | 4,763,300 |
| 1,165,000 | ALARIS Medical Systems, Inc. 144A company guaranty 9 3/4s, 2006 | 1,130,050 |
| 2,110,000 | ALARIS Medical, Inc. sr. disc. notes stepped-coupon zero % (11 1/8s, 8/1/03), 2008 (STP) | 1,477,000 |
| 6,795,300 | Alderwoods Group, Inc. company guaranty 12 1/4s, 2009 | 7,169,042 |
| 15,800 | Alderwoods Group, Inc. company guaranty 12 1/4s, 2004 | 15,800 |
| 79,800 | Alderwoods Group, Inc. company guaranty 11s, 2007 | 80,798 |
| 2,540,000 | Alliance Imaging, Inc. sr. sub. notes 10 3/8s, 2011 | 2,717,800 |
| 3,000,000 | AmerisourceBergen Corp. sr. notes 8 1/8s, 2008 | 3,142,500 |
| 2,170,000 | Beverly Enterprises, Inc. sr. notes 9 5/8s, 2009 | 2,213,400 |
| 4,100,000 | Biovail Corp. sr. sub. notes 7 7/8s, 2010 (Canada) | 4,079,500 |
| 2,479,839 | Community Health Systems, Inc. bank term loan FRN Ser. B, 4.85s, 2003 (acquired 12/4/01, cost \$2,500,801) (RES) | 2,486,924 |
| 2,479,839 | Community Health Systems, Inc. bank term loan FRN Ser. C, 5.35s, 2004 (acquired 12/4/01, cost \$2,500,145) (RES) | 2,488,253 |
| 3,680,000 | Conmed Corp. company guaranty 9s, 2008 | 3,753,600 |
| 1,180,000 | Conventry Health Care, Inc. 144A sr. notes 8 1/8s, 2012 | 1,188,850 |
| 190,300 | Genesis Health Ventures, Inc. sec. notes FRN 6.881s, 2007 | 188,397 |
| 4,330,000 | Hanger Orthopedic Group, Inc. 144A sr. notes 10 3/8s, 2009 | 4,535,675 |
| 1,610,000 | HCA, Inc. deb. 7.19s, 2015 | 1,628,113 |
| 5,400,000 | HCA, Inc. med. term notes 8.85s, 2007 | 5,906,250 |
| 1,960,000 | HCA, Inc. med. term notes 7.69s, 2025 | 1,960,000 |
| 1,950,000 | HCA, Inc. med. term notes 6.63s, 2045 | 1,958,658 |
| 1,760,000 | HCA, Inc. notes 8 3/4s, 2010 | 1,924,361 |
| 1,860,000 | HCA, Inc. notes 8.36s, 2024 | 1,915,800 |
| 4,550,000 | HCA, Inc. notes 7s, 2007 | 4,675,125 |
| 1,720,000 | Healthsouth Corp. sr. sub. notes 10 3/4s, 2008 | 1,892,000 |
| 2,240,000 | Insight Health Services Corp. 144A sr. sub. notes 9 7/8s, 2011 | 2,301,600 |
| 4,680,000 | Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/2s, 2007 (In default) (NON) | 468 |
| 2,940,000 | Integrated Health Services, Inc. sr. sub. notes Ser. A, 9 1/4s, 2008 (In default) (NON) | 294 |
| 2,342,010 | Kinetic Concepts, Inc. bank term loan FRN Ser. B, 5.31s, 2004 (acquired 11/5/01, cost \$2,344,938) (RES) | 2,332,251 |
| 1,148,244 | Kinetic Concepts, Inc. bank term loan FRN Ser. C, 5.56s, 2005 (acquired 11/5/01, cost \$1,149,679) (RES) | 1,144,417 |
| 3,775,000 | Kinetic Concepts, Inc. company guaranty Ser. B, 9 5/8s, 2007 | 3,888,250 |
| 993,795 | Magellan Health Services, Inc. 5 7/8s, 2004 (acquired 12/6/01, cost \$992,206) (RES) | 993,050 |
| 7,870,000 | Magellan Health Services, Inc. sr. sub. notes 9s, 2008 | 5,981,200 |
| 1,040,000 | Magellan Health Services, Inc. 144A sr. notes 9 3/8s, 2007 | 1,019,200 |
| 11,280,000 | Mariner Post-Acute Network, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007 (In default) (NON) | 112,800 |
| 2,410,000 | Mariner Post-Acute Network, Inc. sr. sub. notes stepped-coupon Ser. B, zero % (10 1/2s, 11/1/02), 2007 (STP) | 12,050 |
| 4,510,000 | Mediq, Inc. company guaranty 11s, 2008 (In default) (NON) | 45,100 |
| 4,350,000 | Mediq, Inc. deb. stepped-coupon zero % (13s, 6/1/03), 2009 (STP) | 435 |
| 12,585,000 | Multicare Companies, Inc. sr. sub. notes 9s, 2007 (In default) (NON) | 1,259 |
| 2,810,000 | Omnicare, Inc. company guaranty Ser. B, 8 1/8s, 2011 | 2,957,525 |
| 3,070,000 | Rotech Healthcare, Inc. 144A sr. sub. notes 9 1/2s, 2012 | 3,169,775 |
| 710,000 | Service Corp. International debs. 7 7/8s, 2013 | 640,775 |
| 410,000 | Service Corp. International notes 7.7s, 2009 | 384,375 |
| 4,130,000 | Service Corp. International notes 6s, 2005 | 3,794,438 |
| 3,790,000 | Stewart Enterprises, Inc. notes 10 3/4s, 2008 | 4,169,000 |
| 4,975,000 | Sun Healthcare Group, Inc. sr. sub. notes Ser. B, 9 1/2s, 2007 (In default) (NON) | 498 |
| 5,820,000 | Sun Healthcare Group, Inc. 144A sr. sub. notes 9 3/8s, 2008 (In default) (NON) | 582 |
| 1,710,000 | Tenet Healthcare Corp. sr. notes Ser. B, 8 1/8s, 2008 | 1,863,387 |
| 7,835,000 | Triad Hospitals Holdings company guaranty Ser. B, 11s, 2009 | 8,696,850 |

| | | |
|-----------|---|-------------|
| 4,972,727 | Triad Hospitals, Inc. bank term loan Ser. B, 4.85s, 2008 (acquired 11/29/01, cost \$5,024,195) (RES) | 5,019,003 |
| 1,910,000 | Triad Hospitals, Inc. company guaranty Ser. B, 8 3/4s, 2009 | 2,031,763 |
| 2,970,000 | Vanguard Health Systems, Inc. company guaranty 9 3/4s, 2011 | 3,118,500 |
| | | ----- |
| | | 118,980,041 |

Technology (1.6%)

| | | |
|------------|--|------------|
| 3,490,000 | Crown Castle International Corp. sr. disc. notes stepped-coupon zero % (10 3/8s, 5/15/04), 2011 (STP) | 2,041,650 |
| 3,850,000 | Crown Castle International Corp. sr. notes 10 3/4s, 2011 | 3,445,750 |
| 5,053,000 | Crown Castle International Corp. sr. notes 9 3/8s, 2011 | 4,257,153 |
| 1,350,000 | CSG Systems International, Inc. bank term loan FRN Ser. B, 4.593s, 2008 (acquired 3/4/02, cost \$1,353,375) (RES) | 1,329,750 |
| 4,090,000 | Equinix, Inc. sr. notes 13s, 2007 | 1,267,900 |
| 430,000 | Exodus Communications, Inc. sr. notes 11 5/8s, 2010 (In default) (NON) | 87,075 |
| 1,110,000 | Exodus Communications, Inc. sr. notes 10 3/4s, 2009 (In default) (NON) | 234,488 |
| 1,310,000 | Exodus Communications, Inc. 144A sr. notes 11 1/4s, 2008 (In default) (NON) | 265,275 |
| 110,000 | Fairchild Semiconductor International, Inc. company guaranty 10 3/8s, 2007 | 116,875 |
| 3,420,000 | Fairchild Semiconductor International, Inc. sr. sub. notes 10 1/8s, 2007 | 3,573,900 |
| 7,930,000 | Firstworld Communication Corp. sr. disc. notes stepped-coupon zero % (13s, 4/15/03), 2008 (STP) | 793,000 |
| 4,630,000 | Globix Corp. sr. notes 12 1/2s, 2010 (In default) (NON) | 706,075 |
| 5,120,000 | Intira Corp. bonds stepped-coupon zero % (13s, 2/1/05), 2010 (acquired 1/31/00, cost \$2,728,499) (RES) (STP) | 512 |
| 3,980,000 | Iron Mountain, Inc. company guaranty 8 3/4s, 2009 | 4,144,175 |
| 1,320,000 | Iron Mountain, Inc. company guaranty 8 1/8s, 2008 (Canada) | 1,336,500 |
| 4,960,000 | Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011 | 5,094,912 |
| 4,220,000 | IWO Holdings, Inc. company guaranty 14s, 2011 | 3,587,000 |
| 380,000 | Lucent Technologies, Inc. deb. 6 1/2s, 2028 | 247,000 |
| 11,090,000 | Lucent Technologies, Inc. deb. 6.45s, 2029 | 7,208,500 |
| 640,000 | Lucent Technologies, Inc. notes 7 1/4s, 2006 | 531,200 |
| 7,414,000 | Motors and Gears, Inc. sr. notes Ser. D, 10 3/4s, 2006 | 7,191,580 |
| 4,250,000 | Orbital Imaging Corp. sr. notes Ser. B, 11 5/8s, 2005 (In default) (NON) | 340,000 |
| 2,260,000 | Polaroid Corp. sr. notes 11 1/2s, 2006 (In default) (NON) | 135,600 |
| 4,870,000 | PSINet, Inc. sr. notes 11s, 2009 (In default) (NON) | 487,000 |
| 1,730,000 | PSINet, Inc. sr. notes Ser. B, 10s, 2005 (In default) (NON) | 173,000 |
| 560,000 | Rhythms Netconnections, Inc. sr. notes Ser. B, 14s, 2010 (In default) (NON) | 36,400 |
| 2,035,000 | SCG Holding & Semiconductor Corp. company guaranty 12s, 2009 | 1,322,750 |
| 1,480,000 | Seagate Technology, Inc. 144A company guaranty 12 1/2s, 2007 (Cayman Islands) | 1,679,800 |
| 2,940,000 | Telecommunications Techniques, Inc. company guaranty 9 3/4s, 2008 | 793,800 |
| 786,170 | Telex Communications Group, Inc. sr. sub. notes zero %, 2006 | 432,394 |
| 950,000 | Viasystems, Inc. sr. notes Ser. B, 9 3/4s, 2007 | 261,250 |
| 4,375,000 | World Access, Inc. sr. notes Ser. B, 13 1/4s, 2008 (In default) (NON) | 131,250 |
| 550,000 | Xerox Corp. notes 5 1/2s, 2003 | 514,250 |
| 7,300,000 | Xerox Corp. 144A sr. notes 9 3/4s, 2009 | 6,916,750 |
| 210,000 | Xerox Credit Corp. sr. notes 6.1s, 2003 | 196,350 |
| | | ----- |
| | | 60,880,864 |

Transportation (1.1%)

| | | |
|-----------|---|-----------|
| 310,000 | Air Canada Corp. sr. notes 10 1/4s, 2011 (Canada) | 232,500 |
| 2,240,000 | American Airlines, Inc. bonds Ser. 01-2, Class B, 8.608s, 2011 | 2,288,698 |
| 1,100,000 | American Airlines, Inc. 144A pass-through certificates Ser. 01-2, Class A-2, 7.858s, 2011 | 1,129,359 |
| 18,640 | Aran Shipping & Trading SA notes 8.3s, 2004 (Greece) | 9,320 |
| 4,960,000 | Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008 | 4,414,400 |
| 1,800,000 | Continental Airlines, Inc. pass thru certificates Ser. D, 7.568s, 2006 | 1,620,000 |
| 2,205,000 | Delta Air Lines, Inc. pass-through certificates Ser. 00-1, Class C, 7.779s, 2005 | 2,191,792 |
| 3,570,000 | Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008 | 3,855,600 |
| 1,200,000 | Kitty Hawk, Inc. company guaranty 9.95s, 2004 (In default) (NON) | 120,000 |
| 3,150,000 | Motor Coach Industries bank term loan FRN Ser. B, 5.91s, 2006 (acquired various dates 6/13/01 to 9/6/01, cost \$2,577,999) (RES) | 2,701,125 |
| 3,030,000 | Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006 | 3,204,225 |
| 3,155,000 | Navistar International Corp. sr. notes Ser. B, 8s, 2008 | 3,123,450 |
| 1,120,000 | Northwest Airlines, Inc. company guaranty 8 3/8s, 2004 | 1,069,600 |
| 2,735,000 | Northwest Airlines, Inc. company guaranty 7 5/8s, 2005 | 2,529,875 |
| 3,520,000 | Northwest Airlines, Inc. sr. notes 9 7/8s, 2007 | 3,476,000 |
| 1,927,385 | NWA Trust sr. notes Ser. A, 9 1/4s, 2012 | 1,946,658 |

| | | |
|-----------|--|------------|
| 3,870,000 | RailAmerica Transportation company guaranty 12 7/8s, 2010 | 4,257,000 |
| 780,000 | Transportation Manufacturing Operations, Inc. company guaranty 11 1/4s, 2009 | 608,400 |
| 2,740,000 | US Air, Inc. pass-through certificates Ser. 93A3, 10 3/8s, 2013 | 1,698,800 |
| | | ----- |
| | | 40,476,802 |

Utilities (2.3%)

| | | |
|------------|---|-----------------|
| 2,890,000 | AES Corp. (The) notes 8 3/4s, 2008 | 2,254,200 |
| 8,120,000 | AES Corp. (The) sr. notes 9 3/8s, 2010 | 6,374,200 |
| 2,070,000 | Azurix Corp. sr. notes Ser. B, 10 3/4s, 2010 | 1,811,250 |
| 660,000 | Azurix Corp. sr. notes Ser. B, 10 3/8s, 2007 | 574,200 |
| 6,550,000 | Calpine Canada Energy Finance company guaranty 8 1/2s, 2008 (Canada) | 5,207,250 |
| 1,860,000 | Calpine Corp. sr. notes 10 1/2s, 2006 | 1,562,400 |
| 115,000 | Calpine Corp. sr. notes 8 3/4s, 2007 | 91,425 |
| 4,650,000 | Calpine Corp. sr. notes 8 5/8s, 2010 | 3,673,500 |
| 10,889,000 | Calpine Corp. sr. notes 8 1/2s, 2011 | 8,520,643 |
| 3,430,000 | Calpine Corp. sr. notes 7 7/8s, 2008 | 2,744,000 |
| 120,000 | Calpine Corp. sr. notes 7 3/4s, 2009 | 94,800 |
| 270,000 | CMS Energy Corp. pass-through certificates 7s, 2005 | 261,892 |
| 3,260,000 | CMS Energy Corp. sr. notes 8.9s, 2008 | 3,398,550 |
| 1,730,000 | CMS Energy Corp. sr. notes 8 1/2s, 2011 | 1,777,783 |
| 3,025,000 | CMS Energy Corp. sr. notes Ser. B, 6 3/4s, 2004 | 3,011,993 |
| 2,090,000 | Edison Mission Energy sr. notes 10s, 2008 | 2,090,000 |
| 9,755,000 | Midland Funding II debs. Ser. A, 11 3/4s, 2005 | 10,597,535 |
| 8,770,000 | Mission Energy Holding Co. sec. notes 13 1/2s, 2008 | 9,537,375 |
| 2,168,714 | Northeast Utilities notes Ser. A, 8.58s, 2006 | 2,276,803 |
| 1,168,426 | Northeast Utilities notes Ser. B, 8.38s, 2005 | 1,222,092 |
| 1,800,000 | Pacific Gas & Electric Co. 144A sr. notes 7 3/8s, 2005 (In default) (NON) | 2,034,000 |
| 4,000,000 | Southern California Edison Co. bank term loan FRN 5.063s, 2005 (acquired 2/28/0/, cost \$3,994,000) (RES) | 4,002,500 |
| 4,730,000 | Southern California Edison Co. notes 8.95s, 2003 | 4,812,775 |
| 460,000 | Southern California Edison Co. notes 6 3/8s, 2006 | 428,950 |
| 4,290,000 | Tiverton/Rumford Power Associates, LP 144A pass-through certificates 9s, 2018 | 3,603,600 |
| 976,684 | TNP Enterprises, Inc. bank term loan FRN 6.5s, 2005 (acquired 1/19/01, cost \$975,708) (RES) | 976,684 |
| 6,902,000 | York Power Funding 144A notes 12s, 2007 (Cayman Islands) (In default) (NON) | 6,349,840 |
| | | ----- |
| | | 89,290,240 |
| | | ----- |
| | Total Corporate Bonds and Notes (cost \$2,092,095,230) | \$1,795,057,824 |

<CAPTION>

FOREIGN GOVERNMENT BONDS AND NOTES (14.3%) (a)

PRINCIPAL AMOUNT

| <S> | <C> | | <C> | VALUE |
|-----|------------|--|-----|------------|
| USD | 10,137,458 | Argentina (Republic of) bonds Ser. 2018, 2.89s, 2018 (In default) (NON) | \$ | 2,179,553 |
| AUD | 64,005,000 | Australia (Government of) bonds Ser. 513, 6 1/2s, 2013 | | 34,306,757 |
| USD | 10,580,000 | Brazil (Federal Republic of) notes 11s, 2012 | | 9,839,400 |
| USD | 27,330,000 | Brazil (Federal Republic of) unsub. notes 11s, 2040 | | 22,519,920 |
| CAD | 9,135,000 | Canada (Government of) bonds 5 1/2s, 2010 | | 5,635,502 |
| CAD | 8,915,000 | Canada (Government of) bonds Ser. WB60, 7 1/4s, 2007 | | 6,038,527 |
| CAD | 1,385,000 | Canada (Government of) bonds Ser. WL43, 5 3/4s, 2029 | | 841,749 |
| USD | 8,180,000 | Colombia (Republic of) bonds 11 3/4s, 2020 | | 8,159,550 |
| USD | 5,040,000 | Ecuador (Republic of) bonds Ser. REGS, 12s, 2012 | | 4,044,600 |
| USD | 1,465,000 | Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 5s (6s, 8/15/02), 2030 (STP) | | 794,763 |
| EUR | 10,350,000 | France (Government of) bonds 5 1/2s, 2010 | | 9,167,193 |
| EUR | 6,200,000 | France (Government of) deb. 4s, 2009 | | 5,007,475 |
| EUR | 8,633,900 | Germany (Federal Republic of) bonds Ser. 00, 5 1/2s, 2031 | | 7,432,591 |
| EUR | 8,350,000 | Germany (Federal Republic of) bonds Ser. 94, 6 1/4s, 2024 | | 7,840,010 |
| EUR | 28,149,000 | Germany (Federal Republic of) bonds Ser. 97, 6s, 2007 | | 25,693,205 |
| EUR | 27,066,000 | Germany (Federal Republic of) bonds Ser. 99, 4s, 2009 | | 21,966,281 |
| EUR | 8,705,000 | Italy (Government of) sr. unsub. 4 1/4s, 2002 | | 7,588,705 |
| EUR | 19,350,000 | Italy (Government of) treasury bonds 5 1/4s, 2011 | | 16,691,422 |
| EUR | 9,230,000 | Italy (Government of) treasury bonds 4 3/4s, 2006 | | 8,023,035 |
| EUR | 24,995,000 | Italy (Government of) treasury bonds 3 1/4s, 2004 | | 21,410,408 |
| USD | 2,065,000 | Malaysia (Government of) bonds 7 1/2s, 2011 | | 2,122,820 |
| NZD | 22,185,000 | New Zealand (Government of) bonds Ser. 709, 7s, 2009 | | 9,839,491 |

| | | | |
|---|-------------|---|----------------|
| USD | 2,118,000 | Peru (Republic of) 144A notes 9 1/8s, 2012 | 2,089,407 |
| USD | 4,395,000 | Philippines (Republic of) notes 10 5/8s, 2025 | 4,636,725 |
| USD | 5,925,000 | Philippines (Republic of) notes 8 3/8s, 2009 | 5,889,450 |
| USD | 10,805,000 | Russia (Federation of) bonds 12 3/4s, 2028 | 12,668,863 |
| USD | 22,550,000 | Russia (Federation of) unsub. 8 1/4s, 2010 | 21,422,500 |
| USD | 36,990,000 | Russia (Federation of) unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP) | 24,413,400 |
| USD | 40,604,375 | Russia (Federation of) 144A unsub. stepped-coupon 5s (7 1/2s, 3/31/07), 2030 (STP) | 26,798,888 |
| EUR | 3,060,000 | Spain (Government of) bonds 6s, 2029 | 2,782,362 |
| EUR | 9,540,000 | Spain (Government of) bonds 4.8s, 2006 | 8,275,024 |
| SEK | 487,775,000 | Sweden (Government of) bonds Ser. 1044, 3 1/2s, 2006 | 43,915,343 |
| USD | 4,005,000 | Turkey (Republic of) bonds 11 3/4s, 2010 | 4,121,145 |
| USD | 2,925,000 | Turkey (Republic of) notes 11 1/2s, 2012 | 2,979,844 |
| GBP | 13,975,000 | United Kingdom Treasury bonds 10s, 2003 | 21,290,437 |
| GBP | 5,010,000 | United Kingdom Treasury bonds 5s, 2012 | 6,976,307 |
| GBP | 18,045,000 | United Kingdom Treasury bonds Ser. 85, 9 3/4s, 2002 | 26,270,552 |
| GBP | 14,570,000 | United Kingdom Treasury bonds 8 1/2s, 2005 | 22,912,594 |
| USD | 13,030,000 | United Mexican States bonds 11 3/8s, 2016 | 16,307,045 |
| USD | 11,690,000 | United Mexican States bonds Ser. MTN, 8.3s, 2031 | 11,649,085 |
| USD | 4,580,000 | United Mexican States notes 8 1/8s, 2019 | 4,522,750 |
| USD | 8,330,000 | United Mexican States notes 7 1/2s, 2012 | 8,300,845 |
| USD | 22,840,000 | United Mexican States notes Ser. A, 9 7/8s, 2010 | 25,786,360 |
| USD | 4,010,000 | Venezuela (Republic of) bonds 9 1/4s, 2027 | 2,752,865 |
| Total Foreign Government Bonds and Notes (cost \$540,136,994) | | | \$ 543,904,748 |

<CAPTION>

COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%) (a)

PRINCIPAL AMOUNT

| <S> | <C> | <C> | VALUE |
|-------------|---|-----|------------|
| ----- | | | |
| | Amortizing Residential Collateral Trust | | |
| \$ | 200,745,194 Ser. 02-BC1, Class AIO, Interest Only (IO), 6s, 2005 | \$ | 17,518,154 |
| | 13,003,000 Ser. 02-BC1, Class M2, FRN, 3s, 2032 | | 12,845,629 |
| | 5,000,000 Amresco Commercial Mortgage Funding I Ser. 97-C1, Class G, 7s, 2029 | | 4,466,406 |
| | 20,442,255 Banc of America Commercial Mortgage, Inc. Ser. 01-PB1, Class XC, IO, 0.832s, 2035 | | 898,341 |
| | 7,777,305 Bank of America Mortgage Securities Ser. 01-10, Class 1A11, IO, 6.65s, 2031 | | 605,172 |
| | 2,895,000 Chase Commercial Mortgage Securities Corp. Ser. 00-3, Class G, 6.887s, 2019 | | 2,336,808 |
| | 12,575,091 Citicorp Mortgage Securities, Inc. Ser. 01-15, Class A3A, IO, 5.5s, 2031 | | 744,681 |
| | Commercial Mortgage Acceptance Corp. Ser. 97-ML1, Class D, 6.82s, 2010 | | 9,064,566 |
| 158,043,784 | Ser. 97-ML1, IO, 0.776s, 2017 | | 5,451,276 |
| 156,780,121 | Commercial Mortgage Asset Trust Ser. 99-C1, Class X, IO, 0.92s, 2020 | | 9,027,105 |
| 8,553,000 | Criimi Mae Commercial Mortgage Trust Ser. 98-C1, Class A2, 7s, 2033 | | 8,474,152 |
| 14,461,000 | Criimi Mae Commercial Mortgage Trust 144A Ser. 98-C1, Class B, 7s, 2033 | | 13,159,510 |
| 10,000,000 | Criimi Mae Commercial Mortgage Trust Ser. 98-C1, Class C, 7s, 2033 | | 8,548,438 |
| | CS First Boston Mortgage Securities Corp. Ser. 1999-C1, Class E, 7.928s, 2009 | | 7,240,594 |
| | 2,780,000 Ser. 01-CF2, Class E, 7.29s, 2011 | | 2,830,388 |
| | 2,665,000 Ser. 01-CF2, Class G, 6.93s, 2011 | | 2,568,394 |
| 286,256,164 | Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, Class X, IO, 0.84s, 2023 | | 11,360,792 |
| | Euro Loan Conduit 144A | | |
| | 2,750,000 FRN, Ser. 7A, Class E, 7.538s, 2006 (United Kingdom) | | 3,758,832 |
| | 2,550,000 FRN, Ser. 7A, Class D, 5.788s, 2006 (United Kingdom) | | 3,630,123 |
| | Fannie Mae | | |
| | 389,385 Ser. 98-63, Class S, 14 1/2s, 2026 | | 389,385 |
| | 4,406,800 Ser. 98-1, Class SA, IO, 11.10s, 2024 | | 1,658,173 |
| | 562,938 Ser. 00-4, Class SX, 11.10s, 2023 | | 562,938 |
| | 29,031 Ser. 92-15, Class L, IO, 10.378s, 2022 | | 875,017 |
| 16,602,479 | Ser. 01-T4, Class A1, 7 1/2s, 2028 | | 17,494,863 |
| 10,115,757 | Ser. 319, Class 2, IO, 6 1/2s, 2032 | | 3,074,242 |
| 2,293,872 | Ser. 01-55, Class CZ, 6 1/2s, 2031 | | 2,234,375 |
| 5,266,823 | Ser. 01-58, Class HI, IO, 6 1/2s, 2026 | | 1,323,289 |
| | Fannie Mae | | |
| 20,532,184 | Ser. 01-62, Class PI, IO, 6 1/2s, 2025 | | 3,445,557 |
| 32,661,562 | Ser. 93-251, Class Z, 6 1/2s, 2023 | | 31,497,994 |
| 79,175,722 | Ser. 318, Class 2, IO, 6s, 2032 | | 25,262,004 |
| 2,361,537 | Ser. 01-62, Class BI, IO, 6s, 2026 | | 444,264 |

| | | |
|-------------|--|------------|
| 17,491,934 | Ser. 02-2, Class IA, IO, 6s, 2026 | 3,312,154 |
| 6,256,251 | Ser. 01-73, Class ID, IO, 6s, 2025 | 1,620,760 |
| 27,516,398 | Ser. 01-64, Class IW, IO, 6s, 2021 | 3,723,614 |
| 35,083,000 | Ser. 01-69, Class PI, IO, 6s, 2021 | 4,798,859 |
| 41,071,945 | Ser. 01-70, Class LI, IO, 6s, 2021 | 5,092,424 |
| 18,883,463 | Ser. 01-70, Class PI, IO, 6s, 2021 | 2,761,954 |
| 13,720,400 | Ser. 01-72, Class NI, IO, 6s, 2021 | 1,932,163 |
| 13,766,966 | Ser. 01-74, Class QI, IO, 6s, 2018 | 1,629,987 |
| 9,555,566 | Ser. 01-74, Class MI, IO, 6s, 2015 | 1,744,637 |
| 105,140,814 | Ser. 00-T6, Class IO, 0.74s, 2030 | 2,382,091 |
| 716,116 | Ser. 01-28, Class PO, zero %, 2031 | 646,966 |
| 454,231 | Ser. 01-30, Class DO, Principal Only (PO), zero %, 2031 | 410,369 |
| 1,398,041 | Ser. 01-41, Class KO, zero %, 2031 | 957,222 |
| 3,942,960 | Ser. 99-51, Class N, PO, zero %, 2029 | 3,122,332 |
| 1,141,887 | Ser. 97-26, Class U, PO, zero %, 2027 | 990,016 |
| 3,796,372 | Ser. 97-92, Class PO, zero %, 2025 | 3,582,826 |
| 5,173,785 | Ser. 96-5, Class PB, PO, zero %, 2024 | 3,702,489 |
| 5,048,238 | Ser. 93-59, Class D, PO, zero %, 2023 | 3,756,204 |
| 1,750,766 | Ser. 99-4, Class M, PO, zero %, 2023 | 1,645,720 |
| 97,059,770 | FFCA Secured Lending Corporation Ser. 00-1, Class X, IO, 1.71s, 2020 Freddie Mac | 8,204,584 |
| 2,786,928 | Ser. 2154, Class SA, 24 1/2s, 2029 | 2,730,319 |
| 1,250,798 | Ser. 2149, Class ST, 22.409s, 2029 | 1,236,140 |
| 3,007,079 | Ser. 2319, Class S, 21.759s, 2031 | 2,701,673 |
| 1,604,432 | Ser. 2360, Class SC, 16.224s, 2031 | 1,437,471 |
| 1,214,519 | Ser. 2286, Class LR, 15.208s, 2024 | 1,228,562 |
| 8,492,518 | Ser. 2032, Class SK, IO, 10.032s, 2024 | 2,378,577 |
| 567,300 | Ser. 2028, Class SG, IO, 9.75s, 2023 | 228,698 |
| 5,852,118 | Ser. 1717, Class L, 6 1/2s, 2024 | 5,886,865 |
| 24,615,434 | Ser. 216, Class IO, 6s, 2032 | 7,907,708 |
| 106,337,653 | Ser. 212, Class IO, 6s, 2031 | 31,037,303 |
| 13,907,750 | Ser. 2389, Class PI, IO, 6s, 2025 | 2,359,971 |
| 9,540,210 | Ser. 2389, Class EI, IO, 6s, 2021 | 1,359,480 |
| 12,117,250 | Ser. 2394, Class GI, IO, 6s 2021 | 1,794,938 |
| 12,021,833 | Ser. 2394, Class IG, IO, 6s, 2021 | 1,753,179 |
| 13,839,995 | Ser. 2386, Class, PI, IO, 6s, 2020 | 1,756,164 |
| 9,389,262 | Ser. 2377, Class IE, IO, 6s, 2019 | 1,141,382 |
| 9,212,374 | Ser. 2044, Class SG, IO, 3.53s, 2023 | 711,115 |
| 9,376,916 | Ser. 215, Class PO, PO, zero %, 2031 | 7,935,215 |
| 183,963 | Ser. 2291, Class QO, PO, zero %, 2031 | 166,199 |
| 297,939 | Ser. 2302, Class LO, PO, zero %, 2031 | 294,960 |
| 300,458 | Ser. 2312, Class PO, zero %, 2031 | 271,445 |
| 273,134 | Ser. 2317, Class PO, zero %, 2031 | 212,362 |
| 1,052,438 | Ser. 2331, Class PO, zero %, 2031 | 950,813 |
| 1,930,654 | Ser. 2337, Class PO, zero %, 2031 | 1,324,911 |
| 3,918,415 | Ser. 2351, Class EO, zero %, 2031 | 2,708,604 |
| 4,875,374 | Ser. 2191, Class MO, PO, zero %, 2027 | 4,134,927 |
| 1,497,494 | Ser. 2078, Class KC, PO, zero %, 2023 | 1,340,258 |
| 2,947,057 | Ser. 57, Class A, PO, zero %, 2023 | 2,236,540 |
| 2,405,328 | Ser. 1208, Class F, zero %, 2022 | 2,002,154 |
| 158,005 | Ser. 2190, Class PO, zero %, 2014 | 156,424 |
| 2,620,000 | GE Capital Commercial Mortgage Corp. Ser. 01-1, Class G, 7.04s, 2011 | 2,501,691 |
| 5,024,832 | GE Capital Mortgage Services, Inc. Ser. 98-11, Class 2A4, 6 3/4s, 2028 Government National Mortgage Association | 4,990,512 |
| 2,766,318 | Ser. 97-13, Class PI, IO, 1.854s, 2027 | 646,712 |
| 4,495,523 | Ser. 98-2, Class EA, PO, zero %, 2028 | 3,538,821 |
| 1,481,818 | Ser. 99-42, PO, zero %, 2027 | 1,362,809 |
| 1,307,804 | Ser. 99-32, Class EA, PO, zero %, 2027 | 1,167,411 |
| 5,585,000 | Granite Mortgages PLC FRN Ser. 01-1, Class 1C, 3.17s, 2041 (United Kingdom) | 5,581,474 |
| 1,892,847 | Headlands Mortgage Securities, Inc. Ser. 98-1, Class X2, IO, 6 1/2s, 2028 | 130,949 |
| 24,155,000 | Holmes Financing PLC FRB Ser. 1, Class 2C, 2.977s, 2040 LB-UBS Commercial Mortgage Trust | 24,034,225 |
| 2,000,000 | Ser. 00-C3, Class H, 7.585s, 2010 | 1,771,406 |
| 3,000,000 | Ser. 01-C3, Class H, 6.16s, 2011 Merrill Lynch Mortgage Investors, Inc. | 2,217,567 |
| 79,648,162 | Ser. 96-C2, Class IO, 1.781s, 2028 | 4,754,000 |
| 7,476,000 | Ser. 1995-C3, Class D, 7.792s, 2025 | 7,815,924 |
| 1,283,000 | Ser. 96-C2, Class E, 6.96s, 2028 | 1,208,827 |
| 38,638,905 | Mortgage Capital Funding, Inc. Ser. 97-MC2, Class X, IO, 0.9221s, 2012 | 2,016,468 |
| 369,212 | Prudential Home Mortgage Securities Ser. 93-57, Class A4, 5.9s, 2023 | 373,882 |
| 21,964,362 | Residential Funding Mortgage Securities, Inc. Ser. 01-S26, Class A9, IO, 5 1/2s, 2031 | 1,324,726 |
| 6,800,000 | Residential Mortgage Securities 144A FRB Ser. 8, Class M, 5.171s, 2038 | 9,633,431 |

| | | |
|------------|--|------------|
| 4,222,780 | Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026 | 4,296,214 |
| 12,790,000 | Starwood Asset Recivables Trust FRB Ser. 00-1, Class E, 4.65s, 2005 | 12,917,900 |
| 57,035 | Wells Fargo Mortgage Backed Securities Trust Ser. 01-15, Class 2AB, PO, zero %, 2031 | 57,035 |

Total Collateralized Mortgage Obligations (cost \$459,997,527) \$ 452,535,174

<CAPTION>

U.S. GOVERNMENT AND AGENCY OBLIGATIONS (10.6%) (a)

PRINCIPAL AMOUNT

<S> <C> <C> VALUE

U.S. Government Agency Mortgage Obligations (0.7%)

| | | |
|---|---|------------|
| Federal National Mortgage Association Pass-Through Certificates | | |
| \$ 16,059 | 7s, January 1, 2006 | \$ 16,446 |
| 1,699,967 | 6 1/2s, with due dates from February 1, 2013 to September 1, 2016 | 1,732,062 |
| 26,599,161 | 6 1/2s, with due dates from October 1, 2030 to February 1, 2032 | 26,505,266 |
| | | 28,253,774 |

U.S. Treasury Obligations (9.9%)

| | | |
|---|-------------------------------|----------------|
| U.S. Treasury Bonds | | |
| 76,780,000 | 7 1/2s, November 15, 2016 | 88,213,310 |
| 24,545,000 | 6 1/4s, May 15, 2030 | 25,465,438 |
| 90,675,000 | 5 3/8s, February 15, 2031 | 85,106,648 |
| U.S. Treasury Notes | | |
| 14,470,000 | 5 3/4s, August 15, 2010 (SEG) | 14,779,803 |
| 28,145,000 | 4 7/8s, February 15, 2012 | 27,001,469 |
| 144,963,000 | 3 1/2s, November 15, 2006 | 137,103,106 |
| | | 377,669,774 |
| Total U.S. Government and Agency Obligations (cost \$419,947,615) | | \$ 405,923,548 |

<CAPTION>

ASSET-BACKED SECURITIES (3.1%) (a)

PRINCIPAL AMOUNT

<S> <C> <C> VALUE

| | | |
|--|---|----------------|
| \$ 4,849,000 | Aames Mortgage Trust Ser. 02-1, Class A3, FRN, 6.869s, 2032 | \$ 4,835,360 |
| 336,931 | ABSC Nims Trust Ser. 01-HE3, Class A, 7s, 2031 | 330,824 |
| 5,229,000 | Arc Net Interest Margin Trust 144A Ser. 02-1A, Class A, 7 3/4s, 2032 | 5,177,527 |
| 3,772,730 | Asset Backed Funding Corporation NIM Trust Ser. 02-WF1, 9.32s, 2032 | 3,735,003 |
| 17,161,000 | Conseco Finance Securitizations Corp. Ser. 00-4, Class A6, 8.31s, 2032 | 17,815,263 |
| 5,285,000 | Conseco Finance Securitizations Corp. Ser. 00-6, Class M2, 8.2s, 2032 | 5,240,275 |
| 5,889,000 | Conseco Finance Securitizations Corp. Ser. 01-4, Class B1, 9.4s, 2010 | 5,528,529 |
| 6,783,000 | Consumer Credit Reference Index Securities Ser. 02-2A, Class BFL, FRN, 3.881s, 2007 | 6,797,838 |
| 8,667,191 | First Plus 144A Ser. 98-A, Class A, 8 1/2s, 2023 | 5,720,346 |
| 2,000,000 | Green Tree Financial Corp. Ser. 95-F, Class B2, 7.1s, 2021 | 1,718,750 |
| 15,234,392 | Greenpoint Manufactured Housing Ser. 00-3, Class IA, 8.45s, 2031 | 15,855,102 |
| 5,961,683 | Madison Avenue Manufactured Housing Contract Ser. 02-A, Class B1, FRN, 5.15s, 2034 | 4,471,262 |
| 3,455,879 | Mid-State Trust Ser. 10, Class B, 7.54s, 2026 | 3,221,527 |
| 4,265,000 | Morgan Stanley Dean Witter Capital I Ser. 01-NC3, Class B1, 4.35s, 2031 | 4,208,355 |
| 9,135,000 | Morgan Stanley Dean Witter Capital I Ser. 01-NC4, Class B1, FRN, 4.40s, 2032 | 9,012,248 |
| 3,357,986 | Morgan Stanley Dean Witter Capital I 144A Ser. 01-AM1N, Class Note, 12 3/4s, 2032 | 3,352,215 |
| 7,085,355 | Morgan Stanley Dean Witter Capital I 144A Ser. 01-NC4N, Class Note, 8 1/2s, 2032 | 7,049,928 |
| 7,292,149 | Option One Mortgage Securities Corp. Ser. 02-2A, Class CFTS, 8.83s, 2032 | 7,291,420 |
| 5,503,528 | Option One Mortgage Securities Corp. 144A Ser. 02-1, Class CTFS, 6 3/4s, 2032 | 5,418,553 |
| Total Asset-Backed Securities (cost \$119,520,991) | | \$ 116,780,325 |

BRADY BONDS (2.7%) (a)

PRINCIPAL AMOUNT

<S> <C> <C> VALUE

| | | | | |
|----|------------|--|----|-------------|
| \$ | 60,420,363 | Brazil (Federal Republic of) bonds 8s, 2014 | \$ | 49,242,596 |
| | 11,515,000 | Brazil (Federal Republic of) government guaranty Ser. 30YR, 6.938s, 2024 | | 8,751,400 |
| | 4,565,000 | Brazil (Federal Republic of) govt. guaranty FRB 3 1/4s, 2012 | | 3,475,335 |
| | 7,315,000 | Bulgaria (Government of) coll., FLIRB Ser. A, 2.813s, 2012 | | 6,556,435 |
| | 11,578,700 | Bulgaria (Government of) debs. FRB Ser. PDI, 2.813s, 2011 | | 10,131,363 |
| | 2,690,100 | Bulgaria (Government of) debs. FRB Ser. RPDI, 2.813s, 2011 | | 2,353,838 |
| | 6,380,000 | Bulgaria (Government of) FRB Ser. A, 2.813s, 2024 | | 5,710,100 |
| | 18,428,295 | Venezuela (Republic of) debs. FRB Ser. DL, 2 7/8s, 2007 | | 15,043,017 |
| | | Total Brady Bonds (cost \$96,729,532) | \$ | 101,264,084 |

<CAPTION>

PREFERRED STOCKS (1.9%) (a)

NUMBER OF SHARES

| <S> | <C> | <C> | VALUE |
|-----------|--|-----|------------|
| 95,070 | AmeriKing, Inc. \$3.25 cum. pfd. (PIK) | \$ | 951 |
| 272,400 | California Federal Bancorp, Inc. Ser. A, \$2.281 pfd. | | 6,785,484 |
| 139,240 | Chevy Chase Capital Corp. Ser. A, \$5.188 pfd. (PIK) | | 7,769,592 |
| 13,490 | Chevy Chase Savings Bank, Inc. \$3.25 pfd. | | 364,230 |
| 1,190,000 | CSBI Capital Trust I 144A company guaranty Ser. A, 11.75% pfd. | | 1,320,900 |
| 124,131 | CSC Holdings, Inc. Ser. M, \$11.125 cum. pfd. (PIK) | | 12,878,591 |
| 12,653 | Decrane Aircraft Holdings Co. \$16.00 pfd. (PIK) | | 1,265,319 |
| 6,905 | Delta Financial Corp. Ser. A, \$10.00 cum. pfd. | | 79,408 |
| 219,600 | Diva Systems Corp. Ser. C, 6.00% cum. pfd. | | 2,196 |
| 68,400 | Doane Pet Care Co. \$7.125 pfd. | | 2,052,000 |
| 10,276 | Dobson Communications Corp. 13.00% pfd. | | 8,837,360 |
| 2,350 | First Republic Capital Corp. 144A 10.50% pfd. | | 2,338,250 |
| 172,935 | Fitzgeralds Gaming Corp. zero % cum. pfd. | | 1,729 |
| 6,321 | Granite Broadcasting Corp. 12.75% cum. pfd. (PIK) | | 3,097,290 |
| 6,380 | Intermedia Communications, Inc. Ser. B, 13.50% pfd. (PIK) | | 5,933,400 |
| 6,514 | Nextel Communications, Inc. Ser. E, 11.125% pfd. (PIK) | | 2,410,180 |
| 1,512 | Paxson Communications Corp. 13.25% cum. pfd. (PIK) | | 13,986,000 |
| 1 | Pegasus Satellite Ser. B, \$12.75 cum. pfd. (PIK) | | 550 |
| 5,766 | Rural Cellular Corp. 12.25% pfd. (PIK) | | 2,882,925 |
| | Total Preferred Stocks (cost \$88,386,323) | \$ | 72,006,355 |

<CAPTION>

COMMON STOCKS (1.0%) (a)

NUMBER OF SHARES

| <S> | <C> | <C> | VALUE |
|------------|--|-----|------------|
| 11,718 | Alderwoods Group, Inc. (NON) | \$ | 104,290 |
| 1,750 | AmeriKing, Inc. (NON) | | 18 |
| 177,258 | Arch Wireless, Inc. (NON) | | 1,595 |
| 70,931 | Aurora Foods, Inc. (NON) | | 297,201 |
| 1,289,757 | Celcaribe SA (Colombia) (NON) | | 38,693 |
| 16,927,178 | Contifinancial Corp. Liquidating Trust units (NON) | | 846,359 |
| 83,959 | Covad Communications Group, Inc. 144A (NON) | | 191,427 |
| 6,905 | Delta Funding Residual Exchange Co., LLC (NON) | | 1,508,743 |
| 6,905 | Delta Funding Residual Management, Inc. (NON) | | 69 |
| 101,880 | Doskocil Manufacturing Company, Inc. (NON) | | 305,640 |
| 223,713 | Fitzgerald Gaming Corp. (NON) (AFF) | | 2,237 |
| 16,202 | Focal Communications Corp. (NON) | | 69,181 |
| 36,911 | Genesis Health Ventures, Inc. (NON) | | 671,780 |
| 82,900 | Intira Corp. (NON) | | 8 |
| 11,244 | Mpower Holdings Corp. 144A (NON) | | 450 |
| 5,755,000 | Paracelsus Healthcare Corp. (NON) | | 576 |
| 176,134 | Pioneer Cos., Inc. (NON) | | 330,251 |
| 1,942 | Premium Holdings (L.P.) 144A | | 40,784 |
| 9,800 | PSF Holdings LLC Class A (NON) (AFF) | | 20,579,324 |
| 843 | Quorum Broadcast Holdings, Inc. Class E (acquired 5/15/01, cost \$841,209) (RES) | | 843,420 |
| 71,252 | Regal Cinemas, Inc. (NON) | | 11,044,060 |
| 2,872 | RSL Communications, Ltd. Class A (NON) | | 15 |
| 148,779 | Safety Components International, Inc. (acquired 7/21/97, cost \$2,780,000) (NON) (RES) | | 818,285 |
| 111,997 | United Artists Theatre Co. (NON) | | 1,119,970 |
| 8,419 | Vast Solutions, Inc. Class B1 (NON) | | 25,257 |
| 8,419 | Vast Solutions, Inc. Class B2 (NON) | | 25,257 |
| 8,419 | Vast Solutions, Inc. Class B3 (NON) | | 25,257 |

Total Common Stocks (cost \$66,989,915) \$ 38,890,147

<CAPTION>

CONVERTIBLE BONDS AND NOTES (0.5%) (a)

| PRINCIPAL AMOUNT | | VALUE |
|---|---|---------------|
| <S> | <C> | <C> |
| \$ 140,000 | Adelphia Communications Corp. cv. sub. notes 6s, 2006 | \$ 102,025 |
| 4,120,000 | American Tower Corp. cv. notes 5s, 2010 | 2,266,000 |
| 5,395,000 | DaVita, Inc. cv. sub. notes 7s, 2009 | 5,375,039 |
| 2,190,000 | Exide Corp. 144A cv. sr. sub. notes 2.9s, 2005 | 10,950 |
| 3,660,000 | Healthsouth Corp. cv. sub. deb. 3 1/4s, 2003 | 3,527,325 |
| 537,000 | Hexcel Corp. cv. sub. notes 7s, 2003 | 349,721 |
| 9,560,000 | Nextel Communications, Inc. cv. sr. notes 5 1/4s, 2010 | 4,780,000 |
| 540,000 | Rogers Communications cv. deb. 2s, 2005 (Canada) | 424,575 |
| 420,000 | Spectrasite Holdings, Inc. cv. sr. notes 6 3/4s, 2010 | 141,845 |
| 3,940,000 | Telewest Finance Corp. cv. sub. notes 6s, 2005 (United Kingdom) | 1,812,400 |
| 195,000 | Total Renal Care Holdings, Inc. 144A cv. bonds 7s, 2009 | 194,279 |
| Total Convertible Bonds and Notes (cost \$21,991,258) | | \$ 18,984,159 |

<CAPTION>

UNITS (0.1%) (a)

| NUMBER OF UNITS | | VALUE |
|---------------------------------|---|--------------|
| <S> | <C> | <C> |
| 2,960 | Australis Media, Ltd. units 15 3/4s, 2003 (Australia) (In default) (NON) | \$ 296 |
| 3,377 | Hercules Trust II units cum. cv. pfd. 6 1/2s | 1,958,660 |
| 6,600 | Pegasus Shipping 144A units stepped-coupon zero % (14 1/2s, 6/20/03), 2008 (acquired 6/23/98, cost \$3,282,840) (Bermuda) (RES) (STP) | 66,000 |
| 3,945 | XCL, Ltd. 144A units 13 1/2s, 2004 (In default) (NON) | 1,183,500 |
| 23,198 | XCL, Ltd. 144A units cv. cum. pfd. zero % (PIK) | 11,599 |
| Total Units (cost \$15,960,454) | | \$ 3,220,055 |

<CAPTION>

CONVERTIBLE PREFERRED STOCKS (0.1%) (a)

| NUMBER OF SHARES | | VALUE |
|---|---|--------------|
| <S> | <C> | <C> |
| 908 | Anker Coal Group, Inc. 14.25% cv. pfd. | \$ 4,540 |
| 285 | Genesis Health Ventures, Inc. \$6.00 cv. pfd. (PIK) | 31,350 |
| 6,030 | Interact Systems, Inc. 144A 14.00% cv. pfd. (In default) (NON) | 60 |
| 27,900 | LTV Corp. (The) 144A \$4.125 cv. pfd. (In default) (NON) | 3,488 |
| 323 | Paxson Communications Corp. 144A 9.75% cv. pfd. (PIK) | 2,907,000 |
| 9,850 | PSINet, Inc. 144A \$3.50 cv. pfd. | 5,546 |
| 37,303 | Telex Communications, Inc. zero % cv. pfd. | 37,302 |
| 882 | World Access, Inc. 144A Ser. D, zero % cv. pfd. | 221 |
| 4,586 | XCL, Ltd. 144A Ser. A, 9.50% cum. cv. pfd. (In default) (NON) (PIK) | 2,293 |
| Total Convertible Preferred Stocks (cost \$7,791,934) | | \$ 2,991,800 |

<CAPTION>

WARRANTS (--%) (a) (NON)

| NUMBER OF WARRANTS | | EXPIRATION DATE | VALUE |
|--------------------|---|-----------------|---------|
| <S> | <C> | <C> | <C> |
| 66 | Anker Coal Group, Inc. 144A | 10/28/09 | \$ 1 |
| 3,630 | Birch Telecommunications, Inc. 144A (PIK) | 6/15/08 | 363 |
| 130,000 | CGA Group, Ltd. 144A | 2/11/07 | 1,300 |
| 4,390 | Club Regina, Inc. 144A | 12/1/04 | 44 |
| 2,160 | Colo.com, Inc. 144A | 3/15/10 | 22 |
| 12,400 | Comunicacion Cellular 144A (Colombia) | 11/15/03 | 12,400 |
| 4,830 | Dayton Superior Corp. | 6/15/09 | 48,300 |
| 890 | Decrane Aircraft Holdings Co. | 9/30/08 | 1 |
| 1 | Decrane Aircraft Holdings Co. Class B | 6/30/10 | 1 |
| 73,193 | Delta Financial Corp. | 12/21/10 | 7 |
| 10,155 | Destia Communications 144A | 7/15/07 | 102 |
| 7,915 | Diva Systems Corp. | 5/15/06 | 79 |
| 36,012 | Diva Systems Corp. 144A | 3/1/08 | 360 |
| 54,739 | Genesis Health Ventures, Inc. | 10/1/02 | 116,044 |
| 5,350 | Globalstar Telecommunications | 2/15/04 | 54 |
| 5,100 | Horizon PCS, Inc. | 10/1/10 | 102,000 |

| | | | |
|---------|--|----------|--------------|
| 65,538 | ICG Communications, Inc. | 10/15/05 | 655 |
| 94,831 | Imperial Credit Industries, Inc. | 8/1/08 | 95 |
| 6,030 | Interact Systems, Inc. | 8/1/03 | 6 |
| 6,030 | Interact Systems, Inc. 144A | 12/15/09 | 60 |
| 498,274 | Intira Corp. Class B | 9/29/10 | 50 |
| 4,410 | iPCS, Inc. 144A | 7/15/10 | 22,050 |
| 6,500 | Iridium World Com 144A | 7/15/05 | 1 |
| 2,870 | IWO Holdings, Inc. | 1/15/11 | 86,100 |
| 5,830 | Jostens, Inc. | 5/1/10 | 58,300 |
| 9,460 | KMC Telecommunications Holdings, Inc. 144A | 4/15/08 | 95 |
| 8,835 | Knology Holdings, Inc. | 10/22/07 | 221 |
| 2,712 | Leap Wireless International, Inc. 144A | 4/15/10 | 81,360 |
| 14,800 | Loral Space & Communications, Ltd. | 12/27/06 | 148 |
| 14,715 | McCaw International, Ltd. | 4/15/07 | 147 |
| 4,350 | Mediq, Inc. 144A | 6/1/09 | 44 |
| 1,550 | Metronet Communications 144A | 8/15/07 | 16 |
| 2,090 | Mikohn Gaming Corp. 144A | 8/15/08 | 10,450 |
| 1,970 | ONO Finance PLC 144A (United Kingdom) | 2/15/11 | 4,925 |
| 4,250 | Orbital Imaging Corp. 144A | 3/1/05 | 1 |
| 8,485 | Orion Network Systems | 1/15/07 | 212 |
| 13,800 | Pagemart, Inc. 144A | 12/31/03 | 138 |
| 7,360 | Paxson Communications Corp. 144A | 6/30/03 | 33,120 |
| 2,000 | Pliant Corp. 144A | 6/1/10 | 4,000 |
| 8,690 | Startec Global Communications Corp. | 5/15/08 | 87 |
| 2,160 | Sterling Chemicals Holdings | 8/15/08 | 1,296 |
| 2,900 | Telehub Communications Corp. 144A | 7/31/05 | 1 |
| 1,471 | Telex Communications Group, Inc. | 3/30/07 | 15 |
| 1,500 | Travel Centers of America, Inc. 144A | 5/1/09 | 15 |
| 8,070 | Ubiquitel, Inc. 144A | 4/15/10 | 286,485 |
| 14,235 | UIH Australia/Pacific, Inc. 144A | 5/15/06 | 142 |
| 75,773 | United Artists Theatre | 3/2/08 | 681,957 |
| 4,820 | Veraldo Holdings, Inc. 144A | 4/15/08 | 48 |
| 110 | Versatel Telecom NV (Netherlands) | 5/15/08 | 55 |
| 2,750 | XM Satellite Radio Holdings, Inc. 144A | 3/15/10 | 2,750 |
| | | | ----- |
| | Total Warrants (cost \$13,252,465) | | \$ 1,556,123 |

<CAPTION>

SHORT-TERM INVESTMENTS (9.6%) (a)

PRINCIPAL AMOUNT

| <S> | <C> | VALUE |
|-------|---|---|
| ----- | | |
| \$ | 211,341 | Short-term investments held as collateral for loaned securities with yields ranging from 1.80% to 2.19% and due dates ranging from April 1, 2002 to May 13, 2002 (d) |
| | | 211,145 |
| | 17,000,000 | Daimler Chrysler NA Holding, Corp. for an effective yield of 2.29%, April 11, 2002 (Germany) |
| | | 16,989,186 |
| | 75,000,000 | Federal Home Loan Mortgage Corp. for an effective yield of 1.87%, June 14, 2002 |
| | | 74,711,700 |
| | 15,400,000 | Ford Motor Credit Corp. for an effective yield of 2.28%, April 2, 2002 |
| | | 15,399,025 |
| | 18,000,000 | General Motors Acceptance Corp. for an effective yield of 2.29%, April 15, 2002 |
| | | 17,983,970 |
| | 17,000,000 | Sears Roebuck Acceptance Corp. for an effective yield of 2.30%, April 9, 2002 |
| | | 16,991,311 |
| | 45,000 | US Treasury Bills zero %, June 13, 2002 (SEG) |
| | | 44,850 |
| | 70,361,000 | Interest in \$750,000,000 joint tri-party repurchase agreement dated March 28, 2002 with S.B.C. Warburg, Inc. due April 1, 2002 with respect to various U.S. Government obligations -- maturity value of \$70,375,932 for an effective yield of 1.91% |
| | | 70,361,000 |
| | 153,042,000 | Interest in \$750,000,000 joint repurchase agreement dated March 28, 2002 with Morgan Stanley Dean Witter due April 1, 2002 with respect to various U.S. Government obligations -- maturity value of \$153,074,139 for an effective yield of 1.89% |
| | | 153,042,000 |
| | | ----- |
| | Total Short-Term Investments (cost \$365,734,195) | \$ 365,734,187 |
| | | ----- |
| | Total Investments (cost \$4,308,534,433) (b) | \$3,918,848,529 |
| | | ----- |

(a) Percentages indicated are based on net assets of \$3,813,396,385.

(b) The aggregate identified cost on a tax basis is \$4,318,912,857, resulting in gross unrealized appreciation and depreciation of \$109,125,271 and \$509,189,599, respectively, or net unrealized

depreciation of \$400,064,328.

(NON) Non-income-producing security.

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

(POR) A portion of the income will be received in additional securities.

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at March 31, 2002 was \$150,864,492 or 4.0% of net assets.

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

(AFF) Affiliated Companies (Note 5).

(SEG) A portion of these securities were pledged and segregated with the custodian to cover margin requirements for futures contracts at March 31, 2002.

(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.

ADR after the name of a foreign holding stands for American Depositary Receipts representing ownership of foreign securities on deposit with a custodian bank.

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

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 March 31, 2002, which are subject to change based on the terms of the security.

DIVERSIFICATION BY COUNTRY

Distribution of investments by country of issue at March 31, 2002:
(as percentage of Market Value)

| | |
|----------------|--------|
| Brazil | 2.4% |
| Canada | 1.9 |
| Germany | 2.1 |
| Italy | 1.4 |
| Mexico | 1.7 |
| Russia | 2.2 |
| Sweden | 1.1 |
| United Kingdom | 3.2 |
| United States | 79.4 |
| Other | 4.6 |
| | ----- |
| Total | 100.0% |

Forward Currency Contracts to Buy at March 31, 2002
(aggregate face value \$242,867,531)

| | Market Value | Aggregate Face Value | Delivery Date | Unrealized Appreciation/ (Depreciation) |
|--------------------|--------------|----------------------|---------------|---|
| Australian Dollars | \$50,296,106 | \$49,291,321 | 6/19/02 | \$1,004,785 |
| British Pounds | 4,094,187 | 4,082,157 | 6/19/02 | 12,030 |
| Canadian Dollar | 9,349,944 | 9,381,991 | 6/19/02 | (32,047) |
| Danish Krone | 3,458,978 | 3,450,904 | 6/19/02 | 8,074 |

| | | | | |
|--------------|------------|------------|---------|-----------|
| Euro Dollars | 94,288,983 | 94,935,530 | 6/19/02 | (646,547) |
| Japanese Yen | 79,496,097 | 79,961,833 | 6/19/02 | (465,736) |
| Swiss Franc | 1,762,192 | 1,763,795 | 6/19/02 | (1,603) |

\$ (121,044)

Forward Currency Contracts to Sell at March 31, 2002
(aggregate face value \$204,097,427)

| | Market Value | Aggregate Face Value | Delivery Date | Unrealized Appreciation/ (Depreciation) |
|--------------------|--------------|----------------------|---------------|---|
| Australian Dollars | \$24,404,363 | \$24,008,816 | 6/19/02 | \$ (395,547) |
| British Pounds | 57,787,816 | 57,676,854 | 6/19/02 | (110,962) |
| Canadian Dollar | 9,305,032 | 9,356,670 | 6/19/02 | 51,638 |
| Euro Dollars | 62,003,576 | 61,787,894 | 6/19/02 | (215,682) |
| New Zealand Dollar | 9,450,930 | 9,213,409 | 6/19/02 | (237,521) |
| Swedish Krona | 41,972,679 | 42,053,794 | 6/19/02 | 81,115 |

\$ (826,959)

Futures Contracts Outstanding at March 31, 2002

| | Total Value | Aggregate Face Value | Expiration Date | Unrealized Appreciation/ (Depreciation) |
|---|---------------|----------------------|-----------------|---|
| Euro Bobl 5 Yr. (long) | \$ 89,330,986 | \$ 90,030,651 | Sep-02 | \$ (699,665) |
| Euro Bond 10 Yr. (long) | 28,787,572 | 29,071,766 | Jun-02 | (284,194) |
| Euro Dollar 90 day (long) | 9,025,475 | 9,036,562 | Jun-03 | (11,087) |
| Euro Dollar 90 day (long) | 9,189,825 | 9,244,612 | Sep-02 | (54,787) |
| Euro Dollar 90 day (long) | 9,259,650 | 9,286,412 | Jun-02 | (26,762) |
| Interest Rate Swap 10 yr (long) | 6,597,406 | 6,655,766 | Jun-02 | (58,360) |
| Japanese Government Bond (Simex) 10 year (long) | 26,666,425 | 26,487,042 | Jun-02 | 179,383 |
| Japanese Government Bond (TSE) 10 year (long) | 25,005,207 | 24,831,415 | Jun-02 | 173,792 |
| US Treasury Bond (long) | 107,284,781 | 112,857,366 | Jun-02 | (5,572,585) |
| US Treasury Note 10 yr (long) | 153,474,781 | 155,060,574 | Jun-02 | (1,585,793) |
| US Treasury Note 5 yr (long) | 16,078,828 | 16,488,817 | Jun-02 | (409,989) |
| US Treasury Note 5 yr (short) | 15,871,359 | 15,873,100 | Jun-02 | 1,741 |

\$ (8,348,306)

Written Put Options on Foreign Currency Outstanding at March 31, 2002
(premium received \$2,668,934)

| Contract Amount | Expiration Date/ Strike Price | Market Value |
|---|-------------------------------|--------------|
| 38 Euro Dollar 90 day - CME (Call) | Sep 02/100 USD | \$ 3,088 |
| 38 Euro Dollar 90 day - CME (Call) | Jun 02/100 USD | 9,500 |
| 14,850,000 HYDI 100 Index Bond OTC option (Morgan Guaranty Trust) (Put) | Nov 06/100 USD | 2,447,280 |

\$2,459,868

TBA Sales Commitments at March 31, 2002
(proceeds receivable \$26,300,342)

Principal Settlement Market

| Agency | Amount | Date | Value |
|-------------------------|--------------|---------|--------------|
| FNMA 6 1/2s, April 2032 | \$26,358,000 | 4/11/02 | \$26,218,039 |

 Swap Contracts Outstanding at March 31, 2002

| | Notional Amount | Termination Date | Unrealized Appreciation/ (Depreciation) |
|---|-----------------|------------------|---|
| Agreement with Merrill Lynch Capital Services, Inc. dated January 23, 2001 to receive the notional amount multiplied by a 10-year receiver swap option and to pay quarterly the notional amount multiplied by three month USD LIBOR. | \$ 235,000 | 01/24/04 | \$ (65,506) |
| Agreement with Merrill Lynch Capital Services dated October 27, 2000 to receive semi-annually the notional amount multiplied by 6.74% and pay quarterly the notional amount multiplied by three month USD LIBOR. | 31,700,000 | 10/31/05 | 1,829,509 |
| Agreement with Lehman Brothers Special Financing, Inc. dated July 27, 2001 to pay (receive) monthly the notional amount multiplied by the return of Lehman Brothers U.S. High Yield Index, adjusted by a specific spread, and receive monthly the notional amount multiplied by one month USD LIBOR adjusted by a specified spread. | 19,819,537 | 08/01/02 | 385,752 |
| Agreement with Fleet National Bank dated October 3, 2001, to receive (pay) monthly the notional amount | | | |

| | | | |
|---|------------|----------|---------|
| multiplied by the return of Lehman Government Index and pay monthly notional amount multiplied by one month LIBOR adjusted by a specified spread. | 10,472,065 | 04/01/02 | 212,838 |
|---|------------|----------|---------|

| | | | |
|--|------------|----------|-----------|
| Agreement with Goldman Sachs Capital Markets dated November 7, 2001, to receive (pay) monthly the notional amount multiplied by the return of Lehman Brothers US Corporate High Yield Index and pay the notional amount multiplied by one month LIBOR BBA adjusted by a specified spread. | 66,500,153 | 05/01/02 | 1,282,852 |
|--|------------|----------|-----------|

| | | | |
|---|------------|----------|----|
| Agreement with Credit Suisse First Boston International dated March 28, 2002 to receive monthly the notional amount multiplied by the return of Lehman Brothers US Corporate High Yield Index and pay the notional amount multiplied by three month USD LIBOR adjusted by a specified spread. | 15,000,086 | 04/01/03 | -- |
|---|------------|----------|----|

\$3,645,445

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

</TABLE>

<TABLE>
<CAPTION>

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2002 (Unaudited)

<S> <C>

Assets

| | |
|--|-----------------|
| Investments in securities, at value, including \$159,905 of securities on loan (identified cost \$4,308,534,433) (Note 1) | \$3,918,848,529 |
| Foreign currency (cost \$2,072,735) | 2,050,958 |
| Dividends, interest and other receivables | 76,753,234 |
| Receivable for shares of the fund sold | 25,980,538 |

| | |
|---|---------------|
| Receivable for securities sold | 150,475,922 |
| ----- | ----- |
| Receivable for open swap contracts (Note 1) | 3,710,951 |
| ----- | ----- |
| Receivable for open forward currency contracts (Note 1) | 1,157,642 |
| ----- | ----- |
| Receivable for closed forward currency contracts (Note 1) | 185,734 |
| ----- | ----- |
| Total assets | 4,179,163,508 |

Liabilities

| | |
|---|-----------------|
| ----- | ----- |
| Payable to subcustodian (Note 2) | 476,601 |
| ----- | ----- |
| Payable for variation margin (Note 1) | 1,398,124 |
| ----- | ----- |
| Payable for securities purchased | 316,126,885 |
| ----- | ----- |
| Payable for shares of the fund repurchased | 8,261,259 |
| ----- | ----- |
| Payable for compensation of Manager (Note 2) | 5,044,168 |
| ----- | ----- |
| Payable for investor servicing and custodian fees (Note 2) | 573,823 |
| ----- | ----- |
| Payable for compensation of Trustees (Note 2) | 210,593 |
| ----- | ----- |
| Payable for administrative services (Note 2) | 10,711 |
| ----- | ----- |
| Payable for distribution fees (Note 2) | 2,152,665 |
| ----- | ----- |
| Payable for open swap contracts (Note 1) | 65,506 |
| ----- | ----- |
| Payable for open forward currency contracts (Note 1) | 2,105,645 |
| ----- | ----- |
| Payable for closed forward currency contracts (Note 1) | 157,848 |
| ----- | ----- |
| Written options outstanding, at value (premiums received \$2,668,934) (Note 3) | 2,459,868 |
| ----- | ----- |
| TBA sales commitments, at value (proceeds receivable \$26,300,342) (Note 1) | 26,218,039 |
| ----- | ----- |
| Collateral on securities loaned, at value (Note 1) | 211,145 |
| ----- | ----- |
| Other accrued expenses | 294,243 |
| ----- | ----- |
| Total liabilities | 365,767,123 |
| ----- | ----- |
| Net assets | \$3,813,396,385 |

Represented by

| | |
|--|-----------------|
| ----- | ----- |
| Paid-in capital (Notes 1 and 4) | \$4,962,388,602 |
| ----- | ----- |
| Distributions in excess of net investment income (Note 1) | (48,726,271) |
| ----- | ----- |
| Accumulated net realized loss on investments and foreign currency transactions (Note 1) | (705,117,396) |
| ----- | ----- |
| Net unrealized depreciation of investments and assets and liabilities in foreign currencies | (395,148,550) |
| ----- | ----- |
| Total -- Representing net assets applicable to capital shares outstanding | \$3,813,396,385 |

Computation of net asset value and offering price

| | |
|---|--------|
| ----- | ----- |
| Net asset value and redemption price per class A share (\$1,352,360,880 divided by 145,750,626 shares) | \$9.28 |
| ----- | ----- |
| Offering price per class A share (100/95.25 of \$9.28)* | \$9.74 |
| ----- | ----- |
| Net asset value and offering price per class B share (\$660,282,830 divided by 71,502,240 shares)** | \$9.23 |

| | |
|--|--------|
| Net asset value and offering price per class C share (\$19,416,773 divided by 2,098,908 shares)** | \$9.25 |
| Net asset value and redemption price per class M share (\$1,756,614,172 divided by 190,288,104 shares) | \$9.23 |
| Offering price per class M share (100/96.75 of \$9.23)* | \$9.54 |
| Net asset value, offering and redemption price per class Y share (\$24,721,730 divided by 2,659,758 shares) | \$9.29 |

* On single retail sales of less than \$50,000. On sales of \$50,000 or more and on group sales, the offering price is reduced.

** Redemption price per share is equal to net asset value less any applicable contingent deferred sales charge.

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

</TABLE>

<TABLE>

<CAPTION>

STATEMENT OF OPERATIONS

Six months ended March 31, 2002 (Unaudited)

<S> <C>

Investment income:

| | |
|---------------------------|---------------|
| Interest | \$164,162,565 |
| Dividend | 4,092,353 |
| Securities Lending Income | 1,751 |
| Total investment income | 168,256,669 |

Expenses:

| | |
|--|---------------|
| Compensation of Manager (Note 2) | 10,077,922 |
| Investor servicing and custodian fees (Note 2) | 2,083,420 |
| Compensation of Trustees (Note 2) | 10,653 |
| Administrative services (Note 2) | 22,004 |
| Distribution fees -- Class A (Note 2) | 1,732,632 |
| Distribution fees -- Class B (Note 2) | 3,424,165 |
| Distribution fees -- Class C (Note 2) | 92,120 |
| Distribution fees -- Class M (Note 2) | 3,925,951 |
| Other | 669,634 |
| Total expenses | 22,038,501 |
| Expense reduction (Note 2) | (238,234) |
| Net expenses | 21,800,267 |
| Net investment income | 146,456,402 |
| Net realized loss on investments (Notes 1 and 3) | (122,190,691) |
| Net realized loss on futures contracts (Note 1) | (249,762) |
| Net realized loss on written options (Note 1) | (31,982) |

| | |
|--|---------------|
| Net realized loss on foreign currency transactions (Note 1) | (5,100,999) |
| Net realized loss on swap contracts (Note 1) | (2,510,714) |
| Net unrealized depreciation of assets and liabilities in foreign currencies during the period | (1,203,674) |
| Net unrealized appreciation of investments, futures contracts, swap contracts and TBA sale commitments during the period | 142,564,175 |
| Net gain on investments | 11,276,353 |
| Net increase in net assets resulting from operations | \$157,732,755 |

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

</TABLE>

<TABLE>
<CAPTION>

STATEMENT OF CHANGES IN NET ASSETS

| | Six months ended March 31 2002* | Year ended September 30 2001 |
|--|---------------------------------------|------------------------------------|
| <S> | <C> | <C> |
| Increase (decrease) in net assets | | |
| Operations: | | |
| Net investment income | \$ 146,456,402 | \$ 294,087,201 |
| Net realized loss on investments and foreign currency transactions | (130,084,148) | (180,204,437) |
| Net unrealized appreciation (depreciation) of investments and assets and liabilities in foreign currencies | 141,360,501 | (122,444,597) |
| Net increase (decrease) in net assets resulting from operations | 157,732,755 | (8,561,833) |
| Distributions to shareholders: (Note 1) | | |
| From net investment income | | |
| Class A | (58,913,345) | (89,234,517) |
| Class B | (26,737,037) | (66,925,954) |
| Class C | (717,959) | (1,052,175) |
| Class M | (64,892,959) | (76,953,155) |
| Class Y | (1,056,055) | (1,524,562) |
| From return of capital | | |
| Class A | -- | (28,554,844) |
| Class B | -- | (21,416,155) |
| Class C | -- | (336,694) |
| Class M | -- | (24,624,836) |
| Class Y | -- | (487,856) |
| Increase from capital share transactions (Note 4) | 279,241,039 | 295,950,962 |
| Total increase (decrease) in net assets | 284,656,439 | (23,721,619) |

| | | |
|---|-----------------|-----------------|
| Net assets | | |
| Beginning of period | 3,528,739,946 | 3,552,461,565 |
| End of period (including distributions in excess of net investment income of \$48,726,271 and \$42,865,318, respectively) | \$3,813,396,385 | \$3,528,739,946 |

* Unaudited

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

</TABLE>

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FINANCIAL HIGHLIGHTS
(For a common share outstanding throughout the period)

CLASS A

| Per-share operating performance | Six months ended March 31 (Unaudited) | | Year ended September 30 | | | |
|--|---------------------------------------|---------|-------------------------|---------|---------|---------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net asset value, beginning of period | \$9.26 | \$10.13 | \$10.77 | \$11.66 | \$12.70 | \$12.29 |
| Investment operations: | | | | | | |
| Net investment income (a) | .38 | .84 | .92 | .91 | .99 | .89 |
| Net realized and unrealized gain (loss) on investments | .04 | (.81) | (.61) | (.87) | (1.17) | .39 |
| Total from investment operations | .42 | .03 | .31 | .04 | (.18) | 1.28 |
| Less distributions: | | | | | | |
| From net investment income | (.40) | (.68) | (.91) | (.91) | (.70) | (.87) |
| In excess of net investment income | -- | -- | (.04) | (.01) | -- | -- |
| From net realized gain on investments | -- | -- | -- | -- | (.16) | -- |
| From return of capital | -- | (.22) | -- (d) | (.01) | -- | -- |
| Total distributions | (.40) | (.90) | (.95) | (.93) | (.86) | (.87) |
| Net asset value, end of period | \$9.28 | \$9.26 | \$10.13 | \$10.77 | \$11.66 | \$12.70 |
| Total return at net asset value (%) (b) | 4.57* | .22 | 2.96 | .31 | (1.67) | 10.86 |

Ratios and supplemental data

| | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Net assets, end of period (in thousands) | \$1,352,361 | \$1,378,591 | \$1,285,717 | \$1,506,532 | \$1,911,024 | \$2,104,971 |
| Ratio of expenses to average net assets (%) (c) | .47* | .95 | .94 | .94 | .97 | .99 |

| | | | | | | |
|--|------------|------------|--------|--------|--------|--------|
| Ratio of net investment income to average net assets (%) | 4.09* | 8.75 | 8.73 | 8.04 | 7.88 | 7.17 |
| Portfolio turnover (%) | 77.21* (e) | 150.11 (e) | 142.85 | 142.29 | 188.75 | 250.93 |

* Not annualized.

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

(b) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.

(c) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements (Note 2).

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

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

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

</TABLE>

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FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

CLASS B

| Per-share operating performance | Six months ended March 31 (Unaudited) | | Year ended September 30 | | | |
|--|---------------------------------------|-------------|-------------------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| <S> Net asset value, beginning of period | <C> \$9.22 | <C> \$10.09 | <C> \$10.72 | <C> \$11.61 | <C> \$12.65 | <C> \$12.24 |
| Investment operations: | | | | | | |
| Net investment income (a) | .34 | .79 | .83 | .82 | .89 | .79 |
| Net realized and unrealized gain (loss) on investments | .03 | (.83) | (.59) | (.87) | (1.17) | .40 |
| Total from investment operations | .37 | (.04) | .24 | (.05) | (.28) | 1.19 |
| Less distributions: | | | | | | |
| From net investment income | (.36) | (.63) | (.83) | (.82) | (.60) | (.78) |
| In excess of net investment income | -- | -- | (.04) | (.01) | -- | -- |
| From net realized gain on investments | -- | -- | -- | -- | (.16) | -- |
| From return of capital | -- | (.20) | -- (d) | (.01) | -- | -- |
| Total distributions | (.36) | (.83) | (.87) | (.84) | (.76) | (.78) |
| Net asset value, end of period | \$9.23 | \$9.22 | \$10.09 | \$10.72 | \$11.61 | \$12.65 |

| | | | | | | |
|--|------------|-----------|-------------|-------------|-------------|-------------|
| Total return at net asset value (%) (b) | 4.07* | (.53) | 2.30 | (.47) | (2.42) | 10.08 |
| Ratios and supplemental data | | | | | | |
| Net assets, end of period (in thousands) | \$660,283 | \$738,611 | \$1,214,668 | \$1,722,284 | \$2,174,770 | \$2,366,410 |
| Ratio of expenses to average net assets (%) (c) | .85* | 1.70 | 1.69 | 1.69 | 1.72 | 1.74 |
| Ratio of net investment income to average net assets (%) | 3.71* | 8.01 | 7.96 | 7.29 | 7.13 | 6.42 |
| Portfolio turnover (%) | 77.21* (e) | 150.11(e) | 142.85 | 142.29 | 188.75 | 250.93 |

* Not annualized.

- (a) Per share net investment income has been determined on the basis of the weighted average number of shares outstanding during the period.
- (b) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.
- (c) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements (Note 2).
- (d) Amount represents less than \$0.01 per share.
- (e) Portfolio turnover excludes certain treasury note transactions executed in connection with a short-term trading strategy.

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

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FINANCIAL HIGHLIGHTS
(For a common share outstanding throughout the period)

CLASS C

| Per-share operating performance | Six months ended | | For the period | |
|---|----------------------|-------------------------|-------------------|-------------|
| | March 31 (Unaudited) | Year ended September 30 | February 1, 1999+ | to Sept. 30 |
| | 2002 | 2001 | 2000 | 1999 |
| <S> | <C> | <C> | <C> | <C> |
| Net asset value, beginning of period | \$9.24 | \$10.11 | \$10.75 | \$11.51 |
| Investment operations: | | | | |
| Net investment income (a) | .34 | .77 | .84 | .59 |
| Net realized and unrealized loss on investments | .03 | (.81) | (.61) | (.75) |
| Total from investment operations | .37 | (.04) | .23 | (.16) |
| Less distributions: | | | | |
| From net investment income | (.36) | (.63) | (.83) | (.59) |

| | | | | |
|---|--------|--------|---------|---------|
| In excess of net investment income | -- | -- | (.04) | (.01) |
| From return of capital | -- | (.20) | -- (d) | -- (d) |
| Total distributions | (.36) | (.83) | (.87) | (.60) |
| Net asset value, end of period | \$9.25 | \$9.24 | \$10.11 | \$10.75 |
| Total return at net asset value (%) (b) | 4.08* | (.50) | 2.22 | (1.40)* |

Ratios and supplemental data

| | | | | |
|--|------------|-----------|----------|---------|
| Net assets, end of period (in thousands) | \$19,417 | \$18,589 | \$12,441 | \$6,301 |
| Ratio of expenses to average net assets (%) (c) | .85* | 1.70 | 1.69 | 1.12* |
| Ratio of net investment income to average net assets (%) | 3.72* | 7.96 | 8.07 | 5.00* |
| Portfolio turnover (%) | 77.21* (e) | 150.11(e) | 142.85 | 142.29 |

+ Commencement of operations.

* Not annualized.

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

(b) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.

(c) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements (Note 2).

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

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

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

</TABLE>

<TABLE>
<CAPTION>

FINANCIAL HIGHLIGHTS
(For a common share outstanding throughout the period)

CLASS M

| Per-share operating performance | Six months ended March 31 (Unaudited) | | Year ended September 30 | | | |
|--------------------------------------|---------------------------------------|---------|-------------------------|---------|---------|---------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Net asset value, beginning of period | \$9.22 | \$10.09 | \$10.73 | \$11.62 | \$12.67 | \$12.27 |
| Investment operations: | | | | | | |
| Net investment income (a) | .37 | .81 | .88 | .87 | .96 | .82 |

| | | | | | | |
|--|--------|--------|---------|---------|---------|---------|
| Net realized and unrealized gain (loss) on investments | .02 | (.80) | (.59) | (.86) | (1.18) | .43 |
| Total from investment operations | .39 | .01 | .29 | .01 | (.22) | 1.25 |
| Less distributions: | | | | | | |
| From net investment income | (.38) | (.67) | (.89) | (.87) | (.67) | (.85) |
| In excess of net investment income | -- | -- | (.04) | (.02) | -- | -- |
| From net realized gain on investments | -- | -- | -- | -- | (.16) | -- |
| From return of capital | -- | (.21) | --(d) | (.01) | -- | -- |
| Total distributions | (.38) | (.88) | (.93) | (.90) | (.83) | (.85) |
| Net asset value, end of period | \$9.23 | \$9.22 | \$10.09 | \$10.73 | \$11.62 | \$12.67 |
| Total return at net asset value (%) (b) | 4.34* | (.02) | 2.74 | .09 | (1.97) | 10.59 |

Ratios and supplemental data

| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-----------|
| Net assets, end of period (in thousands) | \$1,756,614 | \$1,368,935 | \$1,022,625 | \$1,066,821 | \$1,019,477 | \$513,351 |
| Ratio of expenses to average net assets (%) (c) | .60* | 1.20 | 1.19 | 1.19 | 1.22 | 1.24 |
| Ratio of net investment income to average net assets (%) | 3.97* | 8.47 | 8.48 | 7.81 | 7.69 | 6.88 |
| Portfolio turnover (%) | 77.21* (e) | 150.11(e) | 142.85 | 142.29 | 188.75 | 250.93 |

* Not annualized.

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

(b) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.

(c) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements (Note 2).

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

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

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

</TABLE>

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FINANCIAL HIGHLIGHTS

(For a common share outstanding throughout the period)

CLASS Y

Per-share

Six months
ended
March 31

| operating performance | (Unaudited) | | Year ended September 30 | | | |
|--|-------------|-----------|-------------------------|----------|----------|----------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net asset value, beginning of period | \$9.28 | \$10.15 | \$10.78 | \$11.66 | \$12.70 | \$12.29 |
| Investment operations: | | | | | | |
| Net investment income (a) | .39 | .85 | .92 | .93 | 1.03 | .93 |
| Net realized and unrealized gain (loss) on investments | .03 | (.80) | (.57) | (.86) | (1.18) | .38 |
| Total from investment operations | .42 | .05 | .35 | .07 | (.15) | 1.31 |
| Less distributions: | | | | | | |
| From net investment income | (.41) | (.70) | (.94) | (.93) | (.73) | (.90) |
| In excess of net investment income | -- | -- | (.04) | (.01) | -- | -- |
| From net realized gain on investments | -- | -- | -- | -- | (.16) | -- |
| From return of capital | -- | (.22) | --(d) | (.01) | -- | -- |
| Total distributions | (.41) | (.92) | (.98) | (.95) | (.89) | (.90) |
| Net asset value, end of period | \$9.29 | \$9.28 | \$10.15 | \$10.78 | \$11.66 | \$12.70 |
| Total return at net asset value (%) (b) | 4.58* | .48 | 3.29 | .63 | (1.40) | 11.14 |
| Ratios and supplemental data | | | | | | |
| Net assets, end of period (in thousands) | \$24,722 | \$24,014 | \$17,010 | \$17,149 | \$19,358 | \$19,763 |
| Ratio of expenses to average net assets (%) (c) | .35* | .70 | .69 | .69 | .72 | .74 |
| Ratio of net investment income to average net assets (%) | 4.21* | 8.98 | 8.97 | 8.27 | 8.15 | 7.29 |
| Portfolio turnover (%) | 77.21* (e) | 150.11(e) | 142.85 | 142.29 | 188.75 | 250.93 |

* Not annualized.

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

(b) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.

(c) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements (Note 2).

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

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

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

</TABLE>

Note 1
Significant accounting policies

Putnam Diversified Income Trust (the "fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The fund seeks as high a level of current income as Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam LLC, believes is consistent with the preservation of capital by allocating its investments among the U.S. government sector, high-yield sector and international sector of the fixed-income securities market.

The fund offers class A, class B, class C, class M and class Y shares. Class A shares are sold with a maximum front-end sales charge of 4.75%. Class B shares, which convert to class A shares after approximately eight years, do not pay a front-end sales charge but pay a higher ongoing distribution fee than class A shares, and are subject to a contingent deferred sales charge, if those shares are redeemed within six years of purchase. Class C shares are subject to the same fees and expenses as class B shares, except that class C shares have a one-year 1.00% contingent deferred sales charge and do not convert to class A shares. Class M shares are sold with a maximum front end sales charge of 3.25% and pay an ongoing distribution fee that is higher than class A shares but lower than class B and class C shares. Class Y shares, which are sold at net asset value, are generally subject to the same expenses as class A, class B, class C and class M shares, but do not bear a distribution fee. Class Y shares are sold to defined contribution plans that invest at least \$150 million in a combination of Putnam funds and other accounts managed by affiliates of Putnam Management.

Expenses of the fund are borne pro-rata by the holders of each class of shares, except that each class bears expenses unique to that class (including the distribution fees applicable to such class). Each class votes as a class only with respect to its own distribution plan or other matters on which a class vote is required by law or determined by the Trustees. Shares of each class would receive their pro-rata share of the net assets of the fund, if that fund were liquidated. In addition, the Trustees declare separate dividends on each class of shares.

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 Management. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

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

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

Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date, except that certain dividends from foreign securities are recorded as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received.

All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

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

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

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

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

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

H) Equity swap contracts The fund may engage in equity swap agreements, which are arrangements to exchange the return generated by one instrument for the return generated by another instrument. To manage its exposure to equity markets the fund may enter into equity swap agreements, which involve a commitment by one party to pay interest in exchange for a market-linked return based on a notional principal amount. To the extent that the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the fund will receive a payment from or make a payment to the counterparty, respectively. Equity swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made at the end of the measurement period are recorded as realized gains or losses. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or in the price of the underlying security or index, the possibility that there is no liquid market for these agreements or that the counterparty may default on its obligation to perform.

I) Interest rate swap contracts The fund may engage in interest rate swap agreements, which are arrangements between two parties to exchange cash flows based on a notional principal amount. The fund may enter into interest rate swap agreements, to manage the funds exposure to interest rates. Interest rate swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments made or received are included as part of interest income. Payments received or made upon early termination are recorded as realized gain or loss. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or that the counterparty may default on its obligation to perform.

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

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

commitment, the fund realizes a gain or a loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

K) Security lending The fund may lend securities, through its agent Citibank N.A., to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by Citibank N.A., the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the Statement of operations. At March 31, 2002, the value of securities loaned amounted to \$159,905. The fund received cash collateral of \$211,145 which is pooled with collateral of other Putnam funds into 35 issuers of high grade short-term investments.

L) Line of credit The fund has entered into a committed line of credit with certain banks. This line of credit agreement includes restrictions that the fund maintains an asset coverage ratio of at least 300% and borrowings must not exceed prospectus limitations. For the six months ended March 31, 2002, the fund had no borrowings against the line of credit.

M) 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 September 30, 2001, the fund had a capital loss carryover of approximately \$422,173,000 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 |
|----------------|--------------------|
| \$ 22,379,000 | September 30, 2006 |
| 71,605,000 | September 30, 2007 |
| 226,078,000 | September 30, 2008 |
| 102,111,000 | September 30, 2009 |

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

Note 2

Management fee, administrative services and other transactions

Compensation of Putnam Management, for management and investment advisory services is paid quarterly based on the average net assets of the fund. Such fee is based on the following annual rates: 0.70% of the first \$500 million of net assets, 0.60% of the next \$500 million, 0.55% of the next \$500 million, 0.50% the next \$5 billion, 0.475% of the next \$5 billion, 0.455% of the next \$5 billion, 0.44% of the next \$5 billion and 0.43% thereafter.

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

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

Under the subcustodian contract between the subcustodian bank and PFTC, the subcustodian bank has a lien on the securities of the fund to the extent permitted by the fund's investment restrictions to cover any advances made by the subcustodian bank for the settlement of securities purchased by the fund. At March 31, 2002, the payable to the subcustodian bank represents the amount due for cash advance for the settlement of a security purchased.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the six months ended March 31, 2002, the fund's expenses were reduced by \$238,234 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$3,087 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.

The fund has adopted distribution plans (the "Plans") with respect to its class A, class B, class C and class M shares pursuant to Rule 12b-1 under the Investment Company Act of 1940. The purpose of the Plans is to compensate Putnam Retail Management, a wholly-owned subsidiary of Putnam, LLC and Putnam Retail Management GP, Inc., for services provided and expenses incurred by it in distributing shares of the fund. The Plans provide for payments by the fund to Putnam Retail Management at an annual rate up to 0.35%, 1.00%, 1.00% and 1.00% of the average net assets attributable to class A, class B, class C and class M shares, respectively. The Trustees have approved payment by the fund at an annual rate of 0.25%, 1.00%, 1.00% and 0.50% of the average net assets attributable to class A, class B, class C and class M shares, respectively.

For the six months ended March 31, 2002, Putnam Retail Management, acting as underwriter received net commissions of \$70,641 and \$308,901 from the sale of class A and class M shares, respectively, and received \$544,153 and \$1,956 in contingent deferred sales charges from redemptions of class B and class C shares, respectively. A deferred sales charge of up to 1.00% and 0.40% is assessed on certain redemptions of class A and class M shares, respectively. For the six months ended March 31, 2002, Putnam Retail Management, acting as underwriter received \$6,921 on class A and class M redemptions, respectively.

Note 3

Purchases and sales of securities

During the six months ended March 31, 2002, cost of purchases and proceeds from sales of investment securities other than U.S. government obligations and short-term investments aggregated \$1,949,235,414 and \$1,715,427,757, respectively. Purchases and sales of U.S. government obligations aggregated \$2,839,386,410 and \$2,701,898,614, respectively.

Written option transactions during the year are summarized as follows:

| | Contract Amounts | Premiums Received |
|---|---------------------|----------------------|
| Written options outstanding at beginning of year | \$ -- | \$ -- |
| Options opened | 202,104,485 | 4,868,568 |
| Options expired | (66,009,514) | (213,380) |
| Options closed | (121,244,895) | (1,986,254) |
| Written options outstanding at end of year | \$ 14,850,076 | \$ 2,668,934 |

Note 4
Capital shares

At September 30, 2001, there were an unlimited number of shares of beneficial interest authorized. Transactions in capital shares were as follows:

| | Six months ended March 31, 2002 | |
|---|---------------------------------|-----------------|
| Class A | Shares | Amount |
| Shares sold | 13,050,903 | \$ 121,615,904 |
| Shares issued in connection with reinvestment of distributions: | 4,437,079 | 41,212,465 |
| | 17,487,982 | 162,828,369 |
| Shares repurchased | (20,597,636) | (191,865,258) |
| Net decrease | (3,109,654) | \$ (29,036,889) |

| | Year ended September 30, 2001 | |
|---|-------------------------------|----------------|
| Class A | Shares | Amount |
| Shares sold | 54,486,075 | \$ 525,711,553 |
| Shares issued in connection with reinvestment of distributions: | 8,613,679 | 83,885,502 |
| | 63,099,754 | 609,597,055 |
| Shares repurchased | (41,152,766) | (400,681,336) |
| Net increase | 21,946,988 | \$ 208,915,719 |

| | Six months ended March 31, 2002 | |
|--|---------------------------------|---------------|
| Class B | Shares | Amount |
| Shares sold | 4,284,125 | \$ 39,758,484 |
| Shares issued in connection with reinvestment of distributions | 1,999,971 | 18,494,164 |
| | 6,284,096 | \$58,252,648 |
| Shares repurchased | (14,915,575) | (138,291,710) |

Net decrease (8,631,479) \$ (80,039,062)

Year ended September 30, 2001

Class B Shares Amount

Shares sold 14,729,927 \$ 143,075,844

Shares issued in connection
with reinvestment
of distributions 6,207,090 60,273,459

20,937,017 203,349,303

Shares repurchased (61,239,423) (588,195,773)

Net decrease (40,302,406) \$ (384,846,470)

Six months ended March 31, 2002

Class C Shares Amount

Shares sold 558,929 \$ 5,190,945

Shares issued in connection
with reinvestment
of distributions 56,110 519,960

615,039 5,710,905

Shares repurchased (528,956) (4,919,376)

Net increase 86,083 \$ 791,529

Year ended September 30, 2001

Class C Shares Amount

Shares sold 1,265,898 \$12,332,763

Shares issued in connection
with reinvestment
of distributions 102,580 975,179

1,368,478 13,307,942

Shares repurchased (586,748) (5,657,122)

Net increase 781,730 \$ 7,650,820

Six months ended March 31, 2002

Class M Shares Amount

Shares sold 57,135,032 \$ 529,499,749

Shares issued in connection
with reinvestment
of distributions 143,603 1,327,439

57,278,635 530,827,188

Shares repurchased (15,530,369) (143,957,792)

Net increase 41,748,266 \$ 386,869,396

Year ended September 30, 2001

| Class M | Shares | Amount |
|--|--------------|----------------|
| Shares sold | 84,021,734 | \$ 812,440,963 |
| Shares issued in connection with reinvestment of distributions | 340,670 | 3,305,690 |
| | 84,362,404 | 815,746,653 |
| Shares repurchased | (37,207,162) | (360,621,945) |
| Net increase | 47,155,242 | \$ 455,124,708 |

Six months ended March 31, 2002

| Class Y | Shares | Amount |
|--|-----------|--------------|
| Shares sold | 244,880 | \$ 2,278,526 |
| Shares issued in connection with reinvestment of distributions | 112,924 | 1,056,055 |
| | 357,804 | 3,334,581 |
| Shares repurchased | (286,769) | (2,678,516) |
| Net increase | 71,035 | \$ 656,065 |

Year ended September 30, 2001

| Class Y | Shares | Amount |
|--|-------------|---------------|
| Shares sold | 2,186,361 | \$ 21,338,266 |
| Shares issued in connection with reinvestment of distributions | 201,242 | 2,012,418 |
| | 2,387,603 | 23,350,684 |
| Shares repurchased | (1,475,451) | (14,244,499) |
| Net increase | 912,152 | \$ 9,106,185 |

Note 5
Transactions with affiliated companies

Transactions during the period with companies in which the fund owned at least 5% of the voting securities were as follows:

<TABLE>
<CAPTION>

| Affiliates | Purchase cost | Sales cost | Dividend Income | Market Value |
|--------------------------|---------------|------------|-----------------|--------------|
| Name of affiliate | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Fitzgerald Gaming Corp. | \$-- | \$-- | \$-- | \$2,237 |
| PSF Holdings LLC Class A | -- | -- | -- | 20,579,324 |
| Totals | \$-- | \$-- | \$-- | \$20,581,561 |

</TABLE>

Market value amounts are shown for issues that are affiliated at period end.

Note 6

Actions by Trustees

In April 2002 the trustees approved the merger of Putnam Strategic Income Fund into Putnam Diversified Income Trust. The transaction is scheduled to occur in June 2002. It is subject to a number of conditions and there is no guarantee it will occur.

Note 7

New accounting pronouncement

As required, effective January 1, 2001, the fund has adopted the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. This Guide requires that the fund amortize premium and accrete discount on all fixed-income securities, and classify as interest income gains and losses realized on paydowns on mortgage-backed securities. Prior to January 1, 2001, the fund did not amortize premium and accrete discounts for certain fixed income securities and characterized as realized gains and losses paydowns on mortgage backed securities. Adopting these accounting principles will not affect the fund's net asset value, but will 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 is not material to the financial statements.

SERVICES FOR SHAREHOLDERS

HELP YOUR INVESTMENT GROW

Set up a program for systematic investing with as little as \$25 a month from a Putnam fund or from your own savings or checking account. (Regular investing does not guarantee a profit or protect against loss in a declining market.)

SWITCH FUNDS EASILY

You can move money from one Putnam fund to another within the same class of shares without a service charge. (This privilege is subject to change or termination.)

ACCESS YOUR MONEY EASILY

You can have checks sent regularly or redeem shares any business day at the then-current net asset value, which may be more or less than the original cost of the shares. Class B and class C shares carry a sales charge that is applied to certain withdrawals.

HOW TO BUY ADDITIONAL SHARES

You may buy shares through your financial advisor or directly from Putnam. To open an account by mail, send a check made payable to the name of the fund along with a completed fund application. To add to an existing account, complete the investment slip found at the top of your Confirmation of Activity statement and return it with a check payable to your fund.

VISIT US AT WWW.PUTNAMINVESTMENTS.COM

A secure section of our Web site contains complete information on your account, including balances and transactions, updated daily. You may also conduct transactions, such as exchanges, additional investments, and address changes. Log on today to get your password.

USE OUR TOLL-FREE NUMBER

1-800-225-1581 Ask a helpful Putnam representative or your financial advisor for details about any of these or other services, or see your prospectus.

THE PUTNAM FAMILY OF FUNDS

The following is a complete list of Putnam's open-end mutual funds. Please call your financial advisor or Putnam at 1-800-225-1581 to obtain

a prospectus for any Putnam fund. It contains more complete information, including charges and expenses. Please read it carefully before you invest or send money.

GROWTH FUNDS

Balanced Fund *
Growth Opportunities Fund
Health Sciences Trust
International New Opportunities Fund
New Century Growth Fund *
New Opportunities Fund
OTC & Emerging Growth Fund
Small Cap Growth Fund
Technology Fund *
Vista Fund
Voyager Fund
Voyager Fund II

BLEND FUNDS

Asia Pacific Growth Fund *
Capital Appreciation Fund
Capital Opportunities Fund
Emerging Markets Fund *
Europe Growth Fund
Global Equity Fund
Global Growth Fund
Global Natural Resources Fund
International Growth Fund
International Voyager Fund
Investors Fund
Research Fund
Tax Smart Equity Fund
Utilities Growth and Income Fund

VALUE FUNDS

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

INCOME FUNDS

American Government Income Fund
Diversified Income Trust
Global Governmental Income Trust
High Yield Advantage Fund +
High Yield Trust
High Yield Trust II *
Income Fund
Intermediate U.S. Government Income Fund
Money Market Fund [SECTION MARK]
Strategic Income Fund *
U.S. Government Income Trust

TAX-FREE INCOME FUNDS

Municipal Income Fund
Tax Exempt Income Fund
Tax Exempt Money Market Fund [SECTION MARK]
Tax-Free High Yield Fund
Tax-Free Insured Fund

State tax-free income funds

Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio and Pennsylvania

State tax-free money market funds [SECTION MARK]

California, New York

ASSET ALLOCATION FUNDS

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

The three portfolios:

Asset Allocation: Balanced Portfolio

Asset Allocation: Conservative Portfolio

Asset Allocation: Growth Portfolio

* In anticipation of mergers expected later this year, these funds are closed to new investors.

+ Closed to new investors.

[SECTION MARK] An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

Check your account balances and current performance at www.putnaminvestments.com.

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

Putnam Retail Management
One Post Office Square
Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

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Ronald J. Jackson
Paul L. Joskow
Elizabeth T. Kennan

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This report is for the information of shareholders of Putnam Diversified Income Trust. It may also be used as sales literature when preceded or accompanied by the current prospectus, which gives details of sales charges, investment objectives, and operating policies of the fund, and the most recent copy of Putnam's Quarterly Performance Summary and Putnam's Quarterly Ranking Summary. For more information or to request a prospectus, call toll free: 1-800-225-1581. The fund's Statement of Additional Information contains additional information about the fund's Trustees and is available without charge upon request by calling 1-800-225-1581.

Visit www.putnaminvestments.com or call a representative at 1-800-225-1581.

NOT FDIC INSURED, MAY LOSE VALUE, NO BANK GUARANTEE

[LOGO OMITTED]

PUTNAM INVESTMENTS

The Putnam Funds
One Post Office Square
Boston, Massachusetts 02109

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PUTNAM INVESTMENTS [SCALE LOGO OMITTED]

Putnam Diversified Income Trust
Supplement to Semiannual Report dated 3/31/02

The following information has been prepared to provide class Y shareholders with a performance overview specific to their holdings. Class Y shares are offered exclusively to clients that meet the eligibility requirements specified in the fund's prospectus for such shares. Performance of class Y shares, which incur neither a front-end load, distribution fee, nor contingent deferred sales charge, will differ from performance of class A, B, C, and M shares, which are discussed more extensively in the annual report.

SEMIANNUAL RESULTS AT A GLANCE

Total return for periods ended 3/31/02

| | NAV |
|---|-------|
| 6 months | 4.58% |
| 1 year | 3.17 |
| 5 years | 17.06 |
| Annual average | 3.20 |
| 10 years | 80.86 |
| Annual average | 6.10 |
| Life of fund (since class A inception, 10/3/88) | |
| Annual average | 7.23 |

| Share value: | NAV |
|--------------|--------|
| 9/30/01 | \$9.28 |
| 3/31/02 | \$9.29 |

Distributions: No. Income Capital gains Total
 6 \$0.408 -- \$0.408

Please note that past performance is not indicative of future results. More recent returns may be more or less than those shown. Returns shown for class Y shares for periods prior to their inception are derived from the historical performance of class A shares, and are not adjusted to reflect the initial sales charge currently applicable to class A shares. These returns have not been adjusted to reflect differences in operating expenses which, for class Y shares, typically are lower than the operating expenses applicable to class A shares. All returns assume reinvestment of distributions at net asset value. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. See full report for information on comparative benchmarks. If you have questions, please consult your fund prospectus or call Putnam toll free at 1-800-752-9894.