

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1994-01-04** | Period of Report: **1993-10-31**  
SEC Accession No. **0000824463-94-000001**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### PUTNAM MASTER INCOME TRUST

CIK: **824463** | IRS No.: **042993219** | State of Incorpor.: **MA** | Fiscal Year End: **1031**  
Type: **N-30D** | Act: **40** | File No.: **001-09774** | Film No.: **94500261**

Business Address  
*ONE POST OFFICE SQ  
BOSTON MA 02109  
6172921471*

(logo)

Putnam  
Master  
Income  
Trust

Annual  
Report  
October 31, 1993

(artwork)

For investors seeking  
high current income  
consistent with  
preservation of capital  
through a portfolio  
diversified among U.S.  
government, high-yield  
and international  
fixed-income securities

Contents

2	How your fund performed
3	From the Chairman
4	Report from Putnam Management Annual Report
6	Report of Independent Accountants
7	Portfolio of investments owned
18	Financial statements
30	Dividend Policy
33	Federal tax information
34	Fund performance supplement
35	Your Trustees

A member  
of the Putnam  
Family of Funds

How your  
fund performed

For periods ended October 31, 1993

Total return*	NAV	Fund Market price	Consumer Price Index
1 year	15.74%	13.27%	2.75%
3 years annualized	64.99	77.35	9.14
5 years annualized	80.21	18.16	21.04
Life-of-fund (since 12/28/87) annualized		66.26	21.21
		12.50	10.70
		101.09	72.35
		12.71	9.77
			26.26
			4.07

Share data

	NAV	Market price	
October 31, 1992		\$9.15	\$8.625
October 31, 1993		9.62	8.875

Distributions	Investment	In excess of	Total
12 months ended	Number	investment	
		income	
October 31, 1993	12	\$0.7269	\$0.1416
			\$0.8685

Current returns at the end of the period	NAV	Market price
Current dividend rate	7.80%	8.45%

\*Performance data represent past results. Investment return, net asset value and market price will fluctuate so an investor's shares, when sold, may be worth more or less than their original cost.

Terms you need to know

Total return is the change in value of an investment from the beginning to the end of a period, assuming the reinvestment of all distributions. It may be shown at net asset value or at market price.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities, divided by the number of outstanding shares, not reflecting any sales charge.

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

Current dividend rate is calculated by annualizing the income portion of the fund's most recent distribution and dividing by the NAV or market price on the last day of the period.

Please see the fund performance supplement on page 34 for additional information about performance comparisons.

From the  
Chairman

(photograph of George Putnam)  
c. Karsh, Ottawa

George Putnam  
Chairman  
of the Trustees

Dear Shareholder:

I am pleased to report that Putnam Master Income Trust has had another successful year. Falling interest rates remained an ongoing trend through most of your fund's fiscal year and they appear likely to remain low well into 1994. These lower rates have brought higher bond prices and have allowed the fund to reap substantial capital gains.

These returns have not gone unnoticed. Morningstar, Inc., an industry research firm, gave the fund its four-star rating (above-average) for risk-adjusted return through October 31, 1993.

Reviewing the year's results for each of the three fixed income sectors in which your fund invests, it is clear that the lower-rated, higher-yielding corporate bonds made the greatest contribution. Careful bond selection, intensive credit research and active management enabled the fund to make the most of opportunities in the high-yield bond market. Meanwhile, the U.S. government and international fixed income securities jockeyed for second-place performance, with the leader shifting back and forth from quarter to quarter.

The past three years have included periods of significant strength for all three sectors of your fund's portfolio. The fund's flexibility to shift assets between sectors enabled it to take advantage of many investment opportunities. Although we may not experience such fortuitous market conditions in the coming year, Rosemary Thomsen and her investment team remain confident of the fund's ability to produce attractive current income while minimizing volatility.

Respectfully yours,

George Putnam  
December 15, 1993

Report from  
Putnam Management

Putnam Master Income Trust continues to reward its shareholders with attractive distributions, relatively low volatility and strong total return. In the 12 months ended October 31, 1993, the

fund produced a total return of 15.74% at net asset value, or 13.27% for those who purchased shares at the market price at the beginning of the period.

High-yield bonds lead returns For the second consecutive year, your fund's total return was driven by the strength of the high-yield bond market. We have emphasized investments in this area and had approximately 40% of total net assets invested in these securities throughout the period. While the prices of our bond holdings in all three sectors have risen, ongoing interest rate declines have affected the income streams available from U.S. government and international fixed income securities. High-yield bonds, while also affected, have benefited from an ongoing supply of new issues, which has helped keep coupon rates attractive versus Treasury bonds.

Early in the year, performance in the high-yield bond sector was led by cyclical companies, like manufacturers of automobiles and heavy machinery, firms that typically do well at the start of an economic recovery. As the year progressed, however, growth-oriented investments, issued by fast-developing companies in such industries as gaming and telecommunications, outperformed other sectors.

Shifting strategies for U.S. government securities During the year, long-term rates declined, with 30-year Treasury bonds falling from 7.63% to 5.97% and 10-year bonds moving from 6.97% to 5.43%. Short-term rates remained relatively stable. These moves provided us with opportunities for capital appreciation, since bond prices rise as rates decline. Early in the year, we began concentrating assets in both short-term securities and 30-year Treasuries. As rates declined, our long-term holdings grew in value.

Mortgage-backed securities have, historically, made up a large part of the fund's U.S. government securities portfolio. However, interest rate declines have prompted record levels of prepayments, putting the income stream from these investments at risk. In anticipation of these developments, we reduced our mortgage-backed holdings and concentrated our investments on those with relatively low coupons. When mortgage-backed securities prices fall to a level that we believe offsets their risk, we expect to build up the fund's holdings.

Changing currencies limit potential return Performance of our overseas holdings this year exemplified the special risks associated with international investing. Although the bond markets of certain countries provided substantial gains, currency exchange-rate shifts reduced our profits when translated back into U.S. dollars.

This year, in anticipation of a stronger dollar, which would decrease the effective return from foreign investments, we relied on hedging strategies to protect our investments. By employing these hedges, we gave up a portion of our current return in exchange for a greater measure of capital protection against changing currency values. Historically, the fund's ability to use hedges has helped us produce better long-term returns than funds that lack this flexibility. This year, however, their use proved less advantageous, particularly when the dollar weakened instead of strengthening.

Outlook With interest rates at unrealistically high levels in the upper-tier European countries, we expect muted growth, low inflation, excess capacity and high unemployment through the end of calendar 1993 and into 1994. We suspect that the European bond market rally may be largely over, and we will look to expand our investment horizons into other parts of the world. We have, in fact, already begun to invest in the bond markets of such emerging economies as Argentina, Mexico and Brazil.

At home, we expect lower rates to prevail and the economy to gain momentum, however slowly. This should translate into an overall improvement in the credit quality of many issuers and, in turn, even greater stability in the domestic high-yield portion of your fund's portfolio. We believe the investment strategies embodied in Putnam Master Income Trust will enable us to take advantage of

many opportunities in the fixed income markets, both at home and abroad.

Top 10 high-yield  
bond holdings (10/31/93)

Midland Funding Corp. II  
Playtex Family Products Corp.  
Loehmanns' Holdings Inc.  
Pathmark stores, Inc.  
Premium Standard Farms  
Gaylord Container Corp.  
Collins & Aikman Group, Inc.  
Comcast Cellular Corp.  
Grand Union Co.  
AMC Entertainment, Inc.

\*Reflects a % of the total portfolio based on net assets.

Top high-yield bond industry sectors (Based on a percentage of  
total market value of corporate bonds & notes as of 10/31/93)

Retail	.....8.9%
Recreation	.....8.8%
Conglomerates	.....7.7%

Putnam  
Master  
Income  
Trust

Annual  
Report

For the Year Ended October 31, 1993

Report of Independent Accountants

To the Trustees and Shareholders of  
Putnam Master Income Trust

We have audited the accompanying statement of assets and liabilities of Putnam Master Income Trust, including the portfolio of investments owned, as of October 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the "Financial Highlights" for each of the five years in the period then ended, and for the period December 28, 1987 (commencement of operations) to October 31, 1988. These financial statements and "Financial Highlights" are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and "Financial Highlights" based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and "Financial Highlights" are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and "Financial Highlights" referred to above present fairly, in all material respects, the financial position of Putnam Master Income Trust as of October 31, 1993, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the "Financial Highlights" for each of the five years in the period then ended and for the period December 28, 1987 (commencement of operations) to October 31, 1988, in conformity with generally accepted accounting

principles.

Coopers & Lybrand

Boston, Massachusetts  
December 15, 1993

Portfolio of  
investments owned  
October 31, 1993

Corporate Bonds and Notes (37.1%) (a)  
Principal Amount

Value

Retail (3.3%)

\$ 1,600,000	Bradlees, Inc. sr. sub. notes 11s, 2002	\$ 1,732,000
2,100,000	County Seat Stores units 12s, 2001	2,047,500
1,870,000	Duane Reade Corp. sr. notes 12s, 2002	2,000,900
1,000,000	Eckerd (Jack) Corp. sub. deb. 11 1/8s, 2001	1,010,000
5,000,000	Loehmanns' Holdings Inc. sr. sub. notes 10 1/2s, 1997(b)	4,656,250
50,000	Loehmanns' Holdings Inc. sr. sub. notes 13 3/4s, 1999	50,875
4,000,000	Pathmark Stores, Inc. sub. notes 11 5/8s, 2002	4,440,000
1,950,000	Pay'n Pak Stores, Inc. sr. sub. deb. 13 1/2s, 1998(c)	9,750
1,050,000	Specialty Retailers, Inc. sr. sub. notes 11s, 2003(b)	1,044,750
		16,992,025

Recreation (3.3%)

3,000,000	AMC Entertainment, Inc. sr. sub. deb. 12 5/8s, 2002	3,375,000
2,000,000	Act III Theatres sr. sub. notes 11 7/8s, 2003	2,210,000
334,000	Belle Casinos bonds 12s, 2000(b)	339,010
1,800,000	Casino Magic Finance 1st mtge. deb. 11 1/2s, 2001(b)	1,818,000
675,000	Cinemark Mexico notes 12s, 2003(b)	629,438
1,825,000	Cinemark USA sr. notes 12s, 2002	2,002,956
625,000	Golden Nugget Finance Corp. 1st mtge deb. 10 5/8s, 2003	606,250
\$480,000	Presidential Riverboat Casinos sr. sub. notes 11 3/4s, 2001(b)	\$ 470,400
2,912,000	Trump Castle Funding units 9 1/2s, 1998(d)	2,329,600
1,000,000	Trump Plaza Funding, Inc. 1st mtge. notes 10 7/8s, 2001	990,000
2,000,000	Trump Taj Mahal sub. deb. Ser. A, 11.35s, 1999(d)	1,980,000
		16,750,654

Conglomerates (2.9%)

250,000	ADT Ltd. sr. sub. notes 9 1/4s, 2003	258,750
4,082,000	Collins & Aikman Group, Inc. sub notes 15s, 1995	4,102,410
2,900,000	Haynes International Inc. sr. sub. notes 13 1/2s, 1999	2,929,000
879,142	IFINT Diversified Holdings sub. deb. 12.5135s, 1998 (acquired 3/29/93, cost \$879,143) (e)	901,121
2,000,000	Jordan Industries, Inc. sr. notes 10 3/8s, 2003	1,995,000
2,050,000	MacAndrews & Forbes	

	Group Inc. deb. 12 1/4s, 1996	2,101,250
498,000	MacAndrews & Forbes Group Inc. sub. notes 13 1/4s, 1994	499,245
1,000,000	MacAndrews & Forbes Holdings Inc. sub. deb. 13s, 1999	1,005,000
1,650,000	Talley Industries, Inc. sr. disc. deb. stepped-coupon zero % (12 1/4s, 10/15/98), 2005(f)	919,875
		14,711,651
Cable Television (2.4%)		
\$ 1,000,000	Adelphia Communications Corp. notes 9 7/8s, 2005	\$ 1,030,000
2,000,000	Adelphia Communications Corp. sr. notes 12 1/2s, 2002	2,240,000
1,250,000	Cablevision Industries Corp. sr. notes 10 3/4s, 2002	1,334,375
1,000,000	Century Communications Corp. sr. sub. deb. 11 7/8s, 2003	1,150,000
975,000	Continental Cablevision, Inc. sr. deb. 9s, 2008	1,072,500
1,891,000	Falcon Holdings Group, Inc. sr. sub. notes 11s, 2003(b)(d)	1,966,640
2,300,000	Insight Communications Co. sr. sub. notes stepped-coupon 8 1/4s (11 1/4s, 3/1/96), 2000(f)	2,242,500
1,000,000	Summit Communications Group, Inc. sr. sub. deb. 10 1/2s, 2005	1,070,000
		12,106,015
Cellular Communications (2.1%)		
1,500,000	Cellular, Inc. sr. sub. disc. notes stepped-coupon zero % (11 3/4s, 9/1/98), 2003(f)	975,000
6,650,000	Comcast Cellular Corp. sr. par. Ser. A, zero %, 2000	4,089,750
4,670,000	Horizon Cellular Telephone Co. sr. sub. disc. notes stepped-coupon zero % (11 3/8s, 10/1/97), 2000(b)(f)	3,245,650
\$ 3,500,000	NEXTEL Communications Inc. sr. disc. notes stepped-coupon zero % (11 1/2s, 9/1/98), 2003(f)	\$ 2,450,000
		10,760,400
Forest Products (1.8%)		
1,600,000	Container Corp. of America sr. notes 9 3/4s, 2003	1,622,000
5,735,000	Gaylord Container Corp. sr. sub. notes stepped- coupon zero % (12 3/4s, 5/15/96), 2005(f)	4,129,200
2,150,000	Stone Savannah River Pulp & Paper Corp. sr. sub. notes 14 1/8s, 2000	1,763,000
1,500,000	Williamhouse Regency Delaware, Inc. sr. sub. deb. 11 1/2s, 2005	1,545,000
		9,059,200
Specialty Consumer Products (1.7%)		
2,000,000	Equitable Bag Co. sub. deb. 12 3/8s, 2002	1,700,000
4,425,000	Playtex Family Products Corp. sr. sub. disc. notes stepped-coupon	

	zero % (14 3/4s, 12/15/93), 1997(f)	4,590,938
600,000	Playtex Family Products Corp. sr. sub. notes 13 1/2s, 1998	639,000
2,000,000	Revlon Consumer Products Corp. sr. sub. notes 10 1/2s, 2003	1,920,000 8,849,938
Food (1.6%)		
\$ 2,085,000	Del Monte Corp. sub. notes 12 1/4s, 2002 (acquired 3/12/93, \$1,413,498) (d) (e)	\$ 1,433,253
2,250,000	Fresh Del Monte Produce N.V. Corp. deb. 10s, 2003(b)	2,160,000
2,500,000	Mafco, Inc. sr. sub. notes 11 7/8s, 2002	2,662,500
1,100,000	Specialty Foods Corp. sr. sub. notes 11 3/4s, 2003(b)	1,127,500
1,700,000	Specialty Foods Corp. units stepped-coupon zero % (13 1/2s, 8/15/99), 2005(b) (f)	807,500 8,190,753
Electric Utilities (1.2%)		
1,500,000	Midland Funding Corp. II sub. sec'd. lease oblig. bonds Ser. A, 11 3/4s, 2005	1,653,750
4,000,000	Midland Funding Corp. II sub. sec'd. lease oblig. bonds Ser. B, 13 1/4s, 2006	4,720,000 6,373,750
Food Chains (1.1%)		
2,000,000	Grand Union Capital Corp. sr. notes stepped- coupon zero % (15s, 6/15/99), 2004(f)	890,000
3,250,000	Grand Union Co. sub. deb. 12 1/4s, 2002	3,420,625
\$ 410,000	Megafoods Stores Inc. sr. notes 10 1/4s, 2000	\$ 407,950
1,250,000	Southland Corp. 1st priority sr. sub. deb. 5s, 2003	928,125 5,646,700
Agriculture (1.0%)		
1,994,000	PMI Acquisition Corp. units stepped-coupon zero%, (11 1/2, 3/1/00) 2005(b) (f)	967,090
1,173,000	Premium Standard Farms deb. zero %, 2003(b) (g)	856,290
558,000	Premium Standard Farms deb. zero %, 2003(b)	417,105
550,500	Premium Standard Farms exch. pfd. units 12 1/2s, 2000(b)	576,649
2,449,280	Premium Standard Farms sr. sec'd. notes 12s, 2000(b)	2,565,621 5,382,755
Publishing (1.0%)		
1,950,000	Affinity Group sr. sub. notes 11 1/2s, 2003	2,032,875
5,100,000	Marvel Parent Holdings, Inc. sr. sec'd. disc. notes zero %, 1998	3,136,500 5,169,375
Building Products (0.9%)		
750,000	American Standard, Inc.	



	sr. deb., 11 3/8s, 2004		828,750
1,000,000	Nortek Inc. sr. notes 9 3/4, 1997		965,000
\$1,750,000	Southdown, Inc. sr. sub. notes Ser. B, 14s, 2001	\$	1,995,000
1,000,000	Triangle Pacific Corp. sr. notes 10 1/2s, 2003		1,035,000
			4,823,750
Electronics (0.9%)			
2,250,000	Ampex Group Inc. sr. sub. deb. 13 1/4s, 1996(c)		472,500
2,700,000	Amphenol Corp. sr. sub. notes 12 3/4s, 2002		2,983,500
2,500,000	International Semi-Tech sr. secd. disc. notes stepped-coupon zero % (111/2s, 8/15/00), 2003(f)		1,300,000
			4,756,000
Health Care (0.9%)			
1,350,000	American Medical International Inc. sr. sub. notes 13 1/2s, 2001		1,579,500
1,022,500	EPIC Healthcare Group, Inc. jr. sub. notes 11s, 2003(d)		601,358
2,000,000	EPIC Holdings Inc. sr. sub. notes stepped-coupon zero% (12s, 3/15/97), 2002(f)		1,427,500
1,000,000	Quorum Health Group, Inc. sr. sub. notes 11 7/8s, 2002		1,105,000
			4,713,358
Advertising (0.8%)			
\$1,935,000	Katz Corp. sr. sub. notes 12 3/4s, 2002	\$	2,147,850
2,000,000	Lamar Advertising Co. notes 11s, 2003		2,105,000
			4,252,850
Chemicals (0.8%)			
500,000	Arcadian Partners L.P. sr. notes 10 3/4s, 2005		520,000
1,800,000	G-I Holdings Inc. sr. notes zero %, 1998(b)		1,093,500
700,000	Harris Chemical Corp. sr. sub. notes 10 3/4s, 2003		721,000
1,750,000	UCC Investors Holding, Inc. sr. notes 10 1/2s, 2002		1,890,000
			4,224,500
Restaurants (0.7%)			
350,000	American Restaurant Group, Inc. sr. secd. notes 12s, 1998		351,750
3,200,000	Flagstar Corp. sr. sub. deb. sinking fund 11.25s, 2004		3,256,000
			3,607,750
Nursing Homes (0.7%)			
1,150,000	Beverly Enterprises Inc. sr. secd. notes 14 1/4s, 1997		1,334,000
1,987,000	Multicare Cos., Inc. sr. sub. notes 12 1/2s, 2002		2,245,310
			3,579,310
Computers (0.7%)			
\$3,000,000	Computervision Corp. sub. deb. 11 3/8s, 1999	\$	2,040,000
3,598,000	DR Holdings Inc. sr. sub. deb. 15 1/2s, 2002(c)		377,790
1,000,000	Unisys Corp. sr. notes 10 5/8s, 1999		1,090,000
			3,507,790
Communications (0.7%)			

115,000	Page Mart Inc. sr. disc. notes stepped-coupon zero % (12 1/4s, 11/1/98), 2003(b) (f)		672,750
4,200,000	Panamsat L.P. sr. sub. notes stepped-coupon zero % (11 3/8s, 8/1/98), 2003(f)		2,709,000 3,381,750
Insurance (0.6%)			
975,000	American Annuity Group, Inc. sr. notes 9 1/2s, 2001		987,188
1,950,000	Bankers Life Holding Corp. sr. sub. deb. 13s, 2002		2,320,500 3,307,688
Containers (0.5%)			
2,500,000	Ivex Packaging Corp. sr. sub. notes 12 1/2s, 2002		2,675,000
Medical Supplies (0.5%)			
2,515,000	Wright Medical Technology sr. secd. notes 10 3/4s, 2000(b)		2,533,863
Automotive Parts (0.5%)			
\$750,000	Exide Corp. sr. notes 10 3/4s, 2002	\$	810,938
1,350,000	Key Plastics Corp. sr. notes 14s, 1999		1,582,875 2,393,813
Oil and Gas (0.5%)			
2,350,000	Maxus Energy Corp. notes 9 3/8s, 2003		2,391,125
Metals and Mining (0.5%)			
528,000	Horsehead Industries, Inc. sr. sub. ext. reset notes 13 1/2s, 1994		520,080
2,000,000	Horsehead Industries, Inc. sub. notes 14s, 1999		1,820,000 2,340,080
Aluminum (0.4%)			
2,350,000	Kaiser Aluminum & Chemical Corp. sr. sub. notes 12 3/4s, 2003		2,303,000
Textiles (0.4%)			
2,000,000	Foamex (L.P.) Capital Corp. sr. sub. deb. 11 7/8s, 2004		2,115,000
125,000	Foamex (L.P.) sr. secd. notes 9 1/2s, 2000		129,375 2,244,375
Consumer Services (0.4%)			
1,000,000	Solon Automated Services, Inc. sr. notes 12 3/4s, 2001		1,100,000
\$1,000,000	Solon Automated Services, Inc. sr. sub. deb. 13 3/4s, 2002	\$	1,100,000 2,200,000
School Busses (0.4%)			
2,000,000	Blue Bird Acquisition Corp. sub. deb. 11 3/4s, 2002		2,120,000
Environmental Services (0.4%)			
2,000,000	Envirosource, Inc. sr. notes 9 3/4s, 2003		1,960,000
Airlines (0.4%)			
1,800,000	USAir, Inc. pass-thru certificates 10 3/8s, 2013(g)		1,815,750
Shipping (0.3%)			
1,250,000	Viking Star Shipping sr. secd. notes 9 5/8s, 2003(b)		1,287,500
Apparel (0.3%)			
1,250,000	Guess?, Inc. sr. sub. notes 10s, 2003(b)		1,275,000
Financial Services (0.2%)			

1,125,000	Comdata Network, Inc. sr. notes 12 1/2s, 1999	1,220,622
Gas (0.2%)		
1,000,000	TransTexas Gas Corp. sr. sec'd. notes 10 1/2s, 2000	1,070,000
Broadcasting (0.1%)		
\$ 500,000	SFX Broadcasting deb. 11 3/8s, 2000	\$ 515,000
	Total Corporate Bonds and Notes (cost \$186,207,689)	\$190,493,090

U.S. Government and Agency Obligations (26.4%) (a)		
Principal Amount		Value
\$1,452,678	Federal Home Loan Mortgage Corporation 7 1/2s, July 1, 2016	\$ 1,492,627
	Federal National Mortgage Association	
3,671,037	Interest Only PAC (IO) Strips 1,071s, April 25, 2008(h)	330,393
6,270,000	TBA, 6s, January 14, 2009(i)	6,254,325
9,000,000	TBA, 5 1/2s, January 14, 2009(i)	8,808,750
	Government National Mortgage Association	
167	9s, May 15, 2021	178
3,480,000	TBA, 6 1/2s, January 15, 2024(i)	3,490,875
10,200,000	TBA, 6 1/2s, December 15, 2023(i)	10,257,375
12,870,000	U.S. Treasury Bonds 8 7/8s, August 15, 2017	17,032,641
6,740,000	U.S. Treasury Bonds 8 1/8s, August 15, 2021	8,382,875
880,000	U.S. Treasury Bonds 8s, November 15, 2021	1,082,400
2,980,000	U.S. Treasury Notes 6 7/8s, August 15, 1994	3,057,294
22,600,000	U.S. Treasury Notes 5 1/4s, July 31, 1998	23,016,688
\$ 20,827,000	U.S. Treasury Notes 5 1/8s, June 30, 1998	\$ 21,119,880
10,690,000	U.S. Treasury Notes 4 1/4s, July 31, 1995	10,750,131
2,980,000	U.S. Treasury Notes 4 1/4s, August 31, 1994	2,999,556
11,250,000	U.S. Treasury Notes 4 1/8s, June 30, 1995	11,295,703
14,220,000	U.S. Treasury Stripped Principal Payment Coupon Securities zero %, November 15, 2021	2,332,968
12,015,000	U.S. Treasury Stripped Principal Payment Coupon Securities zero %, May 15, 2021	2,016,267
11,680,000	U.S. Treasury Stripped Principal Payment Coupon Securities zero %, August 15, 2020	2,036,700
	Total U.S. Government and Agency Obligations (Cost \$132,999,416)	\$135,757,626

Foreign Bonds and Notes (25.3%) (a)		
Principal Amount		Value
U.S. 3,500,000	Argentina (Government of) bonds 4s, 2023	\$ 2,716,875
U.S. 8,350,000	Argentina (Government of) bonds 4s, 2023	5,521,438
U.S. 250,000	Argentina (Government of) bonds 4s, 2023	165,625
A 5,215,000	Australia (Government of)	

	bonds 7 1/2s, 2005(j)	3,722,206
U.S. 3,000,000	Brazil (Government of) bonds 8 3/4s, 2001	2,388,750
DKK 35,000,000	Denmark (Government of) bonds 9s, 1998(j)	5,796,875
FIM 5,000,000	Finland (Government of) 10 3/4s, 2002(j)	1,034,375
FF 17,400,000	France (Government of) Balladurs 6s, 1997(j)	\$ 3,001,500
ECU 1,130,000	France Treasury bonds 8 1/4s, 2022(j)	1,470,413
ITL 5,850,000,000	Italy (Government of) BTPS 12s, 1995(j)	3,747,656
ITL 4,460,000,000	Italy (Government of) BTPS 11 1/2s, 1996(j)	2,862,763
ITL 3,600,000,000	Italy (Government of) bonds 11 1/2s, 2003(j)	2,511,000
ITL 960,000,000	Italy (Government of) bonds 10s, 2003(j)	624,000
ECU 4,000,000	Italy (Government of) notes 9 1/4s, 2011(j)	5,205,000
JPY 998,000,000	Japan (Government of) BTPS 5 1/2s, 2013(j)	10,266,925
JPY 500,000,000	Japan (Government of) BTPS 5.3s, 2013(j)	5,018,750
JPY 824,000,000	Japan (Government of) BTPS 4.9s, 2009(j)	7,931,000
JPY 335,500,000	Japan (Government of) BTPS 4.8s, 2002(j)	3,317,256
U.S. 5,500,000	Mexican Aztec bonds 5s, 2008(j)	5,273,125
NLG 25,550,000	Netherlands (Government of) bonds 7 1/2s, 2023(j)	15,585,500
ZAL 7,600,000	South Africa bonds 11s, 2008(j)	1,567,500
SP 305,000,000	Spain (Government of) notes 12 1/4s, 2000(j)	2,680,188
SP 121,650,000	Spain (Government of) notes 11s, 1997(j)	978,522
SEK 20,200,000	Sweden (Government of) bonds 10 1/4s, 2003(j)	2,929,000
SEK 29,300,000	Sweden (Government of) bonds 6s, 2005(j)	3,149,750
GBP 2,530,000	United Kingdom Treasury bonds 9s, 2008(j)	4,362,669
GBP 925,000	United Kingdom Treasury bonds 8 3/4s, 2017(j)	1,610,656
GBP 1,970,000	United Kingdom Treasury bonds 8 1/2s, 2007(j)	3,252,963
GBP 3,100,000	United Kingdom Treasury bonds 7 1/4s, 1998(j)	\$ 4,779,813
GBP 1,250,000	United Kingdom Treasury war bonds 3 1/2s, 2049(j)	899,219
\$2,500,000	Venezuela (Government of) bonds 6 3/4s, 2020	1,868,750
\$3,750,000	Venezuela (Government of) bonds 6s, 2007	2,981,250
\$3,500,000	Venezuela (Government of) bonds 4.3521s, 2007	2,581,250
JPY 854,000,000	World Bank notes 4 1/2s, 2003(j)	8,289,135
	Total Foreign Bonds and Notes (cost \$126,656,154)	\$130,091,697

Asset-Backed Securities (1.1%) (a)

Principal Amount		Value
\$ 1,575,000	First Deposit Master Trust Ser. 93-2, 5 3/4s, 2001	\$ 1,610,438
3,117,298	Security Pacific Acceptance Corp. Ser. A1, 7.65s, 2012	3,249,783
905,000	Standard Credit Card Trust Ser. 91-5B, 6 1/2s, 1994	909,525
	Total Asset-Backed	

Securities  
(cost \$5,592,517) \$ 5,769,746

Common Stocks (0.9%) (a)

Number of Shares		Value
5,700	Applause Enterprises Inc. (acquired 10/4/90, cost \$64,125) (c) (e)	\$ 1,425
246	CDK Holding Corp. rights (acquired 10/31/88, cost \$13,762) (c) (e)	5,566
116,043	Charter Medical Corp. (c)	\$ 2,915,580
10,234	Computervision Corp. (acquired 8/24/92, cost \$92,106) (e)	21,107
15,261	Grand Casinos, Inc. (c)	381,525
9,653	Kendall International, Inc. (c)	424,732
30,773	SPI Holdings Inc. Class B(c)	376,969
108,263	Solon Automated Services, Inc. (acquired 6/18/92 cost \$64,650) (c) (e)	67,664
1	Southland Corp. (c)	6
25,500	Specialty Foods Corp. (acquired 8/10/93, cost \$18,533) (c)	28,688
11,231	Taj Mahal Holding Corp. Class A(c)	235,851
10,000	Triangle Pacific Corp. (c)	133,750
	Total Common Stocks (cost \$1,974,180)	\$ 4,592,863

Preferred Stocks (0.9%) (a)

Number of Shares		Value
1,709,000	Playtex Family Products Corp. \$0.14, jr. pfd. (acquired 2/6/92, cost \$2,623,144) (e)	\$ 3,204,375
16,319	Stone Savannah River Pulp & Paper Corp. \$3.84 exch. pfd. (d)	1,174,968
1,935	Supermarkets General Holdings Corp. \$3.52 exch. pfd.	54,180
	Total Preferred Stocks (cost \$4,253,068)	\$ 4,433,523

Convertible Preferred Stocks (0.3%) (a) (cost \$1,400,000)

Number of Shares		Value
28,000	Conseco, Inc. Ser. D, \$3.25 cv. pfd.	\$ 1,673,000

Call Options On Foreign Bonds (0.3%) (a) (j)

Number of Contracts	Expiration Date/ Strike Price	Value
8,600	Brazil (Government of) bonds Dec/U.S.\$77.625	\$ 172,000
30	France Treasury bonds Apr/FF107.18	38,440
315	France Treasury bonds Dec/FF16.07	1,130,316
871	Japanese (Government of) bonds Jan/JPY110.754	135,717
3,900	Morocco (Government of) bonds Jan/U.S.\$76.875	167,310
	Total Call Options On Foreign Bonds (cost \$841,826)	\$ 1,643,783

Yankee Bonds and Notes (0.3%) (a) (cost \$1,567,787)

Principal Amount	Value
\$ 1,575,000 Banco De Galicia notes 9s, 2003(g)	\$ 1,567,787

Collateralized Mortgage Obligations (0.2%) (a)  
(cost \$938,935)

Principal Amount	Value
------------------	-------

\$	936,294	Prudential Home Mortgage Securities Co. Ser. 92-39 Pl, 5.15s, 2007	\$	936,879
----	---------	--	----	---------

Warrants (0.1%) (a) (c)

Number of Warrants		Expiration Date	Value
334	Belle Casinos	10/15/03	\$ 6,680
406	CDK Holding Corp. Class A (acquired 10/31/88, cost \$22,777) (e)	7/7/99	9,186
434	CDK Holding Corp. Class B (acquired 10/31/88, cost \$12,180) (e)	7/7/99	8,951
7,499	Cinemark Mexico	8/1/03	72,178
2,880	Presidential Riverboat Casinos	9/15/96	34,560
20,000	Southdown, Inc. (acquired 10/31/91, cost \$60,000) (e)	11/1/96	180,000
2,054	Southland Corp.	3/5/96	10,784
1,036	Wright Medical Technology Inc.	6/30/03	88,025
	Total Warrants (cost \$258,812)		\$ 410,364

Call Options On Cross Forward Currency Contracts (0.1%) (a)

Number of Contracts		Expiration Date/ Strike Price	Value
2,650	British Sterling In Exchange For Deutschemarks	Dec/2.48	\$ 57,240
13,000	Deutschemarks In Exchange For Japanese Yen	Dec/65.7	63,700
26,000	Deutschemarks In Exchange For Japanese Yen	Dec/66.25	78,000
19,000	U.S. Dollars In Exchange For Deutschemarks	Nov/1.69	\$ 17,100
7,800	U.S. Dollars In Exchange for Japanese Yen	Jan/109	137,280
	Total Call Options On Cross Forward Currency Contracts (cost \$760,048)		\$ 353,320

Short-Term Investments (9.9%) (a)

Principal Amount		Value
GRD 535,000,000	Greece Treasury Bills zero %, May 31, 1994 (j)	\$ 1,966,125
GRD 300,000,000	Greece Treasury bills zero %, May 17, 1994 (g) (j)	1,111,875
\$ 15,000,000	Shearson Lehman Brothers Holdings Inc. 3.13s, November 1, 1993	14,928,696
32,880,000	Interest in \$356,683,000 joint repurchase agreement dated October 29, 1993 with Kidder, Peabody & Co. Inc. due November 1, 1993 with respect to various U.S. Treasury obligations--maturity value of \$32,885,389 for an	

effective yield of 2.95%	32,885,389
Total Short-Term Investments	
(cost \$51,333,066)	\$ 50,892,085
Total Investments	
(cost \$514,783,498) (k)	\$528,615,763

Notes

(a) Percentages indicated are based on total net assets of \$513,315,877, which corresponds to a net asset value per share of 9.62.

(b) Securities 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. At October 31, 1993 these securities were valued at \$30,510,506 or 5.9% of net assets.

(c) Non-income-producing security.

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

(e) Restricted, excluding 144A securities, as to public resale. At the date of acquisition these securities were valued at cost. There were no outstanding unrestricted securities of the same class as those held. Total market value of restricted securities owned at October 31, 1993 was \$5,861,336 or 1.1% of net assets.

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

(g) A portion of these securities, having a value of \$3,798,090 or 0.7% of net assets, have been purchased on a "forward commitment basis"--that is, the Fund has agreed to take delivery of and make payment for such securities beyond the settlement time of five business days after the trade date and subsequent to the the date of this report. The purchase price and interest rate of these securities are fixed at the trade date, although the Fund does not earn any interest on such securities until the settlement date.

(h) Interest Only (IO) Strips represent the right to receive the monthly interest payments on an underlying pool of mortgage loans. No payments of principal on the pool are passed through to the IO holders.

(i) TBA's are mortgage- backed securities traded under delayed delivery commitments settling after October 31, 1993. Although the unit price for the trades has been established, the principal value has not been finalized. However, the amount of the commitments will not fluctuate more than 2.0% from the principal amount. The cost of TBA purchases at October 31, 1993 was \$28,781,691.

(j) Foreign-currency denominated. Market value is translated at the current exchange rate.

(k) The aggregate identified cost for federal income tax purposes is \$515,033,644 resulting in gross unrealized appreciation and depreciation of \$25,086,553 and \$11,504,434, respectively, or net unrealized appreciation of \$13,582,119.

U.S. Treasury Bond Futures Contracts Outstanding at October 31, 1993 (Aggregate face value \$12,841,875)

Number of Contracts	Expiration Month/ Strike Price	Unrealized Appreciation
108	U.S. Treasury Bond Futures (Sell) Dec/93	\$ 16,875

Forward Currency Contracts Outstanding at October 31, 1993

Market	Aggregate	Delivery	Unrealized
--------	-----------	----------	------------

Value	Face Value	Date	Appreciation	
Deutschemarks (Sell)	\$3,380,100	\$3,500,476	11/12/93	\$ 120,376
French Francs (Sell)	6,587,100	6,605,467	11/30/93	18,367
French Francs (Sell)	1,381,700	1,439,480	12/21/93	57,780
Japanese Yen (Sell)	5,540,820	5,602,868	12/24/93	62,048
Japanese Yen (Sell)	92,256	94,507	11/29/93	2,251
Japanese Yen (Sell)	923,950	951,701	1/7/94	27,751
Japanese Yen (Sell)	12,314,974	12,693,854	11/24/93	378,880
Japanese Yen (Sell)	11,902,185	12,240,018	12/3/93	337,833
Japanese Yen (Sell)	4,618,350	4,719,608	12/29/93	101,258
			\$1,106,544	

Cross Forward Currency Contracts Outstanding  
at October 31, 1993 (aggregate face value \$16,820,387)

Market Contracts	In Exchange Value	Market For	Delivery Value	Date	Unrealized Appreciation/Depreciation
Deutschemarks (Buy)	\$1,211,200	Greek Drachma	\$1,286,013	12/14/93	\$ (74,813)
Deutschemarks (Buy)	1,806,120	Greek Drachma	1,932,405	12/15/94	(126,285)
Deutschemarks (Buy)	3,206,520	French Francs	3,206,322	1/12/94	198
Deutschemarks (Buy)	3,991,190	Danish Krone	4,035,401	1/18/94	(44,211)
Deutschemarks (Buy)	1,365,970	French Francs	1,374,619	1/18/94	(8,649)
Deutschemarks (Buy)	1,395,665	French Francs	1,412,200	1/18/94	(16,535)
Deutschemarks (Sell)	2,968,500	Finnish Markka	3,004,798	1/20/94	36,298
					\$(233,997)

Diversification of Foreign Bonds and Notes  
at October 31, 1993 (as a percentage of net assets):

Japan	6.9%	Mexico	1.0%
Netherlands	3.0	France	0.9
Italy	2.9	Australia	0.7
United Kingdom	2.9	Spain	0.7
Argentina	1.6	Greece	0.6
Venezuela	1.4	Brazil	0.5
Sweden	1.2	South Africa	0.3
Denmark	1.1	Finland	0.2

<TABLE>  
<CAPTION>

Statement of  
assets and liabilities  
October 31, 1993

<S> <C> <C>

Assets		
Investments in securities, at value (identified cost \$514,783,498) (Note 1)		\$528,615,763
Cash		257,277
Interest and other receivables		9,758,865
Receivable for securities sold		38,990,904
Receivable for open forward currency contracts		1,143,040
Receivable for closed forward currency contracts		272,070
Receivable for variation margin		23,625
Total assets		579,061,544
Liabilities		
Payable for securities purchased	\$59,773,779	
Distributions payable to shareholders	3,321,879	



Payable for compensation of Manager (Note 2)	966,397	
Payable for administrative services (Note 2)	1,259	
Payable for compensation of Trustees (Note 2)	1,103	
Payable for investor servicing and custodian fees (Note 2)	58,740	
Payable for open forward currency contracts	270,493	
Payable for closed forward currency contracts	1,224,492	
Other accrued expenses	127,525	
Total liabilities		65,745,667
Net assets		513,315,877
Represented by		
Paid-in capital		\$481,523,815
Distributions in excess of net investment income		(7,555,392)
Accumulated net realized gain on investment transactions		24,629,143
Net unrealized appreciation of investments, options, futures, and forward currency contracts		14,718,311
Total -- Representing net assets applicable to capital shares outstanding		
		\$513,315,877
Computation of net asset value (and offering price)		
Net asset value per share (\$513,315,877 divided by 53,375,649 shares)		\$9.62

</TABLE>

<TABLE>

<CAPTION>

Statement of operations

Year ended October 31, 1993

<S>	<C>	<C>
Investment income:		
Interest (net of foreign tax \$129,433)		\$42,653,732
Dividends		763,118
Total investment income		43,416,850
Expenses:		
Compensation of Manager (Note 2)	\$3,742,268	
Investor servicing and custodian fees (Note 2)	385,850	
Compensation of Trustees (Note 2)	21,902	
Reports to shareholders	93,634	
Exchange listing fee	47,496	
Auditing	69,556	
Legal	23,635	
Postage	203,244	
Administrative services (Note 2)	15,859	
Amortization of organization expenses (Note 1)	1,134	
Registration fees	1,088	
Other	9,864	
Total expenses		4,615,530
Net investment income		38,801,320
Net realized gain on investments (Notes 1 and 3)		19,534,051
Net realized gain on options (Notes 1 and 3)		538,864
Net realized gain on futures contracts (Notes 1 and 3)		6,615
Net realized gain on forward currency contracts (Notes 1 and 3)		4,586,142
Net realized loss on foreign currency (Note 1)		(36,529)
Net unrealized appreciation of investments, futures, and forward currency contracts during the year		7,976,174
Net gain on investment transactions		32,605,317
Net increase in net assets resulting from operations		\$71,406,637

</TABLE>

<TABLE>

<CAPTION>

Statement of changes in net assets

	Year ended October 31	
	1993	1992
<S>	<C>	<C>
Increase in net assets		
Operations:		

Net investment income	\$ 38,801,320	\$ 41,273,369
Net realized gain on investments	19,534,051	32,235,783
Net realized gain (loss) on options	538,864	(1,628,393)
Net realized gain on futures contracts	6,615	586,832
Net realized gain of forward currency contracts	4,586,142	4,731,149
Net realized loss on foreign currency	(36,529)	(79,502)
Net unrealized appreciation (depreciation) of investments, options, futures and forward currency contracts	7,976,174	(9,097,376)
Net increase in net assets resulting from operations	71,406,637	68,021,862
Distributions to shareholders from:		
Net investment income	(38,801,320)	(41,028,325)
In excess of net investment income	(7,555,392)	--
Net realized gain on investments	--	(5,542,096)
Paid-in capital (Note 1)	--	(2,957,248)
Increase from capital share transactions	--	1,537,539
Total increase in net assets	25,049,925	20,031,732
Net assets		
Beginning of year	488,265,952	468,234,220
End of year (including distributions in excess of net investment income of \$7,555,392 and \$0, respectively)	\$513,315,877	\$488,265,952
Fund shares		
Shares outstanding at beginning of year	53,375,649	53,207,901
	53,375,649	53,207,901
Shares issued in connection with the reinvestment of distributions	--	167,748
Shares outstanding at end of year	53,375,649	53,375,649

/TABLE

<TABLE>  
<CAPTION>

Financial highlights\*

(For a share outstanding throughout the period)

<S>	<C>	<C>	<C>	<C>	<C>	<C>
		For the period		October 31		
		December 28, 1987				
		(commencement				
		of operations) to				
		Year ended October 31				
1993	1992	1991	1990	1989	1988	
Net Asset Value,						
Beginning of Period	\$9.15	\$8.80	\$8.01	\$8.86	\$9.50	\$9.35
Investment Operations						
Net Investment Income	.73	.77	.82	.84	.95	.81
Net Realized and Unrealized Gain (Loss) on Investments	.61	.51	.90	(.69)	(.44)	.17
Total from Investment Operations	1.34	1.28	1.72	.15	.51	.98
Distributions to Shareholders From:						
Net Investment Income	(.73)	(.77)	(.82)	(.84)	(.96)	(.80)
In Excess of Net Investment Income	(.14)	--	--	--	--	--
Net Realized Gain on Investments	--	(.10)	--	(.01)	(.19)	(.03)
Paid-in Capital (a)	--	(.06)	(.11)	(.15)	--	--
Total Distributions	(.87)	(.93)	(.93)	(1.00)	(1.15)	(.83)
Net Asset Value,						
End of Period	\$9.62	\$9.15	\$8.80	\$8.01	\$8.86	\$9.50
Market Value,						
End of Period	8.88	8.63	8.38	6.88	8.25	9.50
Total Investment Return at						
Market Value (%)	13.27	14.34	36.93	(4.80)	(1.52)	4.36(b)
Net Assets, End of Period						
(in thousands)	\$513,316	\$488,266	\$468,234	\$428,862	\$482,494	\$515,253
Ratio of Expenses to Average Net Assets (%)	.92	.95	1.08	1.08	1.06	1.01(b)
Ratio of Net Investment Income to						
Average Net Assets (%)	7.76	8.59	9.74	10.07	10.21	10.15(b)
Portfolio Turnover (%)	132.24	221.30	323.27	125.33	323.44	117.10(c)

\*Financial highlights for periods ended through October 31, 1992 have been restated to conform with requirements issued by the SEC in December 1992.

(a) See Note 1 to the Financial Statements.

(b) Annualized.

(c)Not annualized.

/TABLE

Notes to  
financial statements  
October 31, 1993

Note 1  
Significant  
accounting  
policies

The Fund is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The investment objective of the Fund is to seek high current income consistent with preservation of capital. The Fund intends to diversify its investments among the following three sectors of the fixed income securities market: a U.S. government sector, consisting of debt obligations of the U.S. government and its agencies and instrumentalities and related options, futures and repurchase agreements; a high yield sector, consisting of high yielding, lower-rated U.S. corporate fixed income securities; and an international sector, consisting of obligations of foreign governments, their agencies and instrumentalities and other fixed income securities denominated in foreign currencies.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

A) Security valuation Investments for which market quotations are readily available are stated at market value, which is determined using the last reported sale price, or, if no sales are reported -- as in the case of some securities traded over-the-counter -- the last reported bid price, except that certain U.S. government obligations are stated at the mean between the last reported bid and asked prices. 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, and 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 long-term corporate bonds and notes; such investments are stated at fair value on the basis of valuations furnished by a pricing service, approved by the Trustees, which determines valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. (See Section F of Note 1 with respect to valuations of options, forward currency contracts and futures outstanding.)

B) TBA purchase commitments The Fund may enter into "TBA" (to be announced) purchase commitments to purchase securities for a fixed price at a future date beyond customary settlement time. Although the unit price has been established, the principal value has not been finalized. However, the amount of the commitment will not fluctuate more than 2.0% from the principal amount. The Fund holds, and maintains until the settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the Fund enters into offsetting contracts for the forward sale of other securities it owns. TBA purchase commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the Fund's other assets. Unsettled TBA purchase commitments are valued at the current market value of the underlying securities, generally according to the procedures described under "Security valuation" above.

Although the Fund will generally enter into TBA purchase

commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the Fund may dispose of a commitment prior to settlement if the Fund Manager deems it appropriate to do so.

**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 on the commitment without regard to any unrealized gain or loss on the underlying security. If the Fund delivers securities under the commitment, the Fund realizes a gain or loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

**C) Joint trading account** Pursuant to an exemptive order issued by the Securities and Exchange Commission, the Fund may transfer uninvested cash balances into a joint trading account. The order permits the Fund's cash balance to be deposited into a single joint account along with the cash of other registered investment companies managed by Putnam Investment Management, Inc. (formerly known as The Putnam Management Company, Inc.), the Fund's Manager, a wholly-owned subsidiary of Putnam Investments, Inc. (formerly known as The Putnam Companies, Inc.), and certain accounts. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

**D) Repurchase agreements** The Fund 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. The Fund's Manager 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.

**E) Security transactions and related investment income** Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date.

Discount on zero coupon bonds, original issue discount bonds and step-up bonds is accreted according to the effective yield method. Certain securities held by the Fund pay interest in the form of additional securities; interest on such securities is recorded on the accrual basis at the lower of the coupon rate or the market value of the securities to be received, and is allocated to the cost of the securities received on the payment date.

Foreign currency-denominated receivables and payables are "marked-to-market" daily using the current exchange rate. The fluctuation between the original exchange rate and the current exchange rate is recorded daily as unrealized translation gain or loss. Upon receipt or payment, the Fund realizes a gain or loss on foreign currency amounting to the difference between the original value and the ending value of the receivable or payable. Foreign currency gains and losses related to interest receivable are reported as part of interest income.

**F) Option accounting principles** When the Fund writes a call or put option, an amount equal to the premium received by the Fund is included in the Fund's "statement of assets and liabilities" as an asset and an equivalent liability. The amount of the liability is subsequently "marked-to-market" to reflect the

current market value of an option written. The current market value of an option is the last sale price or, in the absence of a sale, the last offering price, except that certain options on U.S. government obligations are stated at fair value on the basis of valuations furnished by a pricing service approved by the Trustees. If an option expires on its stipulated expiration date, or if the Fund enters into a closing purchase transaction, the Fund realizes a gain (or loss if the cost of a closing purchase transaction exceeds the premium received when the option was written) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is extinguished. If a written call option is exercised, the Fund realizes a gain or loss from the sale of the underlying security and the proceeds of the sale are increased by the premium originally received. If a written put option is exercised, the amount of the premium originally received reduces the cost of the security which the Fund purchases upon exercise of the option.

The premium paid by the Fund for the purchase of a call or put option is included in the Fund's "statement of assets and liabilities" as an investment and is subsequently "marked-to-market" to reflect the current market value of the option. If an option which the Fund has purchased expires on the stipulated expiration date, the Fund realizes a loss in the amount of the cost of the option. If the Fund enters into a closing sale transaction, the Fund realizes a gain or loss, depending on whether proceeds from the closing sale transaction are greater or less than the cost of the option. If the Fund exercises a call option, the cost of securities acquired by exercising the call is increased by the premium paid to buy the call. If the Fund exercises a put option, it realizes a gain or loss from the sale of the underlying security and the proceeds from such sale are decreased by the premium originally paid.

Options on foreign currencies The Fund writes and purchases put and call options on foreign currencies. The accounting principles and risks involved are similar to those described above relating to options on securities. The amount of potential loss to the Fund upon exercise of a written call option is the value (in U.S. dollars) of the currency sold, converted at the spot price, less the value of U.S. dollars received in exchange. The amount of potential loss to the Fund upon exercise of a written put option is the value (in U.S. dollars) of the currency received converted at the spot price, less the value of the U.S. dollars paid in exchange.

Options on futures Options on futures generally operate in the same manner as options purchased or written directly on the underlying debt securities. The Fund is required to deposit in a manner similar to futures contracts as described below, "initial margin" and "variation margin" with respect to put and call options written on futures contracts. In addition, upon exercise, net premiums will decrease the unrealized loss or increase the unrealized gain on the future.

Futures A futures contract is an agreement between two parties to buy and sell a security at a set price on a future date. Upon entering into such a contract the Fund is required to pledge to the broker an amount of cash or U.S. government securities equal to the minimum "initial margin" requirements of the exchange. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin," and are recorded by the Fund as unrealized gains or losses. 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 potential risk to the Fund is that the change in value of the underlying securities may not correspond to the change in value of the futures contracts.

Forward currency contracts A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. 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 by the Fund 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 maximum potential loss from forward currency contracts is the aggregate face value in U.S. dollars at the time the contract was opened; however, management believes the likelihood of such a loss to be remote.

G) Federal taxes It is the policy of the Fund to distribute all of its 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. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation of securities held and excise tax on income and capital gains.

H) Distributions to shareholders Distributions to shareholders are recorded by the Fund on the ex-dividend date. At certain times, the Fund may pay distributions at a level rate even though, as a result of market conditions or investment decisions, the Fund may not achieve projected investment results for a given period. Based on investment results for the years ended October 31, 1992, and 1991, \$0.06 and \$0.11 of per share distributions has been designated as a distribution from paid-in capital for financial presentation purposes.

I) Unamortized organization expenses Expenses incurred by the Fund in connection with its organization aggregated \$36,523. These expenses are being amortized on a straight-line basis over a five-year period.

Note 2  
Management fee,  
administrative  
services, and  
other transactions

Compensation of Putnam Investment Management, Inc., for management and investment advisory services is paid quarterly based on the average net assets of the Fund. Such fee is based on the following annual rates: 0.75% of the first \$500 million of average weekly net assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% of any amount over \$1.5 billion.

The Fund also reimburses the Manager 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. For the year ended October 31, 1993, the Fund incurred \$15,859 for these services.

Trustees of the Fund receive an annual Trustee's fee of \$1,380 and an additional fee for each Trustees' meeting attended. Trustees who are not interested persons of the Manager and who serve on committees of the Trustees receive additional fees for attendance at certain committee meetings.

Custodial functions for the Fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a subsidiary of Putnam Investments, Inc. Investor servicing agent functions are provided by Putnam Investor Services, a division of PFTC.

Fees paid for these investor servicing and custodial functions for the year ended October 31, 1993 amounted to \$385,850.

Investor servicing and custodian fees reported in the Statement of operations for the year ended October 31, 1993 have been reduced by credits allowed by PFTC.

Note 3  
Purchases  
and sales of  
securities

During the year ended October 31, 1993, purchases and sales of investment securities other than U.S. government obligations and short-term investments aggregated \$733,415,427 and \$752,936,874, respectively. Purchases and sales of U.S. government obligations aggregated \$416,330,463 and \$417,100,454, respectively. In determining the net gain or loss on securities sold, the cost of securities has been determined on the identified cost basis.

Written option transactions on foreign currencies during the year are summarized as follows:

	Principal Subject Received	Premiums
to Option		
Options written	\$ 15,600	\$ 364,317
Options closed	(15,600)	(364,317)
Written options outstanding at end of year	\$ --	\$ --

Purchased option transactions on foreign bonds and currencies during the year are summarized as follows:

	Cost
Options purchased	\$ 2,880,921
Options sold	(1,279,047)
Purchased options outstanding at end of year	\$ 1,601,874

<TABLE>  
<CAPTION>

Transactions in U.S. Treasury Bond futures contracts during the year are summarized as follows:

<S>	<C>	<C>
	Sales of Futures Contracts	Aggregate
	Contracts	Face Value
Contracts opened	128	\$ 15,220,000
Contracts closed	(20)	(2,378,125)
Open at end of year	108	\$ 12,841,875

Transactions in forward and cross forward currency contracts during the year are summarized as follows:

	Purchase of Forward Currency Contracts	Aggregate Face Value
Contracts opened		\$ 557,158,280
Contracts closed		(543,400,873)
Open at end of year		\$ 13,757,407
	Sales of Forward Currency Contracts	Aggregate Face Value
Contracts outstanding at beginning of year		\$ 121,294,731
Contracts opened	1,386,357,329	1,265,062,598
Contracts closed		(1,335,446,370)
Open at end of year		\$ 50,910,959

/TABLE

#### Dividend Policy

It is the Fund's dividend policy to pay monthly distributions from net investment income and any net realized short-term gains (including gains from options and futures transactions). Long-term capital gains are distributed at least annually. In an effort to maintain a more stable level of distributions, the Fund's monthly distribution rate will be based on Putnam Management's projections of the net investment income and net realized short-term capital gains that the Fund is likely to earn over the long term. Such distributions at times may exceed the current earnings of the Fund resulting in a return of capital to shareholders.

At the time of each distribution, shareholders are furnished Putnam Management's current estimate of the sources of such

distribution. These estimates are subject to adjustment depending on investment results for the Fund's entire fiscal year. Final information regarding such matters is furnished to shareholders in the Fund's annual reports and in tax information provided following the end of each calendar year.

<TABLE>  
<CAPTION>

Selected Quarterly Data  
(Unaudited)

1993 <S> <C>	Three months ended			
	October 31 1993 <C>	July 31 1993 <C>	April 30 1993 <C>	January 31
Total investment income				
Total	\$ 10,173,560	\$ 10,397,435	\$ 11,266,547	\$ 11,579,308
Per share	\$ .20	\$ .19	\$ .21	\$ .22
Net investment income				
Total	\$ 8,974,985	\$ 9,272,392	\$ 10,035,513	\$ 10,518,430
Per share	\$ .17	\$ .17	\$ .19	\$ .20
Net realized and unrealized gain on investments				
Total	\$ 9,445,115	\$ 7,121,780	\$ 8,097,450	\$ 7,940,972
Per share	\$ .18	\$ .14	\$ .14	\$ .15
Net increase in assets resulting from operations				
Total	\$ 18,420,100	\$ 16,394,172	\$ 18,132,963	\$ 18,459,402
Per share	\$ .35	\$ .31	\$ .33	\$ .35
Net assets at end of period				
Total	\$513,315,877	\$504,903,823	\$499,318,157	\$491,933,716
Per share	\$ 9.62	\$ 9.46	\$ 9.35	\$ 9.22

1992	Three months ended			
	October 31 1992	July 31 1992	April 30 1992	January 31
Total investment income				
Total	\$ 10,686,030	\$ 12,026,006	\$ 10,932,613	\$ 12,202,807
Per share	\$ 0.20	\$ 0.23	\$ 0.21	\$ 0.22
Net investment income				
Total	\$ 9,519,163	\$ 10,861,523	\$ 9,771,583	\$ 11,121,100
Per share	\$ 0.17	\$ 0.21	\$ 0.19	\$ 0.20
Net realized and unrealized gain on investments				
Total	\$ 4,170,992	\$ 13,285,602	\$ 198,122	\$ 9,093,777
Per share	\$ 0.08	\$ 0.25	\$ --	\$ 0.18
Net increase in assets resulting from operations				
Total	\$ 13,690,155	\$ 24,147,125	\$ 9,969,705	\$ 20,214,877
Per share	\$ 0.25	\$ 0.46	\$ 0.19	\$ 0.38
Net assets at end of period				
Total	\$488,265,952	\$486,206,042	\$473,677,649	\$476,078,525
Per share	\$ 9.15	\$ 9.12	\$ 8.90	\$ 8.95

/TABLE

Federal tax information

For federal income tax purposes, \$0.869 per share for the year ended October 31, 1993 constitutes "dividend income". The Fund has designated 2.24% of the dividend income as qualifying for the dividends received deduction for corporations.

In addition, the Fund has designated \$0.269 per share as long-term capital gains.



The Form 1099 you receive in January 1994 will show the tax status of all distributions paid to your account in calendar 1993.

As required by law, your Fund reports to the Internal Revenue Service on a calendar year basis the amount of distributions paid to each shareholder.

Fund  
performance  
supplement

Putnam Master Income Trust is a portfolio managed for high current income consistent with preservation of capital through a portfolio diversified among U.S. government, high-yield and international fixed income securities. The fund invests in lower-rated, higher yielding securities, which may pose a greater risk to principal than higher-rated securities. High-yield securities are rated lower than investment-grade securities because there is a greater possibility that negative changes in the issuer's financial condition, or in general economic conditions, may hinder the issuer's ability to pay principal and interest on securities.

The Consumer Price Index is a commonly used measure of inflation; it does not represent an investment return.

Morningstar rates a fund in relation to similar funds, based on risk-adjusted 3-, 5- and 10-year total return, as applicable, adjusted for sales charges. Ratings are updated biweekly.

The fund performance supplement has been prepared by Putnam Management to provide additional information about the fund and the indexes used for performance comparisons. The information is not part of the portfolio of investments owned or the financial statements.

Your  
Trustees

George Putnam  
Chairman  
Chairman and President,  
The Putnam Funds

William F. Pounds  
Vice Chairman  
Professor of Management,  
Alfred P. Sloan  
School of Management,  
Massachusetts Institute of  
Technology

Hans H. Estin  
Vice Chairman,  
North American  
Management Corporation

John A. Hill  
Principal and  
Managing Director,  
First Reserve Corp.

Elizabeth T. Kennan  
President,  
Mount Holyoke College

Lawrence J. Lasser  
President and  
Chief Executive Officer,  
Putnam Investments, Inc.

Robert E. Patterson  
Executive Vice President,  
Cabot Partners  
Limited Partnership

Donald S. Perkins  
Director of various  
corporations

George Putnam, III  
President, New Generation  
Research, Inc.

A.J.C. Smith  
Chairman of the Board  
and Chief Executive Officer  
Marsh & McLennan  
Companies, Inc.

W. Nicholas Thorndike  
Director of various  
corporations

Putnam  
Master  
Income  
Trust

Fund information

Investment manager  
Putnam Investment  
Management, Inc.  
One Post Office Square  
Boston, MA 02109

Marketing services  
Putnam Mutual Funds Corp.  
One Post Office Square  
Boston, MA 02109

Investor servicing agent  
Putnam Investor Services  
Mailing address:  
P.O. Box 41203  
Providence, RI 02940-1203  
1-800-225-1581

Custodian  
Putnam Fiduciary  
Trust Company

Legal counsel  
Ropes & Gray

Independent accountants  
Coopers & Lybrand

(DALBAR logo)

Putnam Investor Services  
has received the DALBAR  
award each year since the  
award's 1990 inception.  
In more than 10,000 tests  
of 38 shareholder  
service components,  
Putnam outperformed  
the industry standard  
in every category.

9687 12/93

Officers  
George Putnam  
President

Charles E. Porter

Executive Vice President

Patricia C. Flaherty  
Senior Vice President

Lawrence J. Lasser  
Vice President

Gordon H. Silver  
Vice President

Gary N. Coburn  
Vice President

Paul O'Neil  
Vice President

Rosemary H. Thomsen  
Vice President  
and Fund Manager

William N. Shiebler  
Vice President

John R. Verani  
Vice President

John D. Hughes  
Vice President  
and Treasurer

Beverly Marcus  
Vice President  
and Clerk

Call 1-800-634-1587 weekdays from 9 a.m. to 5 p.m. Eastern time  
for up-to-date information about the fund's NAV or to request  
Putnam's quarterly Closed-End Fund Commentary.

- - - - -  
Bulk Rate  
U.S. Postage  
Paid  
Boston, MA  
Permit No. 53749  
- - - - -

PUTNAMINVESTMENTS  
The Putnam Funds  
One Post Office Square  
Boston, Massachusetts 02109

APPENDIX TO FORM N30D FILINGS TO DESCRIBE DIFFERENCES BETWEEN  
PRINTED AND EDGAR-FILED TEXTS:

- (1) Rule lines for tables are omitted.
- (2) Boldface and italic typefaces are displayed in normal type.
- (3) Headers (e.g, the name of the fund) and footers (e.g., page numbers and "The accompanying notes are an integral part of these financial statements") are omitted.
- (4) Because the printed page breaks are not reflected, certain tabular and columnar headings and symbols are displayed differently in this filing.
- (5) Bullet points and similar graphic signals are omitted.
- (6) Page numbering is different.
- (7) "GBP" has replaced the sign for the British Pound, "JPY" has replace the sign for the Japanese Yen.