

# 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)

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### FILER

#### PUTNAM MASTER INCOME TRUST

CIK: **824463** | IRS No.: **042993219** | State of Incorporation: **MA** | Fiscal Year End: **1031**  
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Putnam  
Master  
Income  
Trust

Semiannual  
Report  
April 30, 1994

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

<TABLE>  
<CAPTION>  
<S>        <C>  
          Contents  
2        How your fund performed  
3        From the Chairman  
4        Report from Putnam Management  
          Semiannual Report  
7        Report of Independent Accountants  
8        Portfolio of investments owned  
19       Financial statements  
30       Fund performance supplement  
31       Your Trustees  
</TABLE>

How your  
fund performed  
For periods ended April 30, 1994

<TABLE>  
<CAPTION>

| Total return*                 | Fund       | Market    | Consumer  |           |
|-------------------------------|------------|-----------|-----------|-----------|
|                               | NAV        | price     | Price     |           |
| <S>                           | <C>        | <C>       | <C>       |           |
| 6 months                      | -1.34%     | -0.38%    | 1.17%     |           |
| 1 year                        | 5.95       | 1.14      | 2.36      |           |
| 3 years                       | 44.85      | 42.87     | 9.02      |           |
| annualized                    | 13.15      | 12.63     | 2.92      |           |
| 5 years                       | 72.61      | 66.16     | 19.74     |           |
| annualized                    | 11.54      | 10.69     | 3.67      |           |
| Life-of-fund (since 12/28/87) | 98.39      | 71.70     | 27.73     |           |
| annualized                    | 11.41      | 8.90      | 3.94      |           |
| Share data                    |            | NAV       | Market    |           |
| October 31, 1993              |            | \$ 9.62   | \$ 8.875  |           |
| April 30, 1994                |            | 8.99      | 8.375     |           |
| Distributions                 | Investment | Capital   |           |           |
| 6 months ended                | Number     | income    | gains     | Total     |
| April 30, 1994                | 6          | \$ 0.3750 | \$ 0.0965 | \$ 0.4715 |
| Current returns               |            | NAV       | Market    |           |
| at the end of the period      |            |           | price     |           |
| Current dividend rate         |            | 8.34%     | 8.96%     |           |

</TABLE>

\*Performance data represent past results. Investment return, principal value and market price will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. Please see the fund performance supplement on page 30 for additional information about performance comparisons.

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.

From the  
Chairman

(George Putnam photo)

George Putnam  
Chairman of the Trustees  
(C) Karsh, Ottawa

Dear Shareholder:

While the past months have not been easy ones for the fixed-income markets, I am pleased to report that Putnam Master Income Trust's tripartite approach to investing has again yielded competitive returns. For the six months ended April 30, 1994, the fund's return was -1.34% at net asset value. While this figure may appear somewhat lackluster in absolute terms, it represents considerably less of a decline than that experienced by the fixed-income markets as a whole.

It is also a pleasure to note that Morningstar, an independent mutual fund research firm, recently upgraded its rating of your fund to its highest category. The fund earned Morningstar's coveted five-star rating for performance through April 30, 1994, a designation awarded to only a handful of funds. Morningstar rates funds relative to funds with similar objectives, based on risk-adjusted medium- and long-term performance, as applicable. Ratings are published every two weeks.

Among the three fixed-income sectors in which your fund invests, high-yield corporate bonds made the greatest contribution to your fund's performance. Careful selection, intensive credit research, and active management enabled your fund to make the most of opportunities in this market. U.S. government and international fixed-income markets declined in value due to rising interest rates and a volatile U.S. dollar overseas. While it is still too soon to say when the volatility in these markets will subside, Fund Manager Rosemary Thomsen anticipates a number of investment opportunities within each sector and is positioning the fund to take advantage of them.

The past 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 especially enabled it to take advantage of many opportunities. As a result, we take pride in the fund's record of consistently minimizing volatility while providing attractive levels of income. Rosemary and her team remain confident of the fund's ability to continue to meet its objective in the months to come.

Respectfully yours,

(Signature)

George Putnam  
June 15, 1994

Report from  
Putnam Management

Top 10 high-yield  
bond holdings  
(4/30/94)\*

---

Gaylord Container  
Loehmans Holdings Inc.  
Midland Funding Corp.  
Epic Holdings  
AMC Entertainment

Viking Star Shipping  
Horizon Cellular Telephone  
Grand Union  
Marvel Parent Holdings  
Flag Star Corp.

\*Based on percentage  
of net assets.

The six months ended April 30, 1994, encompassing the first half of Putnam Master Income Trust's fiscal year, have not been the most reassuring ones for investors. Nonetheless, the fund continued to provide its shareholders with its characteristic combination of high current income, low volatility, and a relatively strong return.

While many investments have suffered recently from extreme market volatility and the effects of rising interest rates, your fund has stayed its course admirably well. For the period, the fund produced a total return of -1.34% at net asset value, or -0.38% for those who purchased shares at the market price at the beginning of the period.

High-yield bonds hold their lead Your fund's total return over the period was driven primarily by the strength of the high-yield bond market, as has been the case over the past three years. Accordingly, we continue to emphasize investments in lower-rated, higher-yielding bonds, and have modestly increased the sector allocation.

Disappointing performances in both the U.S. government and international fixed-income sectors are the direct result of recent interest rate increases. High-yield bonds, while also affected to some degree, outperformed the fund's other two sectors, due primarily to improving credit fundamentals.

The fund's portfolio also includes another type of lower-rated, higher-yield investment: governmental bonds of emerging-market countries such as Mexico and Argentina. While backed by the full faith and credit of each country's government, these bonds carry relatively low ratings, due in part to the credit history of the issuing governments. We believe that these countries, as well as a number of others, are now well on the way to putting their financial houses in order.

Cautious approach to government bonds Yields on U.S. government securities continued their steady climb during the past two calendar quarters. The average 30-year Treasury bond yield was 5.97% on October 31, 1993, and had risen to 7.31% by April 30, 1994. Rates on shorter-term securities moved up as well. After the Federal Reserve Board raised short-term rates in February, longer-term bond prices declined to a greater degree than those of short-term Treasuries. We anticipated the market response to the Fed's moves, and reduced the fund's exposure in this sector to approximately 25% of the portfolio.

Mortgage-backed securities results were disappointing over the period. Uncertainty over prepayments and rising interest rates made the sector a highly volatile one. We reduced exposure in mortgage-backed holdings considerably, although when these securities' prices return to a level that we believe offsets their risk, we expect to build up holdings once again.

International markets follow U.S. Rising U.S. interest rates and currency volatility led to disappointing returns from the international fixed-income sector over the period. We maintained your fund's international fixed-income holdings at approximately 25% of the portfolio.

Although the fundamental prerequisite of a strong economy was in place, the U.S. dollar remained weak against most major currencies for the past six months. In late January, international bond prices dropped, starting in Japan and then moving quickly to European and other markets. After the Fed tightened monetary policy in February, both Japanese and European bond yields rose significantly. These yield shifts were characteristic of the turbulent early months of 1994 as a whole: international markets turned in fair numbers in January, poor ones in February and March, then posted slightly better returns for April.

Outlook We believe the Japanese and European bond markets will gradually detach themselves from U.S. monetary policy, because both areas are at different stages of the business cycle. This should lead to reduced volatility in both markets. The yield shifts experienced earlier are now creating some buying opportunities, since fundamentals suggest that there is room for interest rates to fall in Japan and Europe. We also expect the U.S. dollar to appreciate gradually against most foreign currencies.

At home, we believe there is cause for continued optimism in the high-yield sector. In our view, the market's prospects remain positive: As the companies

that issue high-yield bonds grow more profitable in the rising economy, their credit pictures improve accordingly. As a result, we expect to maintain the fund's current emphasis on this sector for the time being. As the economy cools, we believe the outlook for Treasuries, mortgage-backed securities, and other U.S. government securities will improve. Mortgage-backed securities, in particular, have lagged behind Treasuries for a number of months, and are

likely to stabilize as interest rate volatility diminishes.

The challenge of investing profitably in volatile fixed-income markets at home and abroad is one your fund is well equipped to meet. Your fund's ability to invest flexibly in three distinct fixed-income sectors simultaneously has served it well, as each sector reacts differently to changing economic indicators. While more uncertainty is expected in some of these markets, some excellent investment opportunities will also present themselves. We believe the investment strategies embodied in your fund will enable us not only to meet the challenges, but also to take advantage of the opportunities.

Top high-yield bond industry sectors  
(Based on percentage of total market value of corporate bonds and notes as of 4/30/94)

|                  |      |
|------------------|------|
| Health care      | 6.5% |
| Retail           | 5.9% |
| Cable television | 5.9% |
| Food             | 5.2% |

Putnam  
Master  
Income  
Trust  
Semiannual Report  
For the period ended April 30, 1994

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 April 30, 1994, and the related statement of operations for the six months then ended, the statement of changes in net assets for the six months then ended and for the year ended October 31, 1993, and the "Financial Highlights" for the six months ended April 30, 1994, for each of the five years in the period ended October 31, 1993, 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 accepting 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 April 30, 1994, 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 April 30, 1994, the results of its operations for the six months then ended, the changes in its net assets for the six months then ended and for the year ended October 31, 1993, and the "Financial Highlights" for the six months ended April 30, 1994, for each of the five years in the period ended October 31, 1993, 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  
June 15, 1994

Portfolio of  
investments owned  
April 30, 1994

Corporate Bonds and Notes (39.9%) (a)

| <TABLE><br><CAPTION><br>Principal Amount  |  | Value        |
|---|--|--------------|
| <S>                                       | <C>  | <C>          |
| <b>Health Care (2.6%)</b>                 |  |              |
| \$ 325,000                                | Abbey Healthcare Group, Inc. sr. sub. notes 9-1/2s, 2002   | \$ 297,375   |
| 1,022,500                                 | EPIC Healthcare Group, Inc. jr. sub. notes 11s, 2003(b)  | 654,400      |
| 4,500,000                                 | EPIC Holdings Inc. sr. sub. notes stepped-coupon zero %<br>(12s, 3/15/97), 2002(c)   | 3,701,250    |
| 975,000                                   | Healthsouth Rehabilitaton 9-1/2s, 2001   | 948,188      |
| 1,088,000                                 | Mediplex Group, Inc. sr. sub. notes 11-3/4s, 2002  | 1,153,280    |
| 1,987,000                                 | Multicare Cos., Inc. sr. sub. notes 12-1/2s, 2002  | 2,225,440    |
| 2,415,000                                 | Paracelsus Healthcare Corp. sr. sub. notes 9-7/8s, 2003  | 2,306,325    |
| 1,000,000                                 | Quorum Health Group, Inc. sr. sub. notes 11-7/8s, 2002   | 1,100,000    |
|   |  | 12,386,258   |
| <b>Retail (2.3%)</b>                      |  |              |
| 1,000,000                                 | Bradlees, Inc. sr. sub. notes 11s, 2002  | 1,010,000    |
| 2,100,000                                 | County Seat Stores sr. sub. notes 12s, 2001  | 1,995,000    |
| 1,870,000                                 | Duane Reade Corp. sr. notes 12s, 2002  | 1,907,400    |
| 511,000                                   | Eckerd (Jack) Corp. sub. deb. 11-1/8s, 2001  | 512,278      |
| 50,000                                    | Loehmanns' Holdings Inc. sr. sub. notes 13-3/4s, 1999  | 47,000       |
| 5,000,000                                 | Loehmanns' Holdings Inc. sr. sub. notes 10-1/2s, 1997  | 4,750,000    |
| 1,950,000                                 | Pay'n Pak Stores, Inc. sr. sub. deb. 13-1/2s, 1998(d)  | 9,750        |
| 1,050,000                                 | Specialty Retailers, Inc. sr. sub. notes 11s, 2003   | 1,008,000    |
|   |  | 11,239,428   |
| <b>Cable Television (2.3%)</b>            |  |              |
| \$2,000,000                               | Adelphia Communications Corp. sr. notes 12-1/2s, 2002  | \$ 2,080,000 |
| 1,000,000                                 | Adelphia Communications Corp. notes Ser. B, 9-7/8s, 2005   | 905,000      |
| 1,250,000                                 | Cablevision Industries Corp. sr. notes 10-3/4s, 2002   | 1,243,750    |
| 1,000,000                                 | Century Communications Corp. sr. sub. deb. 11-7/8s, 2003   | 1,060,000    |
| 975,000                                   | Continental Cablevision, Inc. sr. deb. 9s, 2008  | 887,250      |
| 1,995,000                                 | Falcon Holdings Group, Inc. sr. sub. notes 11s, 2003(b) (c) (e)  | 1,885,275    |
| 2,300,000                                 | Insight Communications Co. sr. sub. notes stepped-coupon 8-1/4s, (11-1/4s, 3/1/96),<br>2000(c)   | 2,173,500    |
| 1,000,000                                 | Summit Communications Group, Inc. sr. sub. deb. 10-1/2s, 2005  | 997,500      |
|   |  | 11,232,275   |
| <b>Food (2.1%)</b>                        |  |              |
| 1,950,000                                 | Chiquita Brands sr. notes 9-1/8s, 2004   | 1,794,000    |
| 1,458,000                                 | Del Monte Corp. sub. notes 12-1/4s, 2002 (acquired par 79,000 11/11/93, cost<br>\$79,000, acquired par 1,295,000 3/12/93 cost \$1,334,497) (b) (f) | 1,509,030    |
| 2,250,000                                 | Fresh Del Monte Produce N.V Corp deb. 10s, 2003 (acquired 4/22/93, cost \$2,250,000)<br>(e) (f)  | 2,070,000    |
| 2,500,000                                 | Mafco, Inc. sr. sub. notes 11-7/8s, 2002   | 2,525,000    |
| 1,000,000                                 | RJR Nabisco Inc. notes 9-1/4s, 2013  | 912,500      |
| 1,000,000                                 | RJR Nabisco, Inc. sr. notes 8-3/4s, 2004   | 885,000      |
| 700,000                                   | Specialty Foods Corp. units. stepped-coupon zero %, (13-1/2s, 8/15/99), 2005(c) (e)  | 315,000      |
|   |  | 10,010,530   |
| <b>Forest Products (1.8%)</b>             |  |              |
| \$1,600,000                               | Container Corp. of America sr. notes 9-3/4s, 2003  | \$1,504,000  |
| 6,735,000                                 | Gaylord Container Corp. sr. sub. notes stepped-coupon zero % (12-3/4s, 5/15/96),<br>2005(c)  | 5,455,350    |
| 1,500,000                                 | Williamhouse Regency Delaware, Inc. sr. sub. deb. 11-1/2s, 2005  | 1,500,000    |
|   |  | 8,459,350    |
| <b>Motion Picture Distribution (1.7%)</b> |  |              |
| 3,210,000                                 | AMC Entertainment, Inc. sr. sub. notes 12-5/8s, 2002   | 3,466,800    |
| 2,000,000                                 | Act III Theatres sr. sub. notes 11-7/8s, 2003  | 2,140,000    |
| 675,000                                   | Cinemark Mexico notes 12s, 2003  | 654,750      |
| 1,825,000                                 | Cinemark USA sr. notes 12s, 2002   | 1,971,000    |
|   |  | 8,232,550    |
| <b>Cellular Communications (1.7%)</b>     |  |              |
| 1,500,000                                 | Cellular, Inc. sr. sub. disc. notes stepped-coupon zero % (11-3/4s, 9/1/98, 2003) (c)  | 922,500      |
| 1,015,000                                 | Cencall Communications Corp. sr. disc. notes stepped-coupon zero % (10-1/8s,<br>1/15/99), 2004(c)  | 558,250      |
| 1,500,000                                 | Centennial Cellular Corp. sr. notes 8-7/8s, 2001   | 1,365,000    |
| 4,670,000                                 | Horizon Cellular Telephone sr. sub. disc. notes stepped-coupon zero % (11-3/8s,<br>10/1/97), 2000(c)   | 3,222,300    |

|                          |   |                        |
|--------------------------|---|------------------------|
| 3,500,000                | NEXTEL Communications Inc. sr. disc. notes stepped-coupon zero % (9-3/4s, 2/15/99), 2004(c)   | 2,030,000<br>8,098,050 |
| Recreation (1.6%)        |   |                        |
| \$ 880,000               | Arizona Charlies Corp. sub. deb. 12s, 2000 (acquired 11/10/93, cost \$880,000) (e)  | \$ 880,000             |
| 640,000                  | Capitol Queen Corp. sr. sub. deb. 12s, 2000 (acquired 11/10/93, cost \$520,000) (f)   | 544,000                |
| 970,000                  | Casino America Inc. 1st mtge. deb. 11-1/2s, 2001  | 950,600                |
| 1,800,000                | Casino Magic Finance 1st. mtge. deb. 11-1/2s, 2001(e)   | 1,638,000              |
| 625,000                  | Golden Nugget Finance Corp. 1st mtge. deb. Ser. B, 10-5/8s, 2003  | 518,750                |
| 480,000                  | Presidential Riverboat Casinos sr. sub. notes 11-3/4s, 2001   | 448,800                |
| 864,000                  | Trump Castle Funding Corp. deb. 11-1/2s, 2000 (acquired 12/18/93, cost \$864,000) (e) (f)   | 864,000                |
| 2,000,000                | Trump Taj Mahal sub. deb. ser. A, 11.35s, 1999(b)   | 1,800,000              |
|                          |   | 7,644,150              |
| Chemicals (1.5%)         |   |                        |
| 500,000                  | Arcadian Partners L.P. sr. notes Ser. B, 10-3/4s, 2005  | 486,250                |
| 3,750,000                | G-I Holdings Inc. sr. notes zero %, 1998  | 2,325,000              |
| 1,050,000                | Harris Chemical Corp. sr. sec'd. disc. notes stepped-coupon zero % (10-1/4s, 1/15/96), 2001(c)  | 855,750                |
| 2,520,000                | OSI Specialty Inc. sr. sub. notes stepped-coupon zero %, (11-1/2s, 4/15/99) (acquired 4/12/94, cost \$1,442,574) 2004(c) (f)                                  | 1,461,600              |
| 1,000,000                | UCC Investors Holding, Inc. sr. sub. notes 11s, 2003  | 1,010,000              |
| 1,000,000                | UCC Investors Holding, Inc. sr. notes 10-1/2s, 2002   | 1,030,000              |
|                          |   | 7,168,600              |
| Conglomerates (1.4%)     |   |                        |
| \$ 250,000               | ADT Ltd. sr. sub. notes 9-1/4s, 2003  | \$ 235,000             |
| 2,900,000                | Haynes International, Inc. sr. sub. notes 13-1/2s, 1999   | 2,842,000              |
| 750,000                  | Jordan Industries, Inc. sr. notes 10-3/8s, 2003   | 720,000                |
| 2,050,000                | MacAndrews & Forbes Group Inc. deb. 12-1/4s, 1996   | 2,060,250              |
| 1,000,000                | MacAndrews & Forbes Holdings Inc. sub. deb. 13s, 1999   | 1,002,500              |
|                          |   | 6,859,750              |
| Food Chains (1.4%)       |   |                        |
| 3,250,000                | Grand Union Co. sr. sub. notes 12-1/4s, 2002  | 3,201,250              |
| 2,000,000                | Grand Union Capital Corp. sr. notes stepped-coupon zero % (15s, 6/15/99), 2004(c)   | 840,000                |
| 410,000                  | Megafoods Stores Inc. sr. notes 10-1/4s, 2000   | 344,400                |
| 2,225,000                | Stater Brothers sr. notes 11s, 2001 (acquired 3/2/94, cost \$2,225,000) (e) (f)   | 2,169,375              |
|                          |   | 6,555,025              |
| Advertising (1.3%)       |   |                        |
| 1,935,000                | Katz Corp. sr. sub. notes 12-3/4s, 2002   | 2,089,800              |
| 2,000,000                | Lamar Advertising Co. sr. sec'd. notes 11s, 2003  | 1,980,000              |
| 2,000,000                | Universal Outdoor Inc. sr. notes 11s, 2003  | 1,980,000              |
|                          |   | 6,049,800              |
| Publishing (1.2%)        |   |                        |
| 1,775,000                | Affinity Group Inc. sr. sub. notes 11-1/2s, 2003  | 1,775,000              |
| 1,000,000                | General Media sr. sec'd. notes 10-5/8s, 2000 (acquired 12/15/93, cost \$1,015,000) (e) (f)  | 965,000                |
| Publishing (continued)   |   |                        |
| \$5,100,000              | Marvel Parent Holdings, Inc. sr. sec'd. disc. notes zero %, 1998 (acquired 10/13/93, cost \$2,991,762) (e) (f)  | \$3,136,500            |
|                          |   | 5,876,500              |
| Agriculture (1.2%)       |   |                        |
| 1,994,000                | PMI Acquisition Corp. units stepped-coupon zero %, (11-1/2s, 3/1/00) 2005(c)  | 967,090                |
| 1,731,000                | Premium Standard Farms deb. zero %, 2003  | 1,322,051              |
| 550,500                  | Premium Standard Farms exch. pfd. units 12-1/2s, 2000 (acquired 2/8/93 par \$151,055, cost \$151,055, and 9/15/93 par \$399,475, cost \$399,475) (e) (f)      | 600,045                |
| 2,449,280                | Premium Standard Farms sr. sec'd. notes 12s, 2000 (acquired 2/8/93 par \$676,620, cost \$676,620, acquired 9/15/93 par \$1,772,660, cost \$1,772,660) (e) (f) | 2,669,715              |
|                          |   | 5,558,901              |
| Building Products (1.2%) |   |                        |
| 750,000                  | American Standard, Inc. sr. deb. 11-3/8s, 2004  | 768,750                |
| 3,000,000                | American Standard, Inc. sr. sub. deb. stepped-coupon zero % (10-1/2s, 6/1/98), 2005(c)  | 1,725,000              |
| 1,750,000                | Southdown, Inc. sr. sub. notes Ser. B, 14s, 2001  | 1,977,500              |

|                                    |   |             |
|------------------------------------|---|-------------|
| 1,000,000                          | Triangle Pacific Corp. sr. notes 10-1/2s, 2003  | 990,000     |
|                                    |   | 5,461,250   |
| Containers (1.0%)                  |   |             |
| 2,400,000                          | Anchor Glass Container Corp. sr. sub. deb. 9-7/8s, 2008   | 2,214,000   |
| Containers (continued)             |   |             |
| \$2,500,000                        | Ivex Packaging Corp. sr. sub. notes 12-1/2s, 2002   | \$2,681,250 |
|                                    |   | 4,895,250   |
| Oil and Gas (0.9%)                 |   |             |
| 2,350,000                          | Maxus Energy Corp. notes 9-3/8s, 2003   | 2,138,500   |
| 2,250,000                          | TransTexas Gas Corp. sr. secd. notes 10-1/2s, 2000  | 2,250,000   |
|                                    |   | 4,388,500   |
| Electric Utilities (0.9%)          |   |             |
| 4,000,000                          | Midland Funding Corp. II sub., secd. lease oblig. bonds Ser. B, 13-1/4s, 2006   | 4,340,000   |
| Specialty Consumer Products (0.9%) |   |             |
| 2,500,000                          | International Semi-Tech. Micro-Electric sr. disc. notes stepped-coupon zero % (11-1/2s, 8/15/00), 2003(c)   | 1,225,000   |
| 3,210,000                          | Playtex Family Products Corp. sr. sub. notes 9s, 2003   | 2,889,000   |
|                                    |   | 4,114,000   |
| Insurance (0.7%)                   |   |             |
| 975,000                            | American Annuity Group, Inc. sr. notes 9-1/2s, 2001   | 965,250     |
| 1,250,000                          | Reliance Group Holdings sr. sub. notes 9-3/4s, 2003   | 1,137,500   |
| 1,500,000                          | Reliance Group Holdings sr. notes 9s, 2000  | 1,365,000   |
|                                    |   | 3,467,750   |
| Shipping (0.7%)                    |   |             |
| 3,450,000                          | Viking Star Shipping sr. secd. notes 9-5/8s, 2003   | 3,450,000   |
| Restaurants (0.7%)                 |   |             |
| 350,000                            | American Restaurant Group, Inc. sr. secd. notes 12s, 1998   | 327,250     |
| 3,200,000                          | Flagstar Corp. sr. sub. deb. sinking fund 11.25s, 2004  | 3,056,000   |
|                                    |   | 3,383,250   |
| Business Services (0.7%)           |   |             |
| \$2,000,000                        | Corporate Express, Inc. sr. notes 9-5/8s, 2004(e)   | \$1,860,000 |
| 2,000,000                          | Equitable Bag Co. sr. notes 12 3/8s, 2002(d)  | 1,520,000   |
|                                    |   | 3,380,000   |
| Metals and Mining (0.7%)           |   |             |
| 2,000,000                          | Horsehead Industries, Inc. sub. notes 14s, 1999   | 1,930,000   |
| 528,000                            | Horsehead Industries, Inc. sr. sub. ext. reset notes 13-1/2s, 1994  | 528,000     |
| 900,000                            | Kaiser Aluminum & Chemical Corp. sr. sub. notes 12-3/4s, 2003   | 913,500     |
|                                    |   | 3,371,500   |
| Electronics (0.7%)                 |   |             |
| 2,250,000                          | Ampex Group, Inc. sr. sub. deb. 13-1/4s, 1996(d)  | 315,000     |
| 2,700,000                          | Amphenol Corp. sr. sub. notes 12-3/4s, 2002   | 3,024,000   |
|                                    |   | 3,339,000   |
| Steel (0.6%)                       |   |             |
| 2,900,000                          | WCI Steel Inc. sr. notes 10-1/2s, 2002 (acquired par \$1,400,000 12/7/93, cost \$1,400,000, acquired par \$1,500,000 2/25/94, cost \$1,642,500) (e) (f) | 2,979,750   |
| Communications (0.5%)              |   |             |
| 4,200,000                          | Panamsat L.P. sr. sub. notes stepped-coupon zero % (11-3/8s, 8/1/98), 2003(c)   | 2,562,000   |
| Textiles (0.5%)                    |   |             |
| 2,000,000                          | Foamex (L.P.) Capital Corp. sr. sub. deb. 11-7/8s, 2004   | 2,060,000   |
| 91,000                             | Foamex (L.P.) sr. secd. notes 9-1/2s, 2000  | 87,360      |
| 400,000                            | New Street Acquisition 12s, 1998  | 400,000     |
|                                    |   | 2,547,360   |



|  |   |               |
|--|---|---------------|
| Broadcasting (0.5%)                                |   |               |
| \$ 1,500,000                                       | Argyle Television Operations sr. sub. notes 9-7/8s, 2003  | \$ 1,402,500  |
| 1,000,000  | SFX Broadcasting sr. sub. notes 11-3/8s, 2000   | 1,010,000     |
|  |   | 2,412,500     |
| Environmental Control (0.5%)                       |   |               |
| 2,400,000  | Envirosource, Inc. sr. notes 9-3/4s, 2003   | 2,256,000     |
| Lodging (0.5%)                                     |   |               |
| 2,250,000  | John Q. Hammons Hotels 1st. Mtge. 8-7/8s, 2004  | 2,025,000     |
| 500,000  | Red Roof Inns sr. notes 9-5/8s, 2003 (acquired 12/8/93, cost \$500,000) (e) (f)                                   | 457,500       |
|  |   | 2,482,500     |
| Consumer Services (0.4%)                           |   |               |
| 1,000,000  | Solon Automated Services, Inc. sr. sub. deb. 13-3/4s, 2002  | 1,050,000     |
| 1,000,000  | Solon Automated Services, Inc. sr. notes 12-3/4s, 2001  | 1,060,000     |
|  |   | 2,110,000     |
| School Busses (0.4%)                               |   |               |
| 2,000,000  | Blue Bird Acquisition Corp. sub. deb. 11-3/4s, 2002   | 2,080,000     |
| Banks (0.4%)                                       |   |               |
| 1,125,000  | Chevy Chase Savings Bank Inc. sub. deb. 9-1/4s, 2005  | 1,057,500     |
| 1,000,000  | Riggs National Corp. sub. deb. 8-1/2s, 2006   | 950,000       |
|  |   | 2,007,500     |
| Medical Supplies (0.5%)                            |   |               |
| 1,930,000  | McGaw, Inc. sr. notes 10-3/8s, 1999   | 1,997,550     |
| 500,000  | Wright Medical Technology Inc. sr. sec'd. notes Ser. B, 10-3/4s, 2000   | 485,000       |
|  |   | 2,482,550     |
| Apparel (0.4%)                                     |   |               |
| \$ 2,000,000                                       | Guess Inc. sr. sub. notes 9-1/2s, 2003(b)   | \$ 1,940,000  |
| Real Estate (0.4%)                                 |   |               |
| 2,000,000  | Scotsman Group Inc. sr. sec'd. notes 9-1/2s, 2000   | 1,890,000     |
| Automotive Parts (0.3%)                            |   |               |
| 1,350,000  | Key Plastics Corp. sr. notes 14s, 1999  | 1,559,250     |
| Airlines (0.3%)                                    |   |               |
| 1,800,000  | USAir, Inc. pass thru certif. 10-3/8s, 2013   | 1,535,625     |
| Finance (0.3%)                                     |   |               |
| 1,125,000  | Comdata Network, Inc. sr. notes 12-1/2s, 1999   | 1,215,000     |
| Computers (0.1%)                                   |   |               |
| 3,598,000  | DR Holdings Inc. sr. sub. deb. 15-1/2s, 2002(b)   | 539,700       |
|  | Total Corporate Bonds and Notes (cost \$197,816,993)  | \$191,561,402 |
| U.S. Government and Agency Obligations (23.1%) (a) |   |               |
| Principal Amount                                   |   | Value         |
| \$ 948,087   | Federal Home Loan Mortgage Corporation 7-1/2s, July 1, 2016   | \$ 948,383    |
|  | Federal National Mortgage Association   |               |
| 7,190,000  | 7s, TBA, May 14, 2024(g)  | 6,792,303     |
| 11,565,253   | 7s, with various due dates to<br>February 1, 2024   | 10,925,546    |
|  | Government National Mortgage Association  |               |
| 526,599  | 7-1/2s, due June 15, 2023   | 510,143       |
| 6,384,431  | 7-1/2s, TBA, May 14, 2024   | 6,184,918     |
| 9,079,811  | 7s, with various due dates to<br>March 15, 2024   | 8,520,829     |
| \$ 3,585,000                                       | U.S. Treasury Notes 7-3/8s, May 15, 1996  | \$ 3,691,430  |
| 9,055,000  | U.S. Treasury Notes 6s, November 30, 1997   | 8,947,472     |
| 16,570,000   | U.S. Treasury Notes 5-3/4s, with various due dates to August 15, 2003   | 15,492,560    |
| 4,400,000  | U.S. Treasury Notes 5-1/4s, July 31, 1998   | 4,191,000     |
| 19,642,000   | U.S. Treasury Notes 5-1/8s, with various due dates to December 31, 1998   | 18,534,949    |
| 3,890,000  | U.S. Treasury Notes 4s, January 31, 1996  | 3,786,672     |
| 17,840,000   | U.S. Treasury Notes 3-7/8s, with various due dates to October 31, 1995  | 17,468,794    |
| 24,360,000   | U.S. Treasury Stripped Principal Payment Coupon Securities zero %, with various due<br>dates to February 15, 2020 | 4,984,744     |

Total U.S. Government and Agency Obligations  
(cost \$115,925,977)

\$110,979,743

</TABLE>

<TABLE>

<CAPTION>

Foreign Bonds and Notes (24.4%) (a) (h)

| Principal Amount |               |   | Value         |
|------------------|---------------|---|---------------|
| <S>              | <C>           | <C>   | <C>           |
| A\$              | 3,750,000     | Australia (Government of) bonds 7-1/2s, 2005              | \$ 2,486,719  |
| A\$              | 4,670,000     | Australia (Government of) bonds 6-3/4s, 2006              | 2,874,969     |
| ECU              | 1,000,000     | Banco Nacional bonds 7-1/4s, 2004                         | 792,500       |
| C\$              | 30,075,000    | Canada (Government of) bonds 5.75s, 3/1/99                | 20,056,266    |
| FM               | 11,000,000    | Finland (Government of) notes 11s, 1999                   | 2,303,125     |
| FM               | 3,000,000     | Finland (Government of) bonds 9-1/2s, 2004                | 600,000       |
| ECU              | 2,142,000     | France Treasury bonds 8-1/4s, 2022                        | 2,621,273     |
| ECU              | 430,000       | France (Government of) BTAN 7-1/4s, 1998                  | \$ 512,506    |
| FRF              | 1,520,000     | France (Government of) Balladurs 6s, 1997                 | 267,900       |
| MXP              | 1,500,000     | Ispat Mexicana, deb. 10-3/8s, 2001(e)                     | 1,406,250     |
| ITL              | 4,460,000,000 | Italy (Government of) BTPS 11-1/2s, 1996                  | 2,926,875     |
| ECU              | 4,000,000     | Italy (Government of) notes 9-1/4s, 2011                  | 5,075,000     |
| ITL              | 4,865,000,000 | Italy (Government of) bonds 9s, 1998                      | 3,071,031     |
| SY               | 221,000,000   | Italy (Government of) bonds 3-1/2s, 2001                  | 2,073,256     |
| SY               | 517,200,000   | Japan (Government of) BTPS 5.3s, 2013                     | 5,362,718     |
| SY               | 422,400,000   | Japan (Government of) bonds 5-1/2s, 2002                  | 4,588,320     |
| SY               | 120,800,000   | Japan (Government of) bonds 5-1/2s, 2002                  | 1,309,925     |
| SY               | 53,700,000    | Japan (Government of) bonds 5s, 2002                      | 564,521       |
| SY               | 316,100,000   | Japan (Government of) bonds 4.9s, 2008                    | 3,192,610     |
| SY               | 56,400,000    | Japan (Government of) BTPS 4.8s, 2002                     | 585,503       |
| SY               | 424,500,000   | Japan (Government of) bonds 4.6s, 2003                    | 4,348,472     |
| MXP              | 1,500,000     | Mexico (Government of) bonds 6-1/4s, 2019                 | 960,000       |
| MXP              | 4,500,000     | Mexican (Government of) disc. bonds, Ser. D, 4.313s, 2019 | 3,757,500     |
| NLG              | 21,990,000    | Netherlands (Government of) bonds 7-1/2s, 2023            | 12,259,425    |
| NZD              | 10,145,000    | New Zealand (Government of) notes 8s, 1995                | 5,947,506     |
| ECU              | 1,000,000     | Philippines (Government of) bonds 5-1/4s, 2017            | 635,000       |
| ECU              | 2,000,000     | Poland (Government of) bonds zero %, 1999                 | 640,000       |
| SEK              | 7,600,000     | Sweden (Government of) bonds 11s, 1999                    | \$ 1,106,750  |
| SEK              | 7,800,000     | Sweden (Government of) bonds 11s, 1999                    | 1,096,875     |
| SEK              | 20,200,000    | Sweden (Government of) bonds 10-1/4s, 2003                | 2,929,000     |
| SEK              | 29,300,000    | Sweden (Government of) bonds 6s, 2005                     | 3,131,438     |
| (pound)          | 925,000       | United Kingdom Treasury bonds 10-1/4s, 1999               | 1,555,156     |
| (pound)          | 2,640,000     | United Kingdom Treasury bonds 9-1/2s, 2004                | 4,436,850     |
| (pound)          | 930,000       | United Kingdom Treasury notes 9s, 2000                    | 1,493,231     |
| (pound)          | 1,360,000     | United Kingdom Treasury bonds 8-1/2s, 2007                | 2,159,850     |
| (pound)          | 3,100,000     | United Kingdom Treasury bonds 7-1/4s, 1998                | 4,688,750     |
| (pound)          | 655,000       | United Kingdom Treasury war bonds 3-1/2s, 2049            | 443,353       |
| SY               | 300,000,000   | World Bank bonds 4-1/2s, 2003                             | 3,039,375     |
|                  |               | Total Foreign Bonds and Notes (cost \$118,374,759)        | \$117,299,798 |

</TABLE>

<TABLE>

<CAPTION>

| <S>                               | <C>  | <C>          |
|-----------------------------------|--|--------------|
| Yankee Bonds and Notes (2.8%) (a) |  |              |
| Principal Amount                  |  |              |
| \$2,000,000                       | Argentina (Government of) bonds 4s, 2023                 | \$ 1,055,000 |
| 1,300,000                         | Argentina (Government of) bonds zero %, 2002             | 867,750      |
| 7,500,000                         | Argentina (Republic of) notes 4-1/4s, 2005               | 5,437,500    |
| 3,500,000                         | Argentina (Government of) bonds 4s, 2023                 | 2,476,250    |
| 300,000                           | Banco de Galicia Inc. global notes 9s, 2003              | 258,188      |
| 1,980,000                         | Brazil (Government of)                                   | 1,435,500    |
| 2,000,000                         | Eletson Holdings, Inc. 1st pfd. mtge. notes 9-1/4s, 2003 | 1,950,000    |
|                                   | Total Yankee Bonds and Notes (cost \$14,315,976)         | \$13,480,188 |

Units (1.4%) (a)

| Number of Units |   | Value      |
|-----------------|---|------------|
| 875,000         | Axia, Inc. units 11s, 2001 (acquired 3/9/94, cost \$875,000) (e) (f)        | \$ 866,250 |
| 830,000         | Chesapeake Energy Corp. units 12s, 2001                                     | 830,000    |
| 3,165,000       | ICF Kaiser International Inc. units 12s, 2003                               | 3,133,350  |
| 102,527         | IFINT Diversified Holdings units 12.5135s, 1998                             | 105,090    |
| 1,367,000       | Louisiana Casino Cruises Corp. units 11-1/2s, 1998                          | 1,161,950  |
| 115,000         | Page Mart Inc. units stepped-coupon zero % (12-1/4s, 11/1/98), 2003 (c) (e) | 715,875    |

Total Units (cost \$6,901,925)

\$ 6,812,515

Preferred Stocks (1.0%) (a)

Number of Shares Value

|        |   |              |
|--------|---|--------------|
| 25,300 | Calfed Inc. Ser. B, \$10.625 pfd.                         | \$ 2,517,350 |
| 42,600 | Pyramid Commerce units \$3.125 pfd.(b)                    | 979,800      |
| 15,347 | Stone Savannah River Pulp & Paper Corp. \$3.84 exch. pfd. | 1,304,495    |
| 1,935  | Supermarkets General Holdings Corp. \$3.52 exch. pfd.(b)  | 56,115       |

Total Preferred Stocks  
(cost \$5,245,524)

\$ 4,857,760

Asset-Backed Securities (0.3%) (a) (cost \$1,571,555)

Principal Amount

Value

|             |   |              |
|-------------|---|--------------|
| \$1,575,000 | First Deposit Master Trust Ser. 93-2A, 5-3/4s, 2001 | \$ 1,516,922 |
|-------------|---|--------------|

Convertible Preferred Stocks (0.4%) (a)

Number of Shares Value

|        |   |            |
|--------|---|------------|
| 8,000  | Chiquita Brands International \$5.75 cv. pfd. | \$ 366,000 |
| 28,000 | Conseco, Inc. Ser. D, \$3.25 cv. pfd.         | 1,456,000  |

Total Convertible Preferred Stocks (cost \$1,800,000)

\$ 1,822,000

Common Stocks (0.3%) (a)

Number of Shares

Value

|         |   |          |
|---------|---|----------|
| 5,700   | Applause Enterprises Inc. (acquired 10/4/90, cost \$64,125) (d) (f)     | \$ 1,425 |
| 246     | CDK Holding Corp. rights (acquired 10/31/88, cost \$13,762) (d) (f)     | 7,441    |
| 10,234  | Computervision Corp. rights (acquired 8/24/92, (cost \$64,125) (f)      | 30,702   |
| 15,261  | Grand Casinos, Inc.(d)  | 330,019  |
| 9,653   | Kendall International, Inc.(d)  | 447,658  |
| 266,750 | Loehmanns Holdings, Inc.(d)   | 266,750  |
| 671     | PMI Holdings Corp.(d)   | 46,970   |
| 314     | Premium Holdings L.P. (acquired 1/4/94, cost \$18,840) (f)              | 31,400   |
| 30,773  | SPI Holdings Inc. Class B   | 184,640  |
| 108,263 | Solon Automated Services, Inc. (acquired 6/18/92 cost \$64,650) (d) (f) | 67,664   |
| 1       | Southland Corp.   | 4        |
| 25,500  | Specialty Foods Corp. (acquired 8/10/93, cost \$18,533) (d)             | 25,500   |
| 5,054   | Taj Mahal Holding Corp. Class A(d)                                      | 101,080  |
| 10,000  | Triangle Pacific Corp.(d)   | 117,500  |

Total Common Stocks  
(cost \$1,547,818)

\$1,658,753

</TABLE>

<TABLE>

<CAPTION>

Warrants (0.2%) (a) (d)

--

| Number<br>of Warrants |   | Expiration<br>Date | Value     |
|-----------------------|---|--------------------|-----------|
| <S>                   | <C>   | <C>                | <C>       |
| 40,000                | Becker Gaming Corp. (acquired 10/10/93, cost \$120,000) (b) (f)   | 11/15/00           | \$100,000 |
| 406                   | CDK Holding Corp. Class A (acquired 10/31/88, cost \$22,777) (f)  | 7/7/99             | 12,281    |
| 434                   | CDK Holding Corp. Class B (acquired 10/31/88, cost \$18,269) (f)  | 7/7/99             | 12,260    |
| 3,165                 | Casino America Inc.   | 11/15/96           | 7,912     |
| 10,800                | Casino Magic Finance Corp.  | 10/14/96           | 5,400     |
| 7,499                 | Cinemark Mexico   | 8/1/03             | 69,366    |
| 2,100                 | County Seat Stores  | 10/1/98            | \$ 42,000 |
| 96,050                | Gaylord Container Corp. (\$77,890 par amount acquired 12/2/93, cost \$265,994, \$18,160 par amount acquired 1/20/94, cost \$91,436) (f) | 7/31/96            | 360,187   |
| 1,000                 | General Media (acquired 12/15/93, cost \$10,000) (d) (f)  | 12/31/00           | 15,000    |
| 2,880                 | President Riverboat Casinos   | 9/15/96            | 2,880     |
| 20,000                | Southdown, Inc. (acquired 10/31/91, cost \$180,000) (f)   | 11/1/96            | 185,000   |
| 2,054                 | Southland Corp.   | 3/5/96             | 5,136     |
| 9,660                 | UCC Investor Holding, Inc.  | 1/1/99             | 125,580   |
| 36                    | Wright Medical Technology Inc.  | 6/30/03            | 2,669     |
| --                    |   |                    |           |
|                       | Total Warrants (cost \$855,004)   |                    | \$945,671 |

--

<C>

## Collateralized Mortgage Obligations (0.2%) (a)

| Principal Amount |  | Value     |
|------------------|--|-----------|
| \$1,065,136      | Federal National Mortgage Association IO Strips 7-1/2s, September 25, 2007 | \$288,252 |
| 462,700          | Prudential Home Mortgage Securities Co. Ser. 92-39 A1, 5.15s, 2007         | 460,097   |
|                  | Total Collateralized Mortgage Obligations (cost \$708,322)                 | \$748,349 |

## Convertible Bonds (0.1%) (a) (cost \$375,000)

| Principal Amount | Value                                   |
|------------------|---|
| \$ 375,000       | Sahara Mission Cv. sub. notes 12s, 1995 |
|                  | \$375,000                               |

&lt;/TABLE&gt;

&lt;TABLE&gt;

| <C>           | <S>   | <C> | Value   |
|---------------|---|-----|---------|
| Currency      | Expiration date/Strike price                                |     |         |
| DM 24,900,000 | Deutschemarks 5/27/94                                       |     |         |
|               | DM 1.68   | \$  | 440,730 |
| DM 8,300,000  | Deutschemarks 6/21/94 DM 1.725                              |     | 136,950 |
| YEN18,000,000 | Yen 4/27/94 Y 100   |     | 180     |
|               | Total Put Options On Foreign Currencies<br>(cost \$617,780) | \$  | 577,860 |

## Call Options On Forward Currencies (--) (a) (h)

| Currency      | Expiration date/Strike price                                 | Value      |
|---------------|--|------------|
| DM 14,300,000 | Deutschemarks 6/21/94 DM 1.725                               | \$ 38,610  |
| DM 24,600,000 | Deutschemarks 6/21/94 DM 1.725                               | 86,100     |
| DM 12,300,000 | Deutschemarks 7/6/94 DM 1.7415                               | 39,360     |
|               | Total Call Options On Foreign Currencies<br>(cost \$872,975) | \$ 164,070 |

## Short-Term Investments (8.8%) (a)

| Principal Amount | Value  |
|------------------|--|
| GRD 535,000,000  | Greece Treasury Bills zero%, May 31, 1994(h)   |
|                  | \$ 2,166,750   |
| GRD 300,000,000  | Greece Treasury Bills zero%, May 17, 1994(h)   |
|                  | 1,226,250  |
| MXP 18,040,000   | Mexican Treasury Bills zero%. October 27, 1994(h)  |
|                  | 112,500  |
| MXP 10,020,000   | Mexican Treasury Bills zero%. April 27, 1994(h)  |
|                  | 53,750   |
| MXP 8,815,000    | Mexican Treasury Bills zero%. July 28, 1994(h)   |
|                  | 44,062   |
| \$ 38,396,000    | Interest in \$504,971,000 joint repurchase agreement dated April 29, 1994 with<br>Kidder, Peabody & Co. Inc., due May 2, 1994, with respect to various U.S. Treasury<br>obligations--maturity value of \$38,407,358 for and effective yield of 3.55% |
|                  | \$ 38,403,570  |
|                  | Total Short-Term Investments (cost \$42,811,628)   |
|                  | \$ 42,006,882  |
|                  | Total Investments<br>(cost \$509,741,236) (i)  |
|                  | \$494,806,913  |

&lt;/TABLE&gt;

## Notes

(a) Percentages indicated are based on total net assets of \$480,035,161, which corresponds to a net asset value per share of \$8.99.

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

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

(d) Non-income-producing security.

(e) 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 April 30, 1994 these securities were valued at \$25,478,535 or 5.3% of net assets.

(f) 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 April 30, 1994 was \$21,116,125 or 4.4% of net assets.

(g) TBA's are mortgage-backed securities traded under delayed delivery commitments settling after April 30, 1994. Although the unit price for the trades has been established, the principal amount of the commitments will not fluctuate more than 2.0% from the principal amount. The cost of TBA purchases at April 30, 1994 was \$6,247,515.

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

(i) The aggregate identified cost on a tax cost basis is \$510,092,479 resulting in gross unrealized appreciation and depreciation of \$7,374,858 and \$22,660,424, respectively, or net unrealized depreciation of \$15,285,566.

US Treasury Bond Futures Contracts Outstanding  
at April 30, 1994 (Aggregate Face Value \$2,114,375) Forward Cross Currency  
Contracts Outstanding  
at April 30, 1994 (Aggregate Face Value \$5,973,400)

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

<TABLE>  
<CAPTION>

| Number of Contracts                      | Expiration<br>Month/<br>Strike Price | Unrealized<br>Appreciation |
|--|--------------------------------------|----------------------------|
| -  |                                      |                            |
| <S>                                      | <C>                                  | <C>                        |
| 20 U.S. Treasury Bonds<br>Futures (Sell) | June/94                              | \$24,375                   |
| -  |                                      |                            |

</TABLE>  
Forward Currency Contracts Outstanding  
at April 30, 1994

<TABLE>  
<CAPTION>

|                                | Market<br>Value | Aggregate<br>Face<br>Value | Delivery<br>Date | Unrealized<br>Appreciation<br>(Depreciation) |
|--------------------------------|-----------------|----------------------------|------------------|--|
| <S>                            | <C>             | <C>                        | <C>              | <C>  |
| Australian<br>Dollars (Buy)    | \$ 1,069,800    | \$ 1,076,550               | 6/20/94          | \$ 6,750                                     |
| Australian<br>Dollars (Buy)    | 1,212,440       | 1,213,928                  | 6/21/94          | 1,488  |
| Australia<br>Dollars<br>(Sell) | 2,140,500       | 2,110,044                  | 5/31/94          | (30,456)                                     |
| Deutschemarks<br>(Sell)        | 5,016,520       | 4,941,006                  | 6/30/94          | (75,514)                                     |
| Deutschemarks<br>(Sell)        | 13,657,180      | 13,147,178                 | 11/6/94          | (510,002)                                    |
| Japanese<br>Yen<br>(Sell)      | 2,269,157       | 2,198,432                  | 5/11/94          | (70,725)                                     |
| Japanese<br>Yen<br>(Sell)      | 3,454,115       | 3,303,133                  | 5/17/94          | (150,982)                                    |
| Japanese<br>Yen<br>(Sell)      | 6,024,299       | 5,745,773                  | 5/31/94          | (278,526)                                    |
| New Zealand NZD<br>(Sell)      | 806,540         | 799,575                    | 5/16/94          | (6,965)                                      |
| New Zealand NZD<br>(Sell)      | 2,702,030       | 2,645,160                  | 6/20/94          | (56,870)                                     |
| \$ (1,171,802)                 |                 |                            |                  |  |

<TABLE>  
<CAPTION>

| Contracts               | Market<br>Value | In<br>Exchange<br>For | Market<br>Value | Delivery<br>Date | Unrealized<br>Appreciation<br>(Depreciation) |
|-------------------------|-----------------|-----------------------|-----------------|------------------|--|
| <S>                     | <C>             | <C>                   | <C>             | <C>              | <C>  |
| Deutschemarks<br>(Sell) | \$3,100,290     | Swedish<br>Krona      | \$3,111,534     | 7/8/94           | \$11,244                                     |
| Deutschemarks<br>(Sell) | 3,100,800       | Swedish<br>Krona      | 3,097,986       | 7/11/94          | (2,814)                                      |
| \$ 8,430                |                 |                       |                 |                  |  |

Diversification of Foreign Bonds and Notes  
at April 30, 1994 (as a percentage of net assets):

| <S>            | <C>  |             | <C>  |
|----------------|------|-------------|------|
| Canada         | 4.2% | Mexico      | 1.0% |
| Japan          | 4.2  | France      | 0.7  |
| United Kingdom | 3.1  | Finland     | 0.6  |
| Italy          | 2.7  | Mexico      | 0.3  |
| Netherlands    | 2.6  | Brazil      | 0.2  |
| Sweden         | 1.7  | Phillipines | 0.1  |
| New Zealand    | 1.2  | Poland      | 0.1  |
| Australia      | 1.1  |             |      |

</TABLE>

Statement of  
assets and liabilities  
April 30, 1994

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

| <S>                               | <C>   |              | <C>           |
|-----------------------------------|---|--------------|---------------|
| Assets                            | Investments in securities, at value (identified cost<br>\$509,741,236) (Note 1)                 |              | \$494,806,913 |
|                                   | Cash  |              | 19,819        |
|                                   | Interest and other receivables  |              | 8,778,990     |
|                                   | Receivable for securities sold  |              | 14,459,774    |
|                                   | Receivable for open forward currency contracts  |              | 19,482        |
|                                   | Receivable for closed forward currency contracts  |              | 168,023       |
|                                   | Receivable for variation margin   |              | 5,000         |
|                                   | Total assets  |              | 518,258,001   |
| Liabilities                       | Payable for securities purchased  | \$31,818,174 |               |
|                                   | Distributions payable to shareholders   | 3,321,838    |               |
|                                   | Payable for compensation of Manager (Note 2)  | 907,713      |               |
|                                   | Payable for administrative services (Note 2)  | 4,702        |               |
|                                   | Payable for compensation of Trustees (Note 2)   | 174          |               |
|                                   | Payable for investor servicing and custodian fees (Note<br>2)                                   | 109,025      |               |
|                                   | Payable for open forward currency contracts   | 1,182,854    |               |
|                                   | Payable for closed forward currency contracts   | 794,959      |               |
|                                   | Other accrued expenses  | 83,401       |               |
|                                   | Total liabilities   |              | 38,222,840    |
|                                   | Net assets  |              | \$480,035,161 |
| Represented by                    | Paid-in capital (Note 4)  |              | \$499,780,367 |
|                                   | Distributions in excess of net investment income  |              | (7,880,726)   |
|                                   | Accumulated net realized gain on investment transactions  |              | 4,208,841     |
|                                   | Net unrealized depreciation of investments, options,<br>futures, and forward currency contracts |              | (16,073,321)  |
|                                   | Total--Representing net assets applicable to capital<br>shares outstanding                      |              | \$480,035,161 |
| Computation of<br>net asset value | Net asset value per share<br>(\$480,035,161 divided by 53,375,649 shares)                       |              | \$8.99        |

</TABLE>

Statement of  
operations  
Six months ended April 30, 1994

| <S>                                    | <C> | <C>           |
|--|-----|---------------|
| Investment income:                     |     |               |
| Interest (net of foreign tax \$14,653) |     | \$ 19,240,759 |
| Dividends                              |     | 144,616       |
| Total investment income                |     | 19,385,375    |
| Expenses:                              |     |               |

|  |                |
|--|----------------|
| Compensation of Manager (Note 2)   | \$1,875,645    |
| Investor servicing and custodian fees (Note 2)   | 257,459        |
| Compensation of Trustees (Note 2)  | 9,580          |
| Reports to shareholders  | 22,478         |
| Exchange listing fee   | 56,341         |
| Auditing   | 28,096         |
| Legal  | 9,494          |
| Postage  | 47,539         |
| Administrative services (Note 2)   | 6,970          |
| Registration fees  | 125            |
| Other  | 3,492          |
| Total expenses   | 2,317,219      |
| Net investment income  | 17,068,156     |
| Net realized gain on investments (Notes 1 and 3)   | 6,299,319      |
| Net realized gain on options (Notes 1 and 3)   | 318,468        |
| Net realized gain on futures contracts (Notes 1 and 3)   | 104,418        |
| Net realized loss on forward currency contracts (Notes 1 and 3)  | (1,035,976)    |
| Net realized loss on foreign currency (Note 1)   | (77,042)       |
| Net unrealized depreciation of investments, options, futures, forward currency contracts during the period | (30,791,632)   |
| Net loss on investment transactions  | (25,182,445)   |
| Net decrease in net assets resulting from operations   | \$ (8,114,289) |

</TABLE>

Statement of  
changes in net assets

<TABLE>  
<CAPTION>

|   | Six months<br>ended<br>April 30<br>1994 | Year ended<br>October 31<br>1993 |
|---|---|----------------------------------|
| <S>   | <C>                                     | <C>                              |
| Increase (decrease) in net assets   |   |                                  |
| Operations:   |   |                                  |
| Net investment income   | \$ 17,068,156                           | \$ 38,801,320                    |
| Net realized gain on investments  | 6,299,319                               | 19,534,051                       |
| Net realized gain on options  | 318,468                                 | 538,864                          |
| Net realized gain on futures contracts  | 104,418                                 | 6,615                            |
| Net realized gain (loss) on forward currency contracts  | (1,035,976)                             | 4,586,142                        |
| Net realized loss on foreign currency   | (77,042)                                | (36,529)                         |
| Net unrealized (depreciation) appreciation of investments, options, futures, forward and cross forward currency contracts | (30,791,632)                            | 7,976,174                        |
| Net increase (decrease) in net assets resulting from operations   | (8,114,289)                             | 71,406,637                       |
| Distributions to shareholders from:   |   |                                  |
| Net investment income   | (20,015,704)                            | (38,801,320)                     |
| In excess of net investment income  | --                                      | (7,555,392)                      |
| Net realized gain on investments  | (5,150,723)                             | --                               |
| Total increase (decrease) in net assets   | (33,280,716)                            | 25,049,925                       |
| Net assets  |   |                                  |
| Beginning of period   | 513,315,877                             | 488,265,952                      |
| End of period (including distributions in excess of net investment income \$(7,880,726) and \$(7,555,392), respectively)  | \$480,035,161                           | \$513,315,877                    |
| Number of fund shares   |   |                                  |
| Shares outstanding at beginning of period   | 53,375,649                              | 53,375,649                       |
| Shares outstanding at end of period   | 53,375,649                              | 53,375,649                       |

</TABLE>

Financial Highlights\*  
(For a share outstanding throughout the period)

<TABLE>  
<CAPTION>

|  | Six<br>months<br>ended<br>April 30 | For the period<br>December 28, 1987<br>(commencement<br>of operations) to<br>October 31 |           |           |           |           |            |
|--|------------------------------------|---|-----------|-----------|-----------|-----------|------------|
|  | 1994                               | 1993  | 1992      | 1991      | 1990      | 1989      | 1988       |
| <S>  | <C>                                | <C>   | <C>       | <C>       | <C>       | <C>       | <C>        |
| Net Asset Value,<br>Beginning of Period                        | \$9.62                             | \$9.15  | \$8.80    | \$8.01    | \$8.86    | \$9.50    | \$9.35     |
| Investment Operations  |                                    |   |           |           |           |           |            |
| Net Investment Income  | .32                                | .73   | .77       | .82       | .84       | .95       | .81        |
| Net Realized and<br>Unrealized Gain (Loss)<br>on Investments   | (.48)                              | .61   | .51       | .90       | (.69)     | (.44)     | .17        |
| Total from Investment<br>Operations                            | (.16)                              | 1.34  | 1.28      | 1.72      | .15       | .51       | .98        |
| Distributions to<br>Shareholders From:                         |                                    |   |           |           |           |           |            |
| Net Investment Income<br>In Excess of Net<br>Investment Income | (.37)                              | (.73)   | (.77)     | (.82)     | (.84)     | (.96)     | (.80)      |
| Net Realized Gain on<br>Investments                            | --                                 | (.14)   | --        | --        | --        | --        | --         |
| Paid-in Capital (a)  | (.10)                              | --  | (.10)     | --        | (.01)     | (.19)     | (.03)      |
| Total Distributions  | (.47)                              | (.87)   | (.93)     | (.93)     | (1.00)    | (1.15)    | (.83)      |
| Net Asset Value, End of<br>Period                              | \$8.99                             | \$9.62  | \$9.15    | \$8.80    | \$8.01    | \$8.86    | \$9.50     |
| Market Value End of<br>Period                                  | \$8.38                             | \$8.88  | \$8.63    | \$8.38    | \$6.88    | \$8.25    | \$9.50     |
| Total Investment Return<br>at Market Value (%) (b)             | (.38) (c)                          | 13.27   | 14.34     | 36.93     | (4.80)    | (1.52)    | 4.36 (c)   |
| Net Assets, End of Period<br>(in thousands)                    | \$480,035                          | \$513,316   | \$488,266 | \$468,234 | \$428,862 | \$482,494 | \$515,253  |
| Ratio of Expenses to<br>Average Net Assets (%)                 | .93 (c)                            | .92   | .95       | 1.08      | 1.08      | 1.06      | 1.01 (c)   |
| Ratio of Net Investment<br>Income to Average Net<br>Assets (%) | 6.82 (c)                           | 7.76  | 8.59      | 9.74      | 10.07     | 10.21     | 10.15 (c)  |
| Portfolio Turnover (%)   | 152.45 (d)                         | 132.24  | 221.30    | 323.27    | 125.33    | 323.44    | 117.10 (d) |

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

(a) See Note 1 to Financial Statements.

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

(c) Annualized.

(d) Not annualized.

Notes to  
financial statements  
April 30, 1994 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 value, 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 Putnam management 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, along with the cash of other registered investment companies managed by Putnam Investment Management, Inc., the Fund's Manager, a wholly-owned subsidiary of Putnam Investments, Inc., and certain other accounts. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

D) 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. 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 stepped coupon 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, 1991, and 1990, \$0.06, \$0.11 and \$0.15 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 were being amortized on a straight-line basis over a five-year period of which concluded during the six months ended April 30, 1994.

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 six months ended April 30, 1994, the Fund incurred \$6,970 for these services.

Trustees of the Fund receive an annual Trustee's fee of \$1,340 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 six months ended April 30, 1994 amounted to \$257,459.

Investor servicing and custodian fees reported in the Statement of operations for the six months ended April 30, 1994 have been reduced by credits allowed by PFTC.

### Note 3 Purchases and sales of securities

During the six months ended April 30, 1994, purchases and sales of investment securities other than U.S. government obligations and short-term investments aggregated \$280,895,699 and \$268,446,750 respectively. Purchases and sales of U.S. government obligations aggregated \$427,502,831 and \$444,451,991, 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:

<TABLE>

<CAPTION>

|  | Principal<br>Subject<br>to Option<br><C> | Premiums<br>Received<br><C> |
|--|--|-----------------------------|
| <S>                                      |  |                             |
| Options written                          | 58,595                                   | \$ 122,871                  |
| Options closed                           | (58,595)                                 | (122,871)                   |
| Written options outstanding at<br>period | \$--                                     | \$ --                       |

</TABLE>

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

<TABLE>

<CAPTION>

|  | Cost<br><C>  |
|--|--------------|
| <S>  |              |
| Contracts outstanding beginning of period      | \$ 1,601,874 |
| Options purchased                              | 3,828,173    |
| Options sold                                   | (3,939,292)  |
| Purchased options outstanding at end of period | \$ 1,490,755 |

</TABLE>

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

<TABLE>

<CAPTION>

|   | Sales of Futures Contracts<br>--- |                                |
|---|-----------------------------------|--------------------------------|
|   | Number of<br>Contracts<br><C>     | Aggregate<br>Face Value<br><C> |
| <S>                                       |                                   |                                |
| Contracts outstanding beginning of period | 108                               | \$ 12,841,875                  |
| Contracts opened                          | 624                               | 70,855,562                     |
| Contracts closed                          | (712)                             | (81,583,062)                   |
| Open at end of period                     | 20                                | \$ 2,114,375                   |

</TABLE>

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

<TABLE>

<CAPTION>

|   | Purchase of<br>Forward Currency<br>Contracts |
|---|--|
|   | Aggregate<br>Face Value<br><C>               |
| <S>                                       |  |
| Contracts outstanding beginning of period | \$ 13,757,407                                |
| Contracts opened                          | 150,895,978                                  |
| Contracts closed                          | (164,653,385)                                |
| Open at end of period                     | \$--   |

</TABLE>

<TABLE>

<CAPTION>

|  | Sales of<br>Forward Currency Contracts<br>Aggregate<br>Face Value<br><C> |
|--|--|
| <S>  |  |
| Contracts outstanding at beginning of period | \$ 50,910,959  |
| Contracts opened                             | 334,350,801  |
| Contracts closed                             | (342,107,581)  |
| Open at end of period                        | \$ 43,154,179  |

</TABLE>

Note 4 Reclassification of Capital Accounts  
Dividend Policy

Effective November 1, 1993, Putnam Master Income Trust has adopted the provisions of Statement of Position 93-2 (SOP) "Determination, Disclosure and Financial Statement Presentation of Income, Capital Gain and Return of Capital distributions by Investment Companies". The purpose of this SOP is to report the accumulated net investment income (loss) and accumulated net realized gain (loss) accounts in such a manner as to approximate amounts

available for future distributions (or to offset future realized capital gains) and to achieve uniformity in the presentation of distributions by investment companies.

As a result of the SOP, the Fund has reclassified \$2,622,214 to decrease distributions in excess of net investment income, \$20,878,766 to decrease accumulated net realized gain and \$18,256,552 to increase additional paid-in capital.

#### Dividend Policy

These adjustments represent the cumulative amounts necessary to report these balances through October 31, 1993, the close of the Fund's last fiscal year end for financial reporting and tax purposes.

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 nontaxable 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.

Selected  
Quarterly  
Data  
(Unaudited)

<TABLE>  
<CAPTION>

|  |                | Three months ended |               |               |               |               |               |               |               |               |         |      |      |
|--|----------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------|------|------|
|  |                | April              | January       | October       | July          | April         | January       | October       | July          | April         | January |      |      |
|  |                | 30                 | 31            | 31            | 31            | 30            | 31            | 31            | 31            | 30            | 31      | 30   | 31   |
|  |                | 1994               | 1994          | 1993          | 1993          | 1993          | 1993          | 1992          | 1992          | 1992          | 1992    | 1992 | 1992 |
| <S>  | <C>            | <C>                | <C>           | <C>           | <C>           | <C>           | <C>           | <C>           | <C>           | <C>           | <C>     | <C>  | <C>  |
| Total investment income                          |                |                    |               |               |               |               |               |               |               |               |         |      |      |
| Total  | \$7,826,067    | \$11,559,308       | \$10,173,560  | \$10,397,435  | \$11,266,547  | \$11,579,308  | \$10,686,030  | \$12,026,006  | \$10,932,613  | \$12,202,807  |         |      |      |
| Per share \$                                     | .14            | .22                | .20           | .19           | .21           | .22           | 0.20          | 0.23          | 0.21          | 0.22          |         |      |      |
| Net investment income                            |                |                    |               |               |               |               |               |               |               |               |         |      |      |
| Total  | \$6,549,726    | \$10,518,430       | \$8,974,985   | \$9,272,392   | \$10,035,513  | \$10,518,430  | \$9,519,163   | \$10,861,523  | \$9,771,583   | \$11,121,100  |         |      |      |
| Per share \$                                     | .12            | .20                | .17           | .17           | .19           | .20           | 0.17          | 0.21          | 0.19          | 0.20          |         |      |      |
| Net realized and unrealized gain on investments  |                |                    |               |               |               |               |               |               |               |               |         |      |      |
| Total  | \$(33,123,417) | \$7,940,972        | \$9,445,115   | \$7,121,780   | \$8,097,450   | \$7,940,972   | \$4,170,992   | \$13,285,602  | \$198,122     | \$9,093,777   |         |      |      |
| Per share \$                                     | (.63)          | .15                | .17           | .14           | .14           | .15           | 0.08          | 0.25          | --            | 0.18          |         |      |      |
| Net increase in assets resulting from operations |                |                    |               |               |               |               |               |               |               |               |         |      |      |
| Total  | \$(26,573,691) | \$18,459,402       | \$18,420,100  | \$16,394,172  | \$18,132,963  | \$18,459,402  | \$13,690,155  | \$24,147,125  | \$9,969,705   | \$20,214,877  |         |      |      |
| Per share \$                                     | (.51)          | .35                | .34           | .31           | .33           | .35           | 0.25          | 0.46          | 0.19          | 0.38          |         |      |      |
| Net assets at end of period                      |                |                    |               |               |               |               |               |               |               |               |         |      |      |
| Total  | \$480,035,161  | \$491,993,766      | \$513,315,877 | \$504,903,823 | \$499,318,157 | \$491,933,716 | \$488,265,952 | \$486,206,042 | \$473,677,649 | \$476,078,525 |         |      |      |
| Per share \$                                     | 8.99           | 9.22               | 9.62          | 9.46          | 9.35          | 9.22          | 9.15          | 9.12          | 8.90          | 8.95          |         |      |      |

</TABLE>

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-rated 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.

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.

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Custodian  
Putnam Fiduciary  
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Legal counsel  
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award's 1990 inception.  
In more than 10,000 tests  
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