

PUTNAM MASTER INTERMEDIATE INCOME TRUST  
Form N-CSRS  
May 29, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: (811- 05498 )

Exact name of registrant as specified in charter: Putnam Master Intermediate Income Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service: Beth S. Mazor, Vice President  
One Post Office Square  
Boston, Massachusetts 02109

Copy to: John W. Gerstmayr, Esq.  
Ropes & Gray LLP  
One International Place  
Boston, Massachusetts 02110

Registrant's telephone number, including area  
code: (617) 292-1000

Date of fiscal year end: September 30, 2007

Date of reporting period: October 1, 2006 - March 31, 2007

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

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## What makes Putnam different?

In 1830, Massachusetts Supreme Judicial Court Justice Samuel Putnam established The Prudent Man Rule, a legal foundation for responsible money management.

THE PRUDENT MAN RULE

All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

A time-honored tradition  
in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their financial representatives can build diversified portfolios.

A commitment to doing  
what's right for investors

We have stringent investor protections and provide a wealth of information about the Putnam funds.

Industry-leading service

We help investors, along with their financial representatives, make informed investment decisions with confidence.

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# Putnam Master Intermediate Income Trust

## 3|31|07 *Semiannual Report*

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## *Message from the Trustees*

# Dear Fellow Shareholder

Although the global economy continues to demonstrate healthy growth, it has become evident that certain sectors of the U.S. economy have slowed somewhat. Volatility in the financial markets has been on the rise, reflecting increased uncertainty about the potential impact of problems in the housing market. However, we have also seen indications that inflation is stabilizing and the unemployment rate is declining. We consequently believe the resilience of the U.S. economy will enable it to weather this period of uncertainty.

As you may have heard, on February 1, 2007, Marsh & McLennan Companies, Inc. announced that it had signed a definitive agreement to sell its ownership interest in Putnam Investments Trust, the parent company of Putnam Management and its affiliates, to Great-West Lifeco Inc. Great-West Lifeco is a financial services holding company with operations in Canada, the United States, and Europe and is a member of the Power Financial Corporation group of companies. This transaction is subject to regulatory approvals and other conditions, including the approval of new management contracts by shareholders of a substantial number of Putnam funds at shareholder meetings scheduled for May 15, 2007. We currently expect the transaction to be completed by the middle of 2007.

Putnam's team of investment and business professionals will continue to be led by Putnam President and Chief Executive Officer Ed Haldeman. Your Trustees have been actively involved through every step of the discussions, and we will continue in our role of overseeing the Putnam funds on your behalf.

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In the following pages, members of your fund's management team discuss the fund's performance and strategies for the fiscal period ended March 31, 2007, and provide their outlook for the months ahead. As always, we thank you for your support of the Putnam funds.

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**Putnam Master Intermediate Income Trust: seeking broad diversification across global bond markets**

When Putnam Master Intermediate Income Trust was launched in 1988, its three-pronged focus on U.S. investment-grade bonds, high-yield corporate bonds, and non-U.S. bonds was considered innovative. Lower-rated, higher-yielding corporate bonds were relatively new, having just been established in the late 1970s. And, at the time of the fund's launch, few investors were venturing outside the United States for fixed-income opportunities.

The bond investment landscape has undergone a transformation in the nearly two decades since. New sectors like mortgage-and asset-backed securities now make up over one third of the U.S. investment-grade market. The high-yield corporate bond sector has also grown significantly. Outside the United States, the popularity of the euro has resulted in a large market of European government bonds. There are also growing opportunities to invest in the debt of emerging-market countries.

The fund's investment perspective has been broadened to keep pace with the market expansion over time. To process the market's increasing complexity, Putnam's 100-member fixed-income group aligns teams of specialists with the varied investment opportunities. Each team identifies compelling strategies within its area of expertise. Your fund's management team selects from among these strategies, striving to systematically build a diversified portfolio that carefully balances risk and return.

We believe the fund's multi-strategy approach is well suited to the expanding opportunities of today's global bond marketplace. As different factors drive the performance of the various fixed-income sectors, the fund's diversified strategy can take advantage of changing market leadership in pursuit of high current income and relative stability of net asset value.

*International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. Funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The use of derivatives involves special risks and may result in losses. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.*

## How do closed-end funds differ from open-end funds?

**More assets at work** While open-end funds need to maintain a cash position to meet redemptions, closed-end funds are not subject to redemptions and can keep more of their assets invested in the market, if appropriate.

**Traded like stocks** Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

**Market price vs. net asset value** Like an open-end fund's net asset value (NAV) per share, the NAV of a closed-end fund share is equal to the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

## Optimizing the risk/return trade-off across multiple sectors

Putnam believes that building a diversified portfolio with multiple income-generating strategies is the best way to pursue your fund's objectives. The fund's portfolio is composed of a broad spectrum of government, credit, and securitized debt instruments.

**Putnam Master Intermediate Income Trust** seeks high current

income and relative stability of net asset value by investing in investment-grade, high-yield, and non-U.S. fixed-income securities of limited maturity. Fund holdings and sector classifications reflect the diversification of the fixed-income market. The fund is designed for investors seeking high current income, fixed-income diversification, or both.

**Highlights**

For the six months ended March 31, 2007, Putnam Master Intermediate Income Trust posted total returns of 3.96% at net asset value (NAV) and 9.65% at market price.

The fund's benchmark, the Lehman Government/Credit Bond Index, returned 2.52% .

The average return for the fund's Lipper category, Flexible Income Funds (closed-end), was 4.84% .

Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

**Performance**

It is important to note that a fund's performance at market price usually differs from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment manager, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

Putnam Master Intermediate Income Trust (NYSE ticker: PIM), total return for periods ended 3/31/07

Since the fund's inception (4/29/88), average annual return is 7.80% at NAV and 6.89% at market price.

|          | Average annual return |              | Cumulative return |              |
|----------|-----------------------|--------------|-------------------|--------------|
|          | NAV                   | Market price | NAV               | Market price |
| 10 years | 6.45%                 | 6.82%        | 86.87%            | 93.35%       |
| 5 years  | 8.82                  | 8.49         | 52.59             | 50.29        |
| 3 years  | 5.90                  | 4.62         | 18.77             | 14.51        |
| 1 year   | 8.80                  | 15.43        | 8.80              | 15.43        |
| 6 months | □                     | □            | 3.96              | 9.65         |

*Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes.*

## *Report from the fund managers*

# The period in review

The six-month period ended March 31, 2007, was favorable for most sectors of the fixed-income market, especially those associated with higher credit risk, such as the emerging-market and high-yield bond sectors. Investor demand for higher yield, combined with the global economy's ongoing strength, supported higher prices in both of these sectors. Because your fund invests in a variety of fixed-income securities and markets, its results at net asset value (NAV) were ahead of the return of its U.S.-based benchmark index. However, the fund lagged its competitors because it was more defensively positioned, with smaller allocations to high-yield and emerging-market bonds than most other closed-end funds with similar investment objectives. The fund's relatively defensive posture helped its performance at the end of February, when financial markets reacted unfavorably to volatility in the Chinese stock market and worries over financial problems for sub-prime mortgage lenders in the United States. The fund continued to benefit from its holdings in securitized bonds, and our currency strategies had a positive effect on performance over the course of the semiannual period.

## Market overview

Over the past six months, the global economy remained strong and inflation, though at the higher end of what has been perceived as an acceptable range, was considered to be under control. This resulted in a generally benign environment for fixed-income investments. While yields of 10-year U.S. Treasury bonds declined only slightly, yields of high-yield and emerging-market bonds declined dramatically. Furthermore, at the end of February, the spread, which is the difference in yield between high-yield bonds and Treasuries of similar maturity, briefly moved to historically low levels. Since prices of fixed-income investments move in the opposite direction from their yields, the

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steep decline in yields of high-yield and emerging-market bonds meant these bonds saw substantial price appreciation. Also contributing to these favorable market conditions were improved balance sheets for many high-yield bond issuers, low default rates, investor demand for higher yields, and ample liquidity within the financial marketplace. Despite the shrinking yield advantage for high-yield and emerging-market bonds relative to Treasuries, investors have continued to demonstrate a high level of confidence in both markets.

The rally in bonds was interrupted by two brief sell-offs: The first was in December, when surprisingly strong economic statistics led investors to conclude that the Federal Reserve (the Fed) would not, as they had hoped, be cutting rates to stimulate growth over the near term. Beginning at its August 2006 meeting, the Fed had decided to pause in raising short-term interest rates, while retaining its stated bias toward hiking rates in the future to restrain inflation. As of March 31, 2007, the federal funds rate — the overnight lending rate that banks charge each other, which guides other short-term rates — remained where it had been since the August 2006 meeting, at 5.25%. The second brief period of volatility came from worries in late February over what actions Chinese officials might take to calm their stock market, and after Wall Street firms

## Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 3/31/07.

Bonds

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|  |       |
|--|-------|
| Lehman Government/Credit Bond Index<br>(U.S. Treasury and agency securities and corporate bonds) | 2.52% |
| JPMorgan Global Diversified Emerging Markets Bond Index (global emerging-market bonds)           | 6.34% |
| Citigroup Non-U.S. World Government Bond Index (international government bonds)                  | 3.20% |
| JPMorgan Global High Yield Index (global high-yield corporate bonds)                             | 7.55% |

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Equities

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|   |        |
|---|--------|
| S&P 500 Index (broad stock market)                      | 7.38%  |
| Russell 2000 Growth Index (small-company growth stocks) | 11.46% |
| Russell 2000 Value Index (small-company value stocks)   | 10.62% |

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began to clamp down on liquidity for sub-prime lenders following a dramatic increase in default rates among sub-prime mortgage loans.

## Strategy overview

Your fund's managers believe that using multiple income-generating strategies to build a diversified portfolio is the best way to pursue the fund's objectives. The fund's portfolio includes a broad spectrum of securitized, credit, cash (and equivalent) and government debt instruments. Our investment process involves aligning teams of specialists with these varied investment opportunities. Each team identifies what it considers to be the most compelling strategies within its area of expertise.

We then draw from these strategies, systematically building an array of investments that seeks to carefully balance risk and return.

Though market fundamentals have been generally strong, we have become concerned about a trend of higher valuation levels in the fixed-income market. Reflecting these concerns, we have adopted an increasingly conservative posture regarding both duration — a measure of the portfolio's interest-rate sensitivity — and credit risk. (Credit risk is the risk that a bond issuer could default and fail to pay interest and repay principal in a timely manner.) Despite the Fed's "on-hold" status, the global trend in monetary policy is toward higher rates. Therefore, we have

### Comparison of top sector weightings

This chart shows how the fund's top weightings have changed over the last six months. Weightings are shown as a percentage of total investment portfolio. Holdings will vary over time. See pages 4 and 5 for more information about each sector.

kept the fund's duration short, or less sensitive to rising rates, in order to lessen the portfolio's vulnerability to the negative impact of potential future rate increases.

Also for defensive purposes, we continued to maintain a higher level of overall credit quality than we have in past years. We accomplished this by keeping the fund's exposure to high-yield bonds relatively low and maintaining significant exposure to securitized instruments with short maturities. The fund's positions in international bonds, especially emerging-market debt, further diversified the fund's sources of return. We have also maintained some exposure to bank loans. These securities offer floating interest rates that, like an adjustable-rate home mortgage, move in tandem with market rates and can therefore help to provide some protection from interest-rate risk.

## Your fund's holdings

The portfolio's significant position in **securitized bonds**, or **structured securities**, performed well during the six-month period, as interest rates continued to fluctuate within a relatively narrow range. Structured securities currently offer higher income than corporate bonds of comparable credit quality. They also carry short maturities, providing us with the flexibility to shift

### Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each represented, as of 3/31/07. The fund's holdings will change over time.

| Holding (percent of fund's net assets)  | Coupon (%) and maturity date |
|---|------------------------------|
| Securitized sector  |                              |
| Federal National Mortgage Association<br>pass-through certificates TBA (6.1%) | 5.5%, 2037                   |
| Federal National Mortgage Association<br>pass-through certificates TBA (6.1%) | 5.5%, 2037                   |
| Federal National Mortgage Association<br>pass-through certificates TBA (1.3%) | 6.0%, 2021                   |
| Credit sector   |                              |
| Pemex Project Funding Master Trust company guaranty (0.9%)                    | 5.75%, 2015                  |
| VTB Capital SA 144A notes (Luxembourg) (0.5%)                                 | 7.5%, 2011                   |
| Freeport-McMoRan Copper & Gold, Inc (0.5%)                                    | 7.11%, 2014                  |
| Government sector   |                              |
| U.S. Treasury Notes (5.7%)  | 4.25%, 2013                  |
| U.S. Treasury Notes (4.1%)  | 3.25%, 2008                  |

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Ireland (Republic of) bonds (1.6%)

5%, 2013

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to other fixed-income securities should interest rates rise. The most common types of structured securities are **mortgage-backed securities (MBSs)** issued by the **Federal National Mortgage Association (Fannie Mae)** and the **Government National Mortgage Association (Ginnie Mae)**. Other types include **asset-backed securities (ABSs)**, which are typically backed by car loans and credit card payments, and **commercial mortgage-backed securities (CMBSs)**, which are backed by loans on large commercial real estate projects, such as office parks or shopping malls. As part of our defensive posture, we have increased credit quality within the structured securities portion of the portfolio.

Our country selection in the area of **European government bonds** also contributed positively to performance. The portfolio had limited exposure to bonds from **Portugal** and **Greece**, countries that have been experiencing higher inflation and large deficits. In contrast, we emphasized issues from **France** and **Germany**, countries with tight fiscal management, whose securities appear to offer better relative value.

While we have gradually reduced the fund's weighting in **emerging-market securities** over the past three years, holdings in this area nevertheless helped performance for the period. In light of the current environment of significantly higher commodity prices, we emphasized bonds from **Russia** and **Peru**, which have high levels of commodity exports. The fund's moderate market exposure to **Hungary** detracted from relative performance even though the securities that made up our position were sold at a profit.

The fund's position in **senior-secured bank loans** contributed positively to performance, although we have reduced the size of the position as valuations have risen in this sector. These floating-rate bank loans are issued by banks to corporations. The interest these loans pay adjusts to reflect changes in short-term interest rates. Also, their senior-secured status means that they are backed by the assets of each issuing company, such as buildings and equipment. Although the floating-rate feature of these securities does not eliminate interest-rate or inflation risk, floating-rate bank loans can help an income-oriented portfolio weather the ups and downs of a full interest-rate cycle.

*Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the fund's investment strategy and may vary in the future.*

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## The outlook for your fund

The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.

With U.S. economic growth remaining reasonably strong, and inflation staying within bounds for the moment, we believe that the Fed will keep short-term interest rates stable for the remainder of this year, despite some predictions from market watchers that a faltering housing market and high commodity prices will force the Fed to cut rates during 2007. However, Europe has been a surprisingly strong growth engine for the global economy over the past year, and we think that the European Central Bank (ECB) will be aggressive with its rate moves in order to keep inflation there under control. Eventually, upward rate moves by the ECB and the Japanese central bank could force the Fed to raise rates in the United States. The Treasury yield curve, a graphical representation of interest-rate levels across the maturity spectrum, has become more positively sloped recently, meaning that longer-term rates are beginning to trend upward on concerns that inflationary pressures may be building. With

these factors in mind, we are increasing our efforts to position the fund defensively with regard to both duration and credit. Going forward, we will remain vigilant regarding any possible disruptions to the global economy and fixed-income markets, and intend to continue our efforts to diversify the portfolio across a broad range of fixed-income sectors and securities.

*The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.*

*International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. Funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The use of derivatives involves special risks and may result in losses. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.*

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## Your fund's performance

This section shows your fund's performance for periods ended March 31, 2007, the end of the first half of its current fiscal year. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

### Fund performance

Total return for periods ended 3/31/07

|                              | NAV   | Market price |
|------------------------------|-------|--------------|
| Annual average               |       |              |
| Life of fund (since 4/29/88) | 7.80% | 6.89%        |
| 10 years                     | 86.87 | 93.35        |
| Annual average               | 6.45  | 6.82         |
| 5 years                      | 52.59 | 50.29        |
| Annual average               | 8.82  | 8.49         |
| 3 years                      | 18.77 | 14.51        |
| Annual average               | 5.90  | 4.62         |
| 1 year                       | 8.80  | 15.43        |
| 6 months                     | 3.96  | 9.65         |

Performance assumes reinvestment of distributions and does not account for taxes.

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## Comparative index returns

For periods ended 3/31/07

|   | Lehman<br>Government/<br>Credit Bond<br>Index | Citigroup Non-<br>U.S. World<br>Government<br>Bond Index | JPMorgan<br>Global High<br>Yield Index | Lipper Flexible<br>Income Funds<br>(closed-end)<br>category average <sup>□</sup> |
|---|---|--|--|--|
| Annual average<br>(Life of fund, since 4/29/88) | 7.53%   | 6.59%  | □*                                     | 7.53%  |
| 10 years<br>Annual average                      | 87.87<br>6.51                                 | 69.82<br>5.44  | 98.69%<br>7.11                         | 75.08<br>5.69  |
| 5 years<br>Annual average                       | 31.18<br>5.58                                 | 62.16<br>10.15   | 68.19<br>10.96                         | 53.00<br>8.73  |
| 3 years<br>Annual average                       | 8.96<br>2.90                                  | 8.37<br>2.71   | 28.55<br>8.73                          | 20.52<br>6.38  |
| 1 year  | 6.38  | 8.31   | 11.71                                  | 8.83   |
| 6 months  | 2.52  | 3.20   | 7.55                                   | 4.84   |

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculations for reinvested dividends may differ from actual performance.

\* The inception date of the JPMorgan Global High Yield Index was 12/31/93.

□ Over the 6-month and 1-, 3-, 5-, 10-year, and life-of-fund periods ended 3/31/07, there were 8, 7, 7, 7, 7, and 3 funds, respectively, in this Lipper category.

## Fund price and distribution information

For the six-month period ended 3/31/07

Distributions\*

|               |         |
|---------------|---------|
| Number        | 6       |
| Income        | \$0.180 |
| Capital gains | □       |

|                                    |         |              |
|------------------------------------|---------|--------------|
| Total                              | \$0.180 |              |
| Share value:                       | NAV     | Market price |
| 9/30/06                            | \$7.08  | \$6.15       |
| 3/31/07                            | 7.16    | 6.56         |
| Current yield (end of period)      |         |              |
| Current dividend rate <sup>1</sup> | 5.03%   | 5.49%        |

\* Dividend sources are estimated and may vary based on final tax calculations after the fund's fiscal year-end.

<sup>1</sup> Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

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## Your fund's management

Your fund is managed by the members of the Putnam Core Fixed-Income and Core Fixed-Income High Yield teams. D. William Kohli is the Portfolio Leader. Rob Bloemker, Jeffrey Kaufman, Kevin Murphy, and Paul Scanlon are Portfolio Members of the fund. The Portfolio Leader and Portfolio Members coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Core Fixed-Income and Core Fixed-Income High-Yield teams, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at [www.putnam.com](http://www.putnam.com).

## Investment team fund ownership

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund and in all Putnam mutual funds (in dollar ranges). Information shown is as of March 31, 2007, and March 31, 2006.

*N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 3/31/06.*

## Trustee and Putnam employee fund ownership

As of March 31, 2007, all of the Trustees of the Putnam funds owned fund shares. The table below shows the approximate value of investments in the fund and all Putnam funds as of that date by the Trustees and Putnam employees. These amounts include investments by the Trustees' and employees' immediate family members and investments through retirement and deferred compensation plans.

|                    |                                     |
|--------------------|-------------------------------------|
| Assets in the fund | Total assets in<br>all Putnam funds |
|--------------------|-------------------------------------|

|                  |          |               |
|------------------|----------|---------------|
| Trustees         | \$33,000 | \$ 98,000,000 |
| Putnam employees | \$ 7,000 | \$458,000,000 |

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## Fund manager compensation

The total 2006 fund manager compensation that is attributable to your fund is approximately \$500,000. This amount includes a portion of 2006 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2006 compensation paid to the Chief Investment Officer of the team and the Group Chief Investment Officer of the fund's broader investment category for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the fund's fiscal period-end. For personnel who joined Putnam Management during or after 2006, the calculation reflects annualized 2006 compensation or an estimate of 2007 compensation, as applicable.

## Other Putnam funds managed by the Portfolio Leader and Portfolio Members

D. William Kohli is also a Portfolio Leader of Putnam Diversified Income Trust and Putnam Premier Income Trust, and a Portfolio Member of Putnam Global Income Trust.

Rob Bloemker is also a Portfolio Member of Putnam American Government Income Fund, Putnam Diversified Income Trust, Putnam Income Fund, Putnam Limited Duration Government Income Fund, Putnam Premier Income Trust, and Putnam U.S. Government Income Trust. Jeffrey Kaufman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

Kevin Murphy is also a Portfolio Member of Putnam Diversified Income Trust, Putnam Income Fund, Putnam Premier Income Trust, and Putnam Utilities Growth and Income Fund.

Paul Scanlon is also a Portfolio Leader of Putnam Floating Rate Income Fund, Putnam High Yield Advantage Fund, and Putnam High Yield Trust. He is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

D. William Kohli, Rob Bloemker, Jeffrey Kaufman, Kevin Murphy, and Paul Scanlon may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

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## Changes in your fund's Portfolio Leader and Portfolio Members

During the year ended March 31, 2007, Kevin Murphy became a Portfolio Member of your fund and Portfolio Member David Waldman left your fund's management team. Kevin Murphy joined the fund in March 2007. Since 1999, he has been employed by Putnam Management, currently as a Team Leader, High Grade Credit, and previously as an Investment Strategist.

## Putnam fund ownership by Putnam's Executive Board

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The table below shows how much the members of Putnam's Executive Board have invested in all Putnam mutual funds (in dollar ranges). Information shown is as of March 31, 2007, and March 31, 2006.

|                                       |      | \$1      | \$10,001 | \$50,001  | \$100,001 | \$500,001   | \$1,000,001 |
|---------------------------------------|------|----------|----------|-----------|-----------|-------------|-------------|
| Year                                  | \$0  | \$10,000 | \$50,000 | \$100,000 | \$500,000 | \$1,000,000 | and over    |
| Philippe Bibi                         | 2007 |          |          |           |           |             | □           |
| <i>Chief Technology Officer</i>       | 2006 |          |          |           |           |             | □           |
| Joshua Brooks                         | 2007 |          |          |           |           |             | □           |
| <i>Deputy Head of Investments</i>     | 2006 |          |          |           |           |             | □           |
| William Connolly                      | 2007 |          |          |           |           |             | □           |
| <i>Head of Retail Management</i>      | 2006 |          |          |           |           |             | □           |
| Kevin Cronin                          | 2007 |          |          |           |           |             | □           |
| <i>Head of Investments</i>            | 2006 |          |          |           |           |             | □           |
| Charles Haldeman, Jr.                 | 2007 |          |          |           |           |             | □           |
| <i>President and CEO</i>              | 2006 |          |          |           |           |             | □           |
| Amrit Kanwal                          | 2007 |          |          |           |           |             |             |
| <i>Chief Financial Officer</i>        | 2006 |          |          |           | □         |             |             |
| Steven Krichmar                       | 2007 |          |          |           |           |             | □           |
| <i>Chief of Operations</i>            | 2006 |          |          |           |           |             |             |
| Francis McNamara, III                 | 2007 |          |          |           |           |             | □           |
| <i>General Counsel</i>                | 2006 |          |          |           |           |             | □           |
| Jeffrey Peters                        | 2007 |          |          |           |           |             | □           |
| <i>Head of International Business</i> | N/A  |          |          |           |           |             |             |
| Richard Robie, III                    | 2007 |          |          |           |           |             |             |
| <i>Chief Administrative Officer</i>   | 2006 |          |          |           |           |             |             |
| Edward Shadek                         | 2007 |          |          |           |           |             | □           |

|   |      |   |
|---|------|---|
| <i>Deputy Head of Investments</i>       | 2006 | □ |
| Sandra Whiston                          | 2007 | □ |
| <i>Head of Institutional Management</i> | 2006 |   |

*N/A indicates the individual was not a member of Putnam's Executive Board as of 3/31/06.*

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## Terms and definitions

### Important terms

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

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

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

### Comparative indexes

**Citigroup Non-U.S. World Government Bond Index** is an unmanaged index of international investment-grade fixed-income securities, excluding the United States.

**JPMorgan Global Diversified Emerging Markets Bond Index** is an unmanaged index of global emerging-market fixed-income securities.

**JPMorgan Global High Yield Index** is an unmanaged index of global high-yield fixed-income securities.

**Lehman Government/Credit Bond Index** is an unmanaged index of U.S. Treasuries, agency securities, and investment-grade corporate bonds.

**Russell 2000 Growth Index** is an unmanaged index of those companies in the small-cap Russell 2000 Index chosen for their growth orientation.

**Russell 2000 Value Index** is an unmanaged index of those companies in the small-cap Russell 2000 Index chosen for their value orientation.

**S&P 500 Index** is an unmanaged index of common stock performance.

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

Lipper is a third-party industry-ranking entity that ranks mutual funds. Its rankings do not reflect sales charges. Lipper rankings are based on total return at net asset value relative to other funds that have similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

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## **Trustee approval of management contract**

### **General conclusions**

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Management and the sub-management contract between Putnam Management's affiliate, Putnam Investments Limited ("PIL"), and Putnam Management. In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not "interested persons" (as such term is defined in the Investment Company Act of 1940, as amended) of the Putnam funds (the "Independent Trustees"), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months ending in June 2006, the Contract Committee met four times to consider the information provided by Putnam Management and other information developed with the assistance of the Board's independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended, and the Independent Trustees approved, the continuance of your fund's management contract and sub-management contract, effective July 1, 2006. (Because PIL is an affiliate of Putnam Management and Putnam Management remain fully responsible for all services provided by PIL, the Trustees have not evaluated PIL as a separate entity, and all subsequent references to Putnam Management below include reference to PIL as necessary or appropriate in the context.)

This approval was based on the following conclusions:

That the fee schedule in effect for your fund represented reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and

That such fee schedule represented an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements in prior years.

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## **Management fee schedules and categories; total expenses**

The Trustees reviewed the management fee schedules in effect for all Putnam funds, including fee levels and breakpoints, and the assignment of funds to particular fee categories. In reviewing fees and expenses, the Trustees generally focused their attention on material changes in circumstances — for example, changes in a fund's size or investment style, changes in Putnam Management's operating costs, or changes in competitive practices in the mutual fund industry — that suggest that consideration of fee changes might be warranted. The Trustees concluded

that the circumstances did not warrant changes to the management fee structure of your fund, which had been carefully developed over the years, re-examined on many occasions and adjusted where appropriate. The Trustees focused on two areas of particular interest, as discussed further below:

**Competitiveness.** The Trustees reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 67th percentile in management fees and in the 67th percentile in total expenses as of December 31, 2005 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of your fund continue to meet evolving competitive standards.

**Economies of scale.** Your fund currently has the benefit of breakpoints in its management fee that provide shareholders with significant economies of scale, which means that the effective management fee rate of a fund (as a percentage of fund assets) declines as a fund grows in size and crosses specified asset thresholds. Conversely, as a fund shrinks in size — as has been the case for many Putnam funds in recent years — these breakpoints result in increasing fee levels. In recent years, the Trustees have examined the operation of the existing breakpoint structure during periods of both growth and decline in asset levels. The Trustees concluded that the fee schedules in effect for the funds represented an appropriate sharing of economies of scale at current asset levels. In reaching this conclusion, the Trustees considered the Contract Committee's stated intent to continue to work with Putnam Management to plan for an eventual resumption in the growth of assets, including a study of potential economies that might be produced under various growth assumptions.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by Putnam Management and its affiliates from the relationship with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management and distribution services provided to the funds. In this regard, the Trustees also reviewed an analysis of Putnam Management's revenues, expenses and profitability with respect to the funds' management contracts, allocated on a fund-by-fund basis.

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Because many of the costs incurred by Putnam Management in managing the funds are not readily identifiable to particular funds, the Trustees observed that the methodology for allocating costs is an important factor in evaluating Putnam Management's costs and profitability, both as to the Putnam funds in the aggregate and as to individual funds. The Trustees reviewed Putnam Management's cost allocation methodology with the assistance of independent consultants and concluded that this methodology was reasonable and well-considered.

## **Investment performance**

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under your fund's management contract. The Trustees were assisted in their review of the Putnam funds' investment process and performance by the work of the Investment Process Committee of the Trustees and the Investment Oversight Committees of the Trustees, which meet on a regular monthly basis with the funds' portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process — as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel — but also recognize that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing each fund's performance with various benchmarks and with the performance of competitive funds.

The Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and discussed with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of underperformance. In particular, they noted the important contributions of Putnam Management's leadership in attracting, retaining and

supporting high-quality investment professionals and in systematically implementing an investment process that seeks to merge the best features of fundamental and quantitative analysis. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional changes to address areas of underperformance are warranted.

In the case of your fund, the Trustees considered that your fund's common share cumulative total return performance at net asset value was in the following percentiles of its Lipper Inc. peer group (Lipper Flexible Income Funds (closed-end)) for the one-, three- and five-year

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periods ended March 31, 2006 (the first percentile being the best performing funds and the 100th percentile being the worst performing funds):

| One-year period | Three-year period | Five-year period |
|-----------------|-------------------|------------------|
| 78th            | 45th              | 45th             |

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report. Over the one-, three- and five-year periods ended March 31, 2006, there were 8 funds in your fund's Lipper peer group.\* Past performance is no guarantee of future performance.)

The Trustees noted the disappointing performance for your fund for the one-year period ended March 31, 2006. In this regard, the Trustees considered Putnam Management's view that one factor in the fund's relative underperformance during this period was its selection of higher quality bonds during recent periods, given market conditions. The Trustees also considered Putnam Management's belief that the fund's investment strategy and process are designed to produce attractive relative performance over longer periods.

As a general matter, the Trustees concluded that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees noted that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds' Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees concluded that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees' view, the alternative of terminating a management contract and engaging a new investment adviser for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

### Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage may be used to acquire research services that may be useful to Putnam Management in managing the assets of the fund and of other clients. The Trustees indicated their continued intent to monitor the potential benefits associated with the

\* The percentile rankings for your fund's common share annualized total return performance in the Lipper Flexible Income Funds (closed-end) category for the one-, five- and ten-year periods ended March 31, 2007, were 50%, 50%, and 50%, respectively. Over the one-, five- and ten-year periods ended March 31, 2007, the fund ranked 4th out of 7, 4th out of 7, and 4th out of 7 funds, respectively. Note that his more recent information was not available when the Trustees approved the continuance of your fund's management contract.

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allocation of fund brokerage to ensure that the principle of seeking "best price and execution" remains paramount in the portfolio trading process.

The Trustees' annual review of your fund's management contract also included the review of your fund's custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to affiliates of Putnam Management.

## **Comparison of retail and institutional fee schedules**

The information examined by the Trustees as part of their annual contract review has included for many years information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, etc. This information included comparison of such fees with fees charged to the funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and the funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflect to a substantial degree historical competitive forces operating in separate market places. The Trustees considered the fact that fee rates across all asset sectors are higher on average for funds than for institutional clients, as well as the differences between the services that Putnam Management provides to the Putnam funds and those that it provides to institutional clients of the firm, but did not rely on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

## **Approval of new management and sub-management contracts in connection with pending change in control**

As discussed in the "Message from the Trustees" at the beginning of this shareholder report, on February 1, 2007, Marsh & McLennan Companies, Inc. announced that it had signed a definitive agreement to sell its ownership interest in Putnam Investments Trust, the parent company of Putnam Management and its affiliates, to Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies. This transaction is subject to regulatory approvals and other conditions, including the approval of new management contracts by shareholders of a substantial number of Putnam funds at shareholder meetings scheduled for May 15, 2007. The transaction is currently expected to be completed by the middle of 2007.

At an in-person meeting on February 8<sup>th</sup>, 2007, the Trustees considered the approval of new management contracts for each Putnam fund proposed to become effective upon the closing of the transaction, and the filing of a preliminary proxy statement. At an in-person meeting on March 8<sup>th</sup>, 2007, the Trustees considered the approval of the final forms of the proposed new management contracts for each Putnam fund (and, in the case of your fund, the new sub-management contract) and the proxy statement. They reviewed the terms of the

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proposed new management contracts and the differences between the proposed new management contracts and the current management contracts. They noted that the terms of the proposed new management contracts were substantially identical to the current management contracts, except for certain changes developed at the initiative of the Trustees and designed largely to address inconsistencies among various of the existing contracts, which had been developed and implemented at different times in the past. They noted, in the case of your fund, that the terms of the proposed new sub-management contract were identical to the current sub-management contract, except for the effective date. In considering the approval of the proposed new management contracts (and, in the case of your fund, the new sub-management contract), the Trustees also considered, as discussed further in the proxy statement, various matters relating to the transaction. Finally, in considering the proposed new management contracts (and, in the case of your fund, the new sub-management contract), the Trustees also took into account their deliberations and conclusions (discussed above in the preceding paragraphs of the "Trustee Approval of Management Contract" section) in connection with the most recent annual approval of the continuance of the Putnam funds' management (and, in the case of your fund, sub-management) contracts effective July 1, 2006, and the extensive materials that they had reviewed in connection with that approval process. Based upon the foregoing considerations, on March 9, 2007, the Trustees, including all of the Independent Trustees, unanimously approved the proposed new management contracts (and, in the case of your fund, the new sub-management contract) and determined to recommend their approval to the shareholders of the Putnam funds.

## Other information for shareholders

### Important notice regarding share repurchase program

In September 2006, the Trustees of your fund approved an extension of the current share repurchase program being implemented by Putnam Investments on behalf of your fund. The plan, as extended, allows your fund to repurchase, in the 24 months ending October 6, 2007, up to 10% of the common shares outstanding as of October 7, 2005.

### Important notice regarding delivery of shareholder documents

In accordance with SEC regulations, Putnam sends a single copy of annual and semiannual shareholder reports, prospectuses, and proxy statements to Putnam shareholders who share the same address, unless a shareholder requests otherwise. If you prefer to receive your own copy of these documents, please call Putnam at 1-800-225-1581, and Putnam will begin sending individual copies within 30 days.

### Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2006, are available on the Putnam Individual Investor Web site, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

### Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the Public Reference Room.

## Financial statements

### A guide to financial statements

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

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

**Statement of assets and liabilities** shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per

share. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of preferred shares.)

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

**Statement of changes in net assets** shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year.

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

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## The fund's portfolio<sup>31/07</sup> (Unaudited)

### U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (15.6%)\*

|  | Principal amount | Value          |
|--|------------------|----------------|
| Federal Home Loan Mortgage Corporation Pass-Through<br>Certificates 6s, July 1, 2021 | \$ 69,284        | \$ 70,445      |
| Federal National Mortgage Association<br>Pass-Through Certificates                   |                  |                |
| 8s, October 1, 2025  | 5,384            | 5,721          |
| 6 1/2s, June 1, 2036   | 50,067           | 51,088         |
| 6 1/2s, October 1, 2018  | 16,186           | 16,632         |
| 6s, with due dates from July 1, 2019 to January 1, 2022                              | 10,288,102       | 10,460,508     |
| 6s, TBA, May 1, 2037   | 800,000          | 805,500        |
| 6s, TBA, April 1, 2037   | 800,000          | 805,875        |
| 5 1/2s, April 1, 2036  | 45,508           | 45,046         |
| 5 1/2s, with due dates from March 1, 2020 to<br>January 1, 2021                      | 924,235          | 926,593        |
| 5 1/2s, TBA, May 1, 2037   | 40,400,000       | 39,956,545     |
| 5 1/2s, TBA, April 1, 2037   | 40,400,000       | 39,967,595     |
| 5s, May 1, 2021  | 112,170          | 110,619        |
| 4 1/2s, with due dates from July 1, 2020 to June 1, 2034                             | 9,519,094        | 9,148,779      |
| Total U.S. government and agency mortgage obligations (cost \$102,481,890)           |                  | \$ 102,370,946 |

### U.S. TREASURY OBLIGATIONS (11.0%)\*

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|   | Principal amount | Value         |
|---|------------------|---------------|
| <hr/>   |                  |               |
| U.S. Treasury Notes                                 |                  |               |
| 6 1/2s, February 15, 2010                           | \$ 7,500,000     | \$ 7,887,305  |
| 4 1/4s, August 15, 2013                             | 38,008,000       | 37,366,615    |
| 3 1/4s, August 15, 2008                             | 27,242,000       | 26,695,032    |
| <hr/>   |                  |               |
| Total U.S. treasury obligations (cost \$73,460,745) |                  | \$ 71,948,952 |

CORPORATE BONDS AND NOTES (14.4%)\*

|  | Principal amount | Value      |
|--|------------------|------------|
| <hr/>  |                  |            |
| Basic Materials (1.2%)   |                  |            |
| Abitibi-Consolidated, Inc. notes 7 3/4s, 2011 (Canada)   | \$ 145,000       | \$ 138,475 |
| Builders FirstSource, Inc. company guaranty FRN<br>9.61s, 2012   | 95,000           | 96,425     |
| Chaparral Steel Co. company guaranty 10s, 2013   | 486,000          | 541,890    |
| Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s,<br>2014 (Germany)   | EUR 148,000      | 214,917    |
| Compass Minerals International, Inc. sr. disc.<br>notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 ☐☐ | \$ 285,000       | 277,163    |

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CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <hr/>   |                  |            |
| Basic Materials <i>continued</i>  |                  |            |
| Compass Minerals International, Inc.<br>sr. notes stepped-coupon zero % (12 3/4s,<br>12/15/07), 2012 ☐☐ | \$ 775,000       | \$ 781,781 |
| Covalence Specialty Materials Corp. 144A<br>sr. sub. notes 10 1/4s, 2016                                | 116,000          | 116,000    |
| Crystal US Holdings, LLC sr. disc.<br>notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 ☐☐       | 444,000          | 411,384    |
| Freeport-McMoRan Copper & Gold, Inc. sr. unsec.<br>8 3/8s, 2017   | 841,000          | 908,280    |
| Freeport-McMoRan Copper & Gold, Inc. sr. unsec.<br>8 1/4s, 2015   | 422,000          | 453,650    |
| Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)  | 358,000          | 380,375    |
| MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)   | 93,000           | 98,813     |
| Momentive Performance Materials, Inc. 144A<br>sr. notes 9 3/4s, 2014                                    | 430,000          | 442,900    |
| Mosaic Co. (The) 144A sr. notes 7 5/8s, 2016  | 224,000          | 236,320    |
| Mosaic Co. (The) 144A sr. notes 7 3/8s, 2014  | 136,000          | 141,780    |
| Nalco Co. sr. sub. notes 8 7/8s, 2013   | 640,000          | 680,000    |

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|   |     |         |           |
|---|-----|---------|-----------|
| NewPage Corp. company guaranty 10s, 2012  |     | 126,000 | 137,813   |
| Norske Skog Canada, Ltd. company guaranty Ser. D,<br>8 5/8s, 2011 (Canada)          |     | 237,000 | 240,555   |
| Novelis, Inc. company guaranty 7 1/4s, 2015<br>(acquired 1/26/07, cost \$266,738) □ |     | 223,000 | 235,823   |
| PQ Corp. company guaranty 7 1/2s, 2013  |     | 63,000  | 63,630    |
| Rockwood Specialties Group, Inc. company<br>guaranty 7 5/8s, 2014                   | EUR | 300,000 | 422,422   |
| Steel Dynamics, Inc. 144A sr. notes 6 3/4s, 2015                                    | \$  | 365,000 | 365,913   |
| Stone Container Corp. sr. notes 8 3/8s, 2012  |     | 240,000 | 240,600   |
|   |     |         | 7,626,909 |

Capital Goods (0.8%)

|  |  |           |           |
|--|--|-----------|-----------|
| Alliant Techsystems, Inc. sr. sub. notes 6 3/4s, 2016                      |  | 129,000   | 129,323   |
| Blount, Inc. sr. sub. notes 8 7/8s, 2012                                   |  | 311,000   | 321,885   |
| Crown Americas, LLC/Crown Americas Capital Corp.<br>sr. notes 7 5/8s, 2013 |  | 145,000   | 149,169   |
| L-3 Communications Corp. company guaranty 6 1/8s, 2013                     |  | 2,370,000 | 2,334,450 |
| L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015                       |  | 854,000   | 829,448   |
| Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012                   |  | 150,000   | 159,938   |
| Milacron Escrow Corp. sec. notes 11 1/2s, 2011                             |  | 29,000    | 28,130    |
| Owens-Brockway Glass company guaranty 7 3/4s, 2011                         |  | 181,000   | 186,883   |
| Owens-Brockway Glass Container, Inc. sr. sec.<br>notes 8 3/4s, 2012        |  | 867,000   | 912,518   |
|  |  |           | 5,051,744 |

Communication Services (0.7%)

|   |  |         |         |
|---|--|---------|---------|
| American Cellular Corp. company guaranty 9 1/2s, 2009 |  | 195,000 | 191,588 |
| Cincinnati Bell, Inc. company guaranty 7s, 2015       |  | 578,000 | 573,665 |
| Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica)   |  | 170,000 | 179,350 |

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CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <i>Communication Services continued</i>  |                  |            |
| Inmarsat Finance PLC company guaranty 7 5/8s, 2012<br>(United Kingdom)                                       | \$ 223,000       | \$ 232,478 |
| Inmarsat Finance PLC company guaranty stepped-coupon<br>zero % (10 3/8s, 11/15/08), 2012 (United Kingdom) □□ | 866,000          | 818,370    |
| iPCS, Inc. sr. notes 11 1/2s, 2012   | 300,000          | 330,000    |
| Qwest Communications International, Inc.<br>company guaranty 7 1/2s, 2014                                    | 353,000          | 363,590    |
| Qwest Corp. notes 8 7/8s, 2012   | 1,501,000        | 1,658,605  |

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|  |         |           |
|--|---------|-----------|
| Qwest Corp. sr. notes 7 5/8s, 2015               | 409,000 | 436,608   |
| Qwest Corp. sr. unsec. notes 7 1/2s, 2014        | 75,000  | 79,125    |
| Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010 | 75,000  | 77,250    |
|  |         | 4,940,629 |

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Consumer Cyclical (2.7%)

|   |           |           |
|---|-----------|-----------|
| Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012                               | 585,000   | 610,594   |
| Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012                               | 165,000   | 170,363   |
| Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014                               | 134,000   | 133,665   |
| CanWest Media, Inc. company guaranty 8s, 2012 (Canada)                      | 337,021   | 348,817   |
| Dex Media West, LLC/Dex Media Finance Co.<br>sr. notes Ser. B, 8 1/2s, 2010 | 605,000   | 632,981   |
| Dex Media, Inc. notes 8s, 2013  | 111,000   | 116,273   |
| FelCor Lodging LP company guaranty 8 1/2s, 2008 (R)                         | 515,000   | 551,694   |
| Ford Motor Credit Corp. notes 7 7/8s, 2010                                  | 245,000   | 245,911   |
| Ford Motor Credit Corp. notes 7 3/8s, 2009                                  | 195,000   | 194,642   |
| Ford Motor Credit Corp. sr. notes 9 7/8s, 2011                              | 621,000   | 654,560   |
| Ford Motor Credit Corp. sr. unsec. notes 8s, 2016                           | 160,000   | 154,123   |
| Ford Motor Credit Corp. sr. unsec. FRN 8.11s, 2012                          | 126,000   | 123,225   |
| Ford Motor Credit Corp. 144A sr. unsec.<br>notes 9 3/4s, 2010               | 444,000   | 467,684   |
| Goodyear Tire & Rubber Co. (The) sr. notes 9s, 2015                         | 448,000   | 491,680   |
| Goodyear Tire & Rubber Co. (The) 144A<br>sr. notes 8 5/8s, 2011             | 240,000   | 258,000   |
| Hanesbrands, Inc. 144A sr. notes FRN 8.735s, 2014                           | 85,000    | 86,594    |
| Host Marriott LP sr. notes Ser. M, 7s, 2012 (R)                             | 725,000   | 738,594   |
| Jostens IH Corp. company guaranty 7 5/8s, 2012                              | 718,000   | 730,565   |
| K. Hovnanian Enterprises, Inc. company<br>guaranty 8 7/8s, 2012             | 138,000   | 132,825   |
| K. Hovnanian Enterprises, Inc. company<br>guaranty 7 3/4s, 2013             | 134,000   | 121,940   |
| Levi Strauss & Co. sr. notes 9 3/4s, 2015                                   | 651,000   | 714,473   |
| Levi Strauss & Co. sr. notes 8 7/8s, 2016                                   | 285,000   | 304,950   |
| Meritage Homes Corp. company guaranty 6 1/4s, 2015                          | 194,000   | 172,660   |
| Meritor Automotive, Inc. notes 6.8s, 2009                                   | 71,000    | 71,355    |
| MGM Mirage, Inc. company guaranty 8 1/2s, 2010                              | 468,000   | 500,175   |
| MGM Mirage, Inc. company guaranty 6s, 2009                                  | 1,009,000 | 1,010,261 |
| Movie Gallery, Inc. sr. unsec. notes 11s, 2012                              | 190,000   | 174,325   |
| NTK Holdings, Inc. sr. disc. notes zero %, 2014                             | 104,000   | 75,400    |
| Oxford Industries, Inc. sr. notes 8 7/8s, 2011                              | 460,000   | 476,100   |

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CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|                  |       |
|------------------|-------|
| Principal amount | Value |
|------------------|-------|

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Consumer Cyclicals *continued*

Park Place Entertainment Corp.

|   |    |           |    |            |
|---|----|-----------|----|------------|
| sr. sub. notes 7 7/8s, 2010   | \$ | 395,000   | \$ | 412,775    |
| Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012                    |    | 247,000   |    | 254,410    |
| PRIMEDIA, Inc. company guaranty 8 7/8s, 2011                                |    | 146,000   |    | 150,015    |
| PRIMEDIA, Inc. sr. notes 8s, 2013   |    | 542,000   |    | 560,970    |
| R.H. Donnelley Corp. sr. disc. notes Ser. A-2, 6 7/8s, 2013                 |    | 67,000    |    | 65,158     |
| R.H. Donnelley Corp. sr. notes 6 7/8s, 2013                                 |    | 268,000   |    | 260,630    |
| Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009 |    | 450,000   |    | 477,000    |
| Scientific Games Corp. company guaranty 6 1/4s, 2012                        |    | 626,000   |    | 613,480    |
| Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014                              |    | 735,000   |    | 773,588    |
| Standard Pacific Corp. sr. notes 7 3/4s, 2013                               |    | 101,000   |    | 96,960     |
| Station Casinos, Inc. sr. notes 6s, 2012                                    |    | 318,000   |    | 308,063    |
| Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014                      |    | 70,000    |    | 72,975     |
| Texas Industries, Inc. sr. unsec. notes 7 1/4s, 2013                        |    | 161,000   |    | 165,830    |
| THL Buildco, Inc. (Nortek Holdings, Inc.) sr. sub. notes 8 1/2s, 2014       |    | 410,000   |    | 398,725    |
| Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015                   |    | 117,000   |    | 118,170    |
| United Auto Group, Inc. 144A sr. sub. notes 7 3/4s, 2016                    |    | 345,000   |    | 348,450    |
| Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009                         |    | 661,000   |    | 669,263    |
| Vertis, Inc. 144A sub. notes 13 1/2s, 2009                                  |    | 170,000   |    | 160,650    |
| Wimar Opco, LLC. 144A sr. sub. notes 9 5/8s, 2014                           |    | 1,000,000 |    | 1,003,750  |
| Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 1st mtge. 6 5/8s, 2014     |    | 555,000   |    | 549,450    |
|   |    |           |    | 17,924,741 |

Consumer Staples (2.3%)

|   |  |           |  |           |
|---|--|-----------|--|-----------|
| Affinity Group, Inc. sr. sub. notes 9s, 2012                                    |  | 545,000   |  | 559,988   |
| AMC Entertainment, Inc. company guaranty 11s, 2016                              |  | 251,000   |  | 285,826   |
| AMC Entertainment, Inc. sr. sub. notes 8s, 2014                                 |  | 205,000   |  | 208,588   |
| Archibald Candy Corp. company guaranty 10s, 2007 (In default) (F) □             |  | 90,153    |  | 4,711     |
| Avis Budget Car Rental, LLC 144A sr. notes 7 3/4s, 2016                         |  | 285,000   |  | 290,700   |
| Cablevision Systems Corp. sr. notes Ser. B, 8s, 2012                            |  | 167,000   |  | 169,505   |
| CCH I Holdings, LLC company guaranty 12 1/8s, 2015                              |  | 8,000     |  | 7,780     |
| CCH I, LLC/Capital Corp. sec. notes 11s, 2015                                   |  | 1,347,000 |  | 1,397,513 |
| CCH II, LLC/Capital Corp. sr. notes Ser. B, 10 1/4s, 2010                       |  | 259,000   |  | 272,921   |
| CCH, LLC/Capital Corp. sr. notes 10 1/4s, 2010                                  |  | 86,000    |  | 90,730    |
| Church & Dwight Co., Inc. company guaranty 6s, 2012                             |  | 444,000   |  | 432,900   |
| Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/09), 2014 □□ |  | 990,000   |  | 905,850   |
| Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008                    |  | 825,000   |  | 838,406   |
| CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011                               |  | 595,000   |  | 609,875   |
| CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012                                  |  | 1,068,000 |  | 1,059,990 |
| Dean Foods Co. company guaranty 7s, 2016  |  | 134,000   |  | 134,503   |

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|   |         |         |
|---|---------|---------|
| Del Monte Corp. company guaranty 6 3/4s, 2015 | 320,000 | 316,400 |
| Del Monte Corp. sr. sub. notes 8 5/8s, 2012   | 560,000 | 582,400 |

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CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Consumer Staples continued</i>                             |                  |            |
| DirecTV Holdings, LLC company guaranty 6 3/8s, 2015           | \$ 718,000       | \$ 682,100 |
| Echostar DBS Corp. company guaranty 6 5/8s, 2014              | 2,119,000        | 2,132,244  |
| Interpublic Group of Companies, Inc. notes 6 1/4s, 2014       | 118,000          | 110,920    |
| Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013      | 741,000          | 805,875    |
| Playtex Products, Inc. company guaranty 9 3/8s, 2011          | 170,000          | 175,738    |
| Playtex Products, Inc. sec. notes 8s, 2011                    | 770,000          | 804,650    |
| Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012             | 450,000          | 465,750    |
| Rainbow National Services, LLC 144A<br>sr. notes 8 3/4s, 2012 | 471,000          | 501,026    |
| Rental Services Corp. 144A bonds 9 1/2s, 2014                 | 70,000           | 74,550     |
| United Rentals NA, Inc. sr. sub. notes 7s, 2014               | 352,000          | 351,120    |
| Young Broadcasting, Inc. company guaranty 10s, 2011           | 376,000          | 370,360    |
| Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014          | 293,000          | 273,223    |
|   |                  | 14,916,142 |

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Energy (2.9%)

|  |           |           |
|--|-----------|-----------|
| Arch Western Finance, LLC sr. notes 6 3/4s, 2013                               | 1,347,000 | 1,325,111 |
| Bluewater Finance, Ltd. company guaranty 10 1/4s,<br>2012 (Cayman Islands)     | 403,000   | 420,128   |
| CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)                      | 812,000   | 789,670   |
| Chesapeake Energy Corp. company guaranty 7 3/4s, 2015                          | 269,000   | 280,433   |
| Chesapeake Energy Corp. sr. notes 7 1/2s, 2013                                 | 1,031,000 | 1,077,395 |
| Chesapeake Energy Corp. sr. notes 7s, 2014                                     | 279,000   | 287,370   |
| Complete Production Services, Inc. 144A<br>sr. notes 8s, 2016                  | 515,000   | 527,875   |
| Comstock Resources, Inc. sr. notes 6 7/8s, 2012                                | 510,000   | 494,700   |
| EXCO Resources, Inc. company guaranty 7 1/4s, 2011                             | 725,000   | 726,813   |
| Forest Oil Corp. sr. notes 8s, 2011  | 540,000   | 562,950   |
| Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)                       | 584,000   | 559,910   |
| Hornbeck Offshore Services, Inc. sr. notes Ser. B,<br>6 1/8s, 2014             | 517,000   | 489,211   |
| Massey Energy Co. sr. notes 6 5/8s, 2010                                       | 774,000   | 781,740   |
| Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014                           | 348,000   | 348,000   |
| Offshore Logistics, Inc. company guaranty 6 1/8s, 2013                         | 655,000   | 623,888   |
| Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011                              | 424,317   | 434,545   |
| Pacific Energy Partners/Pacific Energy Finance Corp.<br>sr. notes 7 1/8s, 2014 | 355,000   | 370,734   |

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|  |           |            |
|--|-----------|------------|
| Pemex Finance, Ltd. bonds 9.69s, 2009 (Cayman Islands)           | 507,500   | 531,779    |
| Pemex Project Funding Master Trust company guaranty 5 3/4s, 2015 | 5,838,000 | 5,849,676  |
| PetroHawk Energy Corp. company guaranty 9 1/8s, 2013             | 864,000   | 920,160    |
| Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011           | 670,000   | 681,725    |
| Pride International, Inc. sr. notes 7 3/8s, 2014                 | 826,000   | 846,650    |
|  |           | 18,930,463 |

### Financial (1.1%)

|   |           |           |
|---|-----------|-----------|
| Bosphorus Financial Services, Ltd. 144A sec. FRN 7.16s, 2012 (Cayman Islands) | 1,445,000 | 1,459,524 |
| Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)                       | 310,000   | 311,550   |
| Finova Group, Inc. notes 7 1/2s, 2009   | 431,000   | 118,525   |

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### CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Financial continued</i>  |                  |            |
| General Motors Acceptance Corp. FRN 6.31s, 2007   | \$ 350,000       | \$ 349,999 |
| General Motors Acceptance Corp. notes 7 3/4s, 2010  | 90,000           | 92,378     |
| General Motors Acceptance Corp. notes 7s, 2012  | 40,000           | 40,202     |
| General Motors Acceptance Corp. notes 6 7/8s, 2012  | 68,000           | 67,726     |
| General Motors Acceptance Corp. notes 6 3/4s, 2014  | 305,000          | 299,843    |
| General Motors Acceptance Corp. sr. unsub. notes 5.85s, 2009  | 33,000           | 32,575     |
| UBS Luxembourg SA for Sberbank unsec. sub. notes stepped-coupon 6.23s (7.429s, 2/11/10), 2015 (Luxembourg) ☐☐ | 1,400,000        | 1,416,100  |
| VTB Capital SA 144A notes 7 1/2s, 2011 (Luxembourg)   | 3,010,000        | 3,224,463  |
|   |                  | 7,412,885  |

### Health Care (1.0%)

|  |         |         |
|--|---------|---------|
| Community Health Systems, Inc. sr. sub. notes 6 1/2s, 2012 | 53,000  | 54,590  |
| DaVita, Inc. company guaranty 6 5/8s, 2013                 | 153,000 | 153,000 |
| HCA, Inc. notes 6 3/8s, 2015                               | 212,000 | 180,995 |
| HCA, Inc. notes 5 3/4s, 2014                               | 260,000 | 221,975 |
| HCA, Inc. 144A sec. notes 9 1/4s, 2016                     | 645,000 | 695,794 |
| HCA, Inc. 144A sec. sr. notes 9 5/8s, 2016 ☐☐              | 550,000 | 594,000 |
| MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012      | 595,000 | 541,450 |
| Omnicare, Inc. sr. sub. notes 6 1/8s, 2013                 | 740,000 | 720,575 |
| Service Corporation International sr. notes 7s, 2017       | 170,000 | 171,275 |
| Service Corporation International sr. notes 6 3/4s, 2016   | 535,000 | 532,325 |

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|  |         |           |
|--|---------|-----------|
| Stewart Enterprises, Inc. sr. notes 6 1/4s, 2013                 | 724,000 | 704,090   |
| Tenet Healthcare Corp. notes 7 3/8s, 2013                        | 390,000 | 362,213   |
| Tenet Healthcare Corp. sr. notes 9 7/8s, 2014                    | 299,000 | 301,990   |
| US Oncology, Inc. company guaranty 9s, 2012                      | 420,000 | 448,350   |
| Vanguard Health Holding Co. II, LLC                              |         |           |
| sr. sub. notes 9s, 2014  | 388,000 | 392,850   |
| Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)     | 305,000 | 343,125   |
| Ventas Realty LP/Capital Corp. company guaranty 6 3/4s, 2010 (R) | 201,000 | 206,528   |
| Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)        | 173,000 | 176,460   |
|  |         | 6,801,585 |

Technology (0.6%)

|   |             |         |
|---|-------------|---------|
| Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012                   | 334,000     | 337,758 |
| Freescale Semiconductor, Inc. 144A sr. notes 9 1/8s, 2014 ☐☐          | 383,000     | 380,128 |
| Freescale Semiconductor, Inc. 144A sr. notes 8 7/8s, 2014             | 768,000     | 768,960 |
| Freescale Semiconductor, Inc. 144A                                    |             |         |
| sr. sub. notes 10 1/8s, 2016  | 384,000     | 384,960 |
| Iron Mountain, Inc. company guaranty 8 5/8s, 2013                     | 700,000     | 719,250 |
| New ASAT Finance, Ltd. company guaranty 9 1/4s, 2011 (Cayman Islands) | 13,000      | 11,440  |
| SunGard Data Systems, Inc. company guaranty 9 1/8s, 2013              | 340,000     | 364,650 |
| Xerox Corp. sr. notes 9 3/4s, 2009                                    | EUR 140,000 | 210,216 |

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CORPORATE BONDS AND NOTES (14.4%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Technology continued</i>               |                  |            |
| Xerox Corp. sr. notes 7 5/8s, 2013        | \$ 278,000       | \$ 291,553 |
| Xerox Corp. unsec. sr. notes 6 3/4s, 2017 | 153,000          | 160,102    |
|   |                  | 3,629,017  |

Utilities & Power (1.1%)

|  |         |         |
|--|---------|---------|
| AES Corp. (The) sr. notes 8 7/8s, 2011                 | 54,000  | 57,645  |
| AES Corp. (The) 144A sec. notes 8 3/4s, 2013           | 460,000 | 487,600 |
| CMS Energy Corp. sr. notes 8.9s, 2008                  | 600,000 | 622,500 |
| CMS Energy Corp. sr. notes 7 3/4s, 2010                | 180,000 | 190,800 |
| Colorado Interstate Gas Co. sr. notes 5.95s, 2015      | 174,000 | 175,086 |
| Edison Mission Energy sr. unsec. notes 7 3/4s, 2016    | 146,000 | 152,205 |
| Edison Mission Energy sr. unsec. notes 7 1/2s, 2013    | 172,000 | 177,590 |
| El Paso Natural Gas Co. sr. notes Ser. A, 7 5/8s, 2010 | 365,000 | 379,600 |

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|   |         |           |
|---|---------|-----------|
| El Paso Production Holding Co. company guaranty 7 3/4s, 2013                  | 993,000 | 1,037,685 |
| Ferrellgas LP/Finance sr. notes 6 3/4s, 2014                                  | 520,000 | 509,600   |
| Mission Energy Holding Co. sec. notes 13 1/2s, 2008                           | 749,000 | 816,410   |
| NRG Energy, Inc. sr. notes 7 3/8s, 2016                                       | 235,000 | 241,463   |
| Orion Power Holdings, Inc. sr. notes 12s, 2010                                | 655,000 | 756,525   |
| SEMCO Energy, Inc. sr. notes 7 3/4s, 2013                                     | 517,000 | 529,523   |
| Teco Energy, Inc. notes 7.2s, 2011  | 185,000 | 196,100   |
| Teco Energy, Inc. notes 7s, 2012  | 280,000 | 295,400   |
| Teco Energy, Inc. sr. notes 6 3/4s, 2015                                      | 32,000  | 33,640    |
| Utilicorp United, Inc. sr. notes 9.95s, 2011                                  | 18,000  | 19,710    |
| Williams Cos., Inc. (The) notes 8 1/8s, 2012                                  | 150,000 | 163,125   |
| Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010                             | 172,000 | 174,365   |
| Williams Partners LP/ Williams Partners Finance Corp. 144A bonds 7 1/4s, 2017 | 145,000 | 153,338   |
|   |         | 7,169,910 |

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Total corporate bonds and notes (cost \$92,795,729) \$ 94,404,025

### FOREIGN GOVERNMENT BONDS AND NOTES (12.7%)\*

|   | Principal amount  | Value        |
|---|-------------------|--------------|
| Argentina (Republic of) FRB 5.475s, 2012                | \$ 8,133,750      | \$ 7,710,524 |
| Austria (Republic of) 144A notes Ser. EMTN, 3.8s, 2013  | EUR 1,390,000     | 1,829,674    |
| Brazil (Federal Republic of) bonds 6s, 2017             | \$ 1,490,000      | 1,499,685    |
| Canada (Government of) bonds Ser. WH31, 6s, 2008        | CAD 3,680,000     | 3,260,409    |
| Colombia (Republic of) notes 10s, 2012                  | \$ 3,697,000      | 4,349,521    |
| France (Government of) bonds 4s, 2013                   | EUR 4,730,000     | 6,303,274    |
| Germany (Federal Republic of) bonds Ser. 97, 6s, 2007   | EUR 5,500,000     | 7,380,871    |
| Ireland (Republic of) bonds 5s, 2013                    | EUR 7,500,000     | 10,510,981   |
| Japan (Government of) CPI Linked bonds Ser. 8, 1s, 2016 | JPY 1,114,545,000 | 9,296,297    |
| Mexican (Government of) bonds Ser. M 10, 8s, 2015       | MXN 17,460,000    | 1,628,967    |
| Russia (Ministry of Finance) debs. Ser. V, 3s, 2008     | \$ 2,445,000      | 2,374,829    |
| South Africa (Republic of) notes 7 3/8s, 2012           | 1,495,000         | 1,624,318    |
| South Africa (Republic of) notes 6 1/2s, 2014           | 1,330,000         | 1,408,470    |
| Spain (Government of) bonds 5.4s, 2011                  | EUR 1,000,000     | 1,404,856    |

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### FOREIGN GOVERNMENT BONDS AND NOTES (12.7%)\* *continued*

|   | Principal amount | Value        |
|---|------------------|--------------|
| Spain (Kingdom of ) bonds 5s, 2012                    | EUR 800,000      | \$ 1,114,837 |
| Sweden (Government of ) debs. Ser. 1041, 6 3/4s, 2014 | SEK 30,690,000   | 5,146,945    |
| Turkey (Republic of ) notes 11s, 2013                 | \$ 6,105,000     | 7,463,363    |
| Ukraine (Government of ) 144A sr. unsub. 6.58s, 2016  | 1,495,000        | 1,515,930    |

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|  |           |           |
|--|-----------|-----------|
| United Mexican States notes 6 5/8s, 2015     | 4,530,000 | 4,892,400 |
| Venezuela (Republic of ) notes 10 3/4s, 2013 | 2,150,000 | 2,612,250 |

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|  |  |               |
|--|--|---------------|
| Total foreign government bonds and notes (cost \$78,558,889) |  | \$ 83,328,401 |
|--|--|---------------|

### COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\*

|   | Principal amount | Value      |
|---|------------------|------------|
| <hr/>   |                  |            |
| Amresco Commercial Mortgage Funding I 144A  |                  |            |
| Ser. 97-C1, Class G, 7s, 2029   | \$ 434,000       | \$ 432,789 |
| Banc of America Commercial Mortgage, Inc. Ser. 01-1, Class G, 7.324s, 2036                    | 325,000          | 344,199    |
| Banc of America Commercial Mortgage, Inc. 144A Ser. 01-1, Class J, 6 1/8s, 2036               | 163,000          | 163,822    |
| Ser. 01-1, Class K, 6 1/8s, 2036  | 367,000          | 309,373    |
| Banc of America Large Loan 144A   |                  |            |
| FRB Ser. 05-MIB1, Class K, 7.32s, 2022  | 645,000          | 644,439    |
| FRB Ser. 05-ESHA, Class K, 7.12s, 2020  | 712,000          | 711,379    |
| FRB Ser. 06-LAQ, Class M, 6.97s, 2021   | 548,000          | 548,141    |
| FRB Ser. 06-LAQ, Class L, 6.87s, 2021   | 517,000          | 517,946    |
| Banc of America Funding Corp. IFB Ser. 06-4, Class A4, Interest Only (IO), 0.18s, 2036        | 1,014,698        | 1,910      |
| Banc of America Mortgage Securities IFB Ser. 06-2, Class A4, IO, 0.08s, 2036                  | 992,729          | 6,388      |
| Bayview Commercial Asset Trust Ser. 07-1, Class A, IO, 1.211s, 2037                           | 4,181,335        | 549,722    |
| Bear Stearns Commercial Mortgage Securities, Inc. FRB Ser. 00-WF2, Class F, 8.453s, 2032      | 410,000          | 457,411    |
| Bear Stearns Commercial Mortgage Securities, Inc. 144A FRB Ser. 05-LXR1, Class J, 6.97s, 2018 | 696,000          | 696,000    |
| Broadgate Financing PLC sec. FRB Ser. D, 6.127s, 2023 (United Kingdom)                        | GBP 456,000      | 893,412    |
| Commercial Mortgage Pass-Through Certificates 144A  |                  |            |
| FRB Ser. 05-F10A, Class A1, 5.42s, 2017   | \$ 992,341       | 992,327    |
| Countrywide Alternative Loan Trust  |                  |            |
| IFB Ser. 06-6CB, Class 1A3, IO, zero %, 2036  | 6,773,696        | 16,934     |
| Ser. 06-OA10, Class XBI, IO, 2.608s, 2046   | 5,821,874        | 236,514    |
| CRESI Finance Limited Partnership 144A FRB  |                  |            |
| Ser. 06-A, Class C, 5.92s, 2017   | 251,000          | 250,999    |
| CS First Boston Mortgage Securities Corp. 144A  |                  |            |
| FRB Ser. 05-TFLA, Class L, 7.17s, 2020  | 699,000          | 699,000    |
| FRB Ser. 05-TFLA, Class K, 6.62s, 2020  | 388,000          | 388,000    |
| Ser. 98-C1, Class F, 6s, 2040   | 966,000          | 932,115    |
| Ser. 02-CP5, Class M, 5 1/4s, 2035  | 354,000          | 311,714    |
| Deutsche Mortgage & Asset Receiving Corp.   |                  |            |
| Ser. 98-C1, Class X, IO, 0.549s, 2031   | 14,250,252       | 151,409    |

COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| DLJ Commercial Mortgage Corp. Ser. 98-CF2, Class B4,<br>6.04s, 2031                         | \$ 286,492       | \$ 292,537 |
| DLJ Commercial Mortgage Corp. 144A Ser. 98-CF2,<br>Class B5, 5.95s, 2031                    | 915,958          | 871,342    |
| DLJ Mortgage Acceptance Corp. 144A<br>Ser. 97-CF1, Class B2, 8.16s, 2030                    | 275,000          | 258,500    |
| Ser. 97-CF1, Class B1, 7.91s, 2030  | 257,923          | 258,052    |
| European Loan Conduit 144A FRB Ser. 22A, Class D,<br>6.433s, 2014 (Ireland)                 | GBP 507,000      | 997,523    |
| European Prime Real Estate PLC 144A FRB Ser. 1-A,<br>Class D, 6.441s, 2014 (United Kingdom) | GBP 352,406      | 692,041    |
| Fannie Mae  |                  |            |
| IFB Ser. 06-70, Class SM, 9.605s, 2036  | \$ 281,813       | 304,494    |
| IFB Ser. 06-62, Class PS, 7.98s, 2036   | 791,622          | 886,080    |
| IFB Ser. 06-76, Class QB, 7.68s, 2036   | 1,906,183        | 2,025,428  |
| IFB Ser. 06-70, Class SJ, 7.68s, 2036   | 131,276          | 147,059    |
| Ser. 04-W8, Class 3A, 7 1/2s, 2044  | 361,900          | 381,483    |
| Ser. 04-W2, Class 5A, 7 1/2s, 2044  | 1,217,751        | 1,281,180  |
| Ser. 04-T2, Class 1A4, 7 1/2s, 2043   | 313,126          | 329,708    |
| Ser. 03-W4, Class 4A, 7 1/2s, 2042  | 95,404           | 99,656     |
| Ser. 03-W3, Class 1A3, 7 1/2s, 2042   | 203,191          | 212,675    |
| Ser. 02-T19, Class A3, 7 1/2s, 2042   | 256,999          | 269,067    |
| Ser. 03-W2, Class 1A3, 7 1/2s, 2042   | 4,442            | 4,649      |
| Ser. 02-W1, Class 2A, 7 1/2s, 2042  | 393,400          | 409,882    |
| Ser. 02-14, Class A2, 7 1/2s, 2042  | 1,988            | 2,077      |
| Ser. 01-T10, Class A2, 7 1/2s, 2041   | 247,329          | 257,620    |
| Ser. 02-T4, Class A3, 7 1/2s, 2041  | 1,192            | 1,242      |
| Ser. 01-T8, Class A1, 7 1/2s, 2041  | 3,278            | 3,404      |
| Ser. 01-T7, Class A1, 7 1/2s, 2041  | 1,003,051        | 1,042,152  |
| Ser. 01-T3, Class A1, 7 1/2s, 2040  | 159,997          | 166,414    |
| Ser. 01-T1, Class A1, 7 1/2s, 2040  | 491,620          | 511,502    |
| Ser. 99-T2, Class A1, 7 1/2s, 2039  | 197,286          | 207,779    |
| Ser. 00-T6, Class A1, 7 1/2s, 2030  | 95,271           | 99,463     |
| Ser. 02-W7, Class A5, 7 1/2s, 2029  | 172,303          | 180,101    |
| Ser. 01-T4, Class A1, 7 1/2s, 2028  | 454,777          | 479,912    |
| Ser. 02-W3, Class A5, 7 1/2s, 2028  | 994              | 1,039      |
| IFB Ser. 06-63, Class SP, 7.38s, 2036   | 2,067,829        | 2,282,614  |
| IFB Ser. 06-60, Class TK, 7.32s, 2036   | 575,704          | 619,920    |
| Ser. 04-W12, Class 1A3, 7s, 2044  | 367,756          | 382,864    |
| Ser. 01-T10, Class A1, 7s, 2041   | 979,541          | 1,009,851  |
| Ser. 07-16, Class TS, IO, 5 1/2s, 2009  | 5,841,093        | 125,034    |
| IFB Ser. 05-74, Class CS, 5.39s, 2035   | 633,766          | 644,019    |
| IFB Ser. 05-74, Class CP, 5.243s, 2035  | 555,891          | 572,751    |

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|  |           |           |
|--|-----------|-----------|
| IFB Ser. 06-27, Class SP, 5.06s, 2036  | 791,000   | 818,098   |
| IFB Ser. 06-8, Class HP, 5.06s, 2036   | 920,838   | 940,251   |
| IFB Ser. 06-8, Class WK, 5.06s, 2036   | 1,441,547 | 1,461,108 |
| IFB Ser. 05-106, Class US, 5.06s, 2035 | 1,353,618 | 1,394,520 |
| IFB Ser. 05-99, Class SA, 5.06s, 2035  | 664,190   | 674,533   |
| Ser. 07-39, Class A, IO, 5s, 2037      | 2,488,000 | 92,388    |
| IFB Ser. 05-114, Class SP, 4.95s, 2036 | 389,855   | 369,875   |

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Fannie Mae                                 |                  |            |
| IFB Ser. 06-60, Class CS, 4.583s, 2036     | \$ 912,866       | \$ 880,642 |
| IFB Ser. 05-95, Class CP, 4.089s, 2035     | 104,092          | 104,002    |
| IFB Ser. 05-95, Class OP, 3.923s, 2035     | 360,000          | 340,065    |
| IFB Ser. 05-83, Class QP, 3.562s, 2034     | 219,131          | 206,805    |
| IFB Ser. 02-36, Class QH, IO, 2.73s, 2029  | 60,163           | 241        |
| IFB Ser. 06-90, Class SE, IO, 2.48s, 2036  | 2,346,005        | 220,030    |
| IFB Ser. 03-66, Class SA, IO, 2.33s, 2033  | 1,122,625        | 87,530     |
| IFB Ser. 07-W2, Class 3A2, IO, 1.96s, 2037 | 1,774,815        | 115,794    |
| IFB Ser. 05-113, Class AI, IO, 1.91s, 2036 | 773,225          | 59,208     |
| IFB Ser. 05-113, Class DI, IO, 1.91s, 2036 | 6,254,025        | 373,533    |
| IFB Ser. 06-60, Class DI, IO, 1 3/4s, 2035 | 2,275,284        | 125,252    |
| IFB Ser. 07-30, Class WI, IO, 1.44s, 2037  | 2,737,000        | 152,082    |
| IFB Ser. 07-22, Class S, IO, 1.43s, 2037   | 19,259,023       | 1,176,464  |
| IFB Ser. 07-W2, Class 2A2, IO, 1.43s, 2037 | 2,287,985        | 123,350    |
| IFB Ser. 06-128, Class SH, IO, 1.43s, 2037 | 1,288,126        | 71,877     |
| IFB Ser. 06-56, Class SM, IO, 1.43s, 2036  | 1,639,647        | 90,390     |
| IFB Ser. 06-12, Class SD, IO, 1.43s, 2035  | 4,184,854        | 302,983    |
| IFB Ser. 06-123, Class CI, IO, 1.42s, 2037 | 2,456,422        | 159,755    |
| IFB Ser. 05-95, Class CI, IO, 1.38s, 2035  | 1,401,569        | 90,468     |
| IFB Ser. 05-84, Class SG, IO, 1.38s, 2035  | 2,400,622        | 156,744    |
| IFB Ser. 05-104, Class NI, IO, 1.38s, 2035 | 1,632,452        | 109,864    |
| IFB Ser. 04-92, Class S, IO, 1.38s, 2034   | 1,922,487        | 102,734    |
| IFB Ser. 05-83, Class QI, IO, 1.37s, 2035  | 364,809          | 26,868     |
| IFB Ser. 05-83, Class SL, IO, 1.35s, 2035  | 4,217,936        | 222,437    |
| IFB Ser. 06-114, Class IS, IO, 1.33s, 2036 | 1,361,503        | 77,010     |
| IFB Ser. 06-20, Class IG, IO, 1.33s, 2036  | 8,143,980        | 341,113    |
| IFB Ser. 06-109, Class SH, IO, 1.3s, 2036  | 1,161,688        | 84,319     |
| IFB Ser. 06-45, Class SM, IO, 1.28s, 2036  | 1,991,064        | 84,310     |
| IFB Ser. 06-8, Class JH, IO, 1.28s, 2036   | 4,847,223        | 267,905    |
| IFB Ser. 06-20, Class IB, IO, 1.27s, 2036  | 3,489,833        | 139,317    |
| IFB Ser. 05-95, Class OI, IO, 1.27s, 2035  | 204,194          | 15,253     |
| IFB Ser. 06-98, Class SQ, IO, 1 1/4s, 2036 | 14,249,127       | 774,769    |
| IFB Ser. 06-85, Class TS, IO, 1.24s, 2036  | 2,746,889        | 133,501    |

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|   |           |           |
|---|-----------|-----------|
| Ser. 03-W17, Class 12, IO, 1.153s, 2033                 | 2,590,173 | 106,715   |
| IFB Ser. 07-30, Class LI, IO, 1.12s, 2037               | 1,889,000 | 109,890   |
| IFB Ser. 07-W2, Class 1A2, IO, 1.11s, 2037              | 6,108,575 | 290,967   |
| IFB Ser. 07-15, Class CI, IO, 1.06s, 2037               | 4,496,062 | 243,503   |
| IFB Ser. 06-123, Class BI, IO, 1.06s, 2037              | 5,969,791 | 316,529   |
| IFB Ser. 06-115, Class JI, IO, 1.06s, 2036              | 3,302,328 | 175,892   |
| IFB Ser. 06-123, Class LI, IO, 1s, 2037                 | 2,211,759 | 112,966   |
| Ser. 03-W10, Class 1A, IO, 0.932s, 2043                 | 3,673,751 | 54,185    |
| Ser. 03-W10, Class 3A, IO, 0.928s, 2043                 | 4,418,529 | 74,450    |
| IFB Ser. 05-74, Class SE, IO, 0.78s, 2035               | 2,119,077 | 68,981    |
| IFB Ser. 05-87, Class SE, IO, 0.73s, 2035               | 9,165,929 | 296,502   |
| Ser. 02-T18, IO, 0.524s, 2042                           | 7,127,368 | 90,545    |
| Ser. 06-84, Class OP, Principal Only (PO), zero %, 2036 | 77,111    | 74,914    |
| Ser. 05-113, Class DO, PO, zero %, 2036                 | 961,191   | 771,660   |
| Ser. 363, Class 1, PO, zero %, 2035                     | 2,062,358 | 1,573,572 |
| Ser. 361, Class 1, PO, zero %, 2035                     | 2,745,267 | 2,252,702 |

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| Fannie Mae  |                  |            |
| Ser. 04-38, Class AO, PO, zero %, 2034                                  | \$ 348,733       | \$ 254,193 |
| Ser. 04-61, Class CO, PO, zero %, 2031                                  | 517,000          | 423,158    |
| Ser. 99-51, Class N, PO, zero %, 2029                                   | 73,603           | 61,148     |
| Ser. 07-31, Class TS, IO, zero %, 2009                                  | 3,667,000        | 78,496     |
| Ser. 07-15, Class IM, IO, zero %, 2009                                  | 1,422,967        | 27,001     |
| FRB Ser. 05-117, Class GF, zero %, 2036                                 | 296,025          | 276,446    |
| Federal Home Loan Mortgage Corp.  |                  |            |
| Structured Pass-Through Securities                                      |                  |            |
| Ser. T-59, Class 1A3, 7 1/2s, 2043                                      | 400,508          | 423,109    |
| Ser. T-58, Class 4A, 7 1/2s, 2043                                       | 6,409            | 6,723      |
| Ser. T-41, Class 3A, 7 1/2s, 2032                                       | 960,494          | 1,002,829  |
| Ser. T-60, Class 1A2, 7s, 2044  | 1,845,931        | 1,919,894  |
| Ser. T-57, Class 1AX, IO, 0.005s, 2043                                  | 2,355,290        | 27,792     |
| FFCA Secured Lending Corp. 144A Ser. 00-1, Class X,<br>IO, 1.366s, 2020 | 5,608,490        | 303,996    |
| Freddie Mac   |                  |            |
| IFB Ser. 3153, Class UK, 7 1/2s, 2036                                   | 204,552          | 234,576    |
| IFB Ser. 3182, Class PS, 7.32s, 2032                                    | 218,382          | 242,313    |
| IFB Ser. 3081, Class DC, 5.22s, 2035                                    | 541,601          | 551,322    |
| IFB Ser. 3114, Class GK, 5.12s, 2036                                    | 360,660          | 367,059    |
| IFB Ser. 2979, Class AS, 4.767s, 2034                                   | 238,350          | 236,779    |
| IFB Ser. 3065, Class DC, 3.9s, 2035                                     | 825,563          | 782,402    |
| IFB Ser. 3050, Class SA, 3.575s, 2034                                   | 596,709          | 551,208    |
| IFB Ser. 2828, Class TI, IO, 1.73s, 2030                                | 769,072          | 49,022     |

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|  |           |         |
|--|-----------|---------|
| IFB Ser. 3287, Class SD, IO, 1.43s, 2037 | 1,605,000 | 98,340  |
| IFB Ser. 3028, Class ES, IO, 1.43s, 2035 | 3,962,972 | 269,136 |
| IFB Ser. 3042, Class SP, IO, 1.43s, 2035 | 924,999   | 58,645  |
| IFB Ser. 3045, Class DI, IO, 1.41s, 2035 | 9,778,641 | 472,178 |
| IFB Ser. 3054, Class CS, IO, 1.38s, 2035 | 876,281   | 38,612  |
| IFB Ser. 3107, Class DC, IO, 1.38s, 2035 | 4,202,457 | 299,771 |
| IFB Ser. 3066, Class SI, IO, 1.38s, 2035 | 2,699,636 | 185,542 |
| IFB Ser. 2950, Class SM, IO, 1.38s, 2016 | 644,155   | 37,651  |
| IFB Ser. 3031, Class BI, IO, 1.37s, 2035 | 745,346   | 54,401  |
| IFB Ser. 3114, Class TS, IO, 1.33s, 2030 | 4,893,709 | 157,348 |
| IFB Ser. 3240, Class S, IO, 1.3s, 2036   | 3,816,158 | 228,495 |
| IFB Ser. 3065, Class DI, IO, 1.3s, 2035  | 588,360   | 42,914  |
| IFB Ser. 3174, Class BS, IO, 1.2s, 2036  | 3,836,551 | 148,872 |
| IFB Ser. 3152, Class SY, IO, 1.16s, 2036 | 3,312,032 | 206,671 |
| IFB Ser. 3081, Class DI, IO, 1.16s, 2035 | 759,438   | 41,435  |
| IFB Ser. 3199, Class S, IO, 1.13s, 2036  | 2,826,828 | 153,488 |
| IFB Ser. 3284, Class LI, IO, 1.12s, 2037 | 2,417,000 | 135,879 |
| IFB Ser. 3281, Class AI, IO, 1.11s, 2037 | 4,503,042 | 253,570 |
| IFB Ser. 3240, Class GS, IO, 1.06s, 2036 | 2,309,078 | 124,302 |
| IFB Ser. 3288, Class SJ, IO, 0.81s, 2037 | 2,225,000 | 85,871  |
| IFB Ser. 3284, Class CI, IO, 0.8s, 2037  | 5,361,000 | 222,374 |
| IFB Ser. 3016, Class SQ, IO, 0.79s, 2035 | 1,757,398 | 50,799  |
| IFB Ser. 3284, Class WI, IO, 0.78s, 2037 | 8,936,000 | 394,427 |
| IFB Ser. 2815, Class S, IO, 0.68s, 2032  | 1,715,987 | 46,675  |
| Ser. 3174, PO, zero %, 2036              | 135,861   | 116,562 |

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Freddie Mac                                    |                  |            |
| Ser. 236, PO, zero %, 2036                     | \$ 675,372       | \$ 547,281 |
| Ser. 3045, Class DO, PO, zero %, 2035          | 747,774          | 596,858    |
| Ser. 215, PO, zero %, 2031                     | 144,556          | 114,540    |
| Ser. 2235, PO, zero %, 2030                    | 180,298          | 143,957    |
| FRB Ser. 3022, Class TC, zero %, 2035          | 119,005          | 122,180    |
| FRB Ser. 2986, Class XT, zero %, 2035          | 76,568           | 75,761     |
| FRB Ser. 3046, Class WF, zero %, 2035          | 140,271          | 135,683    |
| FRB Ser. 3054, Class XF, zero %, 2034          | 77,431           | 75,386     |
| GE Capital Commercial Mortgage Corp. 144A      |                  |            |
| Ser. 00-1, Class F, 7.515s, 2033               | 170,000          | 181,049    |
| Ser. 00-1, Class G, 6.131s, 2033               | 596,000          | 546,753    |
| GMAC Commercial Mortgage Securities, Inc. 144A |                  |            |
| Ser. 99-C3, Class G, 6.974s, 2036              | 529,968          | 545,673    |
| Government National Mortgage Association       |                  |            |
| IFB Ser. 05-66, Class SP, 3.1s, 2035           | 505,702          | 471,826    |

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|  |            |         |
|--|------------|---------|
| IFB Ser. 07-1, Class SL, IO, 2.04s, 2037           | 775,841    | 50,826  |
| IFB Ser. 07-1, Class SM, IO, 2.03s, 2037           | 775,841    | 50,604  |
| IFB Ser. 05-68, Class SN, IO, 1.88s, 2034          | 2,481,691  | 136,880 |
| IFB Ser. 07-9, Class AI, IO, 1.18s, 2037           | 2,235,000  | 104,967 |
| IFB Ser. 05-65, Class SI, IO, 1.03s, 2035          | 1,874,873  | 71,874  |
| IFB Ser. 05-68, Class SI, IO, 0.98s, 2035          | 6,559,770  | 289,042 |
| IFB Ser. 06-14, Class S, IO, 0.93s, 2036           | 1,921,301  | 69,365  |
| IFB Ser. 05-68, Class S, IO, 0.88s, 2035           | 3,728,214  | 146,380 |
| Ser. 98-2, Class EA, PO, zero %, 2028              | 73,766     | 60,650  |
| GS Mortgage Securities Corp. II 144A FRB           |            |         |
| Ser. 03-FL6A, Class L, zero%, 2015                 | 214,000    | 214,000 |
| LB Commercial Conduit Mortgage Trust 144A          |            |         |
| Ser. 99-C1, Class G, 6.41s, 2031                   | 253,101    | 262,961 |
| Lehman Brothers Floating Rate Commercial Mortgage  |            |         |
| Trust 144A FRB Ser. 03-LLFA, Class L, 9.07s, 2014  | 876,000    | 876,088 |
| Lehman Mortgage Trust                              |            |         |
| IFB Ser. 06-5, Class 2A2, IO, 1.83s, 2036          | 2,296,946  | 106,187 |
| IFB Ser. 07-2, Class 2A13, IO, 1.37s, 2037         | 2,153,000  | 126,171 |
| IFB Ser. 06-9, Class 2A2, IO, 1.3s, 2037           | 2,616,065  | 128,705 |
| IFB Ser. 06-7, Class 2A5, IO, 1.23s, 2036          | 4,219,319  | 224,930 |
| IFB Ser. 06-7, Class 2A4, IO, 1.23s, 2036          | 4,720,554  | 178,840 |
| IFB Ser. 06-6, Class 1A2, IO, 1.18s, 2036          | 1,917,503  | 74,432  |
| IFB Ser. 06-6, Class 1A3, IO, 1.18s, 2036          | 2,561,434  | 125,918 |
| IFB Ser. 06-5, Class 1A3, IO, 0.08s, 2036          | 831,979    | 4,191   |
| IFB Ser. 06-4, Class 1A3, IO, 0.08s, 2036          | 1,178,851  | 10,330  |
| IFB Ser. 06-7, Class 1A3, IO, 0.03s, 2036          | 1,936,185  | 11,925  |
| Mach One Commercial Mortgage Trust 144A            |            |         |
| Ser. 04-1A, Class J, 5.45s, 2040                   | 594,000    | 503,902 |
| Ser. 04-1A, Class K, 5.45s, 2040                   | 212,000    | 172,300 |
| Ser. 04-1A, Class L, 5.45s, 2040                   | 96,000     | 71,753  |
| Merrill Lynch Capital Funding Corp. Ser. 06-4,     |            |         |
| Class XC, IO, 0.06s, 2049                          | 56,824,553 | 854,588 |
| Merrill Lynch Mortgage Investors, Inc. Ser. 96-C2, |            |         |
| Class JS, IO, 2.274s, 2028                         | 1,643,175  | 160,081 |

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COLLATERALIZED MORTGAGE OBLIGATIONS (11.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Mezz Cap Commercial Mortgage Trust 144A Ser. 04-C1,<br>Class X, IO, 7.437s, 2037 | \$ 1,016,268     | \$ 336,004 |
| Morgan Stanley Capital I Ser. 98-CF1, Class E,<br>7.35s, 2032                    | 1,252,000        | 1,314,595  |
| Morgan Stanley Capital I 144A Ser. 04-RR, Class F7,<br>6s, 2039                  | 1,730,000        | 1,266,076  |
| Morgan Stanley Mortgage Loan Trust IFB Ser. 06-7,                                |                  |            |

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|   |     |            |           |
|---|-----|------------|-----------|
| Class 4A3, IO, zero %, 2036   |     | 986,977    | 4,217     |
| Morgan Stanley Mortgage Loan Trust Ser. 05-5AR,<br>Class 2A1, 5.39s, 2035                 |     | 1,545,304  | 1,551,099 |
| Mortgage Capital Funding, Inc.<br>FRB Ser. 98-MC2, Class E, 7.095s, 2030                  |     | 327,112    | 334,315   |
| Ser. 97-MC2, Class X, IO, 0.676s, 2012  |     | 1,463,328  | 5,561     |
| Permanent Financing PLC FRB Ser. 8, Class 2C, 5.74s,<br>2042 (United Kingdom)             |     | 500,000    | 499,971   |
| PNC Mortgage Acceptance Corp. 144A Ser. 00-C1,<br>Class J, 6 5/8s, 2010                   |     | 123,000    | 121,312   |
| Residential Asset Securitization Trust IFB<br>Ser. 06-A7CB, Class 1A6, IO, 0.23s, 2036    |     | 455,328    | 5,798     |
| SBA CMBS Trust 144A Ser. 05-1A, Class E, 6.706s, 2035<br>STRIPS 144A                      |     | 303,000    | 303,903   |
| Ser. 03-1A, Class M, 5s, 2018 (Cayman Islands)  |     | 162,000    | 139,453   |
| Ser. 03-1A, Class N, 5s, 2018 (Cayman Islands)  |     | 193,000    | 153,307   |
| Ser. 04-1A, Class M, 5s, 2018 (Cayman Islands)  |     | 174,000    | 151,598   |
| Ser. 04-1A, Class N, 5s, 2018 (Cayman Islands)  |     | 167,000    | 136,366   |
| Titan Europe PLC 144A<br>FRB Ser. 05-CT2A, Class E, 6.641s, 2014 (Ireland)                | GBP | 226,682    | 446,181   |
| FRB Ser. 05-CT1A, Class D, 6.633s, 2014 (Ireland)   | GBP | 605,601    | 1,192,945 |
| FRB Ser. 04-2A, Class D, 4.646s, 2014 (Ireland)   | EUR | 274,678    | 367,204   |
| URSUS EPC 144A FRB Ser. 1-A, Class D, 6.508s,<br>2012 (Ireland)                           | GBP | 264,498    | 520,400   |
| Wachovia Bank Commercial Mortgage Trust 144A FRB<br>Ser. 05-WL5A, Class L, 8.62s, 2018    | \$  | 477,000    | 476,943   |
| Wells Fargo Mortgage Backed Securities Trust<br>Ser. 05-AR13, Class 1A4, IO, 0.742s, 2035 |     | 13,524,513 | 189,986   |

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Total collateralized mortgage obligations (cost \$76,223,202) \$ 78,053,913

ASSET-BACKED SECURITIES (9.9%)\*

|  |    | Principal amount | Value     |
|--|----|------------------|-----------|
| Ameriquest Finance NIM Trust 144A Ser. 04-RN9,<br>Class N2, 10s, 2034 (Cayman Islands)               | \$ | 94,287           | \$ 84,858 |
| Arcap REIT, Inc. 144A<br>Ser. 03-1A, Class E, 7.11s, 2038  |    | 383,000          | 387,674   |
| Ser. 04-1A, Class E, 6.42s, 2039   |    | 361,000          | 359,165   |
| Asset Backed Funding Certificates 144A FRB<br>Ser. 06-OPT3, Class B, 7.82s, 2036                     |    | 52,000           | 35,308    |
| Asset Backed Securities Corp. Home Equity Loan Trust<br>144A FRB Ser. 06-HE2, Class M10, 7.82s, 2036 |    | 509,000          | 371,843   |

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ASSET-BACKED SECURITIES (9.9%)\* *continued*

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|  | Principal amount | Value      |
|--|------------------|------------|
| Aviation Capital Group Trust 144A FRB Ser. 03-2A,<br>Class G1, 6.02s, 2033                 | \$ 277,625       | \$ 278,796 |
| Bank One Issuance Trust FRB Ser. 03-C4, Class C4,<br>6.35s, 2011                           | 340,000          | 343,400    |
| Bear Stearns Asset Backed Securities, Inc.<br>FRB Ser. 04-FR3, Class M6, 8.57s, 2034       | 286,000          | 282,783    |
| FRB Ser. 06-PC1, Class M9, 7.07s, 2035   | 185,000          | 120,250    |
| Bear Stearns Asset Backed Securities, Inc. 144A FRB<br>Ser. 06-HE2, Class M10, 7.57s, 2036 | 270,000          | 175,500    |
| Bombardier Capital Mortgage Securitization Corp.<br>Ser. 00-A, Class A4, 8.29s, 2030       | 547,366          | 391,281    |
| Ser. 00-A, Class A2, 7.575s, 2030  | 149,819          | 108,028    |
| Ser. 99-B, Class A4, 7.3s, 2016  | 708,068          | 467,212    |
| Ser. 99-B, Class A3, 7.18s, 2015   | 1,191,610        | 779,760    |
| FRB Ser. 00-A, Class A1, 5.48s, 2030   | 157,448          | 89,745     |
| Broadhollow Funding, LLC 144A FRB Ser. 04-A,<br>Class Sub, 6.57s, 2009                     | 598,000          | 571,090    |
| Capital Auto Receivables Asset Trust 144A Ser. 06-1,<br>Class D, 7.16s, 2013               | 500,000          | 501,270    |
| CARSSX Finance, Ltd. 144A<br>FRB Ser. 04-AA, Class B4, 10.82s, 2011 (Cayman Islands)       | 180,214          | 185,418    |
| FRB Ser. 04-AA, Class B3, 8.67s, 2011 (Cayman Islands)                                     | 34,922           | 35,429     |
| Chase Credit Card Master Trust FRB Ser. 03-3,<br>Class C, 6.4s, 2010                       | 350,000          | 353,941    |
| CHEC NIM Ltd., 144A Ser. 04-2, Class N3, 8s, 2034<br>(Cayman Islands)                      | 3,654            | 3,571      |
| Citigroup Mortgage Loan Trust, Inc.<br>FRB Ser. 05-HE4, Class M11, 7.82s, 2035             | 304,000          | 193,891    |
| FRB Ser. 05-HE4, Class M12, 7.37s, 2035  | 457,000          | 268,625    |
| Conseco Finance Securitizations Corp.<br>Ser. 00-2, Class A5, 8.85s, 2030                  | 1,189,495        | 1,115,113  |
| Ser. 00-4, Class A6, 8.31s, 2032   | 3,615,000        | 3,202,428  |
| Ser. 00-5, Class A7, 8.2s, 2032  | 476,000          | 402,458    |
| Ser. 00-1, Class A5, 8.06s, 2031   | 1,094,563        | 971,437    |
| Ser. 00-4, Class A5, 7.97s, 2032   | 240,000          | 214,048    |
| Ser. 00-5, Class A6, 7.96s, 2032   | 771,000          | 711,143    |
| Ser. 00-4, Class A4, 7.73s, 2031   | 75,291           | 69,591     |
| Ser. 01-3, Class M2, 7.44s, 2033   | 91,847           | 6,429      |
| FRB Ser. 02-1, Class M1A, 7.37s, 2033  | 2,196,000        | 2,215,984  |
| Ser. 01-4, Class A4, 7.36s, 2033   | 256,212          | 266,565    |
| Ser. 00-6, Class A5, 7.27s, 2031   | 90,468           | 90,750     |
| FRB Ser. 01-4, Class M1, 7.07s, 2033   | 295,000          | 112,100    |
| Ser. 01-1, Class A5, 6.99s, 2032   | 987,062          | 973,435    |
| Ser. 01-3, Class A4, 6.91s, 2033   | 3,073,000        | 3,047,866  |
| Ser. 02-1, Class A, 6.681s, 2033   | 1,232,137        | 1,252,909  |
| Ser. 01-3, Class A3, 5.79s, 2033   | 458              | 458        |

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Countrywide Asset Backed Certificates 144A

|  |        |        |
|--|--------|--------|
| Ser. 04-6N, Class N1, 6 1/4s, 2035     | 25,900 | 24,994 |
| Ser. 04-BC1N, Class Note, 5 1/2s, 2035 | 25,795 | 24,572 |

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ASSET-BACKED SECURITIES (9.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Countrywide Home Loans   |                  |            |
| Ser. 06-0A5, Class X, IO, 2.744s, 2046   | \$ 4,309,576     | \$ 169,690 |
| Ser. 05-2, Class 2X, IO, 1.16s, 2035   | 4,607,269        | 100,784    |
| Countrywide Home Loans 144A IFB Ser. 05-R1,<br>Class 1AS, IO, 0.805s, 2035                       | 4,191,957        | 124,246    |
| Crest, Ltd. 144A Ser. 03-2A, Class E2, 8s, 2038<br>(Cayman Islands)                              | 431,000          | 432,246    |
| DB Master Finance, LLC 144A Ser. 06-1, Class M1,<br>8.285s, 2031                                 | 277,000          | 284,849    |
| First Chicago Lennar Trust 144A Ser. 97-CHL1,<br>Class E, 7.895s, 2039                           | 1,147,636        | 1,165,568  |
| First Franklin Mortgage Loan Asset Backed<br>Certificates FRB Ser. 04-FF7, Class A4, 5.62s, 2034 | 327,184          | 327,347    |
| Fremont NIM Trust 144A   |                  |            |
| Ser. 04-3, Class B, 7 1/2s, 2034   | 41,578           | 370        |
| Ser. 04-3, Class A, 4 1/2s, 2034   | 1,452            | 27         |
| Gears Auto Owner Trust 144A Ser. 05-AA, Class E1,<br>8.22s, 2012                                 | 687,000          | 684,937    |
| Granite Mortgages PLC  |                  |            |
| FRB Ser. 03-2, Class 3C, 6.69s, 2043 (United Kingdom)  | GBP 1,075,000    | 2,160,959  |
| FRB Ser. 02-1, Class 1C, 6.66s, 2042 (United Kingdom)  | \$ 331,938       | 332,035    |
| FRB Ser. 03-2, Class 2C1, 5.2s, 2043 (United Kingdom)  | EUR 1,430,000    | 1,943,468  |
| Green Tree Financial Corp.   |                  |            |
| Ser. 94-6, Class B2, 9s, 2020  | \$ 870,032       | 825,395    |
| Ser. 94-4, Class B2, 8.6s, 2019  | 323,272          | 234,646    |
| Ser. 93-1, Class B, 8.45s, 2018  | 583,622          | 556,578    |
| Ser. 99-5, Class A5, 7.86s, 2030   | 4,540,000        | 4,313,000  |
| Ser. 96-8, Class M1, 7.85s, 2027   | 387,000          | 390,586    |
| Ser. 95-8, Class B1, 7.3s, 2026  | 362,579          | 363,402    |
| Ser. 95-4, Class B1, 7.3s, 2025  | 371,800          | 383,259    |
| Ser. 97-6, Class M1, 7.21s, 2029   | 982,000          | 936,060    |
| Ser. 99-3, Class A7, 6.74s, 2031   | 733,000          | 729,933    |
| Ser. 99-3, Class A5, 6.16s, 2031   | 9,152            | 9,209      |
| Greenpoint Manufactured Housing  |                  |            |
| Ser. 00-3, Class IA, 8.45s, 2031   | 1,651,777        | 1,524,049  |
| Ser. 99-5, Class A4, 7.59s, 2028   | 70,511           | 71,800     |
| GS Auto Loan Trust 144A Ser. 04-1, Class D, 5s, 2011   | 365,777          | 363,096    |
| Guggenheim Structured Real Estate Funding, Ltd. 144A   |                  |            |

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|   |     |           |           |
|---|-----|-----------|-----------|
| FRB Ser. 05-2A, Class E, 7.32s, 2030 (Cayman Islands)                             |     | 379,000   | 380,478   |
| FRB Ser. 05-1A, Class E, 7.12s, 2030 (Cayman Islands)                             |     | 222,459   | 219,278   |
| HASCO NIM Trust 144A Ser. 05-OP1A, Class A, 6 1/4s, 2035 (Cayman Islands)         |     | 225,300   | 200,517   |
| LNR CDO, Ltd. 144A FRB Ser. 02-1A, Class FFL, 8.07s, 2037 (Cayman Islands)        |     | 1,260,000 | 1,260,000 |
| Lothian Mortgages PLC 144A FRB Ser. 3A, Class D, 6.408s, 2039 (United Kingdom)    | GBP | 900,000   | 1,770,750 |
| Madison Avenue Manufactured Housing Contract FRB Ser. 02-A, Class B1, 8.57s, 2032 | \$  | 1,046,356 | 816,158   |

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ASSET-BACKED SECURITIES (9.9%)\* *continued*

|   |    | Principal amount | Value     |
|---|----|------------------|-----------|
| MASTR Asset Backed Securities NIM Trust 144A                              |    |                  |           |
| Ser. 04-HE1A, Class Note, 5.191s, 2034 (Cayman Islands)                   | \$ | 3,490            | \$ 3,438  |
| MBNA Credit Card Master Note Trust FRB Ser. 03-C5, Class C5, 6 1/2s, 2010 |    | 350,000          | 354,117   |
| Merrill Lynch Mortgage Investors, Inc. 144A                               |    |                  |           |
| Ser. 04-FM1N, Class N1, 5s, 2035 (Cayman Islands)                         |    | 10,052           | 9,901     |
| Mid-State Trust Ser. 11, Class B, 8.221s, 2038                            |    | 127,937          | 127,109   |
| Morgan Stanley ABS Capital I FRB Ser. 04-HE8, Class B3, 8.52s, 2034       |    | 214,000          | 181,900   |
| Morgan Stanley Auto Loan Trust 144A Ser. 04-HB2, Class E, 5s, 2012        |    | 73,844           | 72,456    |
| Navistar Financial Corp. Owner Trust                                      |    |                  |           |
| Ser. 05-A, Class C, 4.84s, 2014   |    | 191,669          | 187,965   |
| Ser. 04-B, Class C, 3.93s, 2012   |    | 83,563           | 81,510    |
| Oakwood Mortgage Investors, Inc.  |    |                  |           |
| Ser. 99-D, Class A1, 7.84s, 2029  |    | 1,035,311        | 916,499   |
| Ser. 00-A, Class A2, 7.765s, 2017   |    | 154,410          | 119,315   |
| Ser. 95-B, Class B1, 7.55s, 2021  |    | 364,000          | 227,500   |
| Ser. 00-D, Class A4, 7.4s, 2030   |    | 1,022,000        | 669,055   |
| Ser. 02-B, Class A4, 7.09s, 2032  |    | 429,050          | 411,969   |
| Ser. 99-B, Class A4, 6.99s, 2026  |    | 1,134,333        | 1,084,466 |
| Ser. 01-D, Class A4, 6.93s, 2031  |    | 766,737          | 601,752   |
| Ser. 01-E, Class A4, 6.81s, 2031  |    | 972,254          | 864,219   |
| Ser. 01-C, Class A2, 5.92s, 2017  |    | 993,638          | 508,164   |
| Ser. 02-C, Class A1, 5.41s, 2032  |    | 1,368,684        | 1,251,746 |
| Ser. 01-D, Class A2, 5.26s, 2019  |    | 155,206          | 108,165   |
| Ser. 01-E, Class A2, 5.05s, 2019  |    | 1,116,121        | 888,291   |
| Ser. 02-A, Class A2, 5.01s, 2020  |    | 300,657          | 233,281   |
| Oakwood Mortgage Investors, Inc. 144A Ser. 01-B, Class A4, 7.21s, 2030    |    | 217,608          | 195,040   |
| Ocean Star PLC 144A   |    |                  |           |

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|  |     |           |           |
|--|-----|-----------|-----------|
| FRB Ser. 04-A, Class E, 11.86s, 2018 (Ireland)   |     | 885,000   | 894,956   |
| FRB Ser. 05-A, Class E, 9.96s, 2012 (Ireland)  |     | 238,000   | 242,427   |
| Option One Mortgage Loan Trust FRB Ser. 05-4,<br>Class M11, 7.82s, 2035                        |     | 509,000   | 361,543   |
| Park Place Securities, Inc. FRB Ser. 04-MCW1,<br>Class A2, 5.7s, 2034                          |     | 579,540   | 579,811   |
| People's Choice Net Interest Margin Note 144A<br>Ser. 04-2, Class B, 5s, 2034                  |     | 7,773     | 7,330     |
| Permanent Financing PLC  |     |           |           |
| FRB Ser. 3, Class 3C, 6.49s, 2042 (United Kingdom)   |     | 350,000   | 352,892   |
| FRB Ser. 6, Class 3C, 6.208s, 2042 (United Kingdom)  | GBP | 887,000   | 1,750,757 |
| Residential Asset Securities Corp. Ser. 01-KS3,<br>Class All, 5.78s, 2031                      | \$  | 2,261,427 | 2,261,834 |
| Residential Asset Securities Corp. 144A FRB<br>Ser. 05-KS10, Class B, 7.8s, 2035               |     | 395,000   | 237,000   |
| Residential Asset Securitization Trust IFB<br>Ser. 07-A3, Class 2A2, IO, 1.37s, 2037           |     | 4,970,589 | 270,432   |
| Residential Mortgage Securities 144A FRB Ser. 20A,<br>Class B1A, 6.314s, 2038 (United Kingdom) | GBP | 150,000   | 296,981   |

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ASSET-BACKED SECURITIES (9.9%)\* *continued*

|   |    | Principal amount | Value     |
|---|----|------------------|-----------|
| Rural Housing Trust Ser. 87-1, Class D, 6.33s, 2026   | \$ | 28,506           | \$ 28,646 |
| SAIL Net Interest Margin Notes 144A   |    |                  |           |
| Ser. 03-3, Class A, 7 3/4s, 2033 (Cayman Islands)   |    | 17,341           | 54        |
| Ser. 03-BC2A, Class A, 7 3/4s, 2033 (Cayman Islands)  |    | 75,194           | 3,008     |
| Ser. 03-10A, Class A, 7 1/2s, 2033 (Cayman Islands)   |    | 49,754           | 5         |
| Ser. 03-5, Class A, 7.35s, 2033 (Cayman Islands)  |    | 12,452           | 398       |
| Ser. 03-8A, Class A, 7s, 2033 (Cayman Islands)  |    | 7,301            | 34        |
| Ser. 03-9A, Class A, 7s, 2033 (Cayman Islands)  |    | 10,294           | 26        |
| Ser. 03-6A, Class A, 7s, 2033 (Cayman Islands)  |    | 3,426            | 69        |
| Ser. 03-7A, Class A, 7s, 2033 (Cayman Islands)  |    | 20,842           | 104       |
| Sasco Net Interest Margin Trust 144A Ser. 03-BC1,<br>Class B, zero %, 2033 (Cayman Islands) |    | 273,210          | 27        |
| Soundview Home Equity Loan Trust 144A FRB Ser. 05-4,<br>Class M10, 7.82%, 2036              |    | 392,000          | 278,320   |
| South Coast Funding 144A FRB Ser. 3A, Class A2,<br>6.56s, 2038 (Cayman Islands)             |    | 140,000          | 140,434   |
| Structured Asset Investment Loan Trust 144A FRB<br>Ser. 05-HE3, Class M11, 6.55s, 2035      |    | 436,000          | 226,110   |
| Structured Asset Receivables Trust 144A FRB<br>Ser. 05-1, 5.86s, 2015                       |    | 1,780,998        | 1,778,772 |
| TIAA Real Estate CDO, Ltd. Ser. 03-1A, Class E, 8s,<br>2038 (Cayman Islands)                |    | 467,000          | 464,992   |

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|  |         |               |
|--|---------|---------------|
| TIAA Real Estate CDO, Ltd. 144A Ser. 02-1A,<br>Class IV, 6.84s, 2037 (Cayman Islands)          | 390,000 | 374,205       |
| Whinstone Capital Management, Ltd. 144A FRB Ser. 1A,<br>Class B3, 6.26s, 2044 (United Kingdom) | 683,414 | 683,387       |
| Whole Auto Loan Trust 144A Ser. 04-1, Class D, 5.6s, 2011                                      | 35,685  | 35,628        |
| <hr/>  |         |               |
| Total asset-backed securities (cost \$64,751,881)  |         | \$ 64,533,878 |

SENIOR LOANS (7.0%)\* (c)

|  | Principal amount | Value      |
|--|------------------|------------|
| <hr/>  |                  |            |
| Basic Materials (1.3%)   |                  |            |
| Celanese Corp. bank term loan FRN Ser. B, 7.1s, 2014                           | \$ 300,000       | \$ 300,654 |
| Freeport-McMoRan Copper & Gold, Inc. bank term loan<br>FRN Ser. B, 7.11s, 2014 | 2,988,300        | 2,995,914  |
| Georgia-Pacific Corp. bank term loan FRN Ser. B,<br>7.345s, 2013               | 760,548          | 764,099    |
| Georgia-Pacific Corp. bank term loan FRN Ser. B2,<br>7.09s, 2012               | 300,000          | 301,401    |
| Hexion Specialty Chemicals, Inc. bank term loan FRN<br>7 7/8s, 2013            | 249,375          | 250,864    |
| Innophos, Inc. bank term loan FRN 7.57s, 2010                                  | 202,392          | 203,067    |
| Lyondell Chemical Co. bank term loan FRN Ser. B,<br>7.11s, 2013                | 99,500           | 99,680     |
| Momentive Performance Materials, Inc. bank term loan<br>FRN 7 5/8s, 2013       | 200,000          | 200,833    |
| Nalco Co. bank term loan FRN Ser. B, 7.186s, 2010                              | 1,026,565        | 1,032,065  |
| Novelis, Inc. bank term loan FRN 7.61s, 2012                                   | 334,114          | 334,352    |

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SENIOR LOANS (7.0%)\* (c) *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <hr/>  |                  |            |
| Basic Materials <i>continued</i>   |                  |            |
| Novelis, Inc. bank term loan FRN Ser. B, 7.61s, 2012                       | \$ 580,599       | \$ 581,013 |
| Rockwood Specialties Group, Inc. bank term loan FRN<br>Ser. E, 7.36s, 2012 | 1,373,970        | 1,383,588  |
|  |                  | 8,447,530  |
| <hr/>  |                  |            |
| Capital Goods (0.4%)   |                  |            |
| Graham Packaging Corp. bank term loan FRN Ser. B,<br>7.634s, 2011          | 392,965          | 394,228    |
| Hexcel Corp. bank term loan FRN Ser. B, 7.108s, 2012                       | 438,412          | 438,777    |
| Mueller Group, Inc. bank term loan FRN 7.36s, 2012                         | 410,159          | 413,064    |

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|   |         |           |
|---|---------|-----------|
| Polypore, Inc. bank term loan FRN 8.32s, 2011       | 709,591 | 712,252   |
| Terex Corp. bank term loan FRN Ser. D, 7.114s, 2013 | 49,750  | 49,812    |
| Transdigm, Inc. bank term loan FRN 7.348s, 2013     | 250,000 | 251,500   |
|   |         | 2,259,633 |

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Communication Services (0.6%)

|  |         |           |
|--|---------|-----------|
| Consolidated Communications Holdings, Inc. bank term loan FRN Ser. D, 7.363s, 2011 | 124,255 | 124,565   |
| Fairpoint Communications, Inc. bank term loan FRN Ser. B, 7 1/8s, 2012             | 543,116 | 544,644   |
| Idearc, Inc. bank term loan FRN Ser. B, 7.31s, 2014                                | 600,000 | 603,450   |
| Intelsat, Ltd. bank term loan FRN Ser. B, 7.61s, 2013 (Bermuda)                    | 598,500 | 602,989   |
| Madison River Capital, LLC bank term loan FRN Ser. B, 7.61s, 2012                  | 788,838 | 789,627   |
| MetroPCS Wireless, Inc. bank term loan FRN 7 5/8s, 2013                            | 249,375 | 250,310   |
| PanAmSat Corp. bank term loan FRN Ser. B, 7.86s, 2013                              | 598,500 | 603,213   |
| Syniverse Holdings, Inc. bank term loan FRN Ser. B, 7.12s, 2012                    | 426,734 | 427,268   |
| Time Warner Telecom, Inc. bank term loan FRN Ser. B, 7.325s, 2013                  | 181,000 | 181,792   |
|  |         | 4,127,858 |

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Consumer Cyclical (1.2%)

|  |         |         |
|--|---------|---------|
| CCM Merger, Inc. bank term loan FRN Ser. B, 7.35s, 2012                  | 982,506 | 988,646 |
| Coinmach Corp. bank term loan FRN Ser. B-1, 7.877s, 2012                 | 248,991 | 250,781 |
| Cooper Tire & Rubber Co. bank term loan FRN Ser. B, 7 7/8s, 2012         | 225,113 | 225,770 |
| Cooper-Standard Automotive, Inc. bank term loan FRN Ser. C, 7 7/8s, 2012 | 579,502 | 581,192 |
| Dex Media West, LLC bank term loan FRN Ser. B1, 6.888s, 2010             | 445,834 | 445,165 |
| Goodman Global Holdings, Inc. bank term loan FRN Ser. C, 7 1/8s, 2011    | 593,233 | 594,222 |
| Michaels Stores, Inc. bank term loan FRN Ser. B, 8 1/8s, 2013            | 317,434 | 320,067 |
| Neiman Marcus Group, Inc. bank term loan FRN Ser. B, 7.352s, 2013        | 485,713 | 489,584 |

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SENIOR LOANS (7.0%)\* (c) *continued*

|                  |       |
|------------------|-------|
| Principal amount | Value |
|------------------|-------|

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Consumer Cyclical *continued*

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|   |    |         |    |           |
|---|----|---------|----|-----------|
| PRIMEDIA, Inc. bank term loan FRN Ser. B, 7.57s, 2013                         | \$ | 148,500 | \$ | 148,299   |
| R.H. Donnelley, Inc. bank term loan FRN Ser. D-2, 6.856s, 2011                |    | 684,282 |    | 684,187   |
| R.H. Donnelley, Inc. bank term loan FRN Ser. D1, 6.852s, 2011                 |    | 381,958 |    | 381,693   |
| Standard-Pacific Corp. bank term loan FRN Ser. B, 6.86s, 2013                 |    | 100,000 |    | 99,000    |
| Sun Media Corp. bank term loan FRN Ser. B, 7.126s,<br>2009 (Canada)           |    | 137,565 |    | 137,737   |
| Trump Hotel & Casino Resort, Inc. bank term loan FRN<br>5.62s, 2012 (U)       |    | 172,813 |    | 173,979   |
| Trump Hotel & Casino Resort, Inc. bank term loan FRN<br>Ser. B-1, 7.87s, 2012 |    | 172,375 |    | 173,539   |
| TRW Automotive, Inc. bank term loan FRN Ser. B, 6.938s, 2010                  |    | 514,959 |    | 514,477   |
| TRW Automotive, Inc. bank term loan FRN Ser. B2, 6 7/8s, 2010                 |    | 118,800 |    | 118,503   |
| Venetian Casino Resort, LLC bank term loan FRN<br>Ser. B, 7.12s, 2011         |    | 664,302 |    | 668,263   |
| Venetian Casino Resort, LLC bank term loan FRN<br>Ser. DD, 7.12s, 2011        |    | 136,969 |    | 137,786   |
| Visant Holding Corp. bank term loan FRN Ser. C, 7.08s, 2010                   |    | 823,563 |    | 826,480   |
|   |    |         |    | 7,959,370 |

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Consumer Staples (2.1%)

|   |  |           |  |           |
|---|--|-----------|--|-----------|
| Affinion Group, Inc. bank term loan FRN Ser. B,<br>7.857s, 2013                   |  | 772,038   |  | 777,056   |
| Burlington Coat Factory Warehouse Corp. bank term<br>loan FRN Ser. B, 7.61s, 2013 |  | 468,542   |  | 464,793   |
| Cablevision Systems Corp. bank term loan FRN 7.11s, 2013                          |  | 1,091,750 |  | 1,095,162 |
| Cebridge Connections, Inc. bank term loan FRN<br>Ser. B, 7.35s, 2013              |  | 350,000   |  | 350,404   |
| Cebridge Connections, Inc. bank term loan FRN<br>Ser. B, 7.61s, 2013              |  | 350,000   |  | 350,438   |
| Charter Communications, Inc. bank term loan FRN 7.985s, 2013                      |  | 2,228,831 |  | 2,223,747 |
| Charter Communications, Inc. bank term loan FRN<br>7.86s, 2014                    |  | 200,000   |  | 199,917   |
| Charter Communications, Inc. bank term loan FRN<br>Ser. B, 7.36s, 2014            |  | 50,000    |  | 49,875    |
| Dean Foods Co. bank term loan FRN Ser. B, 6.86s, 2014                             |  | 750,000   |  | 750,000   |
| Gray Television, Inc. bank term loan FRN Ser. B, 6.86s, 2014                      |  | 131,892   |  | 131,892   |
| Gray Television, Inc. bank term loan FRN Ser. DD, 6.86s, 2014                     |  | 59,459    |  | 59,459    |
| Gray Television, Inc. bank term loan FRN Ser. DD, 6.86s, 2014                     |  | 8,649     |  | 8,649     |
| Insight Midwest, LP bank term loan FRN 7.36s, 2014                                |  | 68,075    |  | 68,557    |
| Jean Coutu Group, Inc. bank term loan FRN Ser. B,<br>7 7/8s, 2011 (Canada)        |  | 109,584   |  | 109,637   |
| Mediacom Communications Corp. bank term loan FRN<br>Ser. C, 7.101s, 2015          |  | 985,031   |  | 985,647   |
| Mediacom Communications Corp. bank term loan FRN<br>Ser. DD, 7.12s, 2015          |  | 120,000   |  | 119,800   |
| MGM Studios, Inc. bank term loan FRN Ser. B, 8.614s, 2011                         |  | 893,250   |  | 893,180   |
| Pinnacle Foods Holding Corp. bank term loan FRN                                   |  |           |  |           |

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Ser. B, 8.1s, 2014 300,000 301,875

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SENIOR LOANS (7.0%)\* (c) *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| <i>Consumer Staples continued</i>  |                  |            |
| Pinnacle Foods Holding Corp. bank term loan FRN 7.36s, 2010                | \$ 511,803       | \$ 514,362 |
| Regal Cinemas, Inc. bank term loan FRN Ser. B, 7.114s, 2010                | 600,000          | 601,608    |
| Reynolds American, Inc. bank term loan FRN Ser. B, 7.114s, 2012            | 248,750          | 250,571    |
| Six Flags, Inc. bank term loan FRN Ser. B, 8.61s, 2009                     | 426,592          | 429,613    |
| Spanish Broadcasting Systems, Inc. bank term loan FRN 7.12s, 2012          | 443,233          | 443,787    |
| Spectrum Brands, Inc. bank term loan FRN Ser. B, 8.601s, 2013              | 739,297          | 744,379    |
| Universal City Development Partners bank term loan FRN Ser. B, 7.36s, 2011 | 969,872          | 975,327    |
| Warner Music Group bank term loan FRN Ser. B, 7.362s, 2011                 | 153,509          | 153,912    |
| Young Broadcasting, Inc. bank term loan FRN Ser. B, 7.937s, 2012           | 267,257          | 268,125    |
|  |                  | 13,321,772 |

Energy (0.5%)

|  |         |           |
|--|---------|-----------|
| CR Gas Storage bank term loan FRN 7.09s, 2013                              | 330,947 | 331,257   |
| CR Gas Storage bank term loan FRN 7.089s, 2013                             | 55,277  | 53,595    |
| CR Gas Storage bank term loan FRN 7.07s, 2013                              | 58,607  | 58,717    |
| CR Gas Storage bank term loan FRN Ser. DD, 7.07s, 2013                     | 37,443  | 37,513    |
| Key Energy Services, Inc. bank term loan FRN 7.86s, 2010                   | 65,000  | 65,406    |
| Key Energy Services, Inc. bank term loan FRN Ser. B, 7.861s, 2012          | 956,000 | 961,975   |
| Meg Energy Corp. bank term loan FRN 7.35s, 2013 (Canada)                   | 99,000  | 99,758    |
| Meg Energy Corp. bank term loan FRN Ser. DD, 6s, 2013 (Canada) (U)         | 100,000 | 99,536    |
| Petroleum Geo-Services ASA bank term loan FRN Ser. B, 7.61s, 2012 (Norway) | 28,662  | 28,805    |
| Targa Resources, Inc. bank term loan FRN 7.36s, 2012                       | 633,115 | 637,369   |
| Targa Resources, Inc. bank term loan FRN 5.239s, 2012                      | 153,871 | 154,905   |
| Western Refining, Inc. bank term loan FRN Ser. B, 7.11s, 2014              | 602,679 | 604,279   |
| Western Refining, Inc. bank term loan FRN Ser. DD, 0 3/4s, 2014            | 147,321 | 147,713   |
|  |         | 3,280,828 |

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Health Care (0.5%)

|   |           |           |
|---|-----------|-----------|
| AmeriPath, Inc. bank term loan FRN Ser. B, 7.36s, 2012                          | 46,764    | 46,753    |
| Davita Inc. bank term loan FRN Ser. B, 6.825s, 2012                             | 300,000   | 300,773   |
| Health Management Associates, Inc. bank term loan<br>FRN 7.07s, 2014            | 1,198,000 | 1,201,182 |
| Healthsouth Corp. bank term loan FRN Ser. B, 8.61s, 2013                        | 1,194,000 | 1,199,021 |
| LifePoint, Inc. bank term loan FRN Ser. B, 6.985s, 2012                         | 452,470   | 450,773   |
| United Surgical Partners International, Inc. bank<br>term loan FRN 7.145s, 2013 | 52,735    | 52,735    |
|   |           | 3,251,237 |

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SENIOR LOANS (7.0%)\* (c) *continued*

|   | Principal amount | Value     |
|---|------------------|-----------|
| <hr/>   |                  |           |
| Technology (0.2%)   |                  |           |
| Affiliated Computer Services, Inc. bank term loan<br>FRN Ser. B2, 7.32s, 2013 | \$ 49,875        | \$ 49,937 |
| Aspect Software, Inc. bank term loan FRN 8 3/8s, 2011                         | 49,875           | 50,291    |
| JDA Software Group, Inc. bank term loan FRN Ser. B,<br>7.61s, 2013            | 39,875           | 40,224    |
| Sabre Holdings Corp. bank term loan FRN 7.61s, 2014                           | 300,000          | 299,775   |
| SunGard Data Systems, Inc. bank term loan FRN 7.36s, 2014                     | 600,000          | 604,500   |
| Travelport bank term loan FRN 8.364s, 2013                                    | 6,335            | 6,390     |
| Travelport bank term loan FRN Ser. B, 8.364s, 2013                            | 64,342           | 64,905    |
| UGS Corp. bank term loan FRN Ser. C, 7.097s, 2012                             | 408,276          | 408,276   |
|   |                  | 1,524,298 |

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Transportation (0.1%)

|   |         |         |
|---|---------|---------|
| United Airlines Corp. bank term loan FRN Ser. B, 7 3/8s, 2014 | 800,000 | 799,687 |
|---|---------|---------|

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Utilities & Power (0.1%)

|   |         |         |
|---|---------|---------|
| Mirant North America, LLC. bank term loan FRN 7.07s, 2013 | 76,613  | 76,699  |
| NRG Energy, Inc. bank term loan FRN Ser. B, 7.364s, 2013  | 612,922 | 616,616 |
|   |         | 693,315 |

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Total senior loans (cost \$45,734,444) \$ 45,665,528

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COMMON STOCKS (0.1%)\*

|                                       | Shares | Value     |
|---------------------------------------|--------|-----------|
| <hr/>                                 |        |           |
| Bohai Bay Litigation, LLC (Units) (F) | 991    | \$ 14,017 |

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|   |           |         |
|---|-----------|---------|
| Contifinancial Corp. Liquidating Trust Units (F)    | 3,510,819 | 351     |
| Owens Corning, Inc. □                               | 7,652     | 243,793 |
| VFB LLC (acquired 10/27/00, cost \$594,553) (F) □ □ | 948,004   | 19,610  |
| WHX Corp. □   | 17,467    | 148,470 |
| XCL Warranty Escrow (F)                             | 991       | 141,397 |

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Total common stocks (cost \$2,490,016) \$ 567,638

PREFERRED STOCKS (0.1%)\* (cost \$336,010)

|  | Shares | Value      |
|--|--------|------------|
| Rural Cellular Corp. Ser. B, 11.375% cum. pfd. | 426    | \$ 532,500 |

CONVERTIBLE PREFERRED STOCKS (□%)\* (cost \$112,017)

|  | Shares | Value      |
|--|--------|------------|
| Emmis Communications Corp. Ser. A, \$3.125 cum. cv. pfd. | 2,441  | \$ 106,794 |

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PURCHASED OPTIONS OUTSTANDING (1.3%)\*

|   | Expiration date/<br>strike price | Contract<br>amount | Value      |
|---|----------------------------------|--------------------|------------|
| Option on an interest rate swap<br>with Lehman Brothers for the right to pay<br>a fixed rate swap of 4.148% versus the<br>six month EUR-EURIBOR-Telerate<br>maturing October 10, 2016.            | Oct-11 / 4.148                   | EUR 34,178,000     | \$ 956,461 |
| Option on an interest rate swap<br>with Citibank, N.A. London for the right<br>to pay a fixed rate swap of 4.1925%<br>versus the six month EUR-EURIBOR-Telerate<br>maturing October 13, 2016.     | Oct-11 / 4.148                   | EUR 34,178,000     | 890,076    |
| Option on an interest rate swap<br>with Citibank, N.A. London for the right<br>to receive a fixed rate swap of 4.1925%<br>versus the six month EUR-EURIBOR-Telerate<br>maturing October 13, 2016. | Oct-11 / 4.1925                  | EUR 26,942,000     | 466,964    |
| Option on an interest rate swap<br>with Lehman Brothers for the right<br>to receive a fixed rate swap of 4.148%   |                                  |                    |            |

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|  |                 |     |            |           |
|--|-----------------|-----|------------|-----------|
| versus the six month EUR-EURIBOR-Telerate maturing October 10, 2016.   | Oct-11 / 4.1925 | EUR | 26,942,000 | 418,131   |
| Option on an interest rate swap with Lehman Brothers Special Financing, Inc. for the right to receive a fixed rate of 5.3475% versus the three month USD-LIBOR-BBA maturing on February 4, 2018.   | Jan-08 / 5.347  |     | 66,698,000 | 1,717,540 |
| Option on an interest rate swap with JPMorgan Chase Bank, N.A. for the right to receive a fixed rate of 5.39% versus the three month USD-LIBOR-BBA maturing on January 29, 2018.                   | Jan-08 / 5.39   |     | 35,068,000 | 949,975   |
| Option on an interest rate swap with Lehman Brothers International (Europe) for the right to pay a fixed rate swap of 5.3475% versus the three month USD-LIBOR-BBA maturing February 4, 2018.      | Jan-08 / 5.347  |     | 66,698,000 | 936,974   |
| Option on an interest rate swap with Lehman Brothers International (Europe) for the right to pay a fixed rate swap of 4.4175% versus the six month EUR-EURIBOR-Telerate maturing January 30, 2017. | Jan-12 / 4.417  | EUR | 26,942,000 | 597,354   |

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PURCHASED OPTIONS OUTSTANDING (1.3%)\* *continued*

|   | Expiration date/<br>strike price |     | Contract<br>amount | Value      |
|---|----------------------------------|-----|--------------------|------------|
| Option on an interest rate swap with Lehman Brothers Special Financing, Inc. for the right to receive a fixed rate of 4.4175% versus the six month EUR-EURIBOR-Telerate maturing on January 30, 2017. | Jan-12 / 4.417                   | EUR | 26,942,000         | \$ 587,547 |
| Option on an interest rate swap with JPMorgan Chase Bank, N.A. for the right to pay a fixed rate of 5.39% versus  |                                  |     |                    |            |

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|   |                |     |               |              |
|---|----------------|-----|---------------|--------------|
| the three month USD-LIBOR-BBA maturing on January 29, 2018.   | Jan-08 / 5.39  |     | 35,068,000    | 439,427      |
| Option on an interest rate swap with Citibank for the right to pay a fixed rate of 1.03% versus the six-month JPY-LIBOR-BBA maturing on January 26, 2009.                             | Jan-08 / 1.03  | JPY | 7,011,000,000 | 75,819       |
| Option on an interest rate swap with Citibank, N.A. London for the right to receive a fixed rate swap of 4.16% versus the six month EUR-EURIBOR-Telerate maturing March 26, 2014.     | Mar-12 / 4.16  | EUR | 6,140,000     | 50,873       |
| Option on an interest rate swap with Citibank, N.A. London for the right to receive a fixed rate swap of 4.0625% versus the six month EUR-EURIBOR-Telerate maturing March 25, 2011.   | Mar-09 / 4.062 | EUR | 8,790,000     | 45,294       |
| Option on an interest rate swap with Morgan Stanley Capital Services, Inc. for the right to pay a fixed rate of 6.6975% versus the three month AUD-BBR-BBSW maturing on May 10, 2008. | May-07 / 6.697 | AUD | 88,950,000    | 34,541       |
| Option on an interest rate swap with Citibank for the right to pay a fixed rate of 4.0625% versus the six-month EUR-EURIBOR-Telerate maturing on March 25, 2011.                      | Mar-09 / 4.062 | EUR | 8,790,000     | 72,102       |
| Option on an interest rate swap with Citibank for the right to pay a fixed rate of 4.16% versus the six-month EUR-EURIBOR-Telerate maturing on March 26, 2014.                        | Mar-12 / 4.16  | EUR | 6,140,000     | 67,115       |
| Total purchased options outstanding (cost \$8,897,977)  |                |     |               | \$ 8,306,193 |

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WARRANTS (□%)\* □

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|                                     | Expiration date | Strike Price | Warrants | Value     |
|-------------------------------------|-----------------|--------------|----------|-----------|
| Dayton Superior Corp. 144A (F)      | 6/15/09         | \$ .69       | 1,020    | \$ 13,400 |
| MDP Acquisitions PLC 144A (Ireland) | 10/1/13         | EUR .001     | 508      | 14,224    |
| Ubiquitel, Inc. 144A                | 4/15/10         | \$ 22.74     | 1,670    | 17        |
| Total warrants (cost \$116,394)     |                 |              |          | \$ 27,641 |

SHORT-TERM INVESTMENTS (27.6%)\*

|  | Principal amount/shares | Value          |
|--|-------------------------|----------------|
| U.S. Treasury Bills for an effective yield of 4.98%, maturity date in September 27, 2007 # | \$ 1,791,000            | \$ 1,747,720   |
| U.S. Treasury Bills for an effective yield of 5.08%, maturity date in April 26, 2007       | 1,792,000               | 1,785,706      |
| Sheffield Receiving Corp. for an effective yield of 5.28%, maturity date in April 12, 2007 | 10,681,000              | 10,663,801     |
| Putnam Prime Money Market Fund (e)   | 166,778,757             | 166,778,757    |
| Total short-term investments (cost \$180,975,984)  |                         | \$ 180,975,984 |

TOTAL INVESTMENTS

Total investments (cost \$726,935,178) \$ 730,822,393

\* Percentages indicated are based on net assets of \$654,627,010.

Non-income-producing security.

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

Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at March 31, 2007 was \$255,433 or less than 0.1% of net assets.

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

# This security was pledged and segregated with the custodian to cover margin requirements for futures contracts, forward currency and forward cross currency contracts and written options at March 31, 2007.

(c) Senior loans are exempt from registration under the Securities Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rate shown for senior loans are the current interest rates at March 31, 2007. Senior loans are also subject to mandatory and/or optional prepayment, which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown (Notes 1 and 6).

(e) See Note 5 to the financial statements regarding investments in Putnam Prime Money Market Fund.

(F) Security is valued at fair value following procedures approved by the Trustees.

(R) Real Estate Investment Trust.

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(U) A portion of the position represents unfunded loan commitments (Note 7).

At March 31, 2007, liquid assets totaling \$270,795,112 have been designated as collateral for open forward commitments, swap contracts and forward contracts.

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

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

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at March 31, 2007.

The dates shown on debt obligations are the original maturity dates.

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Inverse Floating Rate Bonds (IFB) and are securities that pay interest rates that vary inversely to changes in the market interest rates. As interest rates rise, inverse floaters produce less current income. The interest rates shown are the current interest rates at March 31, 2007.

### DIVERSIFICATION BY COUNTRY

Distribution of investments by country of issue at March 31, 2007 (as a percentage of Portfolio Value):

|                |        |
|----------------|--------|
| Argentina      | 1.1%   |
| Canada         | 0.8    |
| Cayman Islands | 0.9    |
| Colombia       | 0.6    |
| France         | 0.9    |
| Germany        | 1.0    |
| Ireland        | 2.1    |
| Japan          | 1.3    |
| Luxembourg     | 0.6    |
| Mexico         | 0.9    |
| Sweden         | 0.7    |
| Turkey         | 1.0    |
| United Kingdom | 1.7    |
| United States  | 83.0   |
| Other          | 3.4    |
|                |        |
| Total          | 100.0% |

### FORWARD CURRENCY CONTRACTS TO BUY at 3/31/07 (aggregate face value \$111,471,816)

(Unaudited)

|                   | Value        | Aggregate<br>face value | Delivery<br>date | Unrealized<br>appreciation/<br>(depreciation) |
|-------------------|--------------|-------------------------|------------------|---|
| Australian Dollar | \$24,560,058 | \$24,022,731            | 4/18/07          | \$ 537,327                                    |
| British Pound     | 15,638,212   | 15,550,083              | 6/20/07          | 88,129  |

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|                   |            |            |         |             |
|-------------------|------------|------------|---------|-------------|
| Canadian Dollar   | 8,275,878  | 8,194,813  | 4/18/07 | 81,065      |
| Danish Krone      | 1,261,505  | 1,242,512  | 6/20/07 | 18,993      |
| Euro Dollar       | 7,535,968  | 7,487,043  | 6/20/07 | 48,925      |
| Indian Rupee      | 1,612,092  | 1,619,610  | 4/18/07 | (7,518)     |
| Indonesian Rupiah | 1,662,106  | 1,653,716  | 5/16/07 | 8,390       |
| Japanese Yen      | 18,747,302 | 18,654,764 | 5/16/07 | 92,538      |
| Malaysian Ringgit | 1,791,551  | 1,775,823  | 5/16/07 | 15,728      |
| Mexican Peso      | 3,254,671  | 3,265,296  | 4/18/07 | (10,625)    |
| Norwegian Krone   | 17,655,003 | 17,370,890 | 6/20/07 | 284,113     |
| Polish Zloty      | 5,163,455  | 5,035,816  | 6/20/07 | 127,639     |
| South Korean Won  | 3,266,659  | 3,287,949  | 5/16/07 | (21,290)    |
| Swedish Krona     | 1,705,497  | 1,695,751  | 6/20/07 | 9,746       |
| Swiss Franc       | 618,981    | 615,019    | 6/20/07 | 3,962       |
| Total             |            |            |         | \$1,277,122 |

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FORWARD CURRENCY CONTRACTS TO SELL at 3/31/07 (aggregate face value \$116,550,091)  
(Unaudited)

|                   | Value       | Aggregate<br>face value | Delivery<br>date | Unrealized<br>(depreciation) |
|-------------------|-------------|-------------------------|------------------|------------------------------|
| Australian Dollar | \$5,786,570 | \$5,658,504             | 4/18/07          | \$ (128,066)                 |
| British Pound     | 29,295,778  | 28,724,497              | 6/20/07          | (571,281)                    |
| Canadian Dollar   | 5,558,203   | 5,456,797               | 4/18/07          | (101,406)                    |
| Euro Dollar       | 17,591,783  | 17,520,584              | 6/20/07          | (71,199)                     |
| Hungarian Forint  | 3,392,313   | 3,272,073               | 6/20/07          | (120,240)                    |
| Japanese Yen      | 22,085,588  | 21,875,248              | 5/16/07          | (210,340)                    |
| Norwegian Krone   | 5,031,884   | 4,968,013               | 6/20/07          | (63,871)                     |
| South Korean Won  | 3,266,659   | 3,242,602               | 5/16/07          | (24,057)                     |
| Swedish Krona     | 15,245,183  | 15,124,593              | 6/20/07          | (120,590)                    |
| Swiss Franc       | 6,612,052   | 6,579,018               | 6/20/07          | (33,034)                     |
| Taiwan Dollar     | 1,646,547   | 1,646,012               | 5/16/07          | (535)                        |
| Turkish Lira      | 2,579,574   | 2,482,150               | 6/20/07          | (97,424)                     |
| Total             |             |                         |                  | \$(1,542,043)                |

FUTURES CONTRACTS OUTSTANDING at 3/31/07 (Unaudited)

|   | Number of<br>contracts | Value         | Expiration<br>date | Unrealized<br>appreciation/<br>(depreciation) |
|---|------------------------|---------------|--------------------|---|
| Australian Government Bond 10 yr (Short)  | 562                    | \$320,999,806 | Jun-07             | \$ 605,338                                    |
| Euro-Euribor 90 day Interest Rate (Short) | 741                    | 236,987,392   | Mar-08             | 168,805                                       |

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|                                       |     |             |        |             |
|---------------------------------------|-----|-------------|--------|-------------|
| U.S. Treasury Note 10 yr (Short)      | 973 | 105,205,625 | Jun-07 | (337,126)   |
| U.S. Treasury Bond 20 yr (Long)       | 829 | 92,226,250  | Jun-07 | (413,441)   |
| U.S. Treasury Note 5 yr (Short)       | 811 | 85,801,266  | Jun-07 | (413,361)   |
| U.S. Treasury Note 2 yr (Short)       | 323 | 66,179,672  | Jun-07 | (34,717)    |
| Japanese Government Bond 10 yr (Long) | 57  | 64,922,313  | Jun-07 | (52,929)    |
| Euro-Bund 10 yr (Long)                | 203 | 31,150,893  | Jun-07 | (323,070)   |
| Euro-Schatz 2 yr (Short)              | 47  | 6,483,329   | Jun-07 | 21,536      |
| Euro-Bobl 5 yr (Long)                 | 38  | 5,489,205   | Jun-07 | (37,295)    |
| U.K. Gilt 10 yr (Long)                | 8   | 1,696,929   | Jun-07 | (10,882)    |
| Canadian Government Bond 10 yr (Long) | 11  | 1,081,678   | Jun-07 | 2,534       |
| <hr/>                                 |     |             |        |             |
| Total                                 |     |             |        | \$(824,608) |

WRITTEN OPTIONS OUTSTANDING at 3/31/07 (premiums received \$236,876)  
(Unaudited)

|   | Contract<br>amount | Expiration date/<br>strike price | Value    |
|---|--------------------|----------------------------------|----------|
| <hr/>   |                    |                                  |          |
| Option on an interest rate swap with<br>Morgan Stanley Capital Services, Inc. for<br>the obligation to receive a fixed rate of<br>6.6675% versus the three month<br>AUD-BBR-BBSW maturing<br>on May 10, 2010. | AUD 32,090,000     | May -07 / 6.667                  | \$40,798 |

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WRITTEN OPTIONS OUTSTANDING at 3/31/07 (premiums received \$236,876) (Unaudited) *continued*

|   | Contract<br>amount | Expiration date/<br>strike price | Value     |
|---|--------------------|----------------------------------|-----------|
| <hr/>   |                    |                                  |           |
| Option on an interest rate swap with<br>Citibank for the obligation to pay a<br>fixed<br>rate of 4.56% versus the six-month<br>EUR-EURIBOR-Telerate maturing<br>on March 24, 2027.  | EUR 1,290,000      | Mar-17 / 4.56                    | \$ 47,111 |
| Option on an interest rate swap with<br>Citibank for the obligation to receive a<br>fixed rate of 4.40% versus the six-month<br>EUR-EURIBOR-Telerate maturing<br>on March 26, 2022. | EUR 1,430,000      | Mar-12 / 4.40                    | 63,299    |
| Option on an interest rate swap with<br>Citibank for the obligation to receive a<br>fixed rate of 4.56% versus the six-month  |                    |                                  |           |

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EUR-EURIBOR-Telerate maturing  
on March 24, 2027. EUR 1,290,000 Mar-17 / 4.56 58,721

Option on an interest rate swap with  
Citibank for the obligation to pay a  
fixed

rate of 4.40% versus the six-month

EUR-EURIBOR-Telerate maturing  
on March 28, 2022. EUR 1,430,000 Mar-12 / 4.40 47,088

Total \$257,017

TBA SALE COMMITMENTS OUTSTANDING at 3/31/07 (proceeds receivable \$40,869,344) (Unaudited)

|                             | Principal<br>amount | Settlement<br>date | Value        |
|-----------------------------|---------------------|--------------------|--------------|
| FNMA, 6s, April 1,<br>2037  | \$ 800,000          | 4/12/07            | \$ 805,875   |
| FNMA, 5 1/2s, April 1, 2037 | 40,400,000          | 4/12/07            | 39,967,595   |
| Total                       |                     |                    | \$40,773,470 |

INTEREST RATE SWAP CONTRACTS OUTSTANDING at 3/31/07 (Unaudited)

| Swap counterparty /<br>Notional amount | Termination<br>date | Payments<br>made by<br>fund per annum | Payments<br>received by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|--|---------------------|---------------------------------------|---|---|
| Bank of America,<br>N.A.               |                     |                                       |   |   |
| \$ 10,000,000                          | 9/1/15              | 3 month<br>USD-LIBOR-BBA              | 4.53%                                     | \$(410,506)                                   |
| 16,800,000                             | 3/30/09             | 3.075%                                | 3 month USD-LIBOR-BBA                     | 611,940                                       |
| 4,400,000                              | 1/27/14             | 4.35%                                 | 3 month USD-LIBOR-BBA                     | 188,204                                       |
| Citibank N.A.,<br>London               |                     |                                       |   |   |
| AUD 29,270,000                         | 3/14/17             | 6 month<br>AUD-BBR-BBSW               | 6.19125%                                  | (347,994)                                     |
| AUD 29,270,000                         | 3/13/17             | 6 month<br>AUD-BBR-BBSW               | 6.22625%                                  | (288,046)                                     |
| NZD 21,540,000                         | (E) 3/9/12          | 3 month<br>NZD-BBR-FRA                | 7.0625%                                   | (103,431)                                     |

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|     |               |         |                          |                         |          |
|-----|---------------|---------|--------------------------|-------------------------|----------|
| JPY | 560,000,000   | 1/26/17 | 6 month<br>JPY-LIBOR-BBA | 2.49375%                | 34,948   |
| JPY | 1,357,000,000 | 1/26/37 | 1.8025%                  | 6 month JPY-LIBOR-BBA   | (35,867) |
| SEK | 49,490,000    | 1/19/12 | 4.25%                    | 3 month SEK-STIBOR-SIDE | (4,240)  |

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INTEREST RATE SWAP CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Notional amount      | Termination<br>date | Payments<br>made by<br>fund per annum | Payments<br>received by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|---|---------------------|---------------------------------------|---|---|
| Citibank, N.A.                              |                     |                                       |   |   |
| \$ 24,650,000                               | 7/27/09             | 5.504%                                | 3 month USD-LIBOR-BBA                     | \$ (283,721)                                  |
| JPY 13,104,267,000                          | 4/3/08              | 1.165%                                | 6 month JPY-LIBOR-BBA                     | □   |
| JPY 5,372,749,000 (E)                       | 4/3/08              | 6 month JPY-LIBOR-BBA                 | 1.165%                                    | 178,362                                       |
| JPY 1,300,000,000                           | 2/10/16             | 6 month JPY-LIBOR-BBA                 | 1.755%                                    | 55,810  |
| \$42,130,000                                | 9/29/13             | 5.078%                                | 3 month USD-LIBOR-BBA                     | (57,982)                                      |
| JPY 1,134,000,000                           | 9/11/16             | 1.8675%                               | 6 month JPY-LIBOR-BBA                     | (92,097)                                      |
| Credit Suisse First Boston<br>International |                     |                                       |   |   |
| \$ 5,699,500                                | 7/9/14              | 4.945%                                | 3 month USD-LIBOR-BBA                     | 51,953  |
| Credit Suisse<br>International              |                     |                                       |   |   |
| EUR 2,568,000                               | 7/17/21             | 6 month EUR-EURIBOR-<br>Telerate      | 4.445%                                    | 88,122  |
| EUR 9,930,000                               | 7/17/13             | 4.146%                                | 6 month<br>EUR-EURIBOR-Telerate           | (197,419)                                     |
| EUR 11,985,000                              | 7/17/09             | 6 month EUR-EURIBOR-<br>Telerate      | 3.896%                                    | 183,426                                       |
| SEK 38,490,000 (E)                          | 3/22/17             | 4.3075%                               | 3 month SEK-STIBOR-SIDE                   | 34,764  |
| CHF 5,950,000 (E)                           | 3/22/17             | 6 month CHF-LIBOR-BBA                 | 3.0475%                                   | (24,854)                                      |

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|                             |               |             |                              |                              |             |
|-----------------------------|---------------|-------------|------------------------------|------------------------------|-------------|
| SEK                         | 71,800,000    | (E) 3/16/17 | 4.2975%                      | 3 month SEK-STIBOR-SIDE      | 68,618      |
| CHF                         | 11,100,000    | (E) 3/16/17 | 6 month CHF-LIBOR-BBA        | 3.06125%                     | (40,869)    |
| GBP                         | 1,480,000     | 4/3/36      | GBP 3,728,462 at maturity    | 6 month GBP-LIBOR-BBA        | 277,940     |
| Deutsche Bank AG            |               |             |                              |                              |             |
| ZAR                         | 12,120,000    | 7/6/11      | 3 month ZAR-JIBAR-SAFEX      | 9.16%                        | 31,300      |
| Goldman Sachs International |               |             |                              |                              |             |
| SEK                         | 65,990,000    | 1/26/12     | 4.28%                        | 3 month SEK-STIBOR-SIDE      | (5,996)     |
| EUR                         | 4,720,000     | 1/23/37     | 6 month EUR-EURIBOR-Telerate | 4.36%                        | (114,276)   |
| EUR                         | 10,090,000    | 1/23/17     | 4.269%                       | 6 month EUR-EURIBOR-Telerate | 47,433      |
| \$                          | 80,600,000    | (E) 3/8/12  | 3 month USD-LIBOR-BBA        | 4.99%                        | (91,884)    |
|                             | 73,300,000    | (E) 3/10/10 | 4.779%                       | 3 month USD-LIBOR-BBA        | 13,927      |
| JPMorgan Chase Bank, N.A.   |               |             |                              |                              |             |
|                             | 25,100,000    | 9/2/15      | 3 month USD-LIBOR-BBA        | 4.4505%                      | (1,166,438) |
|                             | 16,700,000    | 8/4/16      | 3 month USD-LIBOR-BBA        | 5.5195%                      | 454,858     |
|                             | 31,100,000    | 8/4/08      | 3 month USD-LIBOR-BBA        | 5.40%                        | 106,086     |
| SEK                         | 70,600,000    | 2/27/12     | 4.2425%                      | 3 month SEK-STIBOR-SIDE      | 10,609      |
| \$                          | 70,918,000    | 5/4/08      | 3 month USD-LIBOR-BBA        | 5.37%                        | 1,061,663   |
|                             | 22,964,000    | 5/4/16      | 5.62375%                     | 3 month USD-LIBOR-BBA        | (1,125,060) |
| JPY                         | 7,460,000,000 | 6/6/13      | 1.83%                        | 6 month JPY-LIBOR-BBA        | (1,611,348) |
| \$                          | 30,000,000    | 6/17/15     | 3 month USD-LIBOR-BBA        | 4.5505%                      | (792,674)   |
|                             | 134,000,000   | 6/17/07     | 4.0825%                      | 3 month USD-LIBOR-BBA        | (888,225)   |
|                             | 11,050,000    | (E) 11/8/11 | 3 month USD-LIBOR-BBA        | 5.036%                       | 22,100      |
|                             | 17,000,000    | (E) 11/8/11 | 3.488%                       | U.S. Bond Market             |             |

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|            |          |                       | Association Municipal Swap<br>Index | (48,336)  |
|------------|----------|-----------------------|-------------------------------------|-----------|
| 16,780,000 | 10/10/13 | 5.09%                 | 3 month USD-LIBOR-BBA               | (237,060) |
| 12,060,000 | 10/10/13 | 5.054%                | 3 month USD-LIBOR-BBA               | (141,663) |
| 8,000,000  | 3/6/16   | 3 month USD-LIBOR-BBA | 5.176%                              | 21,306    |

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INTEREST RATE SWAP CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Notional amount     | Termination<br>date | Payments<br>made by<br>fund per annum | Payments<br>received by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|--|---------------------|---------------------------------------|---|---|
| Lehman Brothers International<br>(Europe)  |                     |                                       |   |   |
| AUD 18,340,000 (E)                         | 3/9/12              | 6.185%                                | 3 month AUD-BBR-BBSW                      | \$ 84,165                                     |
| \$ 32,665,000                              | 3/15/09             | 4.9298%                               | 3 month USD-LIBOR-BBA                     | 59,701  |
| 2,218,000                                  | 8/3/16              | 5.5675%                               | 3 month USD-LIBOR-BBA                     | (68,340)                                      |
| 10,091,000                                 | 8/3/11              | 3 month USD-LIBOR-BBA                 | 5.445%                                    | 184,172                                       |
| EUR 24,900,000                             | 11/13/16            | 3.983%                                | 6 month<br>EUR-EURIBOR-Telerate           | 843,100                                       |
| EUR 7,530,000                              | 10/5/21             | 6 month EUR-EURIBOR-<br>Telerate      | 4.093%                                    | (335,010)                                     |
| EUR 28,370,000                             | 10/5/13             | 3.8975%                               | 6 month<br>EUR-EURIBOR-Telerate           | 710,644                                       |
| EUR 34,240,000                             | 10/5/09             | 6 month EUR-EURIBOR-<br>Telerate      | 3.825%                                    | (404,828)                                     |
| Lehman Brothers Special Financing,<br>Inc. |                     |                                       |   |   |
| EUR 16,940,000 (E)                         | 6/7/14              | 6 month EUR-EURIBOR-<br>Telerate      | 4.0975%                                   | (234,569)                                     |
| EUR 56,120,000 (E)                         | 6/7/11              | 4.0475%                               | 6 month<br>EUR-EURIBOR-Telerate           | 535,800                                       |

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|       |               |            |                              |                       |               |
|-------|---------------|------------|------------------------------|-----------------------|---------------|
| EUR   | 104,940,000   | (E) 6/7/08 | 6 month EUR-EURIBOR-Telerate | 4.0875%               | (294,265)     |
|       | \$ 79,881,000 | 8/3/08     | 3 month USD-LIBOR-BBA        | 5.425%                | 301,151       |
| GBP   | 1,365,000     | 3/15/36    | GBP 3,304,438 at maturity    | 6 month GBP-LIBOR-BBA | 322,893       |
| Total |               |            |                              |                       | \$(2,862,003) |

(E) See Note 1 to the financial statements regarding extended effective dates.

TOTAL RETURN SWAP CONTRACTS OUTSTANDING at 3/31/07 (Unaudited)

| Swap counterparty /<br>Notional amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Total return<br>received by<br>or paid by fund | Unrealized<br>appreciation/<br>depreciation                 |            |
|--|---------------------|--|--|---|------------|
| Credit Suisse<br>International<br>GBP  | 1,480,000           | 4/3/36   | GBP 2,242,757 at<br>maturity                   | GBP Non-revised<br>Retail Price<br>Index                    | \$(18,612) |
| Goldman Sachs<br>International         | \$ 1,345,000        | 9/15/11  | 678 bp (1 month<br>USD-LIBOR-BBA)              | Ford Credit Auto<br>Owner Trust<br>Series 2005-B<br>Class D | 6,042      |
| EUR                                    | 17,070,000          | 1/9/12   | 2.17%  | Eurostat<br>Eurozone HICP<br>excluding tobacco              | 25,310     |
| EUR                                    | 4,700,000           | 1/9/37   | (2.3325%)                                      | Eurostat<br>Eurozone HICP<br>excluding tobacco              | (48,180)   |
| EUR                                    | 16,889,000          | 10/31/11   | 2.12%  | Eurostat<br>Eurozone HICP<br>excluding tobacco              | 135,312    |
| EUR                                    | 16,889,000          | 10/31/11   | (1.935%)                                       | French Consumer<br>Price Index<br>excluding tobacco         | (78,307)   |

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TOTAL RETURN SWAP CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty<br>/<br>Notional amount  | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum  | Total return<br>received by<br>or paid by fund  | Unrealized<br>appreciation/<br>(depreciation) |
|--|---------------------|---|---|---|
| JPMorgan Chase<br>Bank, N.A.               |                     |   |   |   |
| EUR 15,930,000                             | 7/21/11             | (2.295%)  | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco  | \$ (333,647)                                  |
| EUR 15,930,000                             | 7/21/11             | 2.2325%   | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco  | 281,999                                       |
| \$ 8,399,000                               | 10/1/07             | 175 bp plus<br>beginning<br>of period nominal<br>spread of Lehman<br>Brothers AAA<br>8.5+ Commercial<br>Mortgage Backed<br>Securities Index | The spread<br>return of Lehman<br>Brothers AAA<br>8.5+ CMBS Index<br>adjusted by<br>modified<br>duration factor | (3,444)                                       |
| Lehman Brothers Special Financing,<br>Inc. |                     |   |   |   |
| 18,639,000                                 | 10/1/07             | 30 bp plus<br>beginning<br>of period nominal<br>spread of Lehman<br>Brothers AAA<br>8.5+ Commercial<br>Mortgage Backed<br>Securities Index  | The spread<br>return of Lehman<br>Brothers AAA<br>8.5+ CMBS Index<br>adjusted by<br>modified<br>duration factor | (7,456)                                       |
| EUR 4,400,000                              | 3/29/37             | (2.275%)  | Eurostat<br>Eurozone HICP<br>excluding tobacco  | 4,700   |
| EUR 16,889,000                             | 4/26/11             | 2.11%   | French Non-<br>revised Consumer<br>Price Index<br>excluding tobacco   | 317,985                                       |

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|       |            |         |                              |  |  |           |
|-------|------------|---------|------------------------------|--|--|-----------|
| EUR   | 16,889,000 | 4/26/11 | (2.115%)                     |  | Euro Non-revised<br>Consumer Price<br>Index excluding<br>tobacco | (96,973)  |
| GBP   | 1,365,000  | 3/15/36 | GBP 2,065,993 at<br>maturity |  | GBP Non-revised<br>Retail Price<br>Index                         | (28,200)  |
| Total |            |         |                              |  |  | \$156,529 |

CREDIT DEFAULT CONTRACTS OUTSTANDING at 3/31/07 (Unaudited)

| Swap counterparty<br>/<br>Referenced debt*                    | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|---|---|--------------------|---------------------|--|---|
| Bank of America,<br>N.A.<br>DJ CDX NA HY<br>Series 4<br>Index | \$ 18,006                               | \$ 4,370,000       | 6/20/10             | (360 bp)   | \$ (215,920)                                  |
| L-3<br>Communications<br>Corp. 7 5/8%,<br>6/15/12             | □                                       | 590,000            | 9/20/11             | (111 bp)   | (3,776)                                       |
| L-3<br>Communications<br>Corp. 7 5/8%,<br>6/15/12             | □                                       | 235,000            | 6/20/11             | (101 bp)   | (1,061)                                       |

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CREDIT DEFAULT CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Referenced debt* | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid)<br>fund per annum | Unrealized<br>by appreciation/<br>(depreciation) |
|---|---|--------------------|---------------------|---|--|
|---|---|--------------------|---------------------|---|--|

Citibank, N.A.

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|   |    |    |            |          |            |    |          |
|---|----|----|------------|----------|------------|----|----------|
| Charter Communications<br>Operating LLC                                       | \$ | □  | \$ 600,000 | 3/20/12  | (108 bp)   | \$ | 6,402    |
| Credit Suisse First Boston International<br>Ford Motor Co., 7.45%,<br>7/16/31 |    | □  | 1,400,000  | 9/20/07  | (487.5 bp) |    | (21,123) |
| Ford Motor Co., 7.45%,<br>7/16/31   |    | □  | 1,700,000  | 9/20/08  | 725 bp     |    | 102,452  |
| Ford Motor Co., 7.45%,<br>7/16/31   |    | □  | 300,000    | 9/20/07  | (485 bp)   |    | (4,488)  |
| Republic of Argentina,<br>8.28%, 2033   |    | □  | 1,175,000  | 7/20/09  | (214 bp)   |    | (31,081) |
| Ukraine Government,<br>7.65%, 6/11/13   |    | □  | 1,105,000  | 10/20/11 | 194 bp     |    | 36,657   |
| Credit Suisse International<br>Freeport-McMoRan Copper<br>& Gold, Inc.        |    | □  | 597,100    | 3/20/12  | (82 bp)    |    | (4,299)  |
| Neiman Marcus Group,<br>Inc., 9%, 10/15/15                                    |    | □  | 350,000    | 3/20/12  | (64 bp)    |    | 2,506    |
| Regal Cinemas Corp.   |    | □  | 600,000    | 3/20/12  | (70 bp)    |    | 6,826    |
| Republic of Peru, 8<br>3/4%, 11/21/33   |    | □  | 610,000    | 4/20/17  | 125 bp     |    | □        |
| Solelectron Corp., 0%,<br>5/8/20  |    | □  | 222,000    | 3/20/12  | (180 bp)   |    | (1,708)  |
| Solelectron Global<br>Finance Ltd, 8%, 3/15/16                                |    | □  | 222,000    | 3/20/12  | 380 bp     |    | 232      |
| Sungard Data Systems,<br>Inc., 4 7/8%, 1/15/14                                |    | □  | 600,000    | 3/20/10  | (48 bp)    |    | 1,271    |
| Deutsche Bank AG<br>DJ CDX NA IG Series 7                                     |    | 36 | 1,308,000  | 12/20/13 | (50 bp)    |    | 537      |
| DJ CDX NA IG Series 7<br>Index 7-10% tranche                                  |    | □  | 1,308,000  | 12/20/13 | 55 bp      |    | 4,220    |
| DJ CDX NA IG Series 8   |    |    |            |          |            |    |          |

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|  |      |                     |            |          |         |
|--|------|---------------------|------------|----------|---------|
| Index 7-10% tranche  | □    | 3,608,000           | 6/20/12    | 22 bp    | 2,552   |
| DJ iTraxx Europe Series<br>6 Version 1   |      | 7,200 EUR 2,318,000 | 12/20/13   | (40 bp)  | (7,666) |
| DJ iTraxx Europe Series<br>6 Version 1, 6-9%<br>tranche  | □EUR | 2,318,000           | 12/20/2013 | 43 bp    | 23,331  |
| Republic of Indonesia,<br>6.75%, 2014  | □    | \$ 575,000          | 9/20/16    | 292 bp   | 46,347  |
| Republic of Peru, 8<br>3/4%, 11/21/33  | □    | 610,000             | 4/20/17    | 126 bp   | (421)   |
| United Mexican States,<br>7.5%, 4/8/33   | □    | 550,000             | 4/20/17    | 66 bp    | (101)   |
| United Mexican States,<br>7.5%, 4/8/33   | □    | 1,495,000           | 3/20/14    | 56 bp    | 4,631   |
| Goldman Sachs International<br>Any one of the underlying securities<br>in the basket of BB CMBS securities | □    | 3,768,000           | (a)        | 2.461%   | 262,275 |
| Charter Communications<br>Operating LLC  | □    | 600,000             | 3/20/12    | (103 bp) | 7,669   |

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CREDIT DEFAULT CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Referenced debt*      | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid) by<br>fund per annum | Unrealized<br>appreciation/<br>(depreciation) |
|--|---|--------------------|---------------------|--|---|
| Goldman Sachs International <i>continued</i> |   |                    |                     |  |   |
| DJ CDX NA HY Series 4<br>Index               | \$ 14,645                               | \$ 1,520,000       | 6/20/10             | (360 bp)   | \$ (66,721)                                   |
| DJ CDX NA HY Series 5<br>Index               | (241,095)                               | 13,632,000         | 12/20/10            | (395 bp)   | (1,123,858)                                   |
| DJ CDX NA HY Series 8<br>Index               | (3,496)                                 | 699,200            | 6/20/12             | (275 bp)   | (3,496)                                       |
| DJ CDX NA HY Series 8                        |   |                    |                     |  |   |

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|   |       |            |          |            |          |
|---|-------|------------|----------|------------|----------|
| Index 25-35% tranche  | □     | 2,796,000  | 6/20/12  | 105 bp     | □        |
| DJ CDX NA IG Series 7<br>Index                                      | 2,863 | 5,090,000  | 12/20/13 | (50 bp)    | (246)    |
| DJ CDX NA IG Series 7<br>Index                                      | 151   | 2,178,000  | 12/20/13 | (50 bp)    | 986      |
| DJ CDX NA IG Series 7<br>Index 7-10% tranche                        | □     | 5,090,000  | 12/20/13 | 48 bp      | (262)    |
| DJ CDX NA IG Series 7<br>Index 7-10% tranche                        | □     | 2,178,000  | 12/20/13 | 56 bp      | 12,791   |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 1,400,000  | 9/20/08  | 620 bp     | 85,381   |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 1,400,000  | 9/20/07  | (427.5 bp) | (18,350) |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 300,000    | 9/20/07  | (425 bp)   | (3,894)  |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 300,000    | 9/20/08  | 620 bp     | 18,296   |
| JPMorgan Chase Bank, N.A.<br>DJ CDX NA CMBX AAA Index               | □     | 8,399,000  | 3/15/49  | (70 bp)    | (1,120)  |
| Ford Motor Co., 7.45%,<br>7/16/31                                   | □     | 235,000    | 9/20/07  | (345 bp)   | (2,348)  |
| Ford Motor Co., 7.45%,<br>7/16/31                                   | □     | 235,000    | 9/20/08  | 550 bp     | 9,244    |
| Freeport-McMoRan Copper<br>& Gold, Inc.                             | □     | 1,194,100  | 3/20/12  | (85 bp)    | (9,351)  |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 235,000    | 9/20/07  | (350 bp)   | (2,352)  |
| General Motors Corp.,<br>7 1/8%, 7/15/13                            | □     | 235,000    | 9/20/08  | 500 bp     | 10,264   |
| Lehman Brothers Special Financing, Inc.<br>DJ CDX NA CMBX AAA Index | □     | 18,639,000 | 3/15/49  | (700 bp)   | (2,535)  |

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|   |           |           |            |          |           |
|---|-----------|-----------|------------|----------|-----------|
| DJ CDX NA HY Series 4<br>Index                          | 24,968    | 3,895,000 | 6/20/10    | (360 bp) | (183,531) |
| DJ CDX NA IG Series 7<br>Index                          | 1,246     | 2,100,000 | 12/20/13   | (50 bp)  | 2,051     |
| DJ CDX NA IG Series 7<br>Index 7-10% tranche            | □         | 2,100,000 | 12/20/13   | 54.37 bp | 6,089     |
| DJ iTraxx EUR Series 5<br>Index                         | 9,890 EUR | 1,836,000 | 6/20/13    | (50 bp)  | (16,627)  |
| DJ iTraxx EUR Series 5<br>Index 6-9% tranche            | □EUR      | 1,836,000 | 6/20/13    | 53.5 bp  | 33,515    |
| DJ iTraxx Europe Series<br>6 Version 1, 6-9%<br>tranche | □EUR      | 2,783,000 | 12/20/2013 | 45.25 bp | 30,499    |

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CREDIT DEFAULT CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Referenced debt*   | Upfront<br>premium<br>received (paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid)<br>fund per annum | Unrealized<br>by appreciation/<br>(depreciation) |
|---|---|--------------------|---------------------|---|--|
| Lehman Brothers Special Financing, Inc.<br><i>continued</i><br>DJ iTraxx Europe Series<br>6 Version 1 | \$ 6,867 EUR                            | 2,783,000          | 12/20/2013          | (40 bp)   | \$ (10,981)                                      |
| Goodyear Tire & Rubber,<br>7.857%, 8/15/11  | □ \$                                    | 140,000            | 3/20/12             | 185 bp  | 1,436  |
| Republic of Peru, 8<br>3/4%, 11/21/33   | □                                       | 1,185,000          | 10/20/16            | 215 bp  | 94,727   |
| Solelectron Corp., 0%,<br>5/8/20  | □                                       | 495,000            | 3/20/12             | (180 bp)  | (3,257)  |
| Solelectron Corp., 0%,<br>5/8/20  | □                                       | 354,000            | 3/20/12             | (175 bp)  | (1,607)  |
| Solelectron Corp., 0%,<br>5/8/20  | □                                       | 212,000            | 3/20/12             | (175 bp)  | (963)  |

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|                                       |         |           |          |          |          |
|---------------------------------------|---------|-----------|----------|----------|----------|
| Solectron Global                      |         |           |          |          |          |
| Finance Ltd, 8%, 3/15/16              | □       | 495,000   | 3/20/12  | 380 bp   | 517      |
| Solectron Global                      |         |           |          |          |          |
| Finance Ltd, 8%, 3/15/16              | □       | 354,000   | 3/20/12  | 380 bp   | 407      |
| Solectron Global                      |         |           |          |          |          |
| Finance Ltd, 8%, 3/15/16              | □       | 212,000   | 3/20/12  | 385 bp   | 677      |
| United Mexican States,                |         |           |          |          |          |
| 7.5%, 4/8/33                          | □       | 665,000   | 4/20/17  | 67 bp    | 3,741    |
| Merrill Lynch Capital Services, Inc.  |         |           |          |          |          |
| Ford Motor Co., 7.45%,<br>7/16/31     | □       | 685,000   | 9/20/07  | (345 bp) | (7,167)  |
| Ford Motor Co., 7.45%,                |         |           |          |          |          |
| 7/16/31                               | □       | 685,000   | 9/20/08  | 570 bp   | 28,914   |
| General Motors Corp.,                 |         |           |          |          |          |
| 7 1/8%, 7/15/13                       | □       | 960,000   | 9/20/07  | (335 bp) | (10,693) |
| General Motors Corp.,                 |         |           |          |          |          |
| 7 1/8%, 7/15/13                       | □       | 960,000   | 9/20/08  | 500 bp   | 41,930   |
| L-3 Communications                    |         |           |          |          |          |
| Corp. 7 5/8%, 2012                    | □       | 960,000   | 9/20/11  | (111 bp) | (6,144)  |
| L-3 Communications                    |         |           |          |          |          |
| Corp. 7 5/8%, 2012                    | □       | 585,000   | 6/20/11  | (92 bp)  | (635)    |
| Merrill Lynch International           |         |           |          |          |          |
| DJ CDX NA HY Series 4<br>Index        | 27,289  | 1,045,000 | 6/20/10  | 360 bp   | 83,228   |
| Morgan Stanley Capital Services, Inc. |         |           |          |          |          |
| DJ CDX NA HY Series 7<br>Index        | 61,940  | 1,304,000 | 12/20/09 | (325 bp) | 13,361   |
| DJ CDX NA HY Series 8                 |         |           |          |          |          |
| Index                                 | (3,494) | 698,800   | 6/20/12  | (275 bp) | (3,494)  |
| DJ CDX NA HY Series 8                 |         |           |          |          |          |
| Index                                 | (5,244) | 699,250   | 6/20/12  | (275 bp) | (848)    |
| DJ CDX NA HY Series 8                 |         |           |          |          |          |
| Index 25-35% tranche                  | □       | 2,797,000 | 6/20/12  | 108 bp   | 7,720    |

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|                                |       |           |          |         |       |
|--------------------------------|-------|-----------|----------|---------|-------|
| DJ CDX NA IG Series 7<br>Index | 1,344 | 2,264,000 | 12/20/13 | (50 bp) | 2,212 |
|--------------------------------|-------|-----------|----------|---------|-------|

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|   |        |           |          |  |         |
|---|--------|-----------|----------|--|---------|
| DJ CDX NA IG Series 7<br>Index 10-15% tranche | 52,160 | 1,304,000 | 12/20/09 |  | (3,260) |
|---|--------|-----------|----------|--|---------|

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CREDIT DEFAULT CONTRACTS OUTSTANDING at 3/31/07 (Unaudited) *continued*

| Swap counterparty /<br>Referenced debt* | Upfront<br>premium<br>received<br>(paid)** | Notional<br>amount | Termination<br>date | Fixed payments<br>received (paid)<br>fund per annum | Unrealized<br>by appreciation/<br>(depreciation) |
|---|--|--------------------|---------------------|---|--|
|---|--|--------------------|---------------------|---|--|

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Morgan Stanley Capital Services, Inc.  
*continued*

|   |      |             |          |       |          |
|---|------|-------------|----------|-------|----------|
| DJ CDX NA IG Series 7<br>Index, 7-10% tranche | \$ □ | \$2,264,000 | 12/20/13 | 53 bp | \$ 6,043 |
|---|------|-------------|----------|-------|----------|

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|                                |         |           |         |         |     |
|--------------------------------|---------|-----------|---------|---------|-----|
| DJ CDX NA IG Series 8<br>Index | (1,658) | 1,804,000 | 6/20/12 | (35 bp) | 579 |
|--------------------------------|---------|-----------|---------|---------|-----|

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|                                 |           |           |         |         |          |
|---------------------------------|-----------|-----------|---------|---------|----------|
| DJ iTraxx EUR Series 5<br>Index | 8,793 EUR | 1,836,000 | 6/20/13 | (50 bp) | (17,724) |
|---------------------------------|-----------|-----------|---------|---------|----------|

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|  |      |           |         |       |        |
|--|------|-----------|---------|-------|--------|
| DJ iTraxx EUR Series 5<br>Index 6-9% tranche | □EUR | 1,836,000 | 6/20/13 | 57 bp | 37,950 |
|--|------|-----------|---------|-------|--------|

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|  |      |           |          |          |          |
|--|------|-----------|----------|----------|----------|
| Dominican Republic, 8<br>5/8%, 4/20/27 | □ \$ | 1,190,000 | 11/20/11 | (170 bp) | (14,942) |
|--|------|-----------|----------|----------|----------|

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|                                   |   |         |         |          |         |
|-----------------------------------|---|---------|---------|----------|---------|
| Ford Motor Co., 7.45%,<br>7/16/31 | □ | 235,000 | 9/20/07 | (345 bp) | (2,761) |
|-----------------------------------|---|---------|---------|----------|---------|

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|                                   |   |         |         |        |       |
|-----------------------------------|---|---------|---------|--------|-------|
| Ford Motor Co., 7.45%,<br>7/16/31 | □ | 235,000 | 9/20/08 | 560 bp | 9,583 |
|-----------------------------------|---|---------|---------|--------|-------|

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|   |   |         |         |         |         |
|---|---|---------|---------|---------|---------|
| Freeport-McMoRan Copper<br>& Gold, Inc. | □ | 597,100 | 3/20/12 | (83 bp) | (4,654) |
|---|---|---------|---------|---------|---------|

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|  |   |         |         |          |         |
|--|---|---------|---------|----------|---------|
| General Motors Corp.,<br>7 1/8%, 7/15/13 | □ | 235,000 | 9/20/07 | (335 bp) | (2,009) |
|--|---|---------|---------|----------|---------|

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|  |   |         |         |        |        |
|--|---|---------|---------|--------|--------|
| General Motors Corp.,<br>7 1/8%, 7/15/13 | □ | 235,000 | 9/20/08 | 500 bp | 10,264 |
|--|---|---------|---------|--------|--------|

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|   |   |            |         |         |              |
|---|---|------------|---------|---------|--------------|
| Russian Federation, 5%,<br>3/31/30            | □ | 10,000,000 | 3/20/12 | 48 bp   | 533          |
| United Air Lines, Inc.                        | □ | 600,000    | 3/20/12 | (94 bp) | 7,619        |
| DJ CDX NA HY Series 8<br>Index 25-35% tranche | □ | 2,796,000  | 6/20/12 | 102 bp  | □            |
| Total   |   |            |         |         | \$ (749,009) |

\* Payments related to the reference debt are made upon a credit default event.

\*\* Upfront premium is based on the difference between the original spread on issue and the market spread on day of execution.

(a) Terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference entity are liquidated.

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

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## Statement of assets and liabilities 3/31/07 (Unaudited)

### ASSETS

|  |               |
|--|---------------|
| Investment in securities, at value (Note 1):                 |               |
| Unaffiliated issuers (identified cost \$560,156,421)         | \$564,043,636 |
| Affiliated issuers (identified cost \$166,778,757) (Note 5)  | 166,778,757   |
| Cash   | 5,107,595     |
| Foreign currency (cost \$5,869,266) (Note 1)                 | 5,966,467     |
| Dividends, interest and other receivables                    | 7,021,317     |
| Receivable for securities sold                               | 3,902,809     |
| Receivable for sales of delayed delivery securities (Note 1) | 40,938,705    |
| Unrealized appreciation on swap contracts (Note 1)           | 8,424,808     |
| Premium paid on swap contracts (Note 1)                      | 254,987       |
| Receivable for variation margin (Note 1)                     | 579,941       |
| Receivable for open forward currency contracts (Note 1)      | 1,348,394     |

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|   |               |
|---|---------------|
| Receivable for closed forward currency contracts (Note 1)                           | 427,737       |
| Receivable for closed swap contracts (Note 1)                                       | 84,367        |
| Total assets  | 804,879,520   |
| LIABILITIES   |               |
| Distributions payable to shareholders   | 2,717,574     |
| Payable for securities purchased  | 8,003,240     |
| Payable for delayed delivery securities (Note 1)                                    | 82,200,910    |
| Payable for compensation of Manager (Notes 2 and 5)                                 | 1,137,971     |
| Payable for investor servicing and custodian fees (Note 2)                          | 31,173        |
| Payable for Trustee compensation and expenses (Note 2)                              | 120,774       |
| Payable for administrative services (Note 2)  | 3,855         |
| Payable for open forward currency contracts (Note 1)                                | 1,613,315     |
| Payable for closed forward currency contracts (Note 1)                              | 1,204,728     |
| Payable for closed swap contracts (Note 1)  | 16,003        |
| Written options outstanding, at value (premiums received \$236,876) (Notes 1 and 3) | 257,017       |
| Premium received on swap contracts (Note 1)   | 237,398       |
| Unrealized depreciation on swap contracts (Note 1)                                  | 11,879,291    |
| TBA sales commitments, at value (proceeds receivable \$40,869,344) (Note 1)         | 40,773,470    |
| Other accrued expenses  | 55,791        |
| Total liabilities   | 150,252,510   |
| Net assets  | \$654,627,010 |

(Continued on next page)

**Statement of assets and liabilities** (Continued)

## REPRESENTED BY

|   |                |
|---|----------------|
| Paid-in capital (Unlimited shares authorized) (Notes 1 and 4)                                   | \$ 783,022,183 |
| Undistributed net investment income (Note 1)  | 7,456,815      |
| Accumulated net realized loss on investments and foreign currency transactions (Note 1)         | (135,365,041)  |
| Net unrealized depreciation of investments and assets and liabilities in foreign currencies     | (486,947)      |
| Total <input type="checkbox"/> Representing net assets applicable to capital shares outstanding | \$ 654,627,010 |

## COMPUTATION OF NET ASSET VALUE

|   |        |
|---|--------|
| Net asset value per share<br>(\$654,627,010 divided by 91,389,759 shares) | \$7.16 |
|---|--------|

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

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**Statement of operations** Six months ended 3/31/07 (Unaudited)

## INVESTMENT INCOME

|   |              |
|---|--------------|
| Interest (including interest income of \$3,474,944 from investments in affiliated issuers) (Note 5) | \$19,397,856 |
| Dividends   | 3,821        |
| Total investment income   | 19,401,677   |

## EXPENSES

|                                  |           |
|----------------------------------|-----------|
| Compensation of Manager (Note 2) | 2,381,612 |
| Investor servicing fees (Note 2) | 164,223   |
| Custodian fees (Note 2)          | 132,629   |

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|  |              |
|--|--------------|
| Trustee compensation and expenses (Note 2)   | 17,512       |
| Administrative services (Note 2)   | 16,185       |
| Other  | 250,177      |
| Fees waived and reimbursed by Manager (Note 5)   | (59,326)     |
| Total expenses   | 2,903,012    |
| Expense reduction (Note 2)   | (84,122)     |
| Net expenses   | 2,818,890    |
| Net investment income  | 16,582,787   |
| Net realized gain on investments (Notes 1 and 3)   | 2,714,324    |
| Net increase from payments by affiliate (Note 2)   | 7,426        |
| Net realized loss on swap contracts (Note 1)   | (202,692)    |
| Net realized loss on futures contracts (Note 1)  | (126,023)    |
| Net realized gain on foreign currency transactions (Note 1)  | 876,087      |
| Net realized gain on written options (Notes 1 and 3)   | 245,817      |
| Net unrealized depreciation of assets and liabilities in foreign currencies during the period  | (1,252,726)  |
| Net unrealized appreciation of investments, futures contracts, swap contracts, written options, and TBA sale commitments during the period | 3,435,435    |
| Net gain on investments  | 5,697,648    |
| Net increase in net assets resulting from operations   | \$22,280,435 |

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

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## Statement of changes in net assets

DECREASE IN NET ASSETS

Six months ended

Year ended

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|   | 3/31/07*      | 9/30/06       |
|---|---------------|---------------|
| <i>Operations:</i>  |               |               |
| Net investment income   | \$ 16,582,787 | \$ 32,987,962 |
| Net realized gain (loss) on investments<br>and foreign currency transactions                                  | 3,514,939     | (8,900,068)   |
| Net unrealized appreciation of investments and assets<br>and liabilities in foreign currencies                | 2,182,709     | 4,703,076     |
| Net increase in net assets resulting from operations  | 22,280,435    | 28,790,970    |
| Distributions to shareholders: (Note 1)   |               |               |
| From net investment income  | (16,557,934)  | (34,013,650)  |
| Decrease from shares repurchased (Note 4)   | (15,505,562)  | (39,632,967)  |
| Total decrease in net assets  | (9,783,061)   | (44,855,647)  |
| NET ASSETS  |               |               |
| Beginning of period   | 664,410,071   | 709,265,718   |
| End of period (including undistributed net investment<br>income of \$7,456,815 and \$7,431,962, respectively) | \$654,627,010 | \$664,410,071 |
| NUMBER OF FUND SHARES   |               |               |
| Share outstanding at beginning of period  | 93,824,140    | 100,313,084   |
| Shares repurchased (Note 4)   | (2,434,381)   | (6,488,944)   |
| Shares outstanding at end of period   | 91,389,759    | 93,824,140    |

\* Unaudited

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

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**Financial highlights** (For a common share outstanding throughout the period)

PER-SHARE OPERATING PERFORMANCE

Six months ended\*\*

Year ended

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|   | 3/31/07   | 9/30/06   | 9/30/05   | 9/30/04   | 9/30/03   | 9/30/02   |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Net asset value,<br>beginning of period                         | \$7.08    | \$7.07    | \$7.13    | \$6.99    | \$6.26    | \$6.54    |
| <i>Investment operations:</i>                                   |           |           |           |           |           |           |
| Net investment income<br>(a)                                    | .18(d)    | .34(d)    | .32(d)    | .40(d)    | .48       | .52       |
| Net realized and<br>unrealized<br>gain (loss) on<br>investments | .06       | (.04)     | .04       | .23       | .73       | (.26)     |
| Total from<br>investment operations                             | .24       | .30       | .36       | .63       | 1.21      | .26       |
| <i>Less distributions:</i>                                      |           |           |           |           |           |           |
| From net investment<br>income                                   | (.18)     | (.35)     | (.42)     | (.49)     | (.48)     | (.53)     |
| From return of capital  | □         | □         | □         | □         | □         | (.01)     |
| Total distributions   | (.18)     | (.35)     | (.42)     | (.49)     | (.48)     | (.54)     |
| Increase from shares<br>repurchased                             | .02       | .06       | □         | □         | □         | □         |
| Net asset value,<br>end of period                               | \$7.16    | \$7.08    | \$7.07    | \$7.13    | \$6.99    | \$6.26    |
| Market value,<br>end of period                                  | \$6.56    | \$6.15    | \$6.25    | \$6.73    | \$6.41    | \$6.38    |
| Total return at<br>market value (%) (b)                         | 9.65*     | 4.17      | (0.98)    | 12.95     | 8.35      | 14.81     |
| <b>RATIOS AND SUPPLEMENTAL DATA</b>                             |           |           |           |           |           |           |
| Net assets, end of period<br>(in thousands)                     | \$654,627 | \$664,410 | \$709,266 | \$715,596 | \$700,694 | \$627,620 |
| Ratio of expenses to<br>average net assets<br>(%) (c)           | .44* (d)  | .89(d)    | .87(d)    | .86(d)    | .89       | .87       |
| Ratio of net investment income<br>to average net assets<br>(%)  | 2.52* (d) | 4.84(d)   | 4.43(d)   | 5.61(d)   | 7.22      | 7.97      |

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Portfolio turnover (%)                      29.27\*(e)   113.12(e)   165.33(e)                      113.46   141.60(f)   193.33(f)

\* Not annualized.

\*\* Unaudited.

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

(b) Total return assumes dividend reinvestment.

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

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## Financial highlights (Continued)

(d) Reflects waivers of certain fund expenses in connection with investments in Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of each class, reflect a reduction of the following amounts (Note 5):

|                    | Percentage<br>of average<br>net assets |
|--------------------|--|
| March 31, 2007     | 0.01%                                  |
| September 30, 2006 | 0.02                                   |
| September 30, 2005 | 0.02                                   |
| September 30, 2004 | <0.01                                  |

(e) Portfolio turnover excludes dollar roll transactions.

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

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

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## Notes to financial statements 3/31/07 (Unaudited)

### Note 1: Significant accounting policies

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Putnam Master Intermediate Income Trust (the "fund"), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company and is authorized to issue an unlimited number of shares. The fund's investment objective is to seek, with equal emphasis, high current income and relative stability of net asset value, by allocating its investments among the U.S. investment grade sector, high-yield sector and international sector. The fund invests in higher yielding, lower rated bonds that have a higher rate of default.

In the normal course of business, the fund enters into contracts that may include agreements to indemnify another party under given circumstances. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be, but have not yet been, made against the fund. However, the fund expects the risk of material loss to be remote.

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

**A) Security valuation** Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported — as in the case of some securities traded over-the-counter — a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected by Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities. Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value foreign equity securities taking into account multiple factors, including movements in the U.S. securities markets. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies, if any, are translated into U.S. dollars at the current exchange rate. Certain investments, including certain restricted securities, are also valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees. The fair value of securities is generally determined as the amount that the fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. By its nature, a fair value price is a good faith estimate of the value of a security at a given point in time and does not reflect an actual market price, which may be different by a material amount.

**B) Joint trading account** Pursuant to an exemptive order from the Securities and Exchange Commission, the fund may transfer uninvested cash balances, including cash collateral received under security lending arrangements, into a joint trading account along with the cash of other registered investment companies and certain other

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accounts managed by Putnam Management. These balances may be invested in issues of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

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

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

value of the securities received. Dividends representing a return of capital or capital gains, if any, are reflected as a reduction of cost and/or as a realized gain. All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

Securities purchased or sold on a delayed delivery basis may be settled a month or more after the trade date; interest income is accrued based on the terms of the securities. Losses may arise due to changes in the market value of the underlying securities or if the counterparty does not perform under the contract.

The fund earned certain fees in connection with its senior loan purchasing activities. These fees are treated as market discount and are recorded as income in the statement of operations.

**D) Stripped securities** The fund may invest in stripped securities which represent a participation in securities that may be structured in classes with rights to receive different portions of the interest and principal. Interest-only securities receive all of the interest and principal-only securities receive all of the principal. If the interest-only securities experience greater than anticipated prepayments of principal, the fund may fail to recoup fully its initial investment in these securities. Conversely, principal-only securities increase in value if prepayments are greater than anticipated and decline if prepayments are slower than anticipated. The market value of these securities is highly sensitive to changes in interest rates.

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

**F) Forward currency contracts** The fund may buy and sell forward currency contracts, which are

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

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

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. Risks may exceed amounts recognized on the statement of assets and liabilities. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. The fund and the broker agree to exchange an amount of cash equal to the daily fluctuation in the value of the futures contract. Such receipts or payments are known as "variation margin." Exchange traded options are valued at the last sale price or, if no sales are reported, the last bid price for purchased options and the last ask price for written options. Options traded over-the-counter are valued using prices supplied by dealers. Futures and written option contracts outstanding at period end, if any, are listed after the fund's portfolio.

**H) Total return swap contracts** The fund may enter into total return swap contracts, which are arrangements to exchange a market linked return for a periodic payment, both based on a notional principal amount. To the extent that the total return of the security, index or other financial measure underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the fund will receive a payment from or make a payment to the counterparty. Total return swap contracts are marked to market daily based upon quotations from market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made are recorded as realized gains or loss. Certain total return swap contracts may include extended effective dates. Income related to these swap contracts is accrued based on the terms of the contract. The fund could be exposed to credit or market risk due to

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unfavorable changes in the fluctuation of interest rates or in the price of the underlying security or index, the possibility that there is no liquid market for these agreements or that the counterparty may default on its obligation to perform. Risk of loss may exceed amounts recognized on the statement of assets and liabilities. Total return swap contracts outstanding at period end, if any, are listed after the fund's portfolio.

**I) Interest rate swap contracts** The fund may enter into interest rate swap contracts, which are arrangements between two parties to exchange cash flows based on a notional principal amount, to manage the fund's exposure to interest rates. Interest rate swap contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made are recorded as realized gains or loss. Certain interest rate swap contracts may include extended effective dates. Income related to these swap contracts is accrued based on the terms of the contract. The fund could be exposed to credit or market risk due to unfavorable changes in the fluctuation of interest rates or if the counterparty defaults on its obligation to perform. Risk of loss may exceed amounts recognized on the statement of assets and liabilities. Interest rate swap contracts outstanding at period end, if any, are listed after the fund's portfolio.

**J) Credit default contracts** The fund may enter into credit default contracts where one party, the protection buyer, makes an upfront or periodic payment to a counter party, the protection seller, in exchange for the right to receive a contingent payment. The maximum amount of the payment may equal the notional amount, at par, of the underlying index or security as a result of a related credit event. An upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund's books. An upfront payment made by the fund, as the protection buyer, is recorded as an asset on the fund's books. Periodic payments received or paid by the fund are recorded as realized gains or losses. The credit default contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that

the counterparty may default on its obligation to perform. Risks of loss may exceed amounts recognized on the statement of assets and liabilities. Credit default contracts outstanding at period end, if any, are listed after the fund's portfolio.

**K) TBA purchase commitments** The fund may enter into "TBA" (to be announced) commitments to purchase securities for a fixed unit 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 commitments will not significantly differ from the principal amount. The fund holds, and maintains until settlement date, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or the fund may enter into offsetting contracts for the forward sale of other securities it owns. Income on the securities will not be earned until settlement date. TBA purchase commitments may be considered securities 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 fair value of the underlying securities, according to the procedures described under "Security valuation" above. The contract is "marked-to-market" daily and the

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change in market value is recorded by the fund as an unrealized gain or loss.

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.

**L) 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 fair value of the underlying securities, generally according to the procedures described under "Security valuation" above. The contract is "marked-to-market" daily and the change in market value is recorded by the fund as an unrealized gain or loss. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the fund realizes a gain or loss. If the fund delivers securities under the commitment, the fund realizes a gain or a loss from the sale of the securities based upon the unit price established at the date the commitment was entered into. TBA sale commitments outstanding at period end, if any, are listed after the fund's portfolio.

**M) Dollar rolls** To enhance returns, the fund may enter into dollar rolls (principally using TBAs) in which the fund sells securities for delivery in the current month and simultaneously contracts to purchase similar securities on a specified future date. During the period between the sale and subsequent purchase, the fund will not be entitled to receive income and principal payments on the securities sold. The fund will, however, retain the difference between the initial sales price and the forward price for the future purchase. The fund will also be able to earn interest on the cash proceeds that are received from the initial sale. The fund may be exposed to market or credit risk if the price of the security changes unfavorably or the counterparty fails to perform under the terms of the agreement.

**N) Federal taxes** It is the policy of the fund to distribute all of its taxable income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code of 1986 (the "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 Code, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At September 30, 2006, the fund had a capital loss carryover of \$132,636,061 available to the extent allowed by the Code to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

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| Loss Carryover | Expiration         |
|----------------|--------------------|
| \$ 6,989,067   | September 30, 2007 |
| 25,640,537     | September 30, 2008 |
| 24,593,458     | September 30, 2009 |
| 27,431,170     | September 30, 2010 |
| 47,564,236     | September 30, 2011 |
| 417,593        | September 30, 2014 |

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending September 30, 2007, \$6,429,142 of losses recognized during the period November 1, 2005 to September 30, 2006.

The aggregate identified cost on a tax basis is \$727,542,764, resulting in gross unrealized appreciation and depreciation of \$13,880,389 and

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\$10,600,760, respectively, or net unrealized appreciation of \$3,279,629.

**O) Distributions to shareholders** Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

**Note 2: Management fee, administrative services and other transactions**

Putnam Management is paid for management and investment advisory services quarterly based on the "average weekly assets" of the fund. "Average weekly assets" is defined to mean the average of the weekly determinations of the difference between the total assets of the fund (including any assets attributable to leverage for investment purposes (through incurrence of indebtedness) and the total liabilities of the fund (excluding liabilities incurred in connection with leverage for investment purposes through incurrence of indebtedness). This fee is based on the following annual rates: 0.75% of the first \$500 million of average weekly assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% of the next \$5 billion, with additional breakpoints at higher asset levels.

Putnam Investments Limited ("PIL"), an affiliate of Putnam Management, is authorized by the Trustees to manage a separate portion of the assets of the fund as determined by Putnam Management from time to time. Putnam Management pays a quarterly sub-management fee to PIL for its services at an annual rate of 0.40% of the average weekly assets of the portion of the fund managed by PIL.

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In July 2006, questions arose regarding a potential misidentification of the characteristics of certain securities in the fund's portfolio, and the value of these securities was adjusted. The fund currently expects to be reimbursed for losses relating to this matter by Putnam. The amount of such reimbursement has not yet been determined, but is not expected to be material to the fund.

Putnam Management voluntarily reimbursed the fund \$7,426 for a trading error which occurred during the period. The effect of the losses incurred and the reimbursement by Putnam Management of such losses had no impact on total return.

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

Custodial functions for the fund's assets were provided by Putnam Fiduciary Trust Company ("PFTC"), a subsidiary of Putnam, LLC, and by State Street Bank and Trust Company. Custody fees are based on the fund's asset level, the number of its security holdings and transaction volumes. Putnam Investor Services, a division of PFTC, provided investor servicing agent functions to the fund. Putnam Investor Services was paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund's average net assets. During the period ended March 31, 2007, the fund incurred \$291,711 for custody and investor servicing agent functions provided by PFTC.

The fund has entered into arrangements with PFTC and State Street Bank and Trust Company whereby PFTC's and State Street Bank and Trust Company's fees are reduced by credits allowed

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on cash balances. For the six months ended March 31, 2007, the fund's expenses were reduced by \$84,122 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$370, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings, industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

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

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years and were first elected prior to 2004. Benefits under the Pension Plan are equal to 50% of the Trustee's average annual attendance and retainer fees for the three years ended December 31, 2005. The retirement benefit is payable during a Trustee's lifetime, beginning the year following retirement, for the number of years of service through December 31, 2006. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

### **Note 3: Purchases and sales of securities**

During the six months ended March 31, 2007, cost of purchases and proceeds from sales of investment securities other than U.S. government securities and short-term investments aggregated \$135,788,115 and \$179,789,053, respectively. Purchases and sales of U.S. government securities aggregated \$13,288,024 and \$13,841,246, respectively.

Written option transactions during the period ended March 31, 2007 are summarized as follows:

| Contract | Premiums |
|----------|----------|
|----------|----------|

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|   |     | Amounts          | Received  |
|---|-----|------------------|-----------|
| <hr/>   |     |                  |           |
| Written options<br>outstanding at<br>beginning<br>of period | JPY | 13,104,267,000   | \$245,817 |
|   | AUD | □                | □         |
|   | EUR | □                | □         |
| <hr/>   |     |                  |           |
| Options<br>opened   | JPY | □                | □         |
|   | AUD | 32,090,000       | 15,377    |
|   | EUR | 5,440,000        | 221,499   |
| <hr/>   |     |                  |           |
| Options<br>exercised  | JPY | □                | □         |
|   | AUD | □                | □         |
|   | EUR | □                | □         |
| <hr/>   |     |                  |           |
| Options<br>expired  | JPY | (13,104,267,000) | (245,817) |
|   | AUD | □                | □         |
|   | EUR | □                | □         |
| <hr/>   |     |                  |           |
| Options<br>closed   | JPY | □                | □         |
|   | AUD | □                | □         |
|   | EUR | □                | □         |
| <hr/>   |     |                  |           |
| Written<br>options<br>outstanding<br>at end<br>of period    | JPY | □                | □         |
|   | AUD | 32,090,000       | \$ 15,377 |
|   | EUR | 5,440,000        | \$221,499 |
| <hr/>   |     |                  |           |

**Note 4: Share repurchase program**

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding common shares over the 12 months ending October 6, 2006 (based on

shares outstanding as of October 7, 2005). In March 2006, the Trustees approved an increase in this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding common shares over the same period. In September 2006, the Trustees extended the program on its existing terms through October 6, 2007. Repurchases will only be made when the fund's shares are trading at less than net asset value and in accordance with procedures approved by the fund's Trustees.

For the six-months ended March 31, 2007, the fund repurchased 2,434,381 common shares for an aggregate purchase price of \$15,505,562, which reflects a weighted-average discount from net asset value per share of 11.2% .

**Note 5: Investment in Putnam Prime Money Market Fund**

The fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Investments in Putnam Prime Money Market Fund are valued at its closing net asset value each business day. Management fees paid by the fund are reduced by an amount equal to the management and administrative services fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the period ended March 31, 2007, management fees paid were reduced by \$59,326 relating to the fund's investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled \$3,474,944 for the period ended March 31, 2007. During the period ended March 31, 2007, cost of purchases and proceeds of sales of investments in Putnam Prime Money Market Fund aggregated \$136,665,291 and \$120,337,730, respectively.

**Note 6: Senior loan commitments**

Senior loans are purchased or sold on a when-issued or delayed delivery basis and may be settled a month or more after the trade date, which from time to time can delay the actual investment of available cash balances; interest income is accrued based on the terms of the securities. Senior loans can be acquired through an agent, by assignment from another holder of the loan, or as a participation interest in another holder's portion of the loan. When the fund invests in a loan or participation, the fund is subject to the risk that an intermediate participant between the fund and the borrower will fail to meet its obligations to the fund, in addition to the risk that the borrower under the loan may default on its obligations.

**Note 7: Unfunded loan commitments**

As of March 31, 2007, the fund had unfunded loan commitments of \$272,813, which could be extended at the option of the borrower, pursuant to the following loan agreements with the following borrowers:

| Borrower                    | Unfunded<br>Commitments |
|-----------------------------|-------------------------|
| Meg Energy Corp.            | \$100,000               |
| Trump Hotel & Casino Resort | 172,813                 |

**Note 8: Regulatory matters and litigation**

In late 2003 and 2004, Putnam Management settled charges brought by the Securities and Exchange Commission (the "SEC") and the Massachusetts Securities Division ("MSD") in connection with excessive short-term trading by certain former Putnam employees and, in the case of charges brought by the MSD, excessive short-term trading by participants in some Putnam-administered 401(k) plans. Putnam Management agreed to pay \$193.5 million in penalties and restitution, of which \$153.5 million will be distributed to certain open-end Putnam funds and their shareholders after the SEC

and MSD approve a distribution plan being developed by an independent consultant. The allegations of the SEC and MSD and related matters have served as the general basis for certain lawsuits, including purported class action lawsuits filed against Putnam Management and, in a limited number of cases, against some Putnam funds. Putnam Management believes that these lawsuits will have no material adverse effect on the funds or on Putnam Management's ability to provide investment management services. In addition, Putnam Management has agreed to bear any costs incurred by the Putnam funds as a result of these matters.

The Staff of the SEC has indicated that it believes that Putnam Management did not comply with certain disclosure requirements in connection with dividend payments to shareholders of your fund. Putnam Management is currently engaged in settlement negotiations with the SEC Staff regarding this matter.

Putnam Management and Putnam Retail Management are named as defendants in a civil suit in which the plaintiffs allege that the management and distribution fees paid by certain Putnam funds were excessive and seek recovery under the Investment Company Act of 1940. Putnam Management and Putnam Retail Management have contested the plaintiffs' claims and the matter is currently pending in the U.S. District Court for the District of Massachusetts. Based on currently available information, Putnam Management believes that this action is without merit and that it is unlikely to have a material effect on Putnam Management's and Putnam Retail Management's ability to provide services to their clients, including the fund.

**Note 9: New accounting pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation). The Interpretation prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken by a filer in the filer's tax return. The Interpretation will become effective for fiscal years beginning after December 15, 2006 but will also apply to tax positions reflected in the fund's financial statements as of that date. No determination has been made whether the adoption of the Interpretation will require the fund to make any adjustments to its net assets or have any other effect on the fund's financial statements. The effects of implementing this pronouncement, if any, will be noted in the fund's next semiannual financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (the Standard). The Standard defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Standard applies to fair value measurements already required or permitted by existing standards. The Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Putnam Management is currently evaluating what impact the adoption of the Standard will have on the fund's financial statements.

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**Shareholder meeting results (Unaudited)**

The annual meeting of shareholders of the fund was held on January 11, 2007.

At the meeting, each of the nominees for Trustees was elected, as follows:

|                   | Votes for  | Votes withheld |
|-------------------|------------|----------------|
| Jameson A. Baxter | 85,470,695 | 2,139,016      |
| Charles B. Curtis | 85,462,746 | 2,146,965      |
| Myra R. Drucker   | 85,494,873 | 2,114,838      |

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|                          |            |           |
|--------------------------|------------|-----------|
| John A. Hill             | 85,466,140 | 2,143,571 |
| Paul L. Joskow           | 85,479,676 | 2,130,035 |
| Elizabeth T. Kennan      | 85,490,681 | 2,119,030 |
| Kenneth R. Leibler       | 85,453,240 | 2,156,471 |
| Robert E. Patterson      | 85,446,628 | 2,163,083 |
| W. Thomas Stephens       | 85,492,726 | 2,116,985 |
| Richard B. Worley        | 85,462,471 | 2,147,240 |
| Charles E. Haldeman, Jr. | 85,500,261 | 2,109,450 |
| George Putnam, III       | 85,498,615 | 2,111,096 |

A proposal to convert the fund to an open-end investment company was defeated as follows:

| Votes for  | Votes against | Abstentions | Broker non-votes |
|------------|---------------|-------------|------------------|
| 12,297,690 | 28,324,005    | 1,162,836   | 45,825,180       |

All tabulations are rounded to the nearest whole number.

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## Fund information

### About Putnam Investments

Founded nearly 70 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We manage over 100 mutual funds in growth, value, blend, fixed income, and international.

#### Investment Manager

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

Elizabeth T. Kennan  
Kenneth R. Leibler  
Robert E. Patterson  
George Putnam, III  
W. Thomas Stephens  
Richard B. Worley

Beth S. Mazor  
*Vice President*

James P. Pappas  
*Vice President*

#### Investment Sub-Manager

Putnam Investments Limited

#### Officers

Richard S. Robie, III  
*Vice President*

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|  |   |   |
|--|---|---|
| 57 59 St. James Street<br>London, England SW1A 1LD   | George Putnam, III<br><i>President</i>  | Francis J. McNamara, III<br><i>Vice President and<br/>Chief Legal Officer</i>   |
| <b>Marketing Services</b><br>Putnam Retail Management<br>One Post Office Square<br>Boston, MA 02109  | Charles E. Porter<br><i>Executive Vice President,<br/>Principal Executive Officer,<br/>Associate Treasurer and<br/>Compliance Liaison</i>   | Robert R. Leveille<br><i>Chief Compliance Officer</i>   |
| <b>Custodians</b><br>Putnam Fiduciary Trust<br>Company, State Street Bank<br>and Trust Company   | Jonathan S. Horwitz<br><i>Senior Vice President<br/>and Treasurer</i>   | Mark C. Trenchard<br><i>Vice President and<br/>BSA Compliance Officer</i>   |
| Legal Counsel<br>Ropes & Gray LLP  | Steven D. Krichmar<br><i>Vice President and<br/>Principal Financial Officer</i>   | Judith Cohen<br><i>Vice President, Clerk and<br/>Assistant Treasurer</i>  |
| <b>Trustees</b><br>John A. Hill, <i>Chairman</i><br>Jameson Adkins Baxter,<br><i>Vice Chairman</i><br>Charles B. Curtis<br>Myra R. Drucker<br>Charles E. Haldeman, Jr.<br>Paul L. Joskow | Janet C. Smith<br><i>Vice President, Principal<br/>Accounting Officer and<br/>Assistant Treasurer</i><br><br>Susan G. Malloy<br><i>Vice President and<br/>Assistant Treasurer</i> | Wanda M. McManus<br><i>Vice President, Senior Associate<br/>Treasurer and Assistant Clerk</i><br><br>Nancy E. Florek<br><i>Vice President, Assistant Clerk,<br/>Assistant Treasurer<br/>and Proxy Manager</i> |

Call 1-800-225-1581 weekdays between 8:30 a.m. and 8:00 p.m. or on Saturday between 9:00 a.m. and 5:00 p.m. Eastern Time, or visit our Web site ([www.putnam.com](http://www.putnam.com)) anytime for up-to-date information about the fund's NAV.

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Item 2. Code of Ethics:

Not Applicable

Item 3. Audit Committee Financial Expert:

Not Applicable

Item 4. Principal Accountant Fees and Services:

Not Applicable

Item 5. Audit Committee

Not Applicable

Item 6. Schedule of Investments:

The registrant's schedule of investments in unaffiliated issuers is included in the report to shareholders in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies:

Not applicable

Item 8. Portfolio Managers of Closed-End Management Investment Companies

(a) Not applicable

(b) The team members identified as the fund's Portfolio Leader(s) and Portfolio Member(s) coordinate team efforts related to the fund and are primarily responsible for the day-to-day management of the fund's portfolio. In addition to these individuals, each team also includes other investment professionals, whose analysis, recommendations and research inform investment decisions made for the fund. The names of all team members can be found at [www.putnam.com](http://www.putnam.com).

During the period, Kevin Murphy was named a Portfolio Member of the fund following the departure of Portfolio Member David Waldman

**Portfolio Members Joined**

|              | <b>Fund</b> | <b>Employer</b>                            | <b>Positions Over Past Five Years</b>   |
|--------------|-------------|--|---|
| Kevin Murphy | 2007        | <b>Putnam Management</b><br>1999 - Present | Team Leader, High Grade Credit and Core Fixed Income Teams<br>Previously, Investment Strategist |

Other accounts managed by the fund's portfolio managersThe following table shows the number and approximate assets of other investment accounts (or portions of investment accounts) that were managed as of the end of the fund's fiscal period by the

Portfolio Leaders or Portfolio Members who joined the fund's management team during the period. The other accounts may include accounts for which the individual was not designated as a portfolio leader or portfolio member. Unless noted, none of the other accounts pays a fee based on the account's performance.

| <b>Portfolio Leader or Member</b> | <b>Other SEC-registered open-end and closed-end funds</b> |        | <b>Other accounts that pool assets from more than one client</b> |        |
|-----------------------------------|---|--------|--|--------|
|                                   | Number of accounts  | Assets | Number of accounts   | Assets |

|              |    |                 |    |                 |
|--------------|----|-----------------|----|-----------------|
| Kevin Murphy | 13 | \$9,246,600,000 | 10 | \$9,291,500,000 |
|--------------|----|-----------------|----|-----------------|

Potential conflicts of interest in managing multiple accounts. Like other investment professionals with multiple clients, the fund's Portfolio Leader(s) and Portfolio Member(s) may face certain potential conflicts of interest in connection with managing both the fund and the other accounts listed under "Other Accounts Managed by the Fund's Portfolio Managers" at the same time. The paragraphs below describe some of these potential conflicts, which Putnam Management believes are faced by investment professionals at most major financial firms. As described below, Putnam Management and the Trustees of the Putnam funds have adopted compliance policies and procedures that attempt to address certain of these potential conflicts.

The management of accounts with different advisory fee rates and/or fee structures, including accounts that pay advisory fees based on account performance ("performance fee accounts"), may raise potential conflicts of interest by creating an incentive to favor higher-fee accounts. These potential conflicts may include, among others:

- The most attractive investments could be allocated to higher-fee accounts or performance fee accounts.
- The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time.
- The trading of other accounts could be used to benefit higher-fee accounts (front- running).
- The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation.

Putnam Management attempts to address these potential conflicts of interest relating to higher-fee accounts through various compliance policies that are generally intended to

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place all accounts, regardless of fee structure, on the same footing for investment management purposes. For example, under Putnam Management's policies:

- Performance fee accounts must be included in all standard trading and allocation procedures with all other accounts.
- All accounts must be allocated to a specific category of account and trade in parallel with allocations of similar accounts based on the procedures generally applicable to all accounts in those groups (e.g., based on relative risk budgets of accounts).
- All trading must be effected through Putnam's trading desks and normal queues and procedures must be followed (i.e., no special treatment is permitted for performance fee accounts or higher-fee accounts based on account fee structure).
- Front running is strictly prohibited.

□ The fund's Portfolio Leader(s) and Portfolio Member(s) may not be guaranteed specifically allocated any portion of a performance fee.

As part of these policies, Putnam Management has also implemented trade oversight and review procedures in order to monitor whether particular accounts (including higher-fee accounts or performance fee accounts) are being favored over time.

Potential conflicts of interest may also arise when the Portfolio Leader(s) or Portfolio Member(s) have personal investments in other accounts that may create an incentive to favor those accounts. As a general matter and subject to limited exceptions, Putnam Management's investment professionals do not have the opportunity to invest in client accounts, other than the Putnam funds. However, in the ordinary course of business, Putnam Management or related persons may from time to time establish "pilot" or "incubator" funds for the purpose of testing proposed investment strategies and products prior to offering them to clients. These pilot accounts may be in the form of registered investment companies, private funds such as partnerships or separate accounts established by Putnam Management or an affiliate. Putnam Management or an affiliate supplies the funding for these accounts. Putnam employees, including the fund's Portfolio Leader(s) and Portfolio Member(s), may also invest in certain pilot accounts. Putnam Management, and to the extent applicable, the Portfolio Leader(s) and Portfolio Member(s) will benefit from the favorable investment performance of those funds and accounts. Pilot funds and accounts may, and frequently do, invest in the same securities as the client accounts. Putnam Management's policy is to treat pilot accounts in the same manner as client accounts for purposes of trading allocation — neither favoring nor disfavoring them except as is legally required. For example, pilot accounts are normally included in Putnam Management's daily block trades to the same extent as client accounts (except that pilot accounts do not participate in initial public offerings).

A potential conflict of interest may arise when the fund and other accounts purchase or sell the same securities. On occasions when the Portfolio Leader(s) or Portfolio Member(s) consider the purchase or sale of a security to be in the best interests of the fund as well as other accounts, Putnam Management's trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or

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purchased in order to seek to obtain the best execution and lower brokerage commissions, if any. Aggregation of trades may create the potential for unfairness to the fund or another account if one account is favored over another in allocating the securities purchased or sold — for example, by allocating a disproportionate amount of a security that is likely to increase in value to a favored account. Putnam Management's trade allocation policies generally provide that each day's transactions in securities that are purchased or sold by multiple accounts are, insofar as possible, averaged as to price and allocated between such accounts (including the fund) in a manner which in Putnam Management's opinion is equitable to each account and in accordance with the amount being purchased or sold by each account. Certain exceptions exist for specialty, regional or sector accounts. Trade allocations are reviewed on a periodic basis as part of Putnam Management's trade oversight procedures in an attempt to ensure fairness over time across accounts.

□ Cross trades, in which one Putnam account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest. Cross trades may be seen to involve a potential conflict of interest if, for example, one account is permitted to sell a security to another account at a higher price than an

independent third party would pay. Putnam Management and the fund's Trustees have adopted compliance procedures that provide that any transactions between the fund and another Putnam-advised account are to be made at an independent current market price, as required by law.

Another potential conflict of interest may arise based on the different investment objectives and strategies of the fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than the fund. Depending on another account's objectives or other factors, the Portfolio Leader(s) and Portfolio Member(s) may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to the fund. In addition, investment decisions are the product of many factors in addition to basic suitability for the particular account involved. Thus, a particular security may be bought or sold for certain accounts even though it could have been bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by the Portfolio Leader(s) or Portfolio Member(s) when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. As noted above, Putnam Management has implemented trade oversight and review procedures to monitor whether any account is systematically favored over time.

The fund's Portfolio Leader(s) and Portfolio Member(s) may also face other potential conflicts of interest in managing the fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the fund and other accounts.

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Compensation of investment professionals. Putnam Management believes that its investment management teams should be compensated primarily based on their success in helping investors achieve their goals. The portion of Putnam Investments' total incentive compensation pool that is available to Putnam Management's Investment Division is based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time. The peer group for the fund, which is identified in the shareholder report included in Item 1, is its broad investment category as determined by Lipper Inc. The portion of the incentive compensation pool available to each investment management team varies based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time on (i) for tax-exempt funds, a tax-adjusted basis to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions or (ii) for taxable funds, on a before-tax basis.

Consistent performance means being above median over one year.

- Dependable performance means not being in the 4th quartile of the peer group over one, three or five years.
- Superior performance (which is the largest component of Putnam Management's incentive compensation program) means being in the top third of the peer group over three and five years.

In determining an investment management team's portion of the incentive compensation pool and allocating that portion to individual team members, Putnam Management retains

discretion to reward or penalize teams or individuals, including the fund's Portfolio Leader(s) and Portfolio Member(s), as it deems appropriate, based on other factors. The size of the overall incentive compensation pool each year is determined by Putnam Management's parent company, Marsh & McLennan Companies, Inc., and depends in large part on Putnam's profitability for the year, which is influenced by assets under management. Incentive compensation is generally paid as cash bonuses, but a portion of incentive compensation may instead be paid as grants of restricted stock, options or other forms of compensation, based on the factors described above. In addition to incentive compensation, investment team members receive annual salaries that are typically based on seniority and experience. Incentive compensation generally represents at least 70% of the total compensation paid to investment team members.

Fund ownership. The following table shows the dollar ranges of shares of the fund owned as of March 31, 2006 and March 31, 2007 by the Portfolio Leaders or Portfolio Members who joined the fund's management team during the fund's fiscal period, including investments by their immediate family members and amounts invested through retirement and deferred compensation plans.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers:

Registrant Purchase of Equity Securities

| <u>Period</u>                        | <u>Total Number<br/>of Shares<br/>Purchased</u> | <u>Average<br/>Price Paid<br/>per Share</u> | <u>Total Number<br/>of Shares<br/>Purchased<br/>as Part<br/>of Publicly<br/>Announced<br/>Plans or<br/>Programs</u> | <u>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value )<br/>of Shares<br/>that May Yet Be<br/>Purchased<br/>under the Plans<br/>or Programs *</u> |
|--------------------------------------|---|---|---|--|
| October 1 -<br>October 31,<br>2006   | 817,383   | \$6.23                                      | 817,383   | 2,724,981  |
| November 1 -<br>November 30,<br>2006 | 895,688   | \$6.41                                      | 895,688   | 1,829,293  |
| December 1 -<br>December 31,<br>2006 | 721,310   | \$6.47                                      | 721,310   | 1,107,983  |
| January 1 -<br>January 31,<br>2007   | -   | -   | -   | 1,107,983  |
| February 1 -                         |   |   |   |  |

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|                             |   |   |   |           |
|-----------------------------|---|---|---|-----------|
| February 28,<br>2007        | - | - | - | 1,107,983 |
| March 1 -<br>March 31, 2007 | - | - | - | 1,107,983 |

The Board of Trustees announced a repurchase plan on October 7, 2005 for which **5,015,654** shares were approved for repurchase by the fund. The repurchase plan was approved through October 6, 2006. . On March 10, 2006, the Trustees announced that the repurchase program was increased to allow repurchases of up to a total of 10,031,308 shares over the original term of the program. On September 15, 2006, the Trustees voted to extend the term of the repurchase program through October 6, 2007. This extension did not affect the number of shares eligible for repurchase under the program.

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\*Information is based on the total number of shares eligible for repurchase under the program, as amended through September 15, 2006.

### Item 10. Submission of Matters to a Vote of Security Holders:

Not applicable

### Item 11. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting: Effective January 1, 2007, the fund retained State Street Bank and Trust Company ("State Street") as its custodian. Putnam Fiduciary Trust Company, the fund's previous custodian, is managing the transfer of the fund's assets to State Street. This transfer is expected to be completed for all Putnam funds during the first half of 2007, with PFTC remaining as custodian with respect to fund assets until the assets are transferred. Also effective January 1, 2007, the fund's investment manager, Putnam Investment Management, LLC entered into a Master Sub-Accounting Services Agreement with State Street, under which the investment manager has delegated to State Street responsibility for providing certain administrative, pricing, and bookkeeping services for the fund.

### Item 12. Exhibits:

(a)(1) Not applicable

(a)(2) Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

(b) The certifications required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended, are filed herewith.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Putnam Master Intermediate Income Trust

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By (Signature and Title):

/s/Janet C. Smith

Janet C. Smith

Principal Accounting Officer

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Date: May 29, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title):

/s/Charles E. Porter

Charles E. Porter

Principal Executive Officer

Date: May 29, 2007

By (Signature and Title):

/s/Steven D. Krichmar

Steven D. Krichmar

Principal Financial Officer

Date: May 29, 2007

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