

PUTNAM MASTER INTERMEDIATE INCOME TRUST
Form N-CSR
December 05, 2006

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, 2006

Date of reporting period: October 1, 2005 - September 30, 2006

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:

What makes Putnam different?

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.

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.

Putnam Master Intermediate Income Trust

9|30|06

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Message from the Trustees

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

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.

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. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk. Mutual 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. While diversification can help protect returns from excessive volatility, it cannot ensure protection against a market loss.

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.

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 12 months ended September 30, 2006, Putnam Master Intermediate Income Trust posted total returns of 6.01% at net asset value (NAV) and 4.17% at market price.

The fund's benchmark, the Lehman Government/Credit Bond Index, returned 3.33% .

The average return for the fund's Lipper category, Flexible Income Funds (closed-end), was 5.56% .

After being reduced in November 2005, the fund's dividend increased in July 2006. See page 8 for more details.

Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 10.

Performance

It is important to note that a fund's performance at market price may differ 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.

Total return for periods ended 9/30/06

Since the fund's inception (4/29/88), average annual return is 7.79% at NAV and 6.55% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price
10 years	6.33%	6.26%	84.74%	83.59%
5 years	9.07	7.70	54.35	44.93
3 years	7.14	5.22	22.99	16.50
1 year	6.01	4.17	6.01	4.17

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.

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Report from the fund managers

The year in review

The 12-month period ended September 30, 2006, was generally favorable for most sectors of the fixed-income market, especially those associated with higher credit risk, such as emerging-market and high-yield bonds. Strong investor demand for yield boosted prices in both of these sectors, particularly during the first calendar quarter of 2006. Because your fund invests in a variety of fixed-income investments, its results were ahead of the return of its all-bond benchmark index, based on results at net asset value. The fund's defensive posture and the performance of its emerging-market holdings also helped it outpace the average return for funds in its Lipper peer group, based on results at net asset value. The fund continued to benefit from its holdings in securitized bonds, and its currency strategy also had a positive effect on performance over the course of the 12-month period.

Market overview

Bond yields in the United States, as well as those overseas, were slightly higher at the close of the 12-month period, responding to continued global growth and monetary policy tightening. Because yields of fixed-income instruments move in the opposite direction of their prices, this trend led to lower prices for most government

bonds. However, strong demand for yield, worldwide economic expansion, and robust demand for commodities led to favorable performance within other sectors of the fixed-income market, such as emerging-market and high-yield bonds.

For the first nine months of the period, the Fed continued its program of pushing up short-term interest rates in an effort to head off a higher level of price inflation without undermining economic growth. The Fed decided to pause in raising rates at its August and September 2006 meetings, however, while retaining its stated bias toward a possible resumption of rate increases in the future. As of September 30, 2006, the federal funds rate □ the overnight lending rate that banks charge each other, which guides other short-term rates □ stood at 5.25% .

Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 9/30/06.

Bonds

Lehman Government/Credit Bond Index (U.S. Treasury and agency securities and corporate bonds)	3.33%
--------------------------------------------------------------------------------------------------	-------

JPMorgan Global Diversified Emerging Markets Bond Index (global emerging-market bonds)	7.46%
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Citigroup Non-U.S. World Government Bond Index (international government bonds)	2.02%
------------------------------------------------------------------------------------	-------

JPMorgan Global High Yield Index (global high-yield corporate bonds)	7.67%
-------------------------------------------------------------------------	-------

Equities

S&P 500 Index (broad stock market)	10.79%
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Russell 2000 Index (small-company stocks)	9.92%
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MSCI EAFE Index (international stocks)	19.16%
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Longer-term Treasury rates also increased slightly for the period, as foreign purchasing continued to prop up Treasury security prices. (Note that, given the inverse relationship of bond yields and prices, this also lowered yields for these securities.) From mid-2004 to the end of the summer of 2006, the Fed spearheaded the global effort to cool excessive economic growth that might lead to a resurgence of inflation. By the close of the fund's fiscal period, the U.S. economy had weakened slightly, responding to higher rates and significantly higher commodity prices. In contrast, economic growth internationally □ especially in Germany and Japan □ remained very strong. Foreign central banks worldwide now seem to be taking the lead in battling inflation, enacting a series of short-term rate increases that have maintained upward pressure on global interest rates.

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, 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. Our fund management team then draws from these strategies, systematically building an array of investments that seeks to carefully balance risk and return.

Over the 12-month period, we continued to maintain a conservative posture regarding both duration — a measure of 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 recent pause beginning in August 2006, the global trend in monetary policy is toward higher rates. Therefore, we have 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 credit quality than we have in past years 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. The portfolio's relatively low exposure to high-yield and emerging-market bonds had the effect of increasing the portfolio's cash position. The relatively flat yield curve,

Comparison of sector weightings

This chart shows how the fund's 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 2 and 3 for more information about each sector.

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moreover, made cash holdings attractive relative to other strategies. We have also maintained an 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 12-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 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 of structured securities 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.

Our country selection in the area of European government bonds contributed positively to performance during the 12-month period. We avoided bonds from **Portugal**, **Greece**, and **Italy**, countries that are experiencing higher inflation and large deficits. Bonds from these countries have also experienced a deterioration in credit quality due to euro-zone restrictions on how budgetary problems can be resolved. We invested instead in bonds from **Germany** and **France**, countries that we believe are better equipped for fiscal management when the euro is strong, and whose bonds appear to offer better relative value.

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While the fund has gradually de-emphasized emerging-market securities over the past three years, holdings in this area nevertheless helped performance. Positive contributors included bonds from **Brazil, Argentina, Colombia, and Indonesia** (the last of which was sold by the end of the period). High energy and agriculture prices boosted exports and growth in these countries, encouraging investors to reach for their higher yield.

Additionally, we maintained the fund's allocation in senior-secured bank loans. 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

Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each represented, as of 9/30/06. 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 pass-through certificates TBA (1.7%)	6%, 2021
Federal National Mortgage Association pass-through certificates TBA (1.0%)	4.5%, 2021
Federal National Mortgage Association pass-through certificates TBA (1.0%)	4.5%, 2021
Credit sector	
Gazprom OAO 144A notes (Germany) (1.6%)	9.625%, 2013
Pemex Project Funding Master Trust company guaranty (0.6%)	5.75%, 2015
VTB Capital SA 144A notes (Luxembourg) (0.5%)	7.5%, 2011
Government sector	
U.S. Treasury Notes (5.6%)	4.25%, 2013
U.S. Treasury Notes (4.0%)	3.25%, 2008
Ireland (Republic of) bonds (1.5%)	5%, 2013

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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.

Of special interest

Changes in your fund's dividend

After being reduced from \$0.035 to \$0.028 in November 2005, the fund's dividend increased to \$0.030 in July 2006. This net reduction from the prior year reflected the fund's short portfolio duration and its continued relative de-emphasis of high-yield bonds, which together have reduced earning capacity at this time but are expected to contribute to longer-term performance.

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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.

Though the U.S. economy could continue to slow in the months ahead, we believe that accelerating growth in Europe and Japan will keep the global economy on track. Given the Fed's recent pause from its credit-tightening program, it remains to be seen whether inflationary pressures will prompt a resumption of rate increases in late 2006 or early 2007. However, we do expect foreign central banks to continue to tighten credit overseas in the coming months. This potential shift in "inflation-fighting" leadership and global growth dynamics means that central bank behavior is likely to be less predictable over the next 12 months. This unpredictability, coupled with an upward drift in interest rates, could represent a significant challenge to financial markets in general. We are therefore continuing to position the fund defensively with regard to both duration and credit. As part of this defensive posture, we are maintaining an emphasis on structured securities, which tend to have shorter maturities and are of higher quality. 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 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

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This section shows your fund's performance for periods ended September 30, 2006, the end of its 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 9/30/06

	NAV	Market price
Annual average		
Life of fund (since 4/29/88)	7.79%	6.55%
10 years	84.74	83.59
Annual average	6.33	6.26
5 years	54.35	44.93
Annual average	9.07	7.70
3 years	22.99	16.50
Annual average	7.14	5.22
1 year	6.01	4.17

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

Comparative index returns For periods ended 9/30/06

	Lehman Government/ Credit Bond Index	Citigroup Non- U.S. World Government Bond Index	JPMorgan Global High Yield Index	Lipper Flexible Income Funds (closed-end) category average
Annual average (life of fund, since 4/29/88)	7.60%	6.59%	□*	7.44%
10 years	87.24	58.33	93.55%	73.40
Annual average	6.47	4.70	6.83	5.58
5 years	27.43	48.08	69.22	55.15
Annual average	4.97	8.17	11.09	8.94
3 years	9.53	13.81	30.02	23.51
Annual average	3.08	4.41	9.15	7.24
1 year	3.33	2.02	7.67	5.56

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 1-, 3-, 5-, and 10-year periods ended 9/30/06, there were 7 funds in this Lipper category.

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Fund price and distribution information For the 12-month period ended 9/30/06

Distributions

Number	12	
Income	\$0.349	
Capital gains	□	
Total	\$0.349	
Share value:	NAV	Market price
9/30/05	\$7.07	\$6.25
9/30/06	7.08	6.15
Current yield (end of period)		
Current dividend rate ¹	5.08%	5.85%

1 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, Paul Scanlon, and David Waldman 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.

Investment team fund ownership

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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 September 30, 2006, and September 30, 2005.

Trustee and Putnam employee fund ownership

As of September 30, 2006, all of the 11 Trustees then on the Board 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 all Putnam funds
Trustees	\$31,000	\$ 90,000,000
Putnam employees	\$ 6,000	\$418,000,000

Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately \$940,000. This amount includes a portion of 2005 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 2005 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 2005, the calculation reflects annualized 2005 compensation or an estimate of 2006 compensation, as applicable.

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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.

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.

David Waldman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Premier Income Trust.

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

Changes in your fund's Portfolio Leader and Portfolio Members

Your fund's Portfolio Leader and Portfolio Members did not change during the year ended September 30, 2006.

Putnam fund ownership by Putnam's Executive Board

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 September 30, 2006, and September 30, 2005.

	Year	\$1	\$10,001	\$50,001	\$100,001	\$500,001	\$1,000,001
		\$0	\$10,000	\$50,000	\$100,000	\$500,000	\$1,000,000 and over
Philippe Bibi	2006						□
<i>Chief Technology Officer</i>	2005						□
Joshua Brooks	2006						□
<i>Deputy Head of Investments</i>	2005						□
William Connolly	2006						□
<i>Head of Retail Management</i>	2005						□
Kevin Cronin	2006						□
<i>Head of Investments</i>	2005						□
Charles Haldeman, Jr.	2006						□
<i>President and CEO</i>	2005						□
Amrit Kanwal	2006					□	
<i>Chief Financial Officer</i>	2005					□	
Steven Krichmar	2006					□	
<i>Chief of Operations</i>	2005						□
Francis McNamara, III	2006						□
<i>General Counsel</i>	2005						□
Jeffrey Peters	2006						□
<i>Head of International Business</i>	N/A						
Richard Robie, III	2006					□	
<i>Chief Administrative Officer</i>	2005					□	
Edward Shadek	2006						□
<i>Deputy Head of Investments</i>	2005						□
Sandra Whiston	2006					□	

N/A indicates the individual was not a member of Putnam's Executive Board as of 9/30/05.

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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.

Morgan Stanley Capital International (MSCI) EAFE Index is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia.

Russell 2000 Index is an unmanaged index of the 2,000 smallest companies in the Russell 3000 Index.

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 represents 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 represents 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.

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

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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. 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 Committee 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 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
78%	45%	45%

(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.

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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 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 mutual 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 mutual 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.

* 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 September 30, 2006, were 63%, 50%, and 50%, respectively. Over the one-, five- and ten-year periods ended September 30, 2006, the fund ranked 5 out of 7, 4 out of 7, and 4 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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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 shares outstanding as of October 7, 2005.

Putnam's policy on confidentiality

In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' addresses, telephone numbers, Social Security numbers, and the names of their financial advisors. We use this information to assign an account number and to help us maintain accurate records of transactions and account balances. It is our policy to protect the confidentiality of your information, whether or not you currently own shares of our funds, and in particular, not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use. Under certain circumstances, we share this information with outside vendors who provide services to us, such as mailing and proxy solicitation. In those cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. We may also share this information with our Putnam affiliates to service your account or provide you with information about other Putnam products or services. It is also our policy to share account information with your financial advisor, if you've listed one on your Putnam account. If you would like clarification about our confidentiality policies or have any questions or concerns, please don't hesitate to contact us at 1-800-225-1581, Monday through Friday, 8:30 a.m. to 7:00 p.m., or Saturdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

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, and on the SEC's Web site, 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. 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.

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Financial statements

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These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, 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 year.

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.

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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Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders
Putnam Master Intermediate Income Trust:

We have audited the accompanying statement of assets and liabilities of Putnam Master Intermediate Income Trust, including the fund's portfolio, as of September 30, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years or periods in the period then ended. These financial statements and financial highlights are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2006 by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Putnam Master Intermediate Income Trust as of September 30, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years or periods in the period then ended, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts
November 9, 2006

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The fund's portfolio^{3/30/06}

CORPORATE BONDS AND NOTES (17.8%)*

	Principal amount	Value
Basic Materials (1.4%)		
Abitibi-Consolidated, Inc.		
notes 7 3/4s, 2011 (Canada)	\$ 145,000	\$ 132,675
Chaparral Steel Co. company		
guaranty 10s, 2013	486,000	541,890
Cognis Holding GmbH & Co.		
144A sr. notes 9 1/2s, 2014 (Germany)	EUR 148,000	199,829
Compass Minerals International, Inc. sr. disc.notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 ☐☐		
	\$ 285,000	265,050
Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 ☐☐		
	775,000	748,844
Covalence Specialty Materials Corp. 144A sr. sub. notes 10 1/4s, 2016		
	653,000	633,410
Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 ☐☐		
	444,000	356,310
Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008		
	581,000	617,313

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Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)		358,000	385,745
Huntsman, LLC company guaranty 11 5/8s, 2010		260,000	287,300
Huntsman, LLC company guaranty 11 1/2s, 2012		191,000	217,263
Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013		120,000	110,700
JSG Holding PLC 144A sr. notes 11 1/2s, 2015 (Ireland) ☐☐	EUR	181,020	235,012
Lyondell Chemical Co. company guaranty 10 1/2s, 2013	\$	155,000	170,500
MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)		235,000	247,925
MDP Acquisitions PLC sr. notes Ser. EUR, 10 1/8s, 2012 (Ireland)	EUR	440,000	607,740
Nalco Co. sr. sub. notes 9s, 2013	EUR	75,000	102,690
Nalco Co. sr. sub. notes 8 7/8s, 2013	\$	583,000	607,778
Novelis, Inc. 144A sr. notes 7 1/4s, 2015		760,000	722,000
PQ Corp. company guaranty 7 1/2s, 2013		92,000	87,400
Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014	EUR	350,000	461,042
Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	\$	695,000	718,456
Stone Container Corp. sr. notes 9 3/4s, 2011		125,000	128,906
Stone Container Corp. sr. notes 8 3/8s, 2012		240,000	230,400

CORPORATE BONDS AND NOTES (17.8%)* *continued*

		Principal amount		Value
<hr/>				
Basic Materials <i>continued</i>				
Stone Container Finance company guaranty 7 3/8s, 2014 (Canada)	\$	140,000	\$	127,400
United States Steel Corp. sr. notes 9 3/4s, 2010		324,000		345,870
				9,289,448
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Capital Goods (1.0%)

Alliant Techsystems, Inc. sr. sub. notes 6 3/4s, 2016		223,000		219,655
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Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008	732,000	766,770
Blount, Inc. sr. sub. notes 8 7/8s, 2012	455,000	453,863
Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008	73,000	73,000
Crown Euro Holdings SA company guaranty 6 1/4s, 2011 (France) EUR	107,000	141,760
Decrane Aircraft Holdings Co. company guaranty zero %, 2008 (acquired 7/23/04, cost \$323,523) □	\$ 986,000	704,990
L-3 Communications Corp. company guaranty 6 1/8s, 2013	2,370,000	2,304,825
L-3 Communications Corp. sr. sub. notes 5 7/8s, 2015	854,000	811,300
Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012	184,000	198,260
Milacron Escrow Corp. sec. notes 11 1/2s, 2011	123,000	116,850
Owens-Brockway Glass company guaranty 7 3/4s, 2011	181,000	185,978
Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012	877,000	925,235
		6,902,486

Communication Services (0.8%) American Cellular Corp. company guaranty 9 1/2s, 2009	195,000	196,706
Cincinnati Bell, Inc. company guaranty 7s, 2015	578,000	566,440
Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica)	325,000	337,188
Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom)	223,000	229,690
Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 11/15/08), 2012 (United Kingdom) □□	866,000	766,410
iPCS, Inc. sr. notes 11 1/2s, 2012	300,000	336,000
IWO Holdings, Inc. sec. FRN 9. 257s, 2012	82,000	84,255
Qwest Communications International, Inc. company		

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guaranty 7 1/2s, 2014	428,000	429,070
Qwest Corp. notes 8 7/8s, 2012	1,501,000	1,637,966

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CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
<i>Communication Services continued</i>		
Qwest Corp. sr. notes 7 5/8s, 2015	\$ 409,000	\$ 424,338
Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010	75,000	75,469
		5,083,532

Consumer Cyclicals (3.1%)

Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012	585,000	615,713
Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012	165,000	169,331
Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014	134,000	130,985
CanWest Media, Inc. company guaranty 8s, 2012 (Canada)	337,021	332,808
Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s, 2010	605,000	624,663
Dex Media, Inc. notes 8s, 2013	182,000	180,635
FelCor Lodging LP company guaranty 8 1/2s, 2008 (R)	515,000	545,256
Ford Motor Credit Corp. notes 7 7/8s, 2010	245,000	238,600
Ford Motor Credit Corp. notes 7 3/8s, 2009	361,000	350,821
Ford Motor Credit Corp. sr. notes 9 7/8s, 2011	621,000	642,600
Ford Motor Credit Corp. 144A sr. unsecd. notes 9 3/4s, 2010	444,000	458,418
General Motors Acceptance Corp. FRN 6.457s, 2007	350,000	348,033
General Motors Acceptance Corp. FRN Ser. MTN, 6.243s, 2007	695,000	692,654
General Motors Acceptance Corp. notes 7 3/4s, 2010	90,000	92,218
General Motors Acceptance Corp. notes 6 7/8s, 2012	68,000	67,307
General Motors Acceptance Corp.		

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notes 6 3/4s, 2014 General Motors Acceptance Corp.	59,000	57,599
sr. unsub. notes 5.85s, 2009 Goodyear Tire & Rubber Co. (The) sr. notes 9s, 2015	33,000	32,355
Host Marriott LP sr. notes Ser. M, 7s, 2012 (R)	418,000	424,270
Jostens IH Corp. company guaranty 7 5/8s, 2012	725,000	733,156
K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	718,000	721,590
K. Hovnanian Enterprises, Inc. company guaranty 7 3/4s, 2013	138,000	135,240
Lear Corp. company guaranty Ser. B, 8.11s, 2009	269,000	246,135
Levi Strauss & Co. sr. notes 9 3/4s, 2015	495,000	477,675
Levi Strauss & Co. sr. notes 8 7/8s, 2016	651,000	675,413
Meritage Homes Corp. company guaranty 6 1/4s, 2015	285,000	283,575
Meritor Automotive, Inc. notes 6.8s, 2009	235,000	199,750
	71,000	68,338

CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
<i>Consumer Cyclicals continued</i>		
MGM Mirage, Inc. company guaranty 8 1/2s, 2010	\$ 468,000	\$ 497,835
MGM Mirage, Inc. company guaranty 6s, 2009	1,009,000	996,388
Movie Gallery, Inc. sr. unsecd. notes 11s, 2012	190,000	121,600
Owens Corning notes 7 1/2s, 2005 (In default) □ ****	534,000	275,010
Oxford Industries, Inc. sr. notes 8 7/8s, 2011	460,000	469,200
Park Place Entertainment Corp. sr. notes 7s, 2013	495,000	508,877
Park Place Entertainment Corp. sr. sub. notes 7 7/8s, 2010	395,000	410,800
Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	247,000	250,088
PRIMEDIA, Inc. sr. notes 8s, 2013	688,000	624,360
R.H. Donnelley Corp. sr. disc. notes Ser. A-2, 6 7/8s, 2013	67,000	61,138
R.H. Donnelley Corp. sr. notes 6 7/8s, 2013	268,000	244,550

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Reader's Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	365,000	346,750
Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	450,000	465,750
Scientific Games Corp. company guaranty 6 1/4s, 2012	626,000	602,525
Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	735,000	749,700
Standard Pacific Corp. sr. notes 7 3/4s, 2013	101,000	95,445
Starwood Hotels & Resorts Worldwide, Inc. debs. 7 3/8s, 2015	339,000	343,238
Station Casinos, Inc. sr. notes 6s, 2012	470,000	453,550
Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014	73,000	72,088
Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013	302,000	327,670
Texas Industries, Inc. sr. unsecd. notes 7 1/4s, 2013	161,000	161,000
THL Buildco, Inc. (Nortek Holdings, Inc.) sr. sub. notes 8 1/2s, 2014	604,000	570,780
Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015	117,000	111,881
United Auto Group, Inc. company guaranty 9 5/8s, 2012	515,000	545,900
Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	661,000	661,000
Vertis, Inc. 144A sub. notes 13 1/2s, 2009	285,000	259,350
Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 1stmtge. 6 5/8s, 2014	555,000	538,350
		20,309,961

Consumer Staples (2.7%)

Affinity Group, Inc. sr. sub. notes 9s, 2012	545,000	545,000
AMC Entertainment, Inc. sr. sub. notes 8s, 2014	456,000	428,640

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CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
Consumer Staples <i>continued</i>		
Archibald Candy Corp. company		

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guaranty 10s, 2007 (In default) (F) □	\$	90,153	\$	4,711
Avis Budget Care Rental, LLC 144A sr. notes 7 3/4s, 2016		285,000		275,738
Brand Services, Inc. company guaranty 12s, 2012		565,000		632,800
Cablevision Systems Corp. sr. notes Ser. B, 8s, 2012		167,000		169,088
CCH I, LLC/Capital Corp. sec. notes 11s, 2015		1,347,000		1,225,770
CCH I Holdings, LLC company guaranty stepped-coupon zero % (12 1/8s, 1/15/07), 2015 □□		49,000		33,443
CCH II, LLC/Capital Corp. sr. notes Ser. B, 10 1/4s, 2010		259,000		262,885
CCH, LLC/Capital Corp. sr. notes 10 1/4s, 2010		86,000		87,720
Church & Dwight Co., Inc. company guaranty 6s, 2012		444,000		425,130
Cinemark USA, Inc. sr. sub. notes 9s, 2013		20,000		20,750
Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/09), 2014 □□		990,000		789,525
Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008		825,000		845,625
Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012		425,000		442,000
CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011		595,000		610,619
CSC Holdings, Inc. 144A sr. notes 7 1/4s, 2012		1,068,000		1,063,995
Dean Foods Co. company guaranty 7s, 2016		264,000		264,000
Dean Foods Co. sr. notes 6 5/8s, 2009		445,000		446,669
Del Monte Corp. company guaranty 6 3/4s, 2015		320,000		308,800
Del Monte Corp. sr. sub. notes 8 5/8s, 2012		560,000		587,300
DirecTV Holdings, LLC company guaranty 6 3/8s, 2015		1,026,000		964,440
Echostar DBS Corp. company guaranty 6 5/8s, 2014		2,119,000		2,015,699
Interpublic Group of Companies, Inc. notes 6 1/4s, 2014		118,000		102,070
Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada)		509,000		535,086
Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013		741,000		741,926

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Playtex Products, Inc. company guaranty 9 3/8s, 2011	170,000	177,650
Playtex Products, Inc. sec. notes 8s, 2011	770,000	798,875
Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012	450,000	452,250
Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	482,000	515,740

CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
<hr/>		
<i>Consumer Staples continued</i>		
Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	\$ 302,000	\$ 277,840
Sbarro, Inc. company guaranty 11s, 2009	726,000	738,705
Scotts Co. (The) sr. sub. notes 6 5/8s, 2013	255,000	248,944
Six Flags, Inc. sr. notes 9 5/8s, 2014	370,000	329,300
Young Broadcasting, Inc. company guaranty 10s, 2011	431,000	402,446
Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	365,000	310,250
		18,081,429
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Energy (3.9%)

Arch Western Finance, LLC sr. notes 6 3/4s, 2013	1,347,000	1,293,120
Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands)	487,000	493,088
CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	812,000	765,310
Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	269,000	274,380
Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	1,031,000	1,046,465
Chesapeake Energy Corp. sr. notes 7s, 2014	279,000	275,861
Comstock Resources, Inc. sr. notes 6 7/8s, 2012	510,000	486,413
Dresser, Inc. company guaranty 10 1/8s, 2011	476,000	498,610
EXCO Resources, Inc. company guaranty 7 1/4s, 2011	725,000	708,688
Forest Oil Corp. sr. notes 8s, 2011	540,000	558,900

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Forest Oil Corp. sr. notes 8s, 2008	335,000	343,375
Gazprom OAO 144A notes 9 5/8s, 2013 (Germany)	9,080,000	10,748,450
Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)	584,000	541,660
Hornbeck Offshore Services, Inc. sr. notes Ser. B, 6 1/8s, 2014	517,000	482,749
Massey Energy Co. sr. notes 6 5/8s, 2010	774,000	754,650
Newfield Exploration Co. sr. notes 7 5/8s, 2011	700,000	721,000
Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014	348,000	340,605
Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	655,000	614,063
Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011	458,704	470,201
Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014	355,000	362,100
PetroHawk Energy Corp. 144A sr. notes 9 1/8s, 2013	870,000	874,350
Plains Exploration & Production Co. sr. notes 7 1/8s, 2014	620,000	647,900

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CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
<i>Energy continued</i>		
Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	\$ 485,000	\$ 512,888
Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	670,000	688,425
Pride International, Inc. sr. notes 7 3/8s, 2014	826,000	850,780
Seabulk International, Inc. company guaranty 9 1/2s, 2013	402,000	438,180
		25,792,211
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<i>Financial (1.9%)</i>		
Bosphorus Financial Services, Ltd. 144A sec. FRN 7.205s, 2012 (Cayman Islands)	1,445,000	1,434,641
Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	310,000	312,325

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Finova Group, Inc. notes 7 1/2s, 2009	439,620	123,094
Pemex Finance, Ltd. bonds 9.69s, 2009 (Cayman Islands)	609,000	644,824
Pemex Project Funding Master Trust company guaranty 5 3/4s, 2015	4,060,000	3,966,620
Pemex Project Funding Master Trust 144A company guaranty 5 3/4s, 2015	1,778,000	1,737,106
UBS Luxembourg SA for Sberbank unsec. sub. notes stepped-coupon 6.23s (7.429s, 2/11/10), 2015 (Luxembourg) ☐☐	1,400,000	1,398,600
VTB Capital SA 144A notes 7 1/2s, 2011 (Luxembourg)	3,010,000	3,198,125
		12,815,335

Health Care (1.2%)

Community Health Systems, Inc. sr. sub. notes 6 1/2s, 2012	183,000	174,994
DaVita, Inc. company guaranty 6 5/8s, 2013	175,000	170,844
Extendicare Health Services, Inc. sr. sub. notes 6 7/8s, 2014	312,000	333,840
HCA, Inc. debs. 7.19s, 2015	51,000	42,462
HCA, Inc. notes 6 3/8s, 2015	212,000	171,190
HCA, Inc. notes 5 3/4s, 2014	260,000	204,100
MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012	595,000	517,650
Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	740,000	699,300
Service Corp. International notes 6 1/2s, 2008	110,000	110,000
Service Corp. International 144A sr. notes 8s, 2017	170,000	162,775
Service Corporation International sr. notes 6 3/4s, 2016	535,000	512,931
Stewart Enterprises, Inc. sr. notes 6 1/4s, 2013	724,000	669,700
Tenet Healthcare Corp. notes 7 3/8s, 2013	390,000	351,488
Tenet Healthcare Corp. sr. notes 9 7/8s, 2014	835,000	831,869
Triad Hospitals, Inc. sr. notes 7s, 2012	825,000	816,750

CORPORATE BONDS AND NOTES (17.8%)* *continued*

Principal amount	Value
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Health Care *continued*

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Triad Hospitals, Inc. sr. sub. notes 7s, 2013	\$	211,000	\$	204,934
US Oncology, Inc. company guaranty 9s, 2012		420,000		434,700
Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014		556,000		539,320
Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)		305,000		340,075
Ventas Realty LP/Capital Corp. company guaranty 6 3/4s, 2010 (R)		201,000		204,518
Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)		173,000		173,433
				7,666,873

Technology (0.5%)

Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012		334,000		339,010
Freescale Semiconductor, Inc. sr. notes Ser. B, 7 1/8s, 2014		1,229,000		1,318,103
Iron Mountain, Inc. company guaranty 8 5/8s, 2013		700,000		715,750
New ASAT Finance, Ltd. company guaranty 9 1/4s, 2011(Cayman Islands)		13,000		9,880
SunGard Data Systems, Inc. company guaranty 9 1/8s, 2013		340,000		351,900
Xerox Corp. sr. notes 9 3/4s, 2009	EUR	195,000		272,303
Xerox Corp. sr. notes 7 5/8s, 2013	\$	278,000		291,900
Xerox Corp. unsec. sr. notes 6 3/4s, 2017		233,000		236,495
				3,535,341

Transportation (0.1%)

CalAir, LLC/CalAir Capital Corp. company guaranty 8 1/8s, 2008		760,000		744,800
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Utilities & Power (1.2%)

AES Corp. (The) sr. notes 8 7/8s, 2011		54,000		57,780
AES Corp. (The) 144A sec. notes 8 3/4s, 2013		460,000		492,200
CMS Energy Corp. sr. notes 8.9s, 2008		600,000		628,500

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CMS Energy Corp. sr. notes 7 3/4s, 2010	180,000	189,000
Colorado Interstate Gas Co. sr. notes 5.95s, 2015	174,000	166,400
Edison Mission Energy 144A sr. notes 7 3/4s, 2016	146,000	147,825
Edison Mission Energy 144A sr. notes 7 1/2s, 2013	172,000	173,720
El Paso Corp. sr. notes Ser. *, 6 3/8s, 2009	200,000	199,500
El Paso Natural Gas Co. sr. notes Ser. A, 7 5/8s, 2010	365,000	377,319

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CORPORATE BONDS AND NOTES (17.8%)* *continued*

	Principal amount	Value
<i>Utilities & Power continued</i>		
El Paso Production Holding Co. company guaranty 7 3/4s, 2013	\$ 993,000	\$ 1,015,343
Ferrellgas LP/Finance sr. notes 6 3/4s, 2014	520,000	508,300
Mission Energy Holding Co. sec. notes 13 1/2s, 2008	749,000	836,071
Monongahela Power Co. 1st mtge. 6.7s, 2014	400,000	426,204
NRG Energy, Inc. sr. notes 7 3/8s, 2016	235,000	233,531
Orion Power Holdings, Inc. sr. notes 12s, 2010	655,000	741,788
SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	517,000	519,499
Teco Energy, Inc. notes 7.2s, 2011	185,000	192,863
Teco Energy, Inc. notes 7s, 2012	280,000	289,800
Teco Energy, Inc. sr. notes 6 3/4s, 2015	32,000	32,800
Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)	612,000	642,600
Utilicorp United, Inc. sr. notes 9.95s, 2011	18,000	19,743
Williams Cos., Inc. (The) notes 8 1/8s, 2012	150,000	160,125
Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010	172,000	171,140
York Power Funding 144A notes 12s, 2007 (Cayman Islands)		
(In default) (F) □	203,730	16,991

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8,239,042

Total corporate bonds and notes

(cost \$118,271,487) \$ 118,460,458

U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (4.4%)*

Principal amount Value

Federal National Mortgage Association

Pass-Through Certificates

8s, October 1, 2025	\$ 6,246	\$ 6,622
6 1/2s, June 1, 2036	52,989	53,983
6 1/2s, October 1, 2018	18,193	18,753
6s, TBA, October 1, 2021	11,400,000	11,571,000
5 1/2s, April 1, 2036	46,389	45,700
5 1/2s, with due dates from March 1, 2020 to January 1, 2021	986,279	986,496
5s, May 1, 2021	121,048	118,949
4 1/2s, with due dates from September 1, 2020 to June 1, 2034	3,004,238	2,815,318
4 1/2s, TBA, October 1, 2021	6,900,000	6,655,265
4 1/2s, TBA, November 1, 2021	6,900,000	6,655,265

Total U.S. government and agency mortgage obligations (cost \$28,820,550) \$ 28,927,351

U.S. TREASURY OBLIGATIONS (10.8%)*

Principal amount Value

U.S. Treasury Notes

6 1/2s, February 15, 2010	\$ 7,500,000	\$ 7,937,109
4 1/4s, August 15, 2013	38,008,000	37,212,208
3 1/4s, August 15, 2008	27,242,000	26,539,669

Total U.S. treasury obligations (cost \$73,614,704) \$ 71,688,986

FOREIGN GOVERNMENT BONDS AND NOTES (14.1%)*

Principal amount Value

Argentina (Republic of) FRB 5.59s,

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2012		\$	8,133,750	\$ 7,503,436
Austria (Republic of) 144A notes Ser. EMTN, 3.8s, 2013	EUR		1,390,000	1,775,539
Brazil (Federal Republic of) bonds 10 1/2s, 2014		\$	1,018,000	1,279,117
Brazil (Federal Republic of) bonds 12 1/2s, 2016			1,405,000	652,622
Brazil (Federal Republic of) notes 11s, 2012			7,240,000	8,861,760
Canada (Government of) bonds Ser. WH31, 6s, 2008	CAD		3,680,000	3,406,821
Colombia (Republic of) notes 10s, 2012		\$	3,697,000	4,307,005
Colombia (Republic of) notes 12s, 2015	COP		450,000,000	216,239
France (Government of) bonds 4s, 2013	EUR		4,730,000	6,110,838
France (Government of) bonds Ser. OATe, 3s, 2012	EUR		4,329,160	5,933,494
Germany (Federal Republic of) bonds Ser. 97, 6s, 2007	EUR		5,500,000	7,088,210
Germany (Federal Republic of) bonds Ser. 97, 6s, 2007	EUR		5,000,000	6,374,165
Ireland (Republic of) bonds 5s, 2013	EUR		7,500,000	10,242,361
Japan (Government of) CPI Linked bonds Ser. 8, 1s, 2016	JPY		1,114,545,000	9,382,760
Russia (Ministry of Finance) debs. Ser. V, 3s, 2008		\$	2,445,000	2,347,200
South Africa (Republic of) notes 7 3/8s, 2012			1,495,000	1,618,338
South Africa (Republic of) notes 6 1/2s, 2014			1,330,000	1,393,175
Spain (Government of) bonds 5.4s, 2011	EUR		1,000,000	1,363,140
Spain (Kingdom of) bonds 5s, 2012	EUR		800,000	1,083,105
Sweden (Government of) debs. Ser. 1041, 6 3/4s, 2014	SEK		30,690,000	5,050,561
United Mexican States notes 6 5/8s, 2015		\$	4,530,000	4,824,450
Venezuela (Republic of) notes 10 3/4s, 2013			2,150,000	2,628,375
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Total foreign government bonds and notes (cost \$89,911,434)		\$		93,442,711

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)*

	Principal amount	Value
Amresco Commercial Mortgage Funding I Ser. 97-C1, Class G, 7s, 2029	\$ 434,000	\$ 434,878
Banc of America Commercial Mortgage, Inc. Ser. 01-1, Class G, 7.324s, 2036	325,000	345,027
Banc of America Commercial Mortgage, Inc. 144A Ser. 01-1, Class J, 6 1/8s, 2036	163,000	164,207
Ser. 01-1, Class K, 6 1/8s, 2036	367,000	293,332
Banc of America Large Loan 144A FRB Ser. 02-FL2A, Class L1, 8.33s, 2014	141,000	141,000
FRB Ser. 02-FL2A, Class K1, 7.83s, 2014	100,000	99,850
FRB Ser. 05-MIB1, Class K, 7.33s, 2022	645,000	638,342
FRB Ser. 05-ESHA, Class K, 7.13s, 2020	712,000	712,355
FRB Ser. 06-LAQ, Class M, 7.018s, 2021	548,000	549,655
FRB Ser. 06-LAQ, Class L, 6.918s, 2021	342,000	343,554
Bear Stearns Commercial Mortgage Securities, Inc. 144A FRB Ser. 05-LXR1, Class J, 6.98s, 2018	696,000	696,000
Bear Stearns Commercial Mortgage Securitization Corp. Ser. 00-WF2, Class F, 8.453s, 2032	410,000	459,248
Broadgate Financing PLC sec. FRB Ser. D, 5.553s, 2023 (United Kingdom)	GBP 460,750	858,047
Commercial Mortgage Pass- Through Certificates 144A FRB Ser. 05-F10A, Class A1, 5.43s, 2017	\$ 2,660,647	2,660,267
Countrywide Alternative Loan Trust FRB Ser. 06-OA10, Class XBI, Interest Only (IO),		

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1.401s, 2046	6,196,123	294,316
IFB Ser. 06-19CB, Class A2, IO, zero %, 2036	463,476	1,358
IFB Ser. 06-20CB, Class A14, IO, zero %, 2036	647,046	1,213
IFB Ser. 06-14CB, Class A9, IO, zero %, 2036	1,191,150	7,166
IFB Ser. 06-6CB, Class 1A3, IO, zero %, 2036	7,598,805	20,184
CRESI Finance Limited Partnership 144A FRB Ser. 06-A, Class C, 5.924s, 2017	251,000	250,999

COLLATERALIZED MORTGAGE OBLIGATIONS (12.9%)* *continued*

	Principal amount	Value
CS First Boston Mortgage Securities Corp. 144A FRB Ser. 05-TFLA, Class L, 7.18s, 2020	\$ 699,000	\$ 698,994
FRB Ser. 05-TFLA, Class K, 6.63s, 2020	388,000	387,997
Ser. 98-C1, Class F, 6s, 2040	966,000	969,605
Ser. 02-CP5, Class M, 5 1/4s, 2035	354,000	322,361
Deutsche Mortgage & Asset Receiving Corp. Ser. 98-C1, Class X, IO, 0.982s, 2031	16,751,086	266,802
DLJ Commercial Mortgage Corp. Ser. 98-CF2, Class B4, 6.04s, 2031	286,492	290,689
Ser. 98-CF2, Class B5, 5.95s, 2031	915,958	870,197
DLJ Mortgage Acceptance Corp. 144A Ser. 97-CF1, Class B2, 8.16s, 2030	275,000	220,000
Ser. 97-CF1, Class B1, 7.91s, 2030	266,000	268,279
European Loan Conduit FRB Ser. 6X, Class E, 6.49s, 2010 (United Kingdom)	GBP 358,417	670,419
European Loan Conduit 144A FRB Ser. 6A, Class F, 6.99s, 2010 (United Kingdom)	GBP 128,006	239,483
FRB Ser. 22A, Class D, 5.59s, 2014 (Ireland)	GBP 507,000	946,924
European Prime Real Estate		

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PLC 144A FRB Ser. 1-A, Class D, 5.608s, 2014 (United Kingdom)	GBP	352,516	656,814
Fannie Mae IFB Ser. 06-70, Class BS, 14.56s, 2036	\$	311,429	371,869
IFB Ser. 06-62, Class PS, 7.92s, 2036		838,738	930,297
IFB Ser. 06-76, Class QB, 7.62s, 2036		2,007,080	2,215,705
IFB Ser. 06-70, Class SJ, 7.62s, 2036		139,278	155,886
Ser. 04-W8, Class 3A, 7 1/2s, 2044		413,793	435,405
Ser. 04-W2, Class 5A, 7 1/2s, 2044		1,424,909	1,498,641
Ser. 04-T2, Class 1A4, 7 1/2s, 2043		348,904	366,754
Ser. 03-W4, Class 4A, 7 1/2s, 2042		109,094	113,974
Ser. 03-W3, Class 1A3, 7 1/2s, 2042		226,854	237,660
Ser. 02-T19, Class A3, 7 1/2s, 2042		282,810	296,306
Ser. 03-W2, Class 1A3, 7 1/2s, 2042		5,073	5,316
Ser. 02-W1, Class 2A, 7 1/2s, 2042		443,639	461,963