PUTNAM MASTER INTERMEDIATE INCOME TRUST
Form N-CSRS
May 27, 2016

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:	Robert T. Burns, Vice President One Post Office Square Boston, Massachusetts 02109
Copy to:	Bryan Chegwidden, Esq. Ropes & Gray LLP 1211 Avenue of the Americas New York, New York 10036
Registrant's telephone number, including area code:	(617) 292-1000
Date of fiscal year end:	September 30, 2016
Date of reporting period:	October 1, 2015 — March 31, 2016

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:

Putnam
Master Intermediate
Income Trust

Semiannual report
3 | 31 | 16

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Lower-rated bonds may offer higher yields in return for more risk. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is greater for longer-term bonds, and credit risk is greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. Bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions of the risk of default, changes in government intervention, and factors related to a specific issuer or industry. These factors may also lead to periods of high volatility and reduced liquidity in the bond markets. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may increase in value less when interest rates decline and decline in value more when interest rates rise. You can lose money by investing in the fund. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

Message from the Trustees

Dear Fellow Shareholder:

After enduring significant volatility in early 2016, markets around the world have shown fresh signs of strength as investor sentiment has improved. Many factors had fueled turbulence in the financial markets, including oil price volatility, uncertainty about U.S. monetary policy, and concerns about the ripple effects of China's economic slowdown.

In the United States, investors were encouraged by the Federal Reserve's decision in March to hold off on raising interest rates and the dialing back of its 2016 rate-hike forecast to two hikes instead of four. Recent U.S. economic data also have been positive, with improvements in employment, manufacturing, and consumer confidence. Meanwhile, policymakers in Europe, China, Japan, and many emerging markets have continued their efforts to lift economic growth rates.

Putnam's portfolio managers are positioned to maneuver in all types of markets with active investment strategies and support from teams of equity and fixed-income research analysts. The interview on the following pages provides an overview of your fund's performance for the reporting period ended March 31, 2016, as well as an outlook for the coming months.

In today's market environment, it may be helpful to consult your financial advisor to ensure that your investment portfolio is aligned with your goals, time horizon, and risk tolerance.

As always, thank you for investing with Putnam.

Data are historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return and net asset value will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Fund returns in the bar chart are at NAV. See pages 5 and 12–13 for additional performance information, including fund returns at market price. Index and Lipper results should be compared with fund performance at NAV.

**** Returns for the six-month period are not annualized, but cumulative.***

Interview with your fund's portfolio manager

Bill, what was the bond market environment like during the six months ended March 31, 2016?

The areas of the market where we tend to invest were challenging overall. After a positive start to the period — when prices rebounded from a volatile third quarter of 2015 — investors became increasingly risk averse.

The Paris terrorist attacks in November fueled geopolitical anxieties. In December, Third Avenue Focused Credit Fund, a high-yield fund with relatively low credit quality and high risk, closed to shareholder redemptions and ceased operations. This development, coupled with oil prices falling to levels not seen since 2004, placed heavy pressure on the high-yield market and outflows from the asset class accelerated.

On December 16, the Federal Reserve announced that it would raise its target for short-term interest rates by 0.25%. The increase was the Fed's first hike in nearly a decade, and ended the zero-interest-rate policy that had been in place for the past seven years. Although the rate hike was widely anticipated, the timing and magnitude of it generated speculation until the Fed's official announcement.

Immediately following its initial move, the Fed indicated that it may raise rates up to four times in 2016. Market participants reacted to

This comparison shows your fund's performance in the context of broad market indexes for the six months ended 3/31/16. See pages 4 and 12–13 for additional fund performance information. Index descriptions can be found on pages 14–15.

the central bank's signals with concern, and the uncertainty also contributed to volatility.

Oil prices continued to fall as the new year began. This factor, along with increasing worries about a collapse in commodity prices generally, as well as China's surprise decision to devalue its currency, weighed on credit markets until almost mid-February. Credit spreads, or the yield advantage bonds with credit risk offer over comparable-maturity U.S. Treasuries, rose significantly, as risk aversion permeated the markets.

Market turbulence reached a peak on February 11, after which incremental improvements across a broad range of global issues helped credit-sensitive bonds stage a broad-based rally. Oil prices rose well above their late January and early February lows, China's central bank assuaged concerns about a large currency devaluation, and improving U.S. economic data helped allay fears that global economic developments would stall the U.S. expansion. The Fed backed away from its earlier statements, saying that it would take a gradual approach toward raising rates, based on a variety of U.S. and global economic factors. As risk appetite resurfaced, investors reemerged, seeking to capitalize on an expanded set of attractive investment opportunities.

Credit qualities are shown as a percentage of net assets as of 3/31/16. A bond rated BBB or higher (A-3 or higher, for short-term debt) is considered investment grade. This chart reflects the highest security rating provided by one or more of Standard & Poor's, Moody's, and Fitch. To-be-announced (TBA) mortgage commitments, if any, are included based on their issuer ratings. Ratings may vary over time.

Cash, derivative instruments and net other assets are shown in the not-rated category. Payables and receivables for TBA mortgage commitments are included in the not-rated category and may result in negative weights. The fund itself has not been rated by an independent rating agency.

The fund lagged its benchmark by a significant margin during the period. What factors hampered its relative performance?

It's important to point out that a substantial portion of the fund's benchmark is composed of U.S. Treasuries and government-agency securities. These parts of the market generally benefited from investor risk-aversion, as market participants sought the perceived safe haven of government debt. One of the out-of-benchmark sectors that had served the fund well over the long term, securitized mortgage-backed bonds, did not work as well during the six-month reporting period.

Looking at individual strategies, our mortgage-credit holdings were the primary detractors. Our positions in mezzanine commercial mortgage-backed securities [CMBS] and non-agency residential mortgage-backed securities [RMBS] were negatively affected by the risk-off sentiment that spread through the marketplace in January and early February. A challenging supply-and-demand backdrop also weighed on CMBS and RMBS, as increased regulations led many broker/dealers to reduce risk on their balance sheets. Both asset classes rebounded in March, but not enough to completely offset earlier weakness.

This table shows the fund's top holdings across three key sectors and the percentage of the fund's net assets that each represented as of 3/31/16. Short-term investments, TBA commitments, and derivatives, if any, are excluded. Holdings may vary over time.

Interest-rate and yield-curve positioning also notably hampered performance due to the fund's modestly negative duration in January, when risk-off sentiment fueled demand for U.S. Treasuries, driving their prices higher and yields lower. Internationally, our interest-rate and yield-curve strategies generated positive results, primarily in the period's first half, and partially offset the negative impact of our U.S. positioning. Our holdings in Greece were of particular note, as they continued to benefit from the country's August agreement for a new bailout program and the reelection of Prime Minister Alexis Tsipras in September.

Our active currency strategy was another detractor. We held short positions in the Canadian dollar, the euro, and the Norwegian krone, believing these currencies would weaken relative to the U.S. dollar. Unfortunately, all three currencies appreciated versus the dollar and worked against our strategy. We subsequently reduced the fund's long-dollar exposure, reflecting our view that the relative strength of the U.S. dollar would not be as great going forward.

Our prepayment strategies, which we implemented with securities such as agency interest-only collateralized mortgage obligations [IO CMOs], produced negative results amid the broad risk-off sentiment during the early months of 2016. Additionally, investors were concerned that the lower interest rates we saw in January and February could spur an increased level of mortgage refinancing

This chart shows how the fund's sector weightings have changed over the past six months. Allocations are shown as a percentage of the fund's net assets. Cash and net other assets, if any, represent the market value weights of cash, derivatives, short-term securities, and other unclassified assets in the portfolio. Current period summary information may differ from the portfolio schedule included in the financial statements due to the inclusion of derivative securities, any interest accruals, the use of different classifications of securities for presentation purposes, and rounding.

Allocations may not total 100% because the table includes the notional value of certain derivatives (the economic value for purposes of calculating periodic payment obligations), in addition to the market value of securities. Holdings and allocations may vary over time.

Data in the chart reflect a new calculation methodology put into effect within the past six months.

that would accelerate prepayment speeds on existing securities. On the positive side, a strategy that benefited from the increasing yield differential between mortgage rates and U.S. Treasury yields aided performance, but not quite enough to compensate for the weakness of our IO CMO positions.

Turning to the positive side, which investments aided the fund's performance?

Emerging-market [EM] debt contributed modestly to returns, particularly the fund's holdings in Argentina, Venezuela, and Russia. Argentina has been a significant position in the fund for some time and was the strongest performer among our EM debt holdings during the period. The country's new president, elected in December, has emphasized market-friendly reforms. In particular, investors have become more optimistic about negotiations between Argentina and its holdout creditors. Bonds in Venezuela and Russia, meanwhile, rebounded strongly as oil prices rose.

How did corporate credit affect performance?

Corporate credit, predominantly high-yield bonds, had a neutral impact on the fund's results. The asset class began and ended the period strong, but struggled in the intervening months due to marketplace liquidity concerns, falling oil prices, and risk-off sentiment.

How did you use derivatives during the period?

We used bond futures and interest-rate swaps to take tactical positions at various points along the yield curve, and to hedge the risk associated with the fund's curve positioning. We employed interest-rate swaps to gain exposure to rates in various countries. We also utilized options to hedge the fund's interest-rate risk, to isolate the prepayment risk associated with our CMO holdings, and to help manage overall

ABOUT DERIVATIVES

Derivatives are an increasingly common type of investment instrument, the performance of which is *derived* from an underlying security, index, currency, or other area of the capital markets. Derivatives employed by the fund's managers generally serve one of two main purposes: to implement a strategy that may be difficult or more expensive to invest in through traditional securities, or to hedge unwanted risk associated with a particular position.

For example, the fund's managers might use currency forward contracts to capitalize on an anticipated change in exchange rates between two currencies. This approach would require a significantly smaller outlay of capital than purchasing traditional bonds denominated in the underlying currencies. In another example, the managers may identify a bond that they believe is undervalued relative to its risk of default, but may seek to reduce the interest-rate risk of that bond by using interest-rate swaps, a derivative through which two parties "swap" payments based on the movement of certain rates.

Like any other investment, derivatives may not appreciate in value and may lose money. Derivatives may amplify traditional investment risks through the creation of leverage and may be less liquid than traditional securities. And because derivatives typically represent contractual agreements between two financial institutions, derivatives entail "counterparty risk," which is the risk that the other party is unable or unwilling to pay. Putnam monitors the counterparty risks we assume. For example, Putnam often enters into collateral agreements that require the counterparties to post collateral on a regular basis to cover their obligations to the fund. Counterparty risk for exchange-traded futures and centrally cleared swaps is mitigated by the daily exchange of margin and other safeguards against default through their respective clearinghouses.

downside risk. In addition, we used total return swaps as a hedging tool, and to help manage the portfolio's sector exposure, as well as its inflation risk. We employed credit default swaps to hedge the fund's credit and market risks, and to gain exposure to specific sectors and securities. We also used currency forward contracts to hedge the foreign exchange risk associated with non-U.S. bonds and to efficiently gain exposure to foreign currencies.

What is your outlook for the coming months?

We think U.S. gross domestic product may continue to grow at a rate near 2% over the balance of 2016. Furthermore, we expect that the Fed will continue to raise the federal funds rate if economic data indicate that it is appropriate to continue normalizing monetary policy. We believe it's most likely that the U.S. central bank will hike rates two times this year. However, the actual pace of tightening will depend on factors such as the health of the labor market, the level of inflation, commodity prices, the relative strength of the U.S. dollar, actions by other central banks, and financial-market volatility.

With oil and commodity prices exhibiting greater stability of late, we believe inflation indicators may begin moving higher during the next several months. If this occurs, we think yields on U.S. Treasuries may also begin to rise.

How do you plan to position the fund in light of this outlook?

With interest rates still near historic lows at period-end, we expect to continue de-emphasizing interest-rate risk because we believe fixed-income investors are not getting compensated adequately for assuming this risk.

Valuations in several mortgage-credit sectors, as well as certain portions of the corporate credit market, appear attractive from a relative-value perspective. Moreover, we believe fundamental support for these sectors in the form of corporate earnings, revenues, and cash flows, remains generally supportive. As a result, we plan to rely on our fundamental research expertise to opportunistically add credit risk to the portfolio.

Thanks for your time and for bringing us up to date, Bill.

The views expressed in this report are exclusively those of Putnam Management and are subject to change. They are not meant as investment advice.

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. Current and future portfolio holdings are subject to risk.

Portfolio Manager **D. William Kohli** is Co-Head of Fixed Income at Putnam. He has an M.B.A. from the Haas School of Business at the University of California, Berkeley, and a B.A. from the University of California, San Diego. Bill joined Putnam in 1994 and has been in the investment industry since 1986.

In addition to Bill, your fund's portfolio managers are Michael J. Atkin; Michael V. Salm; and Paul D. Scanlon, CFA.

HOW CLOSED-END FUNDS DIFFER FROM OPEN-END FUNDS

Closed-end funds and open-end funds share many common characteristics but also have some key differences that you should understand as you consider your portfolio strategies.

More assets at work Open-end funds are subject to ongoing sales and redemptions that can generate transaction costs for long-term shareholders. Closed-end funds, however, are typically fixed pools of capital that do not need to hold cash in connection with sales and redemptions, allowing the funds to keep more assets actively invested.

Traded like stocks Closed-end fund shares are traded on stock exchanges and, as a result, their prices fluctuate because of the influence of several factors.

They have a market price Like an open-end fund, a closed-end fund has a per-share net asset value (NAV). However, closed-end funds also have a "market price" for their shares — which is how much you pay when you buy shares of the fund, and how much you receive when you sell them.

When looking at a closed-end fund's performance, you will usually see that the NAV and the market price differ. The market price can be influenced by several factors that cause it to vary from the NAV, including fund distributions, changes in supply and demand for the fund's shares, changing market conditions, and investor perceptions of the fund or its investment manager. A fund's performance at market price typically differs from its results at NAV.

Your fund's performance

This section shows your fund's performance, price, and distribution information for periods ended March 31, 2016, 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 represent 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 3/31/16

	NAV	Market price
Annual average		
Life of fund (since 4/29/88)	6.02%	6.00%
10 years	49.33	66.72
Annual average	4.09	5.24
5 years	6.77	2.70
Annual average	1.32	0.53
3 years	–0.23	2.27
Annual average	–0.08	0.75
1 year	–5.79	–3.91
6 months	–2.90	1.02

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

Performance includes the deduction of management fees and administrative expenses.

Comparative index returns For periods ended 3/31/16

	Barclays Government/Credit Bond Index	Citigroup Non-U.S. World Government Bond Index	JPMorgan Global High Yield Index†	Lipper Closed-end General Bond Funds category average*
Annual average Life of fund (since 4/29/88)	6.64%	5.58%	—	6.98%
10 years	61.85	47.56	98.01%	95.00
Annual average	4.93	3.97	7.07	6.56
5 years	21.92	1.20	27.34	37.28
Annual average	4.04	0.24	4.95	6.29
3 years	7.44	–0.48	4.86	10.00
Annual average	2.42	–0.16	1.59	3.16
1 year	1.75	7.74	–3.47	–2.65
6 months	2.70	7.59	1.15	–0.98

Index and Lipper results should be compared with fund performance at net asset value. Lipper calculates performance differently than the closed-end funds it ranks, due to varying methods for determining a fund's monthly reinvestment net asset value.

* Over the 6-month, 1-year, 3-year, 5-year, 10-year, and life-of-fund periods ended 3/31/16, there were 35, 28, 25, 21, 17, and 4 funds, respectively, in this Lipper category.

† The JPMorgan Global High Yield Index was introduced on 12/31/93, which post-dates the fund's inception.

Fund price and distribution information For the six-month period ended 3/31/16

Distributions	
Number	6
Income	$0.156000
Capital gains	—
Total	**$0.156000**

Share value	NAV	Market price

9/30/15	$5.03	$4.51
3/31/16	4.73	4.40
Current dividend rate*	6.60%	7.09%

The classification of distributions, if any, is an estimate. Final distribution information will appear on your year-end tax forms.

* Most recent distribution, including any return of capital and excluding capital gains, annualized and divided by NAV or market price at end of period.

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.

Fixed-income terms

Current rate is the annual rate of return earned from dividends or interest of an investment. Current rate is expressed as a percentage of the price of a security, fund share, or principal investment.

Mortgage-backed security (MBS) , also known as a mortgage "pass-through," is a type of asset-backed security that is secured by a mortgage or collection of mortgages. The following are types of MBSs:

- **Agency "pass-through"** has its principal and interest backed by a U.S. government agency, such as the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac).

- **Collateralized mortgage obligation (CMO)** represents claims to specific cash flows from pools of home mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of CMO interests in "tranches." Each tranche may have different principal balances, coupon rates, prepayment risks, and maturity dates. A CMO is highly sensitive to changes in interest rates and any resulting change in the rate at which homeowners sell their properties, refinance, or otherwise prepay loans. CMOs are subject to prepayment, market, and liquidity risks.

- **Interest-only (IO) security** is a type of CMO in which the underlying asset is the interest portion of mortgage, Treasury, or bond payments.

- **Non-agency residential mortgage-backed security (RMBS)** is an MBS not backed by Fannie Mae, Ginnie Mae, or Freddie Mac. One type of RMBS is an Alt-A mortgage-backed security.

- **Commercial mortgage-backed security (CMBS)** is secured by the loan on a commercial property.

Yield curve is a graph that plots the yields of bonds with equal credit quality against their differing maturity dates, ranging from shortest to longest. It is used as a benchmark for other debt, such as mortgage or bank lending rates.

Comparative indexes

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

Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities.

BofA Merrill Lynch U.S. 3-Month Treasury Bill Index is an unmanaged index that seeks to measure the performance of U.S. Treasury bills available in the marketplace.

Citigroup Non-U.S. World Government Bond Index is an unmanaged index generally considered to be representative of the world bond market excluding the United States.

JPMorgan Global High Yield Index is an unmanaged index that is designed to mirror the investable universe of the U.S. dollar global

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high-yield corporate debt market, including domestic (U.S.) and international (non-U.S.) issues. International issues comprise both developed and emerging markets.

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.

Other information for shareholders

Important notice regarding share repurchase program

In September 2015, the Trustees of your fund approved the renewal of a share repurchase program that had been in effect since 2005. This renewal allows your fund to repurchase, in the 12 months beginning October 8, 2015, up to 10% of the fund’s common shares outstanding as of October 7, 2015.

Important notice regarding delivery of shareholder documents

In accordance with Securities and Exchange Commission (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, 2015, are available in the Individual Investors section of putnam.com, and on the SEC's website, www.sec.gov. Ifyou have questions about finding forms on the SEC's website, 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 Form N-Q on the SEC's website at www.sec.gov. In addition, the fund's Form 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 website or the operation of the Public Reference Room.

Trustee and employee fund ownership

Putnam employees and members of the Board of Trustees place their faith, confidence, and, most importantly, investment dollars in Putnam mutual funds. As of March 31, 2016, Putnam employees had approximately $477,000,000 and the Trustees had approximately $127,000,000 invested in Putnam mutual funds. These amounts include investments by the Trustees' and employees' immediate family members as well as investments through retirement and deferred compensation plans.

Summary of Putnam Closed-End Funds' Amended and Restated Dividend Reinvestment Plans

Putnam High Income Securities Fund, Putnam Managed Municipal Income Trust, Putnam Master Intermediate Income Trust, Putnam Municipal Opportunities Trust and Putnam Premier Income Trust (each, a "Fund" and collectively, the "Funds") each offer a **dividend reinvestment plan** (each, a "Plan" and collectively, the "Plans"). If you participate in a Plan, all income dividends and capital gain distributions are **automatically reinvested** in Fund shares by the Fund's agent, Putnam Investor Services, Inc. (the "Agent"). If you are not participating in a Plan, every month you will receive all dividends and other distributions in cash, paid by check and mailed directly to you.

Upon a purchase (or, where applicable, upon registration of transfer on the shareholder records of a Fund) of shares of a Fund by a registered shareholder, each such shareholder **will be deemed to have elected to participate** in that Fund's Plan. Each such shareholder will have all distributions by a Fund automatically reinvested in additional shares, unless such shareholder elects to terminate participation in a Plan by instructing the Agent to pay future distributions in cash. Shareholders who were not participants in a Plan as of January 31, 2010, will continue to receive distributions in cash but may enroll in a Plan at any time by contacting the Agent.

If you participate in a Fund's Plan, the Agent will automatically reinvest subsequent distributions, and the Agent will send you a confirmation in the mail telling you how many additional shares were issued to your account.

To change your enrollment status or to request additional information about the Plans, you may contact the Agent either in writing, at P.O. Box 8383, Boston, MA 02266-8383, or by telephone at 1-800-225-1581 during normal East Coast business hours.

How you acquire additional shares through a Plan If the market price per share for your Fund's shares (plus estimated brokerage commissions) is greater than or equal to their net asset value per share on the payment date for a distribution, you will be issued shares of the Fund at a value equal to the higher of the net asset value per share on that date or 95% of the market price per share on that date.

If the market price per share for your Fund's shares (plus estimated brokerage commissions) is less than their net asset value per share on the payment date for a distribution, the Agent will buy Fund shares for participating accounts in the open market. The Agent will aggregate open-market purchases on behalf of all participants, and the average price (including brokerage commissions) of all shares purchased by the Agent will be the price per share allocable to each participant. The Agent will generally complete these open-market purchases within five business days following the payment date. If, before the Agent has completed open-market purchases, the market price per share (plus estimated brokerage commissions) rises to exceed the net asset value per share on the payment date, then the purchase price may exceed the net asset value per share, potentially resulting in the acquisition of fewer shares than if the distribution had been paid in newly issued shares.

How to withdraw from a Plan Participants may withdraw from a Fund's Plan at any time by notifying the Agent, either in writing or by telephone. Such withdrawal will be effective immediately if notice is received by the Agent with sufficient time prior to any distribution record date; otherwise, such withdrawal will be effective with respect to any subsequent distribution following notice of withdrawal.

There is no penalty for withdrawing from or not participating in a Plan.

Plan administration The Agent will credit all shares acquired for a participant under a Plan to the account in which the participant's common shares are held. Each participant will be sent reasonably promptly a confirmation by the Agent of each acquisition made for his or her account.

About brokerage fees Each participant pays a proportionate share of any brokerage commissions incurred if the Agent purchases additional shares on the open market, in accordance with the Plans. There are no brokerage charges applied to shares issued directly by the Funds under the Plans.

About taxes and Plan amendments

Reinvesting dividend and capital gain distributions in shares of the Funds does not relieve you of tax obligations, which are the same as if you had received cash distributions. The Agent supplies tax information to you and to the IRS annually. Each Fund reserves the right to amend or terminate its Plan upon 30 days' written notice. However, the Agent may assign its rights, and delegate its duties, to a successor agent with the prior consent of a Fund and without prior notice to Plan participants.

If your shares are held in a broker or nominee name If your shares are held in the name of a broker or nominee offering a dividend reinvestment service, consult your broker or nominee to ensure that an appropriate election is made on your behalf. If the broker or nominee holding your shares does not provide a reinvestment service, you may need to register your shares in your own name in order to participate in a Plan.

In the case of record shareholders such as banks, brokers or nominees that hold shares for others who are the beneficial owners of such shares, the Agent will administer the Plan on the basis of the number of shares certified by the record shareholder as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

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 non-investment 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 highlights table also includes the current reporting period.

The fund's portfolio 3/31/16 (Unaudited)

U.S. GOVERNMENT AND AGENCY MORTGAGE OBLIGATIONS (54.2%)*	**Principal amount**	**Value**
U.S. Government Guaranteed Mortgage Obligations (3.7%)		
Government National Mortgage Association Pass-Through Certificates		
3 1/2s, TBA, April 1, 2046	$9,000,000	$9,514,688
		9,514,688
U.S. Government Agency Mortgage Obligations (50.5%)		
Federal National Mortgage Association Pass-Through Certificates		
5 1/2s, TBA, April 1, 2046	3,000,000	3,363,281
4 1/2s, TBA, April 1, 2046	3,000,000	3,264,844
4s, TBA, April 1, 2046	1,000,000	1,068,672
3 1/2s, TBA, May 1, 2046	27,000,000	28,258,227
3 1/2s, TBA, April 1, 2046	40,000,000	41,943,752
3s, TBA, May 1, 2046	17,000,000	17,403,750

3s, TBA, April 1, 2046	33,000,000	33,853,360
		129,155,886
Total U.S. government and agency mortgage obligations (cost $138,411,368)		**$138,670,574**

MORTGAGE-BACKED SECURITIES (49.4%)*	**Principal amount**	**Value**
Agency collateralized mortgage obligations (15.9%)		
Federal Home Loan Mortgage Corporation		
IFB Ser. 3408, Class EK, 24.038s, 2037	$65,236	$107,604
IFB Ser. 2979, Class AS, 22.674s, 2034	9,023	9,855
IFB Ser. 3072, Class SM, 22.197s, 2035	104,673	162,367
IFB Ser. 3249, Class PS, 20.836s, 2036	66,287	101,305
Ser. 4122, Class TI, IO, 4 1/2s, 2042	1,911,184	292,984
Ser. 4000, Class PI, IO, 4 1/2s, 2042	1,035,304	157,056
Ser. 4546, Class TI, 4s, 2045	4,110,097	534,313
Ser. 4462, IO, 4s, 2045	1,681,822	286,431
Ser. 4425, IO, 4s, 2045	6,135,968	736,807
Ser. 4462, Class KI, IO, 4s, 2045	5,387,839	887,916
Ser. 4452, Class QI, IO, 4s, 2044 **F**	3,698,487	564,758
Ser. 4193, Class PI, IO, 4s, 2043	2,491,086	371,503
Ser. 4062, Class DI, IO, 4s, 2039	5,100,968	504,890
Ser. 4501, Class BI, IO, 3 1/2s, 2043	4,655,892	540,828
Ser. 4122, Class AI, IO, 3 1/2s, 2042	3,174,042	391,058
Ser. 4122, Class CI, IO, 3 1/2s, 2042	2,898,490	357,109
Ser. 4105, Class HI, IO, 3 1/2s, 2041	1,497,575	196,862
Ser. 4166, Class PI, IO, 3 1/2s, 2041	2,675,801	351,832
Ser. 304, Class C37, IO, 3 1/2s, 2027	1,864,219	198,363
Ser. 4165, Class TI, IO, 3s, 2042	6,455,643	683,007
Ser. 4183, Class MI, IO, 3s, 2042	2,740,557	283,922
Ser. 4210, Class PI, IO, 3s, 2041	1,891,116	150,477
FRB Ser. 57, Class 1AX, IO, 0.378s, 2043	1,876,771	20,057
Ser. 3326, Class WF, zero %, 2035	1,218	1,016
Federal National Mortgage Association		
IFB Ser. 06-62, Class PS, 37.302s, 2036	101,465	200,108
IFB Ser. 07-53, Class SP, 22.612s, 2037	91,371	142,552
IFB Ser. 08-24, Class SP, 21.696s, 2038	86,754	125,080

MORTGAGE-BACKED SECURITIES (49.4%)* *cont.*	**Principal amount**	**Value**

Agency collateralized mortgage obligations *cont.*		
Federal National Mortgage Association		
IFB Ser. 05-75, Class GS, 18.951s, 2035	$73,902	$103,567
IFB Ser. 05-83, Class QP, 16.268s, 2034	115,548	152,807
IFB Ser. 13-18, Class SB, IO, 5.717s, 2041	1,568,660	218,514
Ser. 374, Class 6, IO, 5 1/2s, 2036	165,611	33,137
Connecticut Avenue Securities FRB Ser. 15-C03, Class 1M2, 5.433s, 2025	1,396,000	1,388,227
Ser. 12-132, Class PI, IO, 5s, 2042	2,368,908	377,396
Ser. 378, Class 19, IO, 5s, 2035	510,990	97,088
Connecticut Avenue Securities FRB Ser. 15-C01, Class 2M2, 4.983s, 2025	465,000	471,510
Ser. 15-16, Class MI, IO, 4 1/2s, 2045	2,758,398	513,752
Ser. 12-127, Class BI, IO, 4 1/2s, 2042	745,903	152,689
Ser. 12-30, Class HI, IO, 4 1/2s, 2040	5,333,440	684,595
Ser. 409, Class 81, IO, 4 1/2s, 2040	2,541,873	398,421
Ser. 409, Class 82, IO, 4 1/2s, 2040	2,733,738	428,142
Ser. 366, Class 22, IO, 4 1/2s, 2035	149,885	7,776
Connecticut Avenue Securities FRB Ser. 15-C02, Class 1M2, 4.433s, 2025	64,000	61,982
Connecticut Avenue Securities FRB Ser. 15-C02, Class 2M2, 4.433s, 2025	130,000	126,482
Ser. 15-88, Class QI, IO, 4s, 2044	3,402,513	359,205
Ser. 13-41, Class IP, IO, 4s, 2043	1,950,630	313,466
Ser. 13-44, Class PI, IO, 4s, 2043	1,900,083	269,352
Ser. 13-60, Class IP, IO, 4s, 2042	1,459,506	221,908
Ser. 12-96, Class PI, IO, 4s, 2041	1,379,890	178,340
Ser. 409, Class C16, IO, 4s, 2040	1,844,304	276,024
Ser. 12-145, Class TI, IO, 3s, 2042	2,866,526	237,922
Ser. 13-35, Class IP, IO, 3s, 2042 **F**	2,548,020	239,956
Ser. 13-53, Class JI, IO, 3s, 2041	2,170,006	219,822
Ser. 13-23, Class PI, IO, 3s, 2041	2,327,251	176,336
FRB Ser. 03-W10, Class 1, IO, 0.719s, 2043	353,830	5,570
Ser. 99-51, Class N, PO, zero %, 2029	13,123	11,811
Government National Mortgage Association		
IFB Ser. 13-129, Class SN, IO, 5.718s, 2043	1,043,446	170,499
IFB Ser. 14-41, Class SK, IO, 5.659s, 2044	2,639,737	494,951
Ser. 14-122, Class IC, IO, 5s, 2044	1,476,461	282,905
Ser. 14-76, IO, 5s, 2044	2,086,221	359,787
Ser. 15-187, Class KI, IO, 5s, 2043	4,896,522	585,085
Ser. 13-22, Class IE, IO, 5s, 2043	3,239,010	562,399
Ser. 13-22, Class OI, IO, 5s, 2043	2,824,792	491,008
Ser. 13-3, Class IT, IO, 5s, 2043	1,487,096	258,554
Ser. 13-6, Class IC, IO, 5s, 2043	1,293,504	232,572
Ser. 12-146, IO, 5s, 2042	1,310,795	231,133

Ser. 13-6, Class CI, IO, 5s, 2042	955,337	155,835
Ser. 13-130, Class IB, IO, 5s, 2040	986,536	70,432
Ser. 13-16, Class IB, IO, 5s, 2040	941,909	37,625
Ser. 11-41, Class BI, IO, 5s, 2040	606,491	46,059

MORTGAGE-BACKED SECURITIES (49.4%)* *cont.*	Principal amount	Value
Agency collateralized mortgage obligations *cont.*		
Government National Mortgage Association		
Ser. 10-35, Class UI, IO, 5s, 2040	$457,134	$80,792
Ser. 10-20, Class UI, IO, 5s, 2040	1,421,526	239,115
Ser. 10-9, Class UI, IO, 5s, 2040	6,368,631	1,101,378
Ser. 09-121, Class UI, IO, 5s, 2039	3,291,350	583,194
Ser. 15-79, Class GI, IO, 5s, 2039	1,196,274	206,102
Ser. 14-147, Class IJ, IO, 4 1/2s, 2044	2,917,574	388,067
Ser. 13-34, Class IH, IO, 4 1/2s, 2043	2,761,615	447,384
Ser. 14-108, Class IP, IO, 4 1/2s, 2042	684,730	102,258
Ser. 11-140, Class BI, IO, 4 1/2s, 2040	435,148	25,801
Ser. 11-18, Class PI, IO, 4 1/2s, 2040	175,410	18,986
Ser. 10-35, Class AI, IO, 4 1/2s, 2040	2,701,024	438,565
Ser. 10-35, Class QI, IO, 4 1/2s, 2040	2,545,255	415,042
Ser. 13-151, Class IB, IO, 4 1/2s, 2040	2,807,702	446,661
Ser. 10-9, Class QI, IO, 4 1/2s, 2040	1,725,543	274,646
Ser. 09-121, Class BI, IO, 4 1/2s, 2039	1,175,416	250,505
Ser. 10-168, Class PI, IO, 4 1/2s, 2039	596,426	50,487
Ser. 10-158, Class IP, IO, 4 1/2s, 2039	1,894,868	128,491
Ser. 10-98, Class PI, IO, 4 1/2s, 2037	534,853	19,511
Ser. 15-186, Class AI, IO, 4s, 2045	6,928,803	1,020,405
Ser. 15-53, Class MI, IO, 4s, 2045	2,879,119	634,471
Ser. 15-40, IO, 4s, 2045	3,233,602	675,228
Ser. 14-4, Class IC, IO, 4s, 2044	1,444,375	225,430
Ser. 13-165, Class IL, IO, 4s, 2043	1,175,202	183,943
Ser. 12-56, Class IB, IO, 4s, 2042	1,124,643	173,552
Ser. 12-38, Class MI, IO, 4s, 2042	3,426,811	593,051
Ser. 12-47, Class CI, IO, 4s, 2042	2,773,536	422,081
Ser. 15-64, Class PI, IO, 3 1/2s, 2045	4,641,884	430,999
Ser. 13-76, IO, 3 1/2s, 2043	5,045,196	495,035
Ser. 13-28, IO, 3 1/2s, 2043	1,598,003	183,770
Ser. 13-54, Class JI, IO, 3 1/2s, 2043	2,431,750	224,548
Ser. 13-37, Class JI, IO, 3 1/2s, 2043	3,451,023	313,560
Ser. 13-14, IO, 3 1/2s, 2042	7,216,628	742,519
Ser. 13-27, Class PI, IO, 3 1/2s, 2042	2,567,576	232,982

Ser. 12-140, Class IC, IO,