

PUTNAM MANAGED MUNICIPAL INCOME TRUST  
Form N-CSR  
December 29, 2005

Item 1. Report to Stockholders:

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

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## What makes Putnam different?

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

### THE PRUDENT MAN RULE

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

### A time-honored tradition in money management

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

### A prudent approach to investing

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

### Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their advisors 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 advisors, make informed investment decisions with confidence.

# Putnam Managed Municipal Income Trust

10|31|05  
*Annual Report*

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## *Message from the Trustees* Dear Fellow Shareholder

During the period that ended October 31, 2005, domestic stocks advanced at a pace reflecting their long-term average returns, while bonds registered sub-par results. Outside the United States, most markets showed more impressive gains. Although U.S. economic growth proceeded at a steady pace, new concerns emerged. High energy prices, the Federal Reserve Board's program of interest-rate increases, and the impact of the unusually active 2005 hurricane season proved challenging to consumers and sparked brief bouts of volatility in financial markets. Putnam Management believes that energy prices, interest rates, and the aftereffects of this year's storms are likely to continue to shape investment opportunities and risks in the months to come.

Amid the uncertainties of this environment, the professional research, diversification, and active management that mutual funds provide continue to make them an intelligent choice

for investors. We want you to know that Putnam Investments' management team, under the leadership of Chief Executive Officer Ed Haldeman, continues to focus on investment performance and remains committed to putting the interests of shareholders first. In keeping with these goals, we have redesigned and expanded our shareholder reports to make it easier for you to learn more about your fund. Furthermore, on page 19 we provide information about the 2005 approval by the Trustees of your fund's management contract with Putnam.

We would also like to take this opportunity to announce the retirement of one of your fund's Trustees, Ronald J. Jackson, who has been an independent Trustee of the Putnam funds since 1996. We thank him for his service.

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

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## **Putnam Managed Municipal Income Trust: potential for income exempt from federal income tax**

Municipal bonds finance important public projects such as schools, roads, and hospitals, and help investors keep more of their income. Putnam Managed Municipal Income Trust offers an additional advantage -- the flexibility to invest in municipal bonds issued by any state in the country.

Municipal bonds are issued by states and local municipalities to raise funds for building and maintaining public facilities. The income from a municipal bond is generally exempt from federal income tax. The bonds are backed by either the issuing city or town or by revenues collected from usage fees, and have varying degrees of credit risk -- the risk that the issuer won't be able to repay the bond.

The fund's management team can select bonds from a variety of state and local governments throughout the United States. The fund also combines bonds of differing credit quality to increase income potential. In addition to investing in high-quality bonds, the team allocates a portion of the portfolio to lower-rated bonds, which may offer higher income in return for more risk. When deciding whether to invest in a bond, the team considers factors such as credit risk, interest-rate risk, and the risk that the bond will be prepaid. Once a bond has been purchased, the team continues to monitor developments that affect the bond market, the sector, and the issuer of the bond. Typically, lower-rated bonds are reviewed more often because of their greater potential risk.

The fund's management team is backed by Putnam's fixed-income organization, one of the largest in the investment industry. Putnam's municipal bond analysts are grouped into sector teams and conduct ongoing research. Their expertise in highly complex markets is a distinct advantage over smaller firms.

The goal of the management team's research and active management is to stay a step ahead

**Municipal bonds may finance a range of community projects and thus play a key role in local development.**

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of the industry and pinpoint opportunities to adjust the fund's holdings -- either by acquiring more of a particular bond or selling it -- for the benefit of the fund and its shareholders.

*Lower-rated bonds may offer higher yields in return for more risk. Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. 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. The fund uses leverage, which involves risk and may increase the volatility of the fund's NAV.*

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

**More assets at work** Open-end funds must maintain a cash position to meet redemptions. Closed-end funds need not do so and can keep more of their assets invested in the market.

**Traded like stocks** Closed-end fund shares are traded on stock exchanges, and their 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 equals the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. When buying or selling closed-end fund shares, you pay or receive the *market price*, which may be higher or lower than the NAV.

**Strategies for higher income** Closed-end funds have greater flexibility to use strategies such as "leverage" -- for example, issuing preferred shares to raise capital, then seeking to invest it at higher rates to enhance income for common shareholders.

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**Putnam Managed Municipal Income Trust** is a leveraged fund that seeks to provide a high level of current income free from federal income tax through investments in investment-grade and higher-yielding, lower-rated municipal bonds. The fund is designed for investors seeking tax-exempt income and who are willing to accept the risks associated with below-investment-grade bonds and the use of leverage.

### Highlights

- For the 12 months ended October 31, 2005, Putnam Managed Municipal Income Trust returned 6.51% at net asset value (NAV) and 4.21% at market price.
- The fund's benchmark, the Lehman Municipal Bond Index, returned 2.54%.
- The average return for the fund's Lipper category, High Yield Municipal Debt Funds (closed-end), was 8.20%.
- The fund's dividend was reduced to \$0.0381 per share in January 2005 and again to \$0.0341 in June 2005. See page 11 for more information.
- Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

### Performance

It is important to note that a fund's performance at market price 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 advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

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Total return for periods ended 10/31/05

Since the fund's inception (2/24/89), average annual return is 6.99% at NAV and 5.65% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price
10 years	5.23%	3.25%	66.46%	37.70%
5 years	6.44	0.88	36.65	4.48
1 year	6.51	4.21	6.51	4.21

*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

During its fiscal year ended October 31, 2005, Putnam Managed Municipal Income Trust outperformed its benchmark, the Lehman Municipal Bond Index, based on results at net asset value (NAV). While your fund invests in both investment-grade and lower-rated municipal bonds, the index is composed only of investment-grade bonds. During the period, lower-rated, higher-yielding bonds performed well due to strong demand fueled by relatively low interest rates and an improving economy. The fund's outperformance of the benchmark was due primarily to our overweighting of these bonds. Our use of leverage, which amplifies performance results, was also a contributing factor. Nevertheless, the fund underperformed the average return of funds in its Lipper peer group. We believe this is because it carried a heavier weighting in higher-quality bonds than its competitors, which were also better positioned to take advantage of changes in the yield curve.

### Market overview

Signs of solid economic growth, and the desire to curb the potential inflation that often accompanies growth, prompted the Federal Reserve Board (the Fed) to increase short-term interest rates eight times in 0.25% increments during the fund's fiscal year. As a result, the federal funds rate rose from 1.75% at the beginning of the year to 3.75% by year-end. Yields rose across all maturities during the period and the yield curve flattened as shorter-term rates rose more than those of longer-term bonds. The yield curve is a graphical representation of bond yields with the same quality plotted from the shortest to the longest maturity.

An improving economy and rising corporate earnings contributed to the strong performance of lower-rated bonds. Among uninsured bonds in general and especially bonds rated Baa and below, yield spreads tightened and prices rose as a result of strong interest among both traditional and nontraditional buyers in search of higher

yields. Based on continued favorable legal rulings, yields on tobacco settlement bonds declined overall for the year, and their prices

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rose accordingly. Airline-related industrial development bonds (IDBs) exhibited a high level of volatility and, while the sector outperformed overall, ended the year on weakness as both Northwest and Delta filed for bankruptcy in September 2005. No single state performed notably better than the other states. Callable bonds (which can be redeemed by their issuers before maturity) outperformed non-callable bonds, as investors generally expect that bonds priced to reflect their potential call date will be less sensitive to interest-rate increases.

## Strategy overview

Given our expectation of rising interest rates, we maintained a short (defensive) duration position for your portfolio. Duration is a measure of a fund's sensitivity to changes in interest rates. Having a shorter-duration portfolio may help protect principal when interest rates are rising, but it can reduce the fund's potential for appreciation when rates fall. Your fund benefited from its defensive duration strategy.

During the period, we took steps to better position the portfolio for a flat-tening yield curve. However, the degree of flattening exceeded our efforts to mitigate its impact, resulting in a net negative contribution to relative results from the fund's yield curve position.

The fund's underweight to lower-rated bonds, as compared to other funds in its peer group, detracted from results as

## Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 10/31/05.

### Bonds

Lehman Municipal Bond Index (tax-exempt bonds)	2.54%
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Lehman Government Bond Index (U.S. Treasury and agency securities)	0.94%
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Lehman Intermediate Treasury Bond Index (intermediate-maturity U.S. Treasury bonds)	0.00%
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Lehman Aggregate Bond Index (broad bond market)	1.13%
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### Equities

S&P 500 Index (broad stock market)	8.72%
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S&P Utilities Index (utilities stocks)	23.86%
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Russell 2000 Growth Index (small-company growth stocks)	10.91%
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securities in this area of the credit spectrum rallied. Although we had sought to increase the fund's exposure to this market segment, we found fewer opportunities among lower-rated credits that met our purchase requirements. An overweight to tobacco settlement bonds relative to the fund's peer group contributed to results as this sector outperformed. The fund's relative underweight to airline-related IDBs modestly detracted from results as this sector outperformed for the fiscal year amid high volatility.

## Your fund's holdings

During its fiscal year, your fund benefited from the pre-refunding of several bond holdings. Through pre-refunding, an issuer brings new bonds to market at current lower interest rates to refinance an older, higher-coupon bond. The issuer then invests the money in a secure investment, typically U.S. Treasury securities, which mature at the older bond's first call date, when proceeds are used to pay off the older bonds. The added security that this approach provides is often seen as a credit upgrade by the market, and can increase the price investors are willing to pay for the old bonds. For example, in July, bonds issued by the **Arkansas State Hospital Development Financial Authority for Washington Regional Medical Center** in Fayetteville, Arkansas, were pre-refunded. Their original maturity date (when issued)

### Comparison of the fund's maturity and duration

*Average effective maturity also takes into account put and call features, where applicable, and reflects prepayments for mortgage-backed securities.*

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was 2029, and they were pre-refunded to 2010, resulting in a credit-rating upgrade.

Our focus on **tobacco settlement bonds** helped your fund's performance during its fiscal year. These bonds' coupon payments are secured by income from the settlement obligations of tobacco companies to states and municipalities. A separate lawsuit brought in 1999 by the U.S. Department of Justice (DOJ) against the major tobacco companies -- seeking billions of dollars that the DOJ insisted had been obtained fraudulently from the sale of cigarettes -- had posed a threat to this income stream. However, a ruling in February by a panel of the U.S. Court of Appeals for the District of Columbia Circuit against the federal government reassured investors by reducing the potential financial impact of the lawsuit and helping to boost demand and returns in this sector. The fund owns tobacco settlement bonds issued by several states, including **Wisconsin, New York, South Dakota, South Carolina, California, the District of Columbia, and Virginia**.

On the recommendation of Putnam's analysts, we steered clear of industrial development bonds (IDBs) issued for Delta Airlines and Northwest Airlines. Municipalities issue IDBs, but the bonds are backed by the credit of the company or institution benefiting from the financing. Furthermore, the backing company's fiscal health typically affects the price of the bonds more than the

### Credit quality overview

Credit qualities shown as a percentage of portfolio as of 10/31/05. A bond rated Baa or higher is considered investment grade. The chart reflects Moody's ratings; percentages may include bonds not rated by Moody's but considered by Putnam Management to be of comparable quality. Ratings will vary over time.

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rating of the issuing municipality. We sold all of the fund's IDBs issued for Delta and Northwest in 2004, before both airlines declared bankruptcy in September 2005. Although some airline-related bonds have outperformed on occasion, we have believed for some time that these bonds offer high risk and poor credit fundamentals. The fund

does maintain small positions in IDBs issued for some of the financially stronger airline companies, such as **American**, **British Airways**, and **Continental**. Our weightings in airline-related bonds remain lighter than other comparable funds, a factor that restrained performance since the sector, while ending the period with some weakness, nevertheless outperformed during the period.

At times, external factors can affect a fund's performance. For example, while investors seeking attractive yields bid up the price of bonds issued for **Pocahontas Parkway**, a toll road in Virginia, we felt the bonds were at risk of default and thus sold our position. An Australian transportation company has made inquiries regarding a possible purchase of the road, however, and the bonds continued to appreciate. Not holding those bonds detracted from the fund's relative performance.

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

## Of special interest

### Fund's dividend reduced

Yields have declined significantly across all fixed-income sectors over the course of a prolonged bond-market rally. Additionally, several older holdings were called or matured during the period, requiring reinvestment of the assets at current lower interest rates. To reflect this reduction in earnings, the fund's dividend was reduced twice during the period from \$0.0417 to \$0.0381 per share in January 2005, and from \$0.0381 to \$0.0341 in June 2005.

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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.

We expect the Fed to maintain its policy of increasing rates into 2006. We also believe that there will be more Fed tightening than is currently anticipated by the market, and that bond yields may begin to rise more quickly as other investors come to the same conclusion. In light of this, we plan to maintain the fund's defensive duration and to continue to increase its exposure to callable bonds, which, in our opinion, are likely to outperform in a rising-rate cycle.

We have a positive view of the single-family housing sector and plan to add selectively to the fund's positions. As the outperformance of lower-rated, higher-yielding bonds slows, we continue to reduce the fund's exposure to this segment of the credit spectrum. We remain bearish on airline-related IDBs, while our view on tobacco settlement bonds is positive.

We will continue to search for the most attractive opportunities among tax-exempt securities, and work to balance the pursuit of current income with prudent risk management.

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

*Lower-rated bonds may offer higher yields in return for more risk. Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. 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. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value. The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.*

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## Your fund's performance

This section shows your fund's performance during its fiscal year, which ended October 31, 2005. In accordance with regulatory requirements, we also include performance for the most current calendar quarter-end. 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 10/31/05

	NAV	Market price	Lehman Municipal Bond Index	Lipper High Yield Municipal Debt Funds (closed-end) category average*
Annual average Life of fund (since 2/24/89)	6.99%	5.65%	7.01%	6.07%
10 years	66.46	37.70	76.52	75.01
Annual average	5.23	3.25	5.85	5.72
5 years	36.65	4.48	33.70	38.11
Annual average	6.44	0.88	5.98	6.64
1 year	6.51	4.21	2.54	8.20

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

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

\* Over the 1-, 5-, and 10-year periods ended 10/31/05, there were 15, 12, and 12 funds, respectively, in this Lipper category.

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### Fund price and distribution information

For the 12-month period ended 10/31/05

Distributions -- common shares

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Number	12		
Income <sup>1</sup>	\$0.4519		
Capital gains <sup>2</sup>	--		
Total	\$0.4519		
	Series A (550 shares)	Series B (550 shares)	Series C (650 shares)
Distributions -- Preferred shares			
Income <sup>1</sup>	\$2,267.79	\$2,218.26	\$2,205.29
Capital gains <sup>2</sup>	--	--	--
Total	\$2,267.79	\$2,218.26	\$2,205.29
Share value (common shares)		NAV	Market Price
10/31/04		\$8.18	\$7.29
10/31/05		8.20	7.15
Current yield (common shares, end of period)			
Current dividend rate <sup>2</sup>		4.99%	5.72%
Taxable equivalent <sup>3</sup>		7.68	8.80

1 Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

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

3 Assumes maximum 35% federal tax rate for 2005. Results for investors subject to lower tax rates would not be as advantageous.

### Fund performance for most recent calendar quarter

Total return for periods ended 9/30/05

	NAV	Market price
Annual average		
Life of fund (since 2/24/89)	7.05%	5.96%
10 years	69.81	49.96

Annual average	5.44	4.13
5 years	38.44	15.86
Annual average	6.72	2.99
1 year	8.04	9.56

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## Your fund's management

Your fund is managed by the members of the Putnam Tax Exempt Fixed-Income Team. David Hamlin is the Portfolio Leader, and Paul Drury, Susan McCormack, and James St. John are Portfolio Members of your 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 Tax Exempt Fixed-Income Team, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at [www.putnam.com](http://www.putnam.com).

## Fund ownership by the Portfolio Leader and Portfolio Members

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is as of October 31, 2005, and October 31, 2004.

	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
David Hamlin	2005	*						
<i>Portfolio Leader</i>	2004	*						
Paul Drury	2005	*						
<i>Portfolio Member</i>	2004	*						
Susan McCormack	2005	*						
<i>Portfolio Member</i>	2004	*						
James St. John	2005	*						
<i>Portfolio Member</i>	2004	*						

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## Fund manager compensation

The total 2004 fund manager compensation that is attributable to your fund is approximately \$100,000. This amount includes a portion of 2004 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 2004 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 2004, the calculation reflects annualized 2004 compensation or an estimate of 2005 compensation, as applicable.

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

David Hamlin is the Portfolio Leader and Paul Drury, Susan McCormack, and James St. John are Portfolio Members for Putnam's tax-exempt funds for the following states: Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania. The same group also manages Putnam AMT-Free Insured Municipal Fund, Putnam California Investment Grade Municipal Trust, Putnam High Yield Municipal Trust, Putnam Investment Grade Municipal Trust, Putnam Municipal Bond Fund, Putnam Municipal Opportunities Trust, Putnam New York Investment Grade Municipal Trust, Putnam Tax Exempt Income Fund, Putnam Tax-Free Health Care Fund, and Putnam Tax-Free High Yield Fund.

David Hamlin, Paul Drury, Susan McCormack, and James St. John 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 October 31, 2005.

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## Fund ownership by Putnam's Executive Board

The table below shows how much the members of Putnam's Executive Board have invested in the fund (in dollar ranges). Information shown is as of October 31, 2005, and October 31, 2004.

	Year	\$0	\$1 - \$10,000	\$10,001 - \$50,000	\$50,001 - \$100,000	\$100,001 and over
Philippe Bibi	2005		*			
<i>Chief Technology Officer</i>	2004		*			
Joshua Brooks	2005		*			
<i>Deputy Head of Investments</i>	N/A					
William Connolly	2005		*			
<i>Head of Retail Management</i>	N/A					

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Kevin Cronin	2005	*
<i>Head of Investments</i>	2004	*
Charles Haldeman, Jr.	2005	*
<i>President and CEO</i>	2004	*
Amrit Kanwal	2005	*
<i>Chief Financial Officer</i>	2004	*
Steven Krichmar	2005	*
<i>Chief of Operations</i>	2004	*
Francis McNamara, III	2005	*
<i>General Counsel</i>	2004	*
Richard Robie, III	2005	*
<i>Chief Administrative Officer</i>	2004	*
Edward Shaddek	2005	*
<i>Deputy Head of Investments</i>	N/A	
Sandra Whiston	2005	*
<i>Head of Institutional Management</i>	N/A	

N/A indicates the individual was not a member of Putnam's Executive Board as of 10/31/04.

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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 and the net assets allocated to any outstanding preferred shares, divided by the number of outstanding common 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 American Stock Exchange and the New York Stock Exchange.

### **Comparative indexes**

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

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and agency securities.

Lehman Intermediate Treasury Bond Index is an unmanaged index of U.S. Treasury securities with maturities between 1 and 10 years.

Lehman Municipal Bond Index is an unmanaged index of long-term fixed-rate investment-grade tax-exempt bonds.

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

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

S&P Utilities Index is an unmanaged index of common stock issued by utility companies.

*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. Lipper rankings are based on total return at net asset value and do not reflect sales charges. Funds are ranked among other funds with similar current investment styles or objectives as determined by Lipper. 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. 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 beginning in March and ending in June 2005, the Contract Committee met five 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, effective July 1, 2005. This approval was based on the following conclusions:

- That the fee schedule currently in effect for your fund, subject to certain changes noted below, 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.

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

The Trustees' review of the management fees and total expenses of the Putnam funds focused on three major themes:

\* Consistency. The Trustees, working in cooperation with Putnam Management, have developed and implemented a series of model fee schedules for the Putnam funds designed to ensure that each fund's management fee is consistent with the fees for similar funds in the Putnam family of funds and compares favorably with fees paid by competitive funds sponsored by other investment advisors. Under this approach, each Putnam fund is assigned to one of several fee categories based on a combination of factors, including competitive fees and perceived difficulty of management, and a common fee schedule is implemented for all funds in a given fee category. The Trustees reviewed the model fee schedule currently in effect for your fund, including fee levels and breakpoints, and the assignment of the fund to a particular fee category under this structure. ("Breakpoints" refer to reductions in fee rates that apply to additional assets once specified asset levels are reached.)

Since their inception, Putnam's closed-end funds have generally had management fees that are higher than those of Putnam's open-end funds pursuing comparable investment strategies. These differences ranged from five to 20 basis points. The Trustees have reexamined this matter and recommend that these differences be conformed to a uniform five basis points. As a result, the Trustees approved a reduction in the management fees for your fund. Under the new fee schedule, the fund pays a quarterly fee to Putnam Management at the lower of the following rates:

- (a) 0.55% of the fund's average net assets (including assets attributable to both common and preferred shares) or
- (b) 0.65% of the first \$500 million of the fund's average net assets (including assets attributable to both common and preferred shares);
  - 0.55% of the next \$500 million;
  - 0.50% of the next \$500 million;
  - 0.45% of the next \$5 billion;
  - 0.425% of the next \$5 billion;
  - 0.405% of the next \$5 billion;
  - 0.39% of the next \$5 billion; and
  - 0.38% thereafter.

The new fee schedule for your fund will result in lower management fees paid by common shareholders. The Trustees approved the new fee schedule for your fund effective as of January 1, 2006, in order to provide Putnam Management an opportunity to accommodate the impact on revenues in its budget process for the coming year.

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- **Competitiveness.** The Trustees also 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 50th percentile in management fees and in the 50th percentile in total expenses as of December 31, 2004 (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 the Putnam funds continue to meet evolving competitive standards.
- **Economies of scale.** The Trustees concluded that the fee schedule currently in effect for your fund, subject to the changes noted above, represents an appropriate sharing of economies of scale at current asset levels. 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. The Trustees examined the existing breakpoint structure of the Putnam funds' management fees in light of competitive industry practices. The Trustees considered various possible modifications to the Putnam Funds' current breakpoint structure, but ultimately concluded that the current breakpoint structure continues to serve the interests of fund shareholders. Accordingly, the Trustees continue to believe that the fee schedules currently in effect for the funds, subject to the changes noted above, represent an appropriate sharing of economies of scale at current asset levels.

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.

### **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 funds' investment process and performance by the work of the Investment Oversight Committees of the Trustees, which meet on a regular monthly basis with the funds' portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process -- as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general

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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 the 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 continued to discuss 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. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted.

In the case of your fund, the Trustees considered that your fund's common share performance at net asset value (compared using tax-adjusted performance to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions) for the one-, three- and five-year periods ended December 31, 2004 (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
62nd	46th	30th

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report.)

As a general matter, the Trustees believe that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees believe 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 believe 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 advisor 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 principally benefits related to brokerage and soft-dollar allocations, whereby a portion

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of the commissions paid by a fund for brokerage is earmarked to pay for research services that may be utilized by a fund's investment advisor. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage, which pertains mainly to funds investing in equity securities, represent assets of the funds that should be used for the benefit of fund shareholders. This area has been marked by significant change in recent years. In July 2003, acting upon the Contract Committee's recommendation, the Trustees directed that allocations of brokerage to reward firms that sell fund shares be discontinued no later than December 31, 2003. In addition, commencing in 2004, the allocation of brokerage commissions by Putnam Management to acquire research services from third-party service providers has been significantly reduced, and continues at a modest level only to acquire research that is customarily not available for cash. The Trustees will continue to monitor the allocation of the funds' brokerage to ensure that the principle of "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 agreement with Putnam Fiduciary Trust Company, which provides 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 have not relied on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

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## **Other information for shareholders**

### **Important notice regarding share repurchase program**

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding shares over the 12 months following the announcement.

### **Notice regarding 2006 annual shareholder meeting**

The 2006 annual meeting of shareholders of your fund is currently expected to be held in June 2006, rather than in October, as was stated in the proxy statement for the 2005 annual meeting. Accordingly, shareholder proposals to be included in the proxy statement for the 2006 meeting must be received by your fund on or before February 10, 2006. Shareholders who wish to make a proposal at the 2006 annual meeting -- other than one that will be included in the fund's proxy materials -- should notify the fund no later than April 26, 2006. Shareholders who wish to propose one or more nominees for election as Trustees, or to make a proposal fixing the number of Trustees, at the 2006 annual meeting must provide written notice to the fund (including all required information) so that such notice is received in good order by the fund no earlier than April 15, 2006 and no later than May 15, 2006. Notices of any such proposals should be addressed to the Clerk of your fund at One Post Office Square, Boston, Massachusetts 02109.

### **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.

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### **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, 2005, are available on the Putnam Individual Investor Web site, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

### **Fund portfolio holdings**

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://www.sec.gov). In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's public reference room in Washington, D.C.

You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the public reference room.

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## Financial statements

### A guide to financial statements

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, which is calculated separately for each class of shares. (For funds with preferred shares, the amount subtracted from total assets includes the net assets allocated to remarketed 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. For open-end funds, a separate table is provided for each share class.

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## Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders  
Putnam Managed Municipal Income Trust:

We have audited the accompanying statement of assets and liabilities of Putnam Managed Municipal Income Trust, including the fund's portfolio, as of October 31, 2005, 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 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

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whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2005 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 Managed Municipal Income Trust as of October 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended in conformity with U.S. generally accepted accounting principles.

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### The fund's portfolio 10/31/05

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#### Key to abbreviations

AMBAC AMBAC Indemnity Corporation	G.O. Bonds General Obligation Bonds
COP Certificate of Participation	MBIA MBIA Insurance Company
FGIC Financial Guaranty Insurance Company	PSFG Permanent School Fund Guaranteed
FNMA Coll. Federal National Mortgage Association Collateralized	Q-SBLF Qualified School Board Loan Fund
FSA Financial Security Assurance	U.S. Govt. Coll. U.S. Government Collateralized
GNMA Coll. Government National Mortgage Association Collateralized	VRDN Variable Rate Demand Notes

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#### MUNICIPAL BONDS AND NOTES (141.7%)\*

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	Rating **	Principal amount	Value
Alabama (0.4%)			
Butler, Indl. Dev. Board Solid Waste Disp. Rev. Bonds (GA. Pacific Corp.), 5 3/4s, 9/1/28	BB+	\$ 950,000	\$ 955,795
Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa Valley Med. Ctr.), Ser. A, 6s, 8/1/25	B/P	650,000	654,219
			1,610,014
Arizona (3.0%)			
Apache Cnty., Indl. Dev. Auth. Poll. Control Rev. Bonds (Tucson Elec. Pwr. Co.), Ser. B, 5 7/8s, 3/1/33	Ba1	1,000,000	1,000,280
AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds (John C.			

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Lincoln Hlth. Network), 6 3/8s, 12/1/37	BBB	1,000,000	1,081,910
Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29	B+/P	1,800,000	1,973,466
Cochise Cnty., Indl. Dev. Auth. Rev. Bonds (Sierra Vista Regl. Hlth. Ctr.), Ser. A, 6.2s, 12/1/21	BB+/P	500,000	525,305
Coconino Cnty., Poll. Control Rev. Bonds (Tuscon/Navajo Elec. Pwr.), Ser. A, 7 1/8s, 10/1/32	Ba1	3,000,000	3,115,110
Glendale, Wtr. & Swr. Rev. Bonds, AMBAC, 5s, 7/1/28	Aaa	2,000,000	2,068,000
Pima Cnty., Indl. Dev. Auth. Rev. Bonds (Horizon Cmnty. Learning Ctr.), 5.05s, 6/1/25	BBB-	815,000	804,992
Scottsdale, Indl. Dev. Auth. Hosp. Rev. Bonds (Scottsdale Hlth. Care), 5.8s, 12/1/31	A3	1,000,000	1,065,610
			11,634,673

Arkansas (2.8%)

AR State Hosp. Dev. Fin. Auth. Rev. Bonds (Washington Regl. Med. Ctr.), 7 3/8s, 2/1/29 (Prerefunded)	Baa2	4,600,000	5,297,038
Independence Cnty., Poll. Control Rev. Bonds (Entergy, Inc.), 5s, 1/1/21	A-	1,000,000	1,011,110
Little Rock G.O. Bonds (Cap. Impt.), FSA, 3.95s, 4/1/19	Aaa	900,000	905,103

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
<i>Arkansas continued</i>			
Northwest Regl. Arpt. Auth. Rev. Bonds, 7 5/8s, 2/1/27 (Prerefunded)	BB/P	\$ 2,750,000	\$ 3,056,158
Washington Cnty., Hosp. Rev. Bonds (Regl. Med. Ctr.)			
Ser. A, 5s, 2/1/35	Baa2	250,000	243,608
Ser. B, 5s, 2/1/25	Baa2	500,000	499,960
			11,012,977

California (16.5%)

CA G.O. Bonds, 5s, 5/1/22	A	4,000,000	4,159,400
CA Hlth. Fac. Fin. Auth. Rev. Bonds, AMBAC, 5.293s, 7/1/17	Aaa	3,400,000	3,444,030
CA Poll. Control Fin. Auth. Solid Waste Disp. Rev. Bonds (Waste Management, Inc.), Ser. A-2,			

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5.4s, 4/1/25 CA State Dept. of Wtr. Resources Rev. Bonds, Ser. A	BBB	1,200,000	1,220,016
6s, 5/1/15 AMBAC, 5 1/2s, 5/1/13	A2 Aaa	1,000,000 20,000,000	1,123,570 22,097,200
5 1/2s, 5/1/11 CA Statewide Cmnty. Dev. Auth. COP (The Internext Group), 5 3/8s, 4/1/30	A2 BBB	3,000,000 3,000,000	3,263,160 3,000,540
CA Statewide Cmnty. Dev. Auth. Rev. Bonds (Huntington Memorial Hosp.), 5s, 7/1/21	A+	3,000,000	3,140,250
CA Statewide Cmnty. Dev. Auth. 144A Rev. Bonds (Thomas Jefferson School of Law), Ser. B, 4 7/8s, 10/1/31	BBB-	430,000	416,154
CA Statewide Cmntys. Dev. Auth. Apt. Mandatory Put Bonds (Irvine Apt. Cmntys.), Ser. A-3, 5.1s, 5/17/10	Baa2	2,250,000	2,331,068
Capistrano, Unified School Dist. Cmnty. Fac. Special Tax (No 98-2 Ladera), 5.7s, 9/1/20 (Prerefunded)	BBB/P	1,000,000	1,102,850
Cathedral City, Impt. Board Act of 1915 Special Assmt. (Cove Impt. Dist.), Ser. 04-02, 5s, 9/2/30	BB+/P	250,000	243,158
Cathedral City, Impt. Board Act of 1915 Special Assmt. Bonds (Cove Impt. Dist.), Ser. 04-02, 5.05s, 9/2/35	BB+/P	400,000	388,216
Chula Vista, Cmnty. Fac. Dist. Special Tax Rev. Bonds (No. 08-1 Otay Ranch Village Six), 6s, 9/1/33	BB/P	1,250,000	1,292,638
(No 07-I Otay Ranch Village Eleven), 5 7/8s, 9/1/34	BB-/P	300,000	308,391
(No. 07-I Otay Ranch Village Eleven), 5.8s, 9/1/28	BB-/P	300,000	307,890
Corona, COP (Vista Hosp. Syst.), zero %, 7/1/29 (In default) (F) □	D/P	10,775,000	30,170
Folsom, Special Tax Rev. Bonds (Cmnty. Facs. Dist. No. 10), 5 7/8s, 9/1/28	BB/P	750,000	771,697
Gilroy, Rev. Bonds (Bonfante Gardens Park), 8s, 11/1/25	D/P	770,000	623,323

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

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	Rating **	Principal amount	Value
<i>California continued</i>			
Golden State Tobacco Securitization Corp. Rev. Bonds, Ser. B, 5 5/8s, 6/1/38 (Prerefunded)	Aaa	\$ 2,500,000	\$ 2,790,925
Murrieta, Cmnty. Fac. Dist. Special Tax (No. 2 The Oaks Impt. Area A), 6s, 9/1/34	BB-/P	1,100,000	1,142,636
Orange Cnty., Cmnty. Fac. Dist. Special Tax Rev.			

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Bonds (No. 02-1 Ladera Ranch), Ser. A, 5.55s, 8/15/33	BBB/P	650,000	662,064
Roseville, Cmnty. Fac. Special Tax (Dist. No. 1 - Westpark)			
5 1/4s, 9/1/25	BB/P	315,000	319,079
5 1/4s, 9/1/17	BB/P	985,000	1,012,344
Sacramento, Special Tax (North Natomas Cmnty. Fac.), Ser. 4-C, 6s, 9/1/33	BBB/P	1,250,000	1,300,225
San Diego, Assn. of Bay Area Governments Fin. Auth. For Nonprofit Corps. Rev. Bonds (San Diego Hosp.), Ser. A, 6 1/8s, 8/15/20	Baa1	250,000	271,238
Santaluz Cmnty., Facs. Dist. No. 2 Special Tax Rev. Bonds (Impt. Area No. 1), Ser. B, 6 3/8s, 9/1/30	BB+/P	2,485,000	2,522,523
Thousand Oaks, Cmnty. Fac. Dist. Special Tax Rev. Bonds (Marketplace 94-1), zero %, 9/1/14	B/P	3,465,000	1,853,740
Vallejo, COP (Marine World Foundation), 7.2s, 2/1/26	BBB-/P	2,500,000	2,623,175
			63,761,670

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### Colorado (2.1%)

CO Hwy. Auth. Rev. Bonds (E-470 Pub. Hwy.), Ser. B			
zero %, 9/1/35 (Prerefunded)	Aaa	15,500,000	1,961,525
zero %, 9/1/34 (Prerefunded)	Aaa	16,500,000	2,253,075
Denver, City & Cnty. Arpt. Rev. Bonds Ser. D, AMBAC, 7 3/4s, 11/15/13	A	1,050,000	1,228,931
MBIA, 5 1/2s, 11/15/25	Aaa	2,500,000	2,578,775
			8,022,306

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### Delaware (0.6%)

GMAC Muni. Mtge. Trust 144A sub. notes, Ser. A1-3, 5.3s, 10/31/39	A3	2,500,000	2,524,625
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### District of Columbia (2.0%)

DC G.O. Bonds, Ser. A, FSA, 5s, 6/1/27	Aaa	3,000,000	3,108,480
DC Tobacco Settlement Fin. Corp. Rev. Bonds, 6 1/2s, 5/15/33	BBB	4,000,000	4,532,920
			7,641,400

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### Florida (5.4%)

CFM Cmnty. Dev. Dist. Rev. Bonds, Ser. A, 6 1/4s, 5/1/35	BB-/P	1,500,000	1,569,915
Fishhawk, Cmnty. Dev. Dist. II Rev. Bonds Ser. A, 6 1/8s, 5/1/34	BB/P	490,000	510,560
Ser. B, 5s, 11/1/07	BB-/P	185,000	185,179

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
<i>Florida continued</i>			
FL State Mid-Bay Bridge Auth. Rev. Bonds, Ser. A, 6.05s, 10/1/22	BBB/P	\$ 770,000	\$ 799,622
Fleming Island, Plantation Cmnty. Dev. Dist. Special Assmt. Rev. Bonds, Ser. B, 7 3/8s, 5/1/31	BB/P	750,000	804,098
Gateway Svcs. Cmnty., Dev. Dist. Special Assmt. Bonds (Stoneybrook), 5 1/2s, 7/1/08	BB-/P	350,000	353,703
Heritage Harbor, South Cmnty. Dev. Distr. Rev. Bonds, Ser. A, 6 1/2s, 5/1/34	BB/P	490,000	515,093
Heritage Isle at Viera, Cmnty. Dev. Dist. Special Assmt., Ser. B, 5s, 11/1/09	BB/P	405,000	403,550
Islands at Doral III, Cmnty. Dev. Dist. Special Assmt. Bonds, Ser. 04-A, 5.9s, 5/1/35	BB/P	1,250,000	1,273,463
Lee Cnty., Indl. Dev. Auth. Rev. Bonds (Alliance Cmnty.), Ser. C, 5 1/2s, 11/15/29	BBB-	1,000,000	993,380
Miami Beach, Hlth. Fac. Auth. Hosp. Rev. Bonds (Mount Sinai Med. Ctr.), Ser. A, 6.7s, 11/15/19	BB+	1,335,000	1,453,107
Old Palm, Cmnty. Dev. Dist. Special Assmt. Bonds (Palm Beach Gardens), Ser. A, 5.9s, 5/1/35	BB-/P	1,000,000	1,015,630
Reunion West, Cmnty. Dev. Dist. Special Assmt. Bonds, 6 1/4s, 5/1/36	BB-/P	1,500,000	1,567,395
South Bay, Cmnty. Dev. Dist. Rev. Bonds, Ser. B-2, 5 3/8s, 5/1/13	BB-/P	2,500,000	2,504,725
South Miami, Hlth. Fac. Auth. Rev. Bonds (Baptist Hlth.), 5 1/4s, 11/15/33	Aa3	1,500,000	1,543,545
South Village, Cmnty. Dev. Dist. Rev. Bonds, Ser. A, 5.7s, 5/1/35	BB-/P	500,000	502,205
Sterling Hill, Cmnty. Dev. Dist. Rev. Bonds, Ser. B, 5 1/2s, 11/1/10	BB-/P	875,000	882,971
Tern Bay, Cmnty. Dev. Dist. Rev. Bonds, Ser. B, 5s, 5/1/15	BB-/P	300,000	300,900
Tern Bay, Cmnty. Dev. Dist. Special Assmt., Ser. A, 5 3/8s, 5/1/37	BB-/P	1,150,000	1,147,045
Westchester Cmnty. Dev. Dist. No. 1 Special Assmt. (Cmnty. Infrastructure), 6 1/8s, 5/1/35	BB-/P	1,250,000	1,291,325
World Commerce Cmnty. Dev. Dist. Special Assmt., Ser. A-1, 6 1/2s, 5/1/36	BB-/P	1,250,000	1,293,825
			20,911,236



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Georgia (4.1%)

Atlanta Arpt. Passenger Fac. Rev. Bonds (Sub. Lien), Ser. J, FSA, 5s, 1/1/27	Aaa	5,000,000	5,170,500
Burke Cnty., Poll. Control Dev. Auth. Mandatory Put Bonds (GA Power Co.), 4.45s, 12/1/08	A2	4,000,000	4,095,760
Fulton Cnty., Res. Care Fac. Rev. Bonds (Canterbury Court), Class A, 6 1/8s, 2/15/34	B+/P	425,000	428,995
GA Muni. Elec. Auth. Rev. Bonds, AMBAC, 5s, 1/1/26	Aaa	2,500,000	2,609,650

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

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	Rating **	Principal amount	Value
<i>Georgia continued</i>			
Med. Ctr. Hosp. Auth. Rev. Bonds, MBIA, 6.367s, 8/1/10	Aaa	\$ 1,400,000	\$ 1,411,592
Rockdale Cnty., Dev. Auth. Solid Waste Disp. Rev. Bonds (Visay Paper, Inc.), 7.4s, 1/1/16	B+/P	2,020,000	2,028,504
			15,745,001

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Hawaii (0.9%)

HI Dept. of Trans. Special Fac. Rev. Bonds (Continental Airlines, Inc.), 7s, 6/1/20	B	1,700,000	1,520,208
HI State Hsg. & Cmnty. Dev. Corp. Rev. Bonds (Single Fam. Mtge.), Ser. B, 3.7s, 1/1/22	Aaa	2,000,000	1,979,980
			3,500,188

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Illinois (2.3%)

Bedford Pk., Village Rev. Bonds (Hotel/Motel Tax), Ser. A, 4.9s, 12/1/23	Baa1	600,000	593,592
Chicago, G.O. Bonds, Ser. A, AMBAC 5 5/8s, 1/1/39 (Prerefunded)	Aaa	3,395,000	3,779,654
5 5/8s, 1/1/39	Aaa	105,000	113,546
IL Dev. Fin. Auth. Hosp. Rev. Bonds (Adventist Hlth. Syst./Sunbelt Obligation), 5.65s, 11/15/24	A+	3,250,000	3,389,133
IL Fin. Auth. Rev. Bonds (Friendship Village Schaumburg), Ser. A, 5 5/8s, 2/15/37	B+/P	300,000	300,078
IL Fin. Auth. Solid Waste Disposal (Waste Mgmt., Inc.), Ser. A, 5.05s, 8/1/29	BBB	250,000	244,433
IL Hlth. Fac. Auth. Rev. Bonds (St. Benedict), Ser. 03A-1, 6.9s, 11/15/33	B/P	500,000	534,865
			8,955,301

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Indiana (2.9%)

IN State Dev. Fin. Auth. Env. Impt. Rev. Bonds (USX Corp.), 5.6s, 12/1/32	Baa1	2,500,000	2,570,375
IN Trans. Fin. Auth. Arpt. Facs. Lease Rev. Bonds, Ser. A, AMBAC, 5s, 11/1/16 (Prerefunded)	Aaa	6,500,000	6,752,655
Rockport, Poll. Control Mandatory Put Bonds (Indiana Michigan Pwr. Co.), Ser. C, 2 5/8s, 10/1/06	BBB	1,750,000	1,734,040
			11,057,070

Iowa (1.3%)

IA Fin. Auth. Hlth. Care Fac. Rev. Bonds (Care Initiatives)			
9 1/4s, 7/1/25	BBB-/P	2,900,000	3,468,081
9.15s, 7/1/09	BBB-/P	1,125,000	1,270,879
IA Fin. Auth. Retirement Cmnty. Rev. Bonds (Friendship Haven), Ser. A			
6 1/8s, 11/15/32	BB/P	200,000	202,150
6s, 11/15/24	BB/P	200,000	201,408
			5,142,518

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
Kentucky (0.5%)			
KY Econ. Dev. Fin. Auth. Rev. Bonds (Norton Hlth. Care, Inc.), Ser. A, 6 1/2s, 10/1/20	BBB+/F	\$ 1,700,000	\$ 1,856,400
Louisiana (1.2%)			
LA Pub. Fac. Auth. Hosp. Rev. Bonds (Lake Charles Memorial Hosp.), 8 5/8s, 12/1/30	CCC/P	1,140,000	1,223,893
Tangipahoa Parish Hosp. Svcs. Rev. Bonds (North Oaks Med. Ctr.), Ser. A, 5s, 2/1/25	A	500,000	498,125
W. Feliciana Parish, Poll. Control Rev. Bonds (Gulf States Util. Co.), Ser. C, 7s, 11/1/15	BBB-	2,750,000	2,830,465
			4,552,483

Maine (1.0%)

ME State Hsg. Auth. Rev. Bonds, Ser. D-2-AMT, 5s, 11/15/27	Aa1	1,780,000	1,823,966
Rumford, Solid Waste Disp. Rev. Bonds (Boise			

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Cascade Corp.), 6 7/8s, 10/1/26	Ba1	2,000,000	2,136,960
			3,960,926

Maryland (0.8%)

MD State Hlth. & Higher Edl. Fac. Auth. Rev. Bonds (Medstar Hlth.), 5 3/4s, 8/15/15	Baa1	1,000,000	1,091,310
MD State Indl. Dev. Fin. Auth. Econ. Dev. Rev. Bonds (Our Lady of Good Counsel School), Ser. A, 6s, 5/1/35	B/P	200,000	202,496
Westminster, Econ. Dev. Rev. Bonds (Carroll Lutheran Village), Ser. A, 5 7/8s, 5/1/21	BB/P	1,850,000	1,901,615
			3,195,421

Massachusetts (9.1%)

Boston, Indl. Dev. Fin. Auth. Rev. Bonds (Springhouse, Inc.), 6s, 7/1/28	BB-/P	600,000	605,268
MA State Dev. Fin. Agcy. Rev. Bonds (Lasell Village), Ser. A, 6 3/8s, 12/1/25	BB-/P	600,000	603,984
MA State Hlth. & Edl. Fac. Auth. Rev. Bonds (Civic Investments), Ser. A, 9s, 12/15/15	BBB-/P	2,000,000	2,434,640
(Norwood Hosp.), Ser. C, 7s, 7/1/14	Ba2	1,185,000	1,427,972
(Jordan Hosp.), Ser. E, 6 3/4s, 10/1/33	BBB-	1,200,000	1,307,136
(UMass Memorial), Ser. C, 6 5/8s, 7/1/32	Baa2	2,225,000	2,371,828
(UMass Memorial), Ser. C, 6 1/2s, 7/1/21	Baa2	1,875,000	2,000,606
(Caritas Christi Oblig. Group), Ser. A, 5 1/4s, 7/1/08	BBB	1,500,000	1,537,665
(Partners Hlth. Care Syst.), Ser. F, 5s, 7/1/21	Aa3	1,000,000	1,049,960
MA State Hsg. Fin. Agcy. Rev. Bonds (Rental Mtge.) Ser. C, AMBAC, 5 5/8s, 7/1/40	Aaa	2,000,000	2,041,500
Ser. A, AMBAC, 5 1/2s, 7/1/40	Aaa	15,290,000	15,590,601
MA State Indl. Fin. Agcy. R (TNG Marina Bay LLC Project), 7 1/2s, 12/1/27	B/P	600,000	632,730

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
Massachusetts <i>continued</i>			
MA State Indl. Fin. Agcy. Rev. Bonds (1st Mtge. Stone Institution & Newton), 7.9s, 1/1/24	BB-/P	\$ 500,000	\$ 505,985
(1st Mtge. Berkshire Retirement), Ser. A, 6 5/8s, 7/1/16	BBB-	1,550,000	1,560,215
(1st Mtge. Brookhaven), Ser. B, 5 1/4s, 1/1/17	BBB/P	1,500,000	1,506,480
			35,176,570

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Michigan (6.9%)

Flint, Hosp. Bldg. Auth. Rev. Bonds (Hurley Med. Ctr.), 6s, 7/1/20	Baa3	500,000	518,575
Garden City, Hosp. Fin. Auth. Rev. Bonds (Garden City Hosp. OB Group), Ser. A, 5 3/4s, 9/1/17	Ba1	350,000	340,610
Harper Woods School Dist. G.O. Bonds (School Bldg. & Site), FGIC, Q-SBLF, 5s, 5/1/28	Aaa	1,425,000	1,475,858
MI State Hosp. Fin. Auth. Rev. Bonds (Oakwood Hosp.), Ser. A, 6s, 4/1/22	A2	1,500,000	1,622,730
(Chelsea Cmnty. Hosp. Oblig.), 5s, 5/15/25	BBB	755,000	744,800
MI State Hsg. Dev. Auth. Rev. Bonds, Ser. A, 3.9s, 6/1/30	AAA	1,500,000	1,490,910
Midland Cnty., Econ. Dev. Corp. Rev. Bonds, 6 3/4s, 7/23/09	BB-	2,000,000	2,083,900
Plymouth-Canton Cmnty., School Dist. G.O. Bonds, FGIC, Q-SBLF, 5s, 5/1/26	Aaa	4,750,000	4,933,113
Saginaw Cnty., G.O. Bonds, MBIA, 5s, 5/1/29	Aaa	4,750,000	4,931,878
Warren Cons. School Dist. G.O. Bonds, FSA, 5 3/8s, 5/1/18	Aaa	2,975,000	3,187,832
Waterford, Econ. Dev. Corp. Rev. Bonds (Canterbury Hlth.), 6s, 1/1/39	B-/P	6,630,000	5,511,386
			26,841,592

Minnesota (2.2%)

Cohasset, VRDN (MN Pwr. & Light Co. Project B), 2.73s, 6/1/13	A-1+	810,000	810,000
Cohasset, Poll. Control Rev. Bonds (Allete, Inc.), 4.95s, 7/1/22	A	2,000,000	2,011,060
Minneapolis, Rev. Bonds (Walker Methodist Sr. Svcs.), Ser. C, 6s, 11/15/28	B+/P	500,000	473,755
MN State Hsg. Fin. Agcy. Rev. Bonds (Residential Hsg.), Ser. H, 4.15s, 1/1/12	Aa1	760,000	754,254
Sauk Rapids Hlth. Care & Hsg. Fac. Rev. Bonds (Good Shepherd Lutheran Home), 6s, 1/1/34	B/P	400,000	406,664
St. Paul, Hsg. & Hosp. Redev. Auth. Rev. Bonds (Healtheast), Ser. B, 6 5/8s, 11/1/17	BB+	3,055,000	3,055,000
St. Paul, Hsg. & Redev. Auth. Hosp. Rev. Bonds (Hlth. East), 6s, 11/15/25	Baa3	1,000,000	1,076,490
			8,587,223

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

Rating **	Principal amount	Value
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Mississippi (1.2%)

Lowndes Cnty., Solid Waste Disp. & Poll. Control Rev.

Bonds (Weyerhaeuser Co.), Ser. B, 6.7s, 4/1/22	Baa2	\$ 1,500,000	\$ 1,788,765
MS Bus. Fin. Corp. Poll. Control Rev. Bonds (Syst. Energy Resources, Inc.), 5.9s, 5/1/22	BBB-	1,250,000	1,267,200
MS Home Corp. Rev. Bonds (Single Fam. Mtge.), Ser. B-2, GNMA Coll., FNMA Coll., 6.45s, 12/1/33	Aaa	1,350,000	1,425,519
			4,481,484

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Missouri (3.5%)

Cape Girardeau Cnty., Incl. Dev. Auth. Hlth. Care

Fac. Rev. Bonds (St. Francis Med. Ctr.), Ser. A,

5 1/2s, 6/1/32	A+	1,500,000	1,572,780
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Kansas City, Incl. Dev. Auth. Hlth. Fac. Rev. Bonds

(First Mtg. Bishop Spencer), Ser. A, 6 1/2s, 1/1/35	BB-/P	1,500,000	1,546,785
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MO Hsg. Dev. Comm. Rev. Bonds (Home

Ownership Loan Program)

Ser. D, GNMA Coll., FNMA Coll., 5.55s, 9/1/34	Aaa	1,625,000	1,680,315
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Ser. B, GNMA Coll., FNMA Coll., 4.4s, 9/1/14	AAA	435,000	431,524
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Ser. B, GNMA Coll., FNMA Coll., 4.3s, 9/1/13	AAA	415,000	412,527
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MO State Hlth. & Edl. Fac. Auth. Rev. Bonds (BJC

Hlth. Syst.), 5 1/4s, 5/15/32	Aa2	1,450,000	1,503,795
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MO State Hlth. & Edl. Fac. Auth. VRDN

(St. Francis Med. Ctr.), Ser. A, 2.73s, 6/1/26	A-1+	3,290,000	3,290,000
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(Cox Hlth. Syst.), AMBAC, 2.8s, 6/1/22	VMIG1	2,960,000	2,960,000
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13,397,726

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Montana (0.5%)

Forsyth, Poll. Control Mandatory Put Bonds

(Avista Corp.), AMBAC, 5s, 12/30/08	Aaa	1,775,000	1,835,066
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Nebraska (--%)

Kearney, Incl. Dev. Rev. Bonds

(Great Platte River), 8s, 9/1/12	D/P	65,059	49,136
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(Brookhaven), zero %, 9/1/12	D/P	791,466	15,829
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64,965

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Nevada (3.3%)

Clark Cnty., Impt. Dist. Special Assmt.

(Dist. No. 142), 6 3/8s, 8/1/23	BB-/P	1,000,000	1,017,770
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(Summerlin No. 151), 5s, 8/1/16	BB/P	1,010,000	1,012,151
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Clark Cnty., Incl. Dev. Rev. Bonds (Southwest

Gas Corp.), Ser. C, AMBAC, 5.95s, 12/1/38	Aaa	5,000,000	5,436,650
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Henderson, Local Impt. Dist. Special Assmt. (No. T-14), 5.8s, 3/1/23	BB-/P	495,000	510,830
(No. T-17), 5s, 9/1/18	BB-/P	275,000	272,927
(No. T-14), 3.2s, 3/1/06	BB-/P	1,560,000	1,558,690

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

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	Rating **	Principal amount	Value
<i>Nevada continued</i>			
Las Vegas, Local Impt. Board Special Assmt. (Dist. No. 607), 5.9s, 6/1/18	BB-/P	\$ 875,000	\$ 901,303
Washoe Cnty., Wtr. Fac. Mandatory Put Bonds (Sierra Pacific Pwr. Co.), 5s, 7/1/09	Ba1	2,000,000	1,999,200
			12,709,521

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New Hampshire (1.6%)

NH Higher Ed. & Hlth. Fac. Auth. Rev. Bonds (Riverwoods at Exeter), Ser. A, 6 3/8s, 3/1/13	BB+/P	670,000	683,467
NH Hlth. & Ed. Fac. Auth. Rev. Bonds (Kendal at Hanover), Ser. A, 5s, 10/1/18	BBB	1,275,000	1,284,983
NH State Bus. Fin. Auth. Rev. Bonds (Alice Peck Day Hlth. Syst.), Ser. A, 7s, 10/1/29	BBB-/P	2,565,000	2,657,391
NH State Bus. Fin. Auth. Poll. Control Rev. Bonds, 3 1/2s, 7/1/27	Baa2	1,750,000	1,696,923
			6,322,764

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New Jersey (3.8%)

NJ Econ. Dev. Auth. Rev. Bonds (Cranes Mill), Ser. A, 7 1/2s, 2/1/27 (Prerefunded)	Aaa	1,300,000	1,394,393
(Cedar Crest Vlg., Inc.), Ser. A, 7 1/4s, 11/15/31	BB-/P	1,250,000	1,352,637
(Newark Arpt. Marriot Hotel), 7s, 10/1/14	Ba3	1,900,000	1,955,480
(First Mtge. Presbyterian Home), Ser. A, 6 3/8s, 11/1/31	BB/P	500,000	515,180
(First Mtge. Lions Gate), Ser. A, 5 7/8s, 1/1/37	B/P	230,000	232,935
(Cigarette Tax), 5 1/2s, 6/15/24	Baa2	2,500,000	2,602,375
NJ Econ. Dev. Auth. Solid Waste Rev. Bonds (Disp. Waste Mgt.), 5.3s, 6/1/15	BBB	1,750,000	1,834,682
NJ Hlth. Care Fac. Fin. Auth. Rev. Bonds (Trinitas Hosp. Oblig. Group), 7 1/2s, 7/1/30	Baa3	1,300,000	1,446,705
(United Methodist Homes), Ser. A, 5 3/4s, 7/1/29	BB+	2,250,000	2,255,265
(Atlantic City Med. Ctr.), 5 3/4s, 7/1/25	A2	1,250,000	1,318,388
			14,908,040

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New Mexico (0.4%)

Farmington, Poll. Control Mandatory Put Bonds (Pub. Svc. San Juan), Class B, 2.1s, 4/1/06

Baa2 1,740,000 1,728,533

New York (14.5%)

Huntington, Hsg. Auth. Rev. Bonds (Gurwin Jewish Sr. Residence), Ser. A, 6s, 5/1/39

B+/P 500,000 481,865

Long Island, Pwr. Auth. NY Elec. Syst. Rev. Bonds, Ser. A, 5 3/4s, 12/1/24

A3 2,500,000 2,662,825

Nassau Cnty., Indl. Dev. Agcy. Rev. Bonds (Keyspan-Glenwood), 5 1/4s, 6/1/27

A 2,000,000 2,055,260

NY City, G.O. Bonds, Ser. B, 5 1/4s, 12/1/09

A1 10,000,000 10,624,200

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
<i>New York continued</i>			
NY City, Indl. Dev. Agcy. Rev. Bonds (Liberty-7 World Trade Ctr.), Ser. A, 6 1/4s, 3/1/15	B-/P	\$ 1,275,000	\$ 1,357,684
NY City, Indl. Dev. Agcy. Special Fac. Rev. Bonds (British Airways PLC), 5 1/4s, 12/1/32	Ba2	2,825,000	2,422,296
NY City, Indl. Dev. Agcy. Rev. Bonds (Staten Island U. Hosp. Project), 6.45s, 7/1/32	Ba2	1,485,000	1,511,923
NY City, Muni. Wtr. Fin. Auth. Rev. Bonds, Ser. C, MBIA, 5 1/2s, 6/15/17	Aaa	10,000,000	10,246,300
NY Cntys., Tobacco Trust IV Rev. Bonds, Ser. A, 5s, 6/1/38	BBB	1,000,000	972,700
NY State Dorm. Auth. Rev. Bonds (Winthrop-U. Hosp. Assn.), Ser. A, 5 1/2s, 7/1/32	Baa1	900,000	934,668
NY State Energy Research & Dev. Auth. Gas Fac. Rev. Bonds (Brooklyn Union Gas), 6.952s, 7/1/26	A+	2,400,000	2,502,216
Onondaga Cnty., Indl. Dev. Agcy. Rev. Bonds (Solvay Paperboard, LLC), 7s, 11/1/30 (acquired 12/9/98, cost \$2,000,000) □	BB/P	2,000,000	2,102,760
Port Auth. NY & NJ Rev. Bonds (Kennedy Intl. Arpt. - 5th Installment), 6 3/4s, 10/1/19	BB+/P	200,000	209,350
Port. Auth. NY & NJ Special Oblig. Rev. Bonds (JFK Intl. Air Term. - 6), MBIA, 5.9s, 12/1/17	Aaa	15,000,000	15,950,400
Suffolk Cnty., Indl. Dev. Agcy. Rev. Bonds (Peconic Landing), Ser. A, 8s, 10/1/30	B+/P	1,700,000	1,862,911
			55,897,358

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North Carolina (2.6%)

NC Eastern Muni. Pwr. Agcy. Syst. Rev. Bonds

Ser. D, 6 3/4s, 1/1/26	Baa2	1,500,000	1,654,125
Ser. A, 5 3/4s, 1/1/26	Baa2	3,000,000	3,156,720
NC Med. Care Cmnty. Healthcare Fac. Rev. Bonds (Deerfield), Ser. A, 5s, 11/1/23	A-/F	750,000	767,452
NC Med. Care Comm. Retirement Fac. Rev. Bonds (First Mtg.), Ser. A-05, 5 1/2s, 10/1/35	BB+/P	1,040,000	1,035,403
(First Mtg.), Ser. A-05, 5 1/4s, 10/1/25	BB+/P	600,000	604,086
(First Mtge. United Methodist), Ser. C, 5 1/4s, 10/1/24	BB+/P	150,000	150,108
NC State Muni. Pwr. Agcy. Rev. Bonds (No. 1, Catawba Elec.), Ser. B, 6 1/2s, 1/1/20	A3	1,000,000	1,104,590
Ser. A, FGIC, 5 1/2s, 1/1/13	AAA	1,300,000	1,431,352
			9,903,836

Ohio (3.1%)

Coshocton Cnty., Env. Rev. Bonds (Smurfit-Stone

Container Corp.), 5 1/8s, 8/1/13	B	1,400,000	1,350,888
Cuyahoga Cnty., Rev. Bonds, Ser. A 6s, 1/1/16	Aa3	1,280,000	1,441,114
6s, 1/1/15	Aa3	2,000,000	2,251,740

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
<i>Ohio continued</i>			
OH State Air Quality Dev. Auth. Rev. Bonds (Toledo Poll. Control), Ser. A, 6.1s, 8/1/27	Baa2	\$ 3,000,000	\$ 3,157,770
OH State Air Quality Dev. Auth. VRDN (Columbus Southern), Ser. C, 2.7s, 12/1/38	VMIG1	3,800,000	3,800,000
			12,001,512

Oklahoma (3.2%)

OK City Arpt. Trust Rev. Bonds Jr. Lien 27th Ser.,

Ser. A, FSA, 5s, 7/1/18	Aaa	3,150,000	3,267,653
OK Dev. Fin. Auth. Rev. Bonds (Hillcrest Hlth. Care Syst.), Ser. A, U.S. Govt. Coll., 5 5/8s, 8/15/29 (Prerefunded)	Aaa	1,575,000	1,707,521
OK State Indl. Dev. Auth. Rev. Bonds (Hlth.			



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Syst.), Ser. A, MBIA			
5 3/4s, 8/15/29	AAA	4,045,000	4,321,395
5 3/4s, 8/15/29 (Prerefunded)	AAA	2,955,000	3,233,154
			12,529,723

Oregon (0.7%)

Multnomah Cnty., Hosp. Fac. Auth. Rev. Bonds (Terwilliger Plaza), 6 1/2s, 12/1/29	BB-/P	1,900,000	1,923,598
OR State Hsg. & Cmnty. Svcs. Dept. Rev. Bonds (Single Family Mtg.), Ser. K, 5 5/8s, 7/1/29	Aa2	940,000	979,236
			2,902,834

Pennsylvania (11.1%)

Carbon Cnty., Indl. Dev. Auth. Rev. Bonds (Panther Creek Partners), 6.65s, 5/1/10	BBB-	1,800,000	1,909,764
Lebanon Cnty., Hlth. Facs. Rev. Bonds (Pleasant View Retirement), Ser. A, 5.3s, 12/15/26	BB-/P	500,000	491,245
Lehigh Cnty., Gen. Purpose Auth. Rev. Bonds (Lehigh Valley Hosp. Hlth. Network), Ser. A, 5 1/4s, 7/1/32	A1	1,000,000	1,024,290
Monroe Cnty., Hosp. Auth. Rev. Bonds (Pocono Med. Ctr.), 6s, 1/1/43	BBB+	500,000	526,285
Montgomery Cnty., Indl. Auth. Resource Recvy. Rev. Bonds (Whitemarsh Cont Care), 6 1/4s, 2/1/35	B/P	700,000	724,752
PA Convention Ctr. Auth. Rev. Bonds Ser. A, 6 3/4s, 9/1/19	Baa2	1,500,000	1,519,590
MBIA, 6.7s, 9/1/14	Aaa	7,250,000	7,345,048
PA Econ. Dev. Fin. Auth. Rev. Bonds (MacMillan Ltd. Partnership), 7.6s, 12/1/20 (Prerefunded)	Baa2	7,750,000	7,932,668
PA State Econ. Dev. Fin. Auth. Resource Recvy. Rev. Bonds (Northampton Generating), Ser. A, 6.6s, 1/1/19	BB	4,200,000	4,220,580
PA State Higher Edl. Fac. Auth. Rev. Bonds (Widener U.), 5.4s, 7/15/36	BBB+	1,000,000	1,040,130
(Philadelphia College of Osteopathic Medicine), 5s, 12/1/07	A	995,000	1,022,213

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
Pennsylvania <i>continued</i>			
Philadelphia, Gas Wks. Rev. Bonds (1975 Gen. Ordinance 17th), FSA, 5s, 7/1/07	Aaa	\$ 5,715,000	\$ 5,870,562

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Philadelphia, Hosp. & Higher Ed. Fac. Auth. Rev. Bonds (Graduate Hlth. Syst.), 7 1/4s, 7/1/10 (In default) □	Ca	2,729,624	3,412
Philadelphia, Indl. Dev. Auth. Arpt. Rev. Bonds (Aero Philadelphia, LLC), 5 1/2s, 1/1/24	BB/P	1,750,000	1,736,560
Philadelphia, Redev. Auth. Rev. Bonds (Neighborhood Transformation), Ser. C, FGIC, 5s, 4/15/27	Aaa	5,285,000	5,482,342
Sayre, Hlth. Care Fac. Auth. Rev. Bonds (Guthrie Hlth.), Ser. A, 5 7/8s, 12/1/31	A-	1,800,000	1,913,400
			42,762,841

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South Carolina (2.1%)

Lexington Cnty. Hlth. Svcs. Dist. Inc. Hosp. Rev. Bonds, 5 1/2s, 5/1/37	A2	1,000,000	1,049,780
Richland Cnty., Rev. Bonds (Intl. Paper Co.), Ser. A, 4 1/4s, 10/1/07	Baa2	3,000,000	3,021,810
SC Hosp. Auth. Rev. Bonds (Med. U.), Ser. A, 6 1/2s, 8/15/32 (Prerefunded)	AAA	1,250,000	1,450,863
SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev. Bonds (Palmetto Hlth. Alliance), Ser. A, 7 3/8s, 12/15/21 (Prerefunded)	BBB+/F	1,000,000	1,186,920
SC Tobacco Settlement Rev. Mgt. Rev. Bonds, Ser. B, 6 3/8s, 5/15/30	BBB	1,300,000	1,461,616
			8,170,989

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South Dakota (0.6%)

SD Edl. Enhancement Funding Corp. Rev. Bonds, Ser. B, 6 1/2s, 6/1/32	BBB	2,000,000	2,151,660
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Tennessee (5.3%)

Johnson City, Hlth. & Edl. Fac. Board Hosp. Rev. Bonds (First Mtge.-Mountain States Hlth.), Ser. A, 7 1/2s, 7/1/33	BBB+	3,700,000	4,330,443
Ser. A, MBIA, 6s, 7/1/21	Aaa	12,000,000	13,073,040
Johnson City, Hlth. & Edl. Facs. Board Retirement Fac. Rev. Bonds (Appalachian Christian Village), Ser. A, 6 1/4s, 2/15/32	BB-/P	600,000	604,668
Shelby Cnty., Hlth. Edl. & Hsg. Fac. Hosp. Board Rev. Bonds (Methodist Hlth. Care) 6 1/2s, 9/1/26	A3	1,255,000	1,461,937
6 1/2s, 9/1/26 (Prerefunded)	A3	745,000	867,843
			20,337,931

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

	Rating **	Principal amount	Value
Texas (8.0%)			
Abilene, Hlth. Fac. Dev. Corp. Rev. Bonds (Sears Methodist Retirement), Ser. A, 7s, 11/15/33	BB/P	\$ 600,000	\$ 645,486
Alliance, Arpt. Auth. Rev. Bonds (Federal Express Corp.), 6 3/8s, 4/1/21 #	Baa2	5,500,000	5,674,405
Carrollton, Farmers Branch Indpt. School Dist. G.O. Bonds, PSFG, 5s, 2/15/17	Aaa	4,655,000	4,872,063
Dallas-Fort Worth, Intl. Arpt. Fac. Impt. Corp. Rev. Bonds (American Airlines, Inc.), 6 3/8s, 5/1/35	Caa2	2,360,000	1,543,322
Fort Worth, Higher Ed. Fin. Corp. Rev. Bonds (Wesleyan U.), Ser. A, 6s, 10/1/12	Ba2	550,000	559,977
Harris Cnty., Rev. Bonds, Ser. B, FSA, 5s, 8/15/32	Aaa	5,500,000	5,826,975
Harris Cnty., Hlth. Fac. Rev. Bonds (Memorial Hermann Hlth. Care), Ser. A, 6 3/8s, 6/1/29	A2	3,000,000	3,293,370
Houston, Arpt. Syst. Rev. Bonds (Continental Airlines, Inc.), Ser. C, 5.7s, 7/15/29	B-	2,500,000	1,859,225
Sam Rayburn Muni. Pwr. Agcy. Rev. Bonds, 6s, 10/1/21	Baa2	2,500,000	2,659,450
Tomball, Hosp. Auth. Rev. Bonds (Tomball Regl. Hosp.)			
6s, 7/1/29	Baa3	2,000,000	2,110,140
6s, 7/1/25	Baa3	800,000	846,832
6s, 7/1/19	Baa3	800,000	849,616
			30,740,861
Utah (1.2%)			
Carbon Cnty., Solid Waste Disp. Rev. Bonds (Laidlaw Env.), Ser. A			
7 1/2s, 2/1/10	BB-	750,000	770,813
7.45s, 7/1/17	BB-/P	600,000	637,620
Tooele Cnty., Harbor & Term. Dist. Port Fac. Rev. Bonds (Union Pacific), Ser. A, 5.7s, 11/1/26	Baa2	2,000,000	2,074,860
UT Cnty., Env. Impt. Rev. Bonds (Marathon Oil), 5.05s, 11/1/17	Baa1	1,000,000	1,049,260
			4,532,553
Vermont (0.3%)			
VT Hsg. Fin. Agcy. Rev. Bonds, Ser. 19A, FSA, 4.62s, 5/1/29	Aaa	975,000	986,378

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Virginia (1.8%)

James Cnty., Incl. Dev. Auth. Rev. Bonds (Williamsburg), Ser. A, 6 1/8s, 3/1/32	BB-/P	1,000,000	1,042,690
Russell Cnty. Incl. Dev. Auth. Poll. Control Rev. Bonds (Appalachian Pwr. Co.), Ser. I, 2.7s, 11/1/07	Baa2	2,000,000	1,979,100
Tobacco Settlement Fin. Corp. Rev. Bonds, 5 1/2s, 6/1/26	BBB	1,250,000	1,286,500

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MUNICIPAL BONDS AND NOTES (141.7%)\* *continued*

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	Rating **	Principal amount	Value
<i>Virginia continued</i>			
VA State Hsg. Dev. Auth. Rev. Bonds (Cmnwlth. Mtge.), 3.45s, 10/1/10	Aaa	\$ 2,300,000	\$ 2,265,155
Winchester, Incl. Dev. Auth. Residential Care Fac. Rev. Bonds (Westminster-Canterbury), Ser. A, 5.2s, 1/1/27	BB/P	500,000	500,650
			7,074,095

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Washington (1.4%)

King Cnty., G.O. Bonds, Ser. C, 6 1/4s, 1/1/32	AAA	5,000,000	5,263,250
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West Virginia (1.9%)

Marshall Cnty., Poll. Control VRDN (OH Pwr. Co.), Ser. E, 2.72s, 6/1/22	VMIG1	5,300,000	5,300,000
Princeton, Hosp. Rev. Bonds (Cmnty. Hosp. Assn., Inc.), 6.1s, 5/1/29	B2	2,250,000	1,982,992
			7,282,992

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Wisconsin (3.6%)

Badger Tobacco Settlement Asset Securitization Corp. Rev. Bonds			
7s, 6/1/28	BBB	3,000,000	3,306,180
6 3/8s, 6/1/32	BBB	3,000,000	3,190,680
Kimberly, Area School Distr. G.O. Bonds, FSA, 5s, 3/1/25	Aaa	2,625,000	2,727,971
WI Hsg. & Econ. Dev. Auth. Rev. Bonds (Home Ownership), Ser. D, 4 7/8s, 3/1/36	Aa2	500,000	516,085
WI State Hlth. & Edl. Fac. Auth. Rev. Bonds (Wheaton Franciscan), 5 3/4s, 8/15/30	A2	3,900,000	4,117,776
			13,858,692

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Total municipal bonds and notes (cost \$534,668,493)	\$ 547,535,198
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PREFERRED STOCKS (1.7%)\*

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	Shares	Value
Charter Mac. Equity Trust 144A Ser. A, 6.625% cum. pfd.	2,000,000	\$ 2,152,900
MuniMae Tax Exempt Bond Subsidiary, LLC 144A Ser. A, 6.875% cum. pfd.	4,000,000	4,343,960
<hr/>		
Total preferred stocks (cost \$6,000,000)		\$ 6,496,860

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TOTAL INVESTMENTS

Total investments (cost \$540,668,493)	\$ 554,032,058
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- \* Percentages indicated are based on net assets of \$386,436,529.  
The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at
- \*\* October 31, 2005  
for the securities listed. Ratings are generally ascribed to securities at the time of issuance. While the agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings do not necessarily represent what the agencies would ascribe to these securities at October 31, 2005. Securities rated by Putnam are indicated by VP. Securities rated by Fitch are indicated by VF. Ratings are not covered by the Report of Independent Registered Public Accounting Firm. Security ratings are defined in the Statement of Additional Information.
- Non-income-producing security.  
A portion of this security was pledged and segregated with the custodian to cover margin requirements
- # for futures contracts  
at October 31, 2005.
- (F) Security is valued at fair value following procedures approved by the Trustees.  
Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities
- held at October 31,  
2005 was \$2,102,760 or 0.5% of net assets.  
144A after the name of a security represents those exempt from registration under Rule 144A of the Securities Act of 1933.  
These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.  
The rates shown on VRDN and Mandatory Put Bonds are the current interest rates at October 31, 2005.  
The dates shown on Mandatory Put Bonds are the next mandatory put dates.

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The fund had the following industry group concentrations greater than 10% at October 31, 2005 (as a percentage of net assets):

Health care	43.1%
Utilities	24.7
Transportation	19.1
Housing	11.3

The fund had the following insurance concentrations greater than 10% at October 31, 2005 (as a percentage of net assets):

AMBAC	18.1%
MBIA	16.3

### FUTURES CONTRACTS OUTSTANDING at 10/31/05

	Number of contracts	Value	Expiration date	Unrealized appreciation
U.S. Treasury Note 5 yr (Short)	246	\$26,049,094	Dec-05	\$372,109
U.S. Treasury Bond (Short)	32	3,583,000	Dec-05	161,592
Total				\$533,701

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

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## Statement of assets and liabilities 10/31/05

### ASSETS

Investments in securities, at value (identified cost \$540,668,493) (Note 1)	\$554,032,058
Cash	678,156
Interest and other receivables	9,859,344
Receivable for securities sold	430,996
Total assets	565,000,554

### LIABILITIES

Payable for variation margin (Note 1)	8,844
Distributions payable to shareholders	1,609,977

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Accrued preferred shares distribution payable (Note 1)	189,170
<hr/>	
Payable for shares of the fund repurchased	458,659
<hr/>	
Payable for compensation of Manager (Note 2)	1,018,629
<hr/>	
Payable for investor servicing and custodian fees (Note 2)	24,046
<hr/>	
Payable for Trustee compensation and expenses (Note 2)	65,475
<hr/>	
Payable for administrative services (Note 2)	1,329
<hr/>	
Other accrued expenses	187,896
<hr/>	
Total liabilities	3,564,025
<hr/>	
Series A, B and C remarketed preferred shares: 8,000 shares authorized; 1,750 shares issued at \$100,000 per share (Note 4)	175,000,000
<hr/>	
Net assets	\$386,436,529
<hr/>	
REPRESENTED BY	
Paid-in capital -- common shares (Unlimited shares authorized) (Note 1)	\$423,056,544
<hr/>	
Distributions in excess of net investment income (Note 1)	(27,773)
<hr/>	
Accumulated net realized loss on investments (Note 1)	(50,489,508)
<hr/>	
Net unrealized appreciation of investments	13,897,266
<hr/>	
Total -- Representing net assets applicable to common shares outstanding	\$386,436,529
<hr/>	
COMPUTATION OF NET ASSET VALUE	
Net asset value per common share (\$386,436,529 divided by 47,143,198 shares)	\$8.20

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

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### **Statement of operations** Year ended 10/31/05

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INTEREST INCOME	\$29,051,755
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EXPENSES

Compensation of Manager (Note 2)	3,900,018
Investor servicing fees (Note 2)	195,097
Custodian fees (Note 2)	144,996
Trustee compensation and expenses (Note 2)	25,091
Administrative services (Note 2)	25,180
Preferred share remarketing agent fees	450,447
Other	324,825
Total expenses	5,065,654
Expense reduction (Note 2)	(89,541)
Net expenses	4,976,113
Net investment income	24,075,642
Net realized gain on investments (Notes 1 and 3)	130,838
Net realized loss on futures contracts (Note 1)	(526,577)
Net unrealized appreciation of investments and futures contracts during the year	2,375,052
Net gain on investments	1,979,313
Net increase in net assets resulting from operations	\$26,054,955
DISTRIBUTIONS TO SERIES A, B, AND C REMARKETED PREFERRED SHAREHOLDERS: (NOTE 1)	
From tax exempt income	(3,870,575)
From ordinary income	(30,188)
Net increase in net assets resulting from operations (applicable to common shareholders)	\$22,154,192

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



## Statement of changes in net assets

### INCREASE IN NET ASSETS

	Year ended 10/31/05	Year ended 10/31/04
<i>Operations:</i>		
Net investment income	\$ 24,075,642	\$ 25,455,102
Net realized loss on investments	(395,739)	(8,406,569)
Net unrealized appreciation of investments	2,375,052	17,847,804
Net increase in net assets resulting from operations	26,054,955	34,896,337
Distributions to Series A, B, and C remarketed preferred shareholders: (Note 1)		
From tax exempt income	(3,870,575)	(2,026,238)
From ordinary income	(30,188)	(3,054)
Net increase in net assets resulting from operations (applicable to common shareholders)	22,154,192	32,867,045
Distributions to common shareholders: (Note 1)		
From tax exempt income	(20,977,594)	(23,617,277)
From ordinary income	(354,033)	(42,484)
Decrease from shares repurchased (Note 5)	(458,659)	--
Total increase in net assets	363,906	9,207,284
NET ASSETS		
Beginning of year	386,072,623	376,865,339
End of year (including distributions in excess of net investment income of \$27,773 and undistributed net investment income of \$1,099,611)	\$386,436,529	\$386,072,623

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NUMBER OF FUND SHARES

Common shares outstanding at beginning of year	47,206,343	47,206,343
Shares repurchased (Note 5)	(63,145)	--
Common shares outstanding at end of year	47,143,198	47,206,343
Remarketed preferred shares outstanding at beginning and end of year	1,750	1,750

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

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

PER-SHARE OPERATING PERFORMANCE

	10/31/05	10/31/04	Year ended		10/31/01
			10/31/03	10/31/02	
Net asset value, beginning of period (common shares)	\$8.18	\$7.98	\$7.84	\$8.49	\$8.44
<i>Investment operations:</i>					
Net investment income (a)	.51	.54	.61	.70	.72
Net realized and unrealized gain (loss) on investments	.04	.20	.14	(.73)	.04
Total from investment operations	.55	.74	.75	(.03)	.76
<i>Distributions to preferred shareholders:</i>					
From net investment income	(.08)	(.04)	(.04)	(.05)	(.12)
Total from investment operations (applicable to common shareholders)	.47	.70	.71	(.08)	.64
<i>Distributions to common shareholders:</i>					
From net investment income	(.45)	(.50)	(.57)	(.57)	(.59)
Total distributions	(.45)	(.50)	(.57)	(.57)	(.59)
Net asset value, end of period					

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(common shares)	\$8.20	\$8.18	\$7.98	\$7.84	\$8.49
<hr/>					
Market price, end of period (common shares)	\$7.15	\$7.29	\$7.34	\$7.43	\$8.44
<hr/>					
Total return at market price (%) (common shares)(b)	4.21	6.35	6.44	(5.57)	(6.21)
<hr/>					

### RATIOS AND SUPPLEMENTAL DATA

Net assets, end of period (common shares) (in thousands)	\$386,437	\$386,073	\$376,865	\$370,281	\$400,255
<hr/>					
Ratio of expenses to average net assets %(c,d)	1.30	1.28	1.27	1.25	1.22
<hr/>					
Ratio of net investment income to average net assets %(c)	5.18	6.12	7.21	7.84	7.01
<hr/>					
Portfolio turnover (%)	21.87	25.54	40.82	20.44	17.95

- (a) *Per share net investment income has been determined on the basis of the weighted average number of shares outstanding during the period.*
- (b) *Total return assumes dividend reinvestment.*
- (c) *Ratios reflect net assets available to common shares only; net investment income ratio also reflects reduction for dividend payments to preferred shareholders.*
- (d) *Includes amounts paid through expense offset arrangements (Note 2).*

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

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## Notes to financial statements 10/31/05

### Note 1: Significant accounting policies

Putnam Managed Municipal Income Trust (the "fund"), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The fund's investment objective is to seek a high level of current income exempt from federal income tax. The fund intends to achieve its objective by investing in a diversified portfolio of tax-exempt municipal securities which Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC, believes does not involve undue risk to income or principal. Up to 60% of the fund's assets may consist of high-yield tax-exempt municipal securities that are below investment grade and involve special risk considerations. The fund also uses leverage by issuing preferred shares in an effort to increase the income to the common shares.

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

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the risk of material loss to be remote.

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

A) Security valuation Tax-exempt bonds and notes are valued on the basis of valuations provided by an independent pricing service, approved by the Trustees. Such services use information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. Other investments are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees.

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

Interest income is recorded on the accrual basis. All premiums/discounts are amortized/accreted on a yield-to-maturity basis. The premium in excess of the call price, if any, is amortized to the call date; thereafter, any remaining premium is amortized to maturity.

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

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. Risks may exceed amounts recognized on the statement of assets and liabilities. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at

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the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments.

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

D) Federal taxes It is the policy of the fund to distribute all of its income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code of 1986 (the "Code") applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Code, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At October 31, 2005, the fund had a capital loss carryover of \$47,831,350 available to the extent allowed by the Code to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

Loss Carryover

Expiration

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\$	2,894,998	October 31, 2006
	3,629,209	October 31, 2007
	1,237,146	October 31, 2008
	1,641,465	October 31, 2009
	3,729,886	October 31, 2010
	25,837,158	October 31, 2011
	8,560,869	October 31, 2012
	300,619	October 31, 2013

E) Distributions to shareholders Distributions to common and preferred shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. Dividends on remarketed preferred shares become payable when, as and if declared by the Trustees. Each dividend period for the remarketed preferred shares is generally a 28-day period for Series A and Series B shares, and a 7-day period for Series C shares. The applicable dividend rate for the remarketed preferred shares on October 31, 2005 was 2.68% for Series A, 2.70% for Series B and 2.55% for Series C. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include temporary and permanent differences of the expiration of capital loss carryover, dividends payable, realized and unrealized gains and losses on certain futures contracts, market discount, straddle loss deferrals, and partnership income. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. For the year ended October 31, 2005, the fund reclassified \$29,364 to decrease distributions in excess of net investment income and \$11,188,486 to decrease paid-in-capital, with a decrease to accumulated net realized losses of \$11,159,122.

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The tax basis components of distributable earnings and the federal tax cost as of period end were as follows:

Unrealized appreciation	\$ 22,370,474
Unrealized depreciation	(8,446,725)
	-----
Net unrealized appreciation	13,923,749
Undistributed tax-exempt income	1,572,545
Undistributed ordinary income	59,275
Capital loss carryforward	(47,831,350)
Cost for federal income tax purposes	\$540,108,309

F) Determination of net asset value Net asset value of the common shares is determined by dividing the value of all assets of the fund, less all liabilities and the liquidation preference of any outstanding remarketed preferred

shares, by the total number of common shares outstanding as of period end.

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

Putnam Management is paid for management and investment advisory services quarterly based on the average net assets of the fund. Such fee is based on 0.70% of the first \$500 million of average net assets, and 0.60% of the next \$500 million of average weekly net assets attributable to common and preferred shares outstanding.

In June 2005, the Trustees and Putnam Management agreed to a reduced management fee structure for the fund that will go into effect on January 1, 2006. Effective on that date, the fund's management fee is expected to be an annual rate of 0.55% of the average weekly net assets of the fund attributable to common and preferred shares (based on the fund's current asset level).

If dividends payable on remarketed preferred shares during any dividend payment period plus any expenses attributable to remarketed preferred shares for that period exceed the fund's gross income attributable to the proceeds of the remarketed preferred shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than 0.69% of the liquidation preference of the remarketed preferred shares outstanding during the period).

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

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company ("PFTC"), a subsidiary of Putnam, LLC. PFTC receives fees for custody services based on the fund's asset level, the number of its security holdings and transaction volumes. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. Putnam Investor Services is paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund's average net assets. During the year ended October 31, 2005, the fund paid PFTC \$340,093 for these services.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the year ended October 31, 2005, the fund's expenses were reduced by \$89,541 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$293, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

The fund has adopted a Trustee Fee Deferral Plan (the "Deferral Plan") which allows the Trustees to defer the receipt of all or a portion of Trustees fees payable on or after July 1, 1995. The deferred

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fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years and were first elected prior to 2004. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

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

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During the year ended October 31, 2005, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$121,947,209 and \$117,634,350, respectively. There were no purchases or sales of U.S. government securities.

### **Note 4: Preferred shares**

The Series A (550), Series B (550), and Series C (650) shares are redeemable at the option of the fund on any dividend payment date at a redemption price of \$100,000 per share, plus an amount equal to any dividends accumulated on a daily basis but unpaid through the redemption date (whether or not such dividends have been declared) and, in certain circumstances, a call premium.

It is anticipated that dividends paid to holders of remarketed preferred shares will be considered tax-exempt dividends under the Internal Revenue Code of 1986. To the extent that the fund earns taxable income and capital gains by the conclusion of a fiscal year, it may be required to apportion to the holders of the remarketed preferred shares throughout that year additional dividends as necessary to result in an after-tax equivalent to the applicable dividend rate for the period. Total additional dividends for the year ended October 31, 2005 were \$10,566.

Under the Investment Company Act of 1940, the fund is required to maintain asset coverage of at least 200% with respect to the remarketed preferred shares as of the last business day of each month in which any such shares are outstanding. Additionally, the fund is required to meet more stringent asset coverage requirements under terms of the remarketed preferred shares and restrictions imposed by the shares' rating agencies. Should these requirements not be met, or should dividends accrued on the remarketed preferred shares not be paid, the fund may be restricted in its ability to declare dividends to common shareholders or may be required to redeem certain of the remarketed preferred shares. As of October 31, 2005, no such restrictions have been placed on the fund.

### **Note 5: Share repurchase program**

On October 7, 2005, the Trustees authorized Putnam Management to implement a share repurchase program pursuant to which the fund may, over the 12 months following the announcement, repurchase up to 5% of its common shares outstanding as of such date. Repurchases will only be made when the fund's shares are trading at less than net asset value and at such times and amounts as is believed to be in the best interest of the fund's shareholders.

For the year ended October 31, 2005, the fund repurchased 63,145 common shares for an aggregate purchase price of \$458,659, which reflects a weighted-average discount from net asset value per share of 11.4% .

### **Note 6: Regulatory matters and litigation**

Putnam Management has entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division settling charges connected with excessive short-term trading by

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Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. Pursuant to these settlement agreements, Putnam Management will pay a total of \$193.5 million in penalties and restitution, with \$153.5 million being paid to shareholders and the funds. The amount will be allocated to shareholders and funds pursuant to a plan developed by an independent consultant, and will be paid following approval of the plan by the SEC and the Massachusetts Securities Division.

The Securities and Exchange Commission's and Massachusetts Securities Division's allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management will bear any costs incurred by Putnam funds in connection with these lawsuits. Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to provide investment management services to its clients, including the Putnam funds.

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

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## Federal tax information (Unaudited)

The fund has designated 98.48% of dividends paid from net investment income during the fiscal year as tax exempt for Federal income tax purposes.

The Form 1099 you receive in January 2006 will show the tax status of all distributions paid to your account in calendar 2005.

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## Shareholder meeting results (Unaudited)

The annual meeting of shareholders of the fund was held on October 28, 2005.

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

	Common and preferred shares	
	Votes for	Votes withheld
Jameson A. Baxter	39,143,053	2,207,350
Charles B. Curtis	39,140,778	2,209,625
Myra R. Drucker	39,110,652	2,239,751
Charles E. Haldeman, Jr.	39,134,209	2,216,194
Paul L. Joskow	39,126,709	2,223,694
Elizabeth T. Kennan	39,107,991	2,242,412
John H. Mullin, III	39,109,483	2,240,920
George Putnam, III	39,128,559	2,221,844
W. Thomas Stephens	39,138,491	2,211,912



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Richard B. Worley	39,137,331	2,213,072
Preferred shares		
	Votes for	Votes withheld
John A. Hill	1,704	12
Robert E. Patterson	1,704	12

A proposal to convert the fund to an open-end investment company and approve certain related changes to the fund's Agreement and Declaration of Trust was defeated as follows:

	Common shares	
Votes for	Votes against	Abstentions
4,277,739	15,804,802	21,267,267

	Preferred shares	
Votes for	Votes against	Abstentions
12	102	1,602

All tabulations are rounded to nearest whole number.

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## Compliance certifications (Unaudited)

On November 17, 2005, your fund submitted a CEO annual certification to the New York Stock Exchange (["NYSE"]) on which the fund's principal executive officer certified that he was not aware, as of that date, of any violation by the fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the fund's principal executive and principal financial officers have made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q, relating to, among other things, the fund's disclosure controls and procedures and internal control over financial reporting.

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## About the Trustees

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### **Jameson A. Baxter** (Born 1943), Trustee since 1994, Vice Chairman since 2005

Ms. Baxter is the President of Baxter Associates, Inc., a private investment firm that she founded in 1986.

Ms. Baxter serves as a Director of ASHTA Chemicals, Inc., Banta Corporation (a printing and digital imaging firm), Ryerson Tull, Inc. (a steel service corporation), the Mutual Fund Directors Forum, Advocate Health Care and BoardSource, formerly the National Center for Nonprofit Boards. She is Chairman Emeritus of the Board of Trustees, Mount Holyoke College, having served as Chairman for five years and as a board member for thirteen years. Until 2002, Ms. Baxter was a Director of Intermatic Corporation (a manufacturer of energy control products).

Ms. Baxter has held various positions in investment banking and corporate finance, including Vice President and Principal of the Regency Group, and Vice President of and Consultant to First Boston Corporation. She is a graduate of Mount Holyoke College.

### **Charles B. Curtis** (Born 1940), Trustee since 2001

Mr. Curtis is President and Chief Operating Officer of the Nuclear Threat Initiative (a private foundation dealing with national security issues) and serves as Senior Advisor to the United Nations Foundation.

Mr. Curtis is a member of the Council on Foreign Relations and the Trustee Advisory Council of the Applied Physics Laboratory, Johns Hopkins University. Until 2003, Mr. Curtis was a member of the Electric Power Research Institute Advisory Council and the University of Chicago Board of Governors for Argonne National Laboratory. Prior to 2002, Mr. Curtis was a Member of the Board of Directors of the Gas Technology Institute and the Board of Directors of the Environment and Natural Resources Program Steering Committee, John F. Kennedy School of Government, Harvard University. Until 2001, Mr. Curtis was a member of the Department of Defense Policy Board and Director of EG&G Technical Services, Inc. (a fossil energy research and development support company).

From August 1997 to December 1999, Mr. Curtis was a Partner at Hogan & Hartson L.L.P., a Washington, D.C. law firm. Prior to May 1997, Mr. Curtis was Deputy Secretary of Energy. He served as Chairman of the Federal Energy Regulatory Commission from 1977 to 1981 and has held positions on the staff of the U.S. House of Representatives, the U.S. Treasury Department, and the SEC.

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### **Myra R. Drucker** (Born 1948), Trustee since 2004

Ms. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College, a Trustee of Commonfund (a not-for-profit firm specializing in asset management for educational endowments and foundations) and a member of the Investment Committee of the Kresge Foundation (a charitable trust).

Ms. Drucker is an ex-officio member of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee, having served as Chair for seven years and a member of the Executive Committee of the Committee on Investment of Employee Benefit Assets. She is Chair of the Advisory Board of Hamilton Lane Advisors (an investment management firm) and a member of the Advisory Board of RCM (an investment management firm). Until August 31, 2004, Ms. Drucker was Managing Director and a member of the Board of Directors of General Motors Asset Management and Chief Investment Officer of General Motors Trust Bank. Ms. Drucker also served as a member of the NYSE Corporate Accountability and Listing Standards Committee and the NYSE/NASD IPO Advisory Committee.

Prior to joining General Motors Asset Management in 2001, Ms. Drucker held various executive positions in the investment management industry. Ms. Drucker served as Chief Investment Officer of Xerox Corporation (a technology and service company in the document industry), where she was responsible for the investment of the company's pension assets. Ms. Drucker was also Staff Vice President and Director of Trust Investments for International Paper (a paper, paper distribution, packaging and forest products company) and previously served as Manager of Trust Investments for Xerox Corporation. Ms. Drucker received a B.A. degree in Literature and Psychology from Sarah Lawrence College and pursued graduate studies in economics, statistics and portfolio theory at Temple University.

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### **John A. Hill** (Born 1942), Trustee since 1985 and Chairman since 2000

Mr. Hill is Vice Chairman of First Reserve Corporation, a private equity buyout firm that specializes in energy investments in the diversified worldwide energy industry.

Mr. Hill is a Director of Devon Energy Corporation, TransMontaigne Oil Company and various private companies controlled by First Reserve Corporation, as well as Chairman of TH Lee, Putnam Investment Trust (a closed-end investment company advised by an affiliate of Putnam Management). He is also a Trustee of Sarah Lawrence College. Until 2005, he was a Director of Continuum Health Partners of New York.

Prior to acquiring First Reserve Corporation in 1983, Mr. Hill held executive positions in investment banking and investment management with several firms and with the federal government, including Deputy Associate Director of the Office of Management and Budget and Deputy

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Director of the Federal Energy Administration. He is active in various business associations, including the Economic Club of New York, and lectures on energy issues in the United States and Europe. Mr. Hill holds a B.A. degree in Economics from Southern Methodist University and pursued graduate studies there as a Woodrow Wilson Fellow.

### **Paul L. Joskow** (Born 1947), Trustee since 1997

Dr. Joskow is the Elizabeth and James Killian Professor of Economics and Management, and Director of the Center for Energy and Environmental Policy Research at the Massachusetts Institute of Technology.

Dr. Joskow serves as a Director of National Grid plc (a UK-based holding company with interests in electric and gas transmission and distribution and telecommunications infrastructure) and TransCanada Corporation (an energy company focused on natural gas transmission and power services). He also serves on the Board of Overseers of the Boston Symphony Orchestra. Prior to February 2005, he served on the board of the Whitehead Institute for Biomedical Research (a non-profit research institution) and has been President of the Yale University Council since 1993. Prior to February 2002, he was a Director of State Farm Indemnity Company (an automobile insurance company), and, prior to March 2000, he was a Director of New England Electric System (a public utility holding company).

Dr. Joskow has published five books and numerous articles on topics in industrial organization, government regulation of industry, and competition policy. He is active in industry restructuring, environmental, energy, competition and privatization policies -- serving as an advisor to governments and corporations worldwide. Dr. Joskow holds a Ph.D. and M. Phil from Yale University and a B.A. from Cornell University.

### **Elizabeth T. Kennan** (Born 1938), Trustee since 1992

Dr. Kennan is a Partner of Cambus-Kenneth Farm (thoroughbred horse and cattle breeding). She is President Emeritus of Mount Holyoke College.

Dr. Kennan served as Chairman and is now Lead Director of Northeast Utilities. Until 2005, she was a Director of Talbots, Inc. She has served as Director on a number of other boards, including Bell Atlantic, Chastain Real Estate, Shawmut Bank, Berkshire Life Insurance and Kentucky Home Life Insurance. She is a Trustee of the National Trust for Historic Preservation, of Centre College and of Midway College in Midway, Kentucky. She is also a member of The Trustees of Reservations. Dr. Kennan has served on the oversight committee of the Folger Shakespeare Library, as President of Five Colleges Incorporated, as a Trustee of Notre Dame University and is active in various educational and civic associations.

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As a member of the faculty of Catholic University for twelve years, until 1978, Dr. Kennan directed the post-doctoral program in Patristic and Medieval Studies, taught history and published numerous articles. Dr. Kennan holds a Ph.D. from the University of Washington in Seattle, an M.S. from St. Hilda's College at Oxford

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University and an A.B. from Mount Holyoke College. She holds several honorary doctorates.

### **John H. Mullin, III** (Born 1941), Trustee since 1997

Mr. Mullin is the Chairman and CEO of Ridgeway Farm (a limited liability company engaged in timber and farming).

Mr. Mullin serves as a Director of The Liberty Corporation (a broadcasting company), Progress Energy, Inc. (a utility company, formerly known as Carolina Power & Light) and Sonoco Products, Inc. (a packaging company). Mr. Mullin is Trustee Emeritus of The National Humanities Center and Washington & Lee University, where he served as Chairman of the Investment Committee. Prior to May 2001, he was a Director of Graphic Packaging International Corp. Prior to February 2004, he was a Director of Alex Brown Realty, Inc.

Mr. Mullin is also a past Director of Adolph Coors Company; ACX Technologies, Inc.; Crystal Brands, Inc.; Dillon, Read & Co., Inc.; Fisher-Price, Inc.; and The Ryland Group, Inc. Mr. Mullin is a graduate of Washington & Lee University and The Wharton Graduate School, University of Pennsylvania.

### **Robert E. Patterson** (Born 1945), Trustee since 1984

Mr. Patterson is Senior Partner of Cabot Properties, L.P. and Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate).

Mr. Patterson serves as Chairman Emeritus and Trustee of the Joslin Diabetes Center and as a Director of Brandywine Trust Group, LLC. Prior to June 2003, he was a Trustee of Sea Education Association. Prior to December 2001, he was President and Trustee of Cabot Industrial Trust (a publicly traded real estate investment trust). Prior to February 1998, he was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership (a registered investment adviser involved in institutional real estate investments). Prior to 1990, he served as Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (the predecessor company of Cabot Partners).

Mr. Patterson practiced law and held various positions in state government and was the founding Executive Director of the Massachusetts Industrial Finance Agency. Mr. Patterson is a graduate of Harvard College and Harvard Law School.

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### **W. Thomas Stephens** (Born 1942), Trustee since 1997

Mr. Stephens is Chairman and Chief Executive Officer of Boise Cascade, L.L.C. (a paper, forest products and timberland assets company).

Until 2004, Mr. Stephens was a Director of Xcel Energy Incorporated (a public utility company), Qwest Communications, and Norske Canada, Inc. (a paper manufacturer). Until 2003, Mr. Stephens was a Director of Mail-Well, Inc. (a diversified printing company). He served as Chairman of Mail-Well until 2001 and as CEO of MacMillan-Bloedel, Ltd. (a forest products company) until 1999.

Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville Corporation. He holds B.S. and M.S. degrees from the University of Arkansas.

### **Richard B. Worley** (Born 1945), Trustee since 2004

Mr. Worley is Managing Partner of Permit Capital LLC, an investment management firm.

Mr. Worley serves on the Executive Committee of the University of Pennsylvania Medical Center, is a Trustee of The Robert Wood Johnson Foundation (a philanthropic organization devoted to health care issues) and is a Director of The Colonial Williamsburg Foundation (a historical preservation organization). Mr. Worley also serves on the investment committees of Mount Holyoke College and World Wildlife Fund (a wildlife conservation organization).

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Prior to joining Permit Capital LLC in 2002, Mr. Worley served as Chief Strategic Officer of Morgan Stanley Investment Management. He previously served as President, Chief Executive Officer and Chief Investment Officer of Morgan Stanley Dean Witter Investment Management and as a Managing Director of Morgan Stanley, a financial services firm. Mr. Worley also was the Chairman of Miller Anderson & Sherrerd, an investment management firm.

Mr. Worley holds a B.S. degree from University of Tennessee and pursued graduate studies in economics at the University of Texas.

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### **Charles E. Haldeman, Jr.\*** (Born 1948), Trustee since 2004

Mr. Haldeman is President and Chief Executive Officer of Putnam, LLC (Putnam Investments). He is a member of Putnam Investments Executive Board of Directors and Advisory Council. Prior to November 2003, Mr. Haldeman served as Co-Head of Putnam Investments Investment Division.

Prior to joining Putnam Investments in 2002, Mr. Haldeman held executive positions in the investment management industry. He previously served as Chief Executive Officer of Delaware Investments and President & Chief Operating Officer of United Asset Management. Mr. Haldeman was also a partner and director of Cooke & Bieler, Inc. (an investment management firm).

Mr. Haldeman currently serves as a Trustee of Dartmouth College and is a member of the Partners HealthCare Systems Investment Committee. He is a graduate of Dartmouth College, Harvard Law School and Harvard Business School. Mr. Haldeman is also a Chartered Financial Analyst (CFA) charterholder.

### **George Putnam, III\*** (Born 1951), Trustee since 1984 and President since 2000

Mr. Putnam is President of New Generation Research, Inc. (a publisher of financial advisory and other research services), and of New Generation Advisers, Inc. (a registered investment advisor to private funds). Mr. Putnam founded the New Generation companies in 1986.

Mr. Putnam is a Director of The Boston Family Office, LLC (a registered investment adviser). He is a Trustee of St. Mark's School and Shore Country Day School, and until 2002 was a Trustee of the Sea Education Association.

Mr. Putnam previously worked as an attorney with the law firm of Dechert LLP (formerly known as Dechert Price & Rhoads) in Philadelphia. He is a graduate of Harvard College, Harvard Business School and Harvard Law School.

*The address of each Trustee is One Post Office Square, Boston, MA 02109.*

*As of October 31, 2005, there were 108 Putnam Funds. All Trustees serve as Trustees of all Putnam funds.*

*Each Trustee serves for an indefinite term, until his or her resignation, retirement at age 72, death, or removal.*

*\*Trustees who are or may be deemed to be "interested persons" (as defined in the Investment Company Act of 1940) of the fund, Putnam Management, Putnam Retail Management, or Marsh & McLennan Companies, Inc., the parent company of Putnam, LLC and its affiliated companies. Messrs. Haldeman and Putnam, III are deemed "interested persons" by virtue of their positions as officers of the fund, Putnam Management or Putnam Retail Management and as shareholders of Marsh & McLennan Companies, Inc. Mr. Putnam, III is the President of your fund and each of the other Putnam funds. Mr. Haldeman is President and Chief Executive Officer of Putnam Investments.*

## Officers

In addition to George Putnam, III, the other officers of the fund are shown below:

Charles E. Porter (*Born 1938*)  
Executive Vice President, Associate Treasurer  
and Principal Executive Officer  
*Since 1989*

Jonathan S. Horwitz (*Born 1955*)  
Senior Vice President and Treasurer  
*Since 2004*

Prior to 2004, Managing Director,  
Putnam Investments

Steven D. Krichmar (*Born 1958*)  
Vice President and Principal Financial Officer  
*Since 2002*

Senior Managing Director, Putnam  
Investments. Prior to July 2001, Partner,  
PricewaterhouseCoopers LLP

Michael T. Healy (*Born 1958*)  
Assistant Treasurer and Principal  
Accounting Officer  
*Since 2000*

Managing Director, Putnam Investments

Beth S. Mazor (*Born 1958*)  
Vice President  
*Since 2002*

Senior Vice President, Putnam Investments

Daniel T. Gallagher (*Born 1962*)  
Senior Vice President, Staff Counsel  
and Compliance Liaison  
*Since 2004*

Prior to 2004, Associate, Ropes & Gray LLP;  
prior to 2000, Law Clerk, Massachusetts  
Supreme Judicial Court

Francis J. McNamara, III (*Born 1955*)  
Vice President and Chief Legal Officer

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*Since 2004*

Senior Managing Director, Putnam Investments, Putnam Management and Putnam Retail Management. Prior to 2004, General Counsel, State Street Research & Management Company

James P. Pappas (*Born 1953*)

Vice President

*Since 2004*

Managing Director, Putnam Investments and Putnam Management. During 2002, Chief Operating Officer, Atlanta/Sosnoff Management Corporation; prior to 2001, President and Chief Executive Officer, UAM Investment Services, Inc.

Richard S. Robie, III (*Born 1960*)

Vice President

*Since 2004*

Senior Managing Director, Putnam Investments, Putnam Management and Putnam Retail Management. Prior to 2003, Senior Vice President, United Asset Management Corporation

Charles A. Ruys de Perez (*Born 1957*)

Vice President and Chief Compliance Officer

*Since 2004*

Managing Director, Putnam Investments

Mark C. Trenchard (*Born 1962*)

Vice President and BSA Compliance Officer

*Since 2002*

Senior Vice President, Putnam Investments

Judith Cohen (*Born 1945*)

Vice President, Clerk and Assistant Treasurer

*Since 1993*

Wanda M. McManus (*Born 1947*)

Vice President, Senior Associate Treasurer and Assistant Clerk

*Since 2005*

Nancy T. Florek (*Born 1957*)

Vice President, Assistant Clerk,  
Assistant Treasurer and Proxy Manager  
Since 2005

The address of each Officer is One Post Office Square, Boston, MA 02109.

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## The Putnam family of funds

The following is a complete list of Putnam's open-end mutual funds. *Investors should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. For a prospectus containing this and other information for any Putnam fund or product, call your financial advisor at 1-800-225-1581 and ask for a prospectus. Please read the prospectus carefully before investing.*

### Growth funds

Discovery Growth Fund  
Growth Opportunities Fund  
Health Sciences Trust  
International New Opportunities Fund\*  
New Opportunities Fund  
OTC & Emerging Growth Fund  
Small Cap Growth Fund  
Vista Fund  
Voyager Fund

### Value funds

Classic Equity Fund  
Convertible Income-Growth Trust  
Equity Income Fund  
The George Putnam Fund of Boston  
The Putnam Fund for Growth and Income  
International Growth and Income Fund\*  
Mid Cap Value Fund  
New Value Fund  
Small Cap Value Fund

### Blend funds

Capital Appreciation Fund  
Capital Opportunities Fund  
Europe Equity Fund\*  
Global Equity Fund\*  
Global Natural Resources Fund\*  
International Capital Opportunities Fund\*  
International Equity Fund\*  
Investors Fund  
Research Fund  
Tax Smart Equity Fund®  
Utilities Growth and Income Fund

### Income funds

American Government Income Fund  
Diversified Income Trust  
Floating Rate Income Fund  
Global Income Trust\*  
High Yield Advantage Fund\*  
High Yield Trust\*  
Income Fund  
Limited Duration Government Income Fund  
Money Market Fund§  
U.S. Government Income Trust

\* A 1% redemption fee on total assets redeemed or exchanged between 6 and 90 days of purchase may be imposed for all share classes of these funds.

☐ Closed to new investors.

☐ Formerly Putnam Intermediate U.S. Government Income Fund.

§ An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve your investment at \$1.00 per share, it is possible to lose money



by investing in the fund.

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**Tax-free income funds**

AMT-Free Insured Municipal Fund\*\*  
Tax Exempt Income Fund  
Tax Exempt Money Market Fund\$  
Tax-Free High Yield Fund

*State tax-free income funds:*

Arizona, California, Florida, Massachusetts,  
Michigan, Minnesota, New Jersey, New York,  
Ohio, and Pennsylvania

**Asset allocation funds**

Income Strategies Fund

Putnam Asset Allocation Funds -- three investment portfolios that spread your money across a variety of stocks, bonds, and money market investments.

*The three portfolios:*

Asset Allocation: Balanced Portfolio  
Asset Allocation: Conservative Portfolio  
Asset Allocation: Growth Portfolio

**Putnam RetirementReady® Funds**

Putnam RetirementReady Funds -- ten investment portfolios that offer diversification among stocks, bonds, and money market instruments and adjust to become more conservative over time based on a target date for withdrawing assets.

*The ten funds:*

Putnam RetirementReady 2050 Fund  
Putnam RetirementReady 2045 Fund  
Putnam RetirementReady 2040 Fund  
Putnam RetirementReady 2035 Fund  
Putnam RetirementReady 2030 Fund  
Putnam RetirementReady 2025 Fund  
Putnam RetirementReady 2020 Fund  
Putnam RetirementReady 2015 Fund  
Putnam RetirementReady 2010 Fund  
Putnam RetirementReady Maturity Fund

\*\* Formerly Putnam Tax-Free Insured Fund.

With the exception of money market funds, a 2% redemption fee may be applied to shares exchanged or sold within 5 days of purchase.

Check your account balances and the most recent month-end performance at [www.putnam.com](http://www.putnam.com).

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## **Fund information**

### **About Putnam Investments**

Founded over 65 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We manage over 100 mutual funds in growth, value, blend, fixed income, and international.

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

Marketing Services  
Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

Custodian  
Putnam Fiduciary  
Trust Company

Legal Counsel  
Ropes & Gray LLP

Independent Registered  
Public Accounting Firm  
KPMG LLP

#### Trustees

John A. Hill, *Chairman*  
Jameson Adkins Baxter,  
*Vice Chairman*  
Charles B. Curtis  
Myra R. Drucker  
Charles E. Haldeman, Jr.  
Paul L. Joskow  
Elizabeth T. Kennan  
John H. Mullin, III

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Robert E. Patterson  
George Putnam, III  
W. Thomas Stephens  
Richard B. Worley

Officers

George Putnam, III  
*President*

Charles E. Porter  
*Executive Vice President,  
Associate Treasurer and  
Principal Executive Officer*

Jonathan S. Horwitz  
*Senior Vice President  
and Treasurer*

Steven D. Krichmar  
*Vice President and  
Principal Financial Officer*

Michael T. Healy  
*Assistant Treasurer and  
Principal Accounting Officer*

Beth S. Mazor  
*Vice President*

Daniel T. Gallagher  
*Senior Vice President,  
Staff Counsel and  
Compliance Liaison*

James P. Pappas  
*Vice President*

Richard S. Robie, III  
*Vice President*

Mark C. Trenchard  
*Vice President and  
BSA Compliance Officer*

Francis J. McNamara, III  
*Vice President and  
Chief Legal Officer*

Charles A. Ruys de Perez  
*Vice President and*

*Chief Compliance Officer*

Judith Cohen  
*Vice President, Clerk and  
Assistant Treasurer*

Wanda M. McManus  
*Vice President, Senior Associate  
Treasurer and Assistant Clerk*

Nancy T. Florek  
*Vice President, Assistant Clerk,  
Assistant Treasurer  
and Proxy Manager*

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

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Item 2. Code of Ethics:

(a) All officers of the Fund, including its principal executive, financial and accounting officers, are employees of Putnam Investment Management, LLC, the Fund's investment manager. As such they are subject to a comprehensive Code of Ethics adopted and administered by Putnam Investments which is designed to protect the interests of the firm and its clients. The Fund has adopted a Code of Ethics which incorporates the Code of Ethics of Putnam Investments with respect to all of its officers and Trustees who are employees of Putnam Investment Management, LLC. For this reason, the Fund has not adopted a separate code of ethics governing its principal executive, financial and accounting officers.

(c) In July 2004, Putnam Investment Management, LLC, the Fund's investment manager, Putnam Retail Management Limited Partnership, the Fund's principal underwriter, and Putnam Investments Limited, the sub-manager for a portion of the assets of certain funds as determined by Putnam Management from time to time, adopted several amendments to their Code of Ethics. Some of these amendments were adopted as a result of Putnam Investment Management's partial settlement order with the SEC on November 13, 2003. Insofar as such Code of Ethics applies to the Fund's principal executive officer, principal financial officer and principal accounting officer, the amendments provided for the following: (i) a 90-day blackout period for all shares of Putnam open-end funds (except for money market funds) purchased or sold (including exchanges into or out of a fund) by Putnam employees and certain family members; (ii) a one-year holding period for all access persons that operates in the same manner as the 90-day rule; (iii) delivery by Putnam employees to the Code of Ethics Administrator of both quarterly account statements for all brokerage accounts (irrespective of activity in the accounts) and account statements for any Putnam funds not held at Putnam or for any funds sub-advised by Putnam; (iv) a prohibition of Putnam employees from making more than 25 trades in individual securities in their personal accounts in any given quarter; (v) the extension of the existing prohibition of access persons from a purchase and sale or sale and purchase of an individual security within 60 days to include trading based on tax-lot election; (vi) the inclusion of trades in Marsh & McLennan Companies, Inc. (ultimate parent company of Putnam Investment Management) securities in pre-clearance and reporting requirements; (vii) a prohibition of limit and good-until-canceled orders as inconsistent with the requirements of daily pre-clearance; (viii) new limits and procedures for accounts managed by outside managers and brokers, in order for trading in such accounts to be exempt from pre-clearance requirements; (ix) a new gift and entertainment policy that imposes a reporting obligation on all meals and entertainment and new limits on non-meal entertainment; (x) a number of alternatives for the reporting of irregular activity.

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In December 2004, additional amendments to the Code of Ethics were adopted. Insofar as such Code of Ethics applies to the Fund's principal executive officer, principal financial officer and principal accounting officer, the amendments provided for the following: (i) implementation of minimum monetary sanctions for violations of the Code; (ii) expansion of the definition of "access person" under the Code to include all Putnam employees with access to non-public information regarding Putnam-managed mutual fund portfolio holdings; (iii) lengthening the period during which access persons are required to complete quarterly reports; (iv) reducing the maximum number of trades than can be made by Putnam employees in their personal accounts in

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any calendar quarter from 25 trades to 10 trades; and (v) lengthening the required holding period for securities by access persons from 60 days to 90 days.

In March 2005, additional amendments to the Code of Ethics were adopted, that went into effect on April 1, 2005. Insofar as such Code of Ethics applies to the Fund's principal executive officer, principal financial officer and principal accounting officer, the amendments (i) prohibit Putnam employees and their immediate family members from having any direct or indirect personal financial interest in companies that do business with Putnam (excluding investment holdings in public companies that are not material to the employee), unless such interest is disclosed and approved by the Code of Ethics Officer; (ii) prohibit Putnam employees from using Putnam assets, letterhead or other resources in making political or campaign contributions, solicitations or endorsements; (iii) require Putnam employees to obtain pre-clearance of personal political or campaign contributions or other gifts to government officials or political candidates in certain jurisdictions and to officials or candidates with whom Putnam has or is seeking to establish a business relationship and (iv) require Putnam employees to obtain pre-approval from Putnam's Director of Government Relations prior to engaging in lobbying activities.

In July 2005, additional amendments to the Code of Ethics were adopted. Insofar as such Code of Ethics applies to the Fund's principal executive officer, principal financial officer and principal accounting officer, the amendments provided for an exception to the standard 90-day holding period (one year, in the case of employees deemed to be "access persons" under the Code) for shares of Putnam mutual funds in the case of redemptions from an employee's account in a college savings plan qualified under Section 529 of the Internal Revenue Code. Under this exception, an employee may, without penalty under the Code, make "qualified redemptions" of shares from such an account less than 90 days (or one year, as applicable) after purchase. "Qualified redemptions" include redemptions for higher education purposes for the account beneficiary and redemptions made upon death or disability. The July 2005 amendments also provide that an employee may, for purposes of the rule limiting the number of trades per calendar quarter in an employee's personal account to a maximum of 10, count all trades of the same security in the same direction (all buys or all sells) over a period of five consecutive business days as a single trade.

### Item 3. Audit Committee Financial Expert:

The Funds' Audit and Pricing Committee is comprised solely of Trustees who are "independent" (as such term has been defined by the Securities and Exchange Commission ("SEC") in regulations implementing Section 407 of the Sarbanes-Oxley Act (the "Regulations")). The Trustees believe that each of the members of the Audit and Pricing Committee also possess a combination of knowledge and experience with respect to financial accounting matters, as well as other attributes, that qualify them for service on the Committee. In addition, the Trustees have determined that all members of the Funds' Audit and Pricing Committee meet the financial literacy requirements of the New York Stock Exchange's rules and that Mr. Patterson, Mr. Stephens and Mr. Worley qualify as "audit committee financial experts" (as such term has been defined by the Regulations) based on their review of their pertinent experience and education. Certain other Trustees, although not on the Audit and Pricing

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Committee, would also qualify as "audit committee financial experts." The SEC has stated that the designation or identification of a person as an audit committee financial expert pursuant to this Item 3 of Form N-CSR does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit and Pricing Committee and the Board of Trustees in the absence of such designation or identification.

### Item 4. Principal Accountant Fees and Services:

The following table presents fees billed in each of the last two fiscal years for services rendered to the fund by the fund's independent auditors:

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Fiscal year ended	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
October 31, 2005	\$34,892	\$21,767	\$4,192	\$--
October 31, 2004	\$34,850	\$19,500	\$4,150	\$68

For the fiscal years ended October 31, 2005 and October 31, 2004, the fund's independent auditors billed aggregate non-audit fees in the amounts of \$25,959 and \$23,718 respectively, to the fund, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund.

Audit Fees represents fees billed for the fund's last two fiscal years.

Audit-Related Fees represents fees billed in the fund's last two fiscal years for services traditionally performed by the fund's auditor, including accounting consultation for proposed transactions or concerning financial accounting and reporting standards and other audit or attest services not required by statute or regulation.

Tax Fees represent fees billed in the fund's last two fiscal years for tax compliance, tax planning and tax advice services. Tax planning and tax advice services include assistance with tax audits, employee benefit plans and requests for rulings or technical advice from taxing authorities.

All Other Fees Fees represent fees billed for services relating to interfund trading.

Pre-Approval Policies of the Audit and Pricing Committee. The Audit and Pricing Committee of the Putnam funds has determined that, as a matter of policy, all work performed for the funds by the funds' independent auditors will be pre-approved by the Committee and will generally not be subject to pre-approval procedures.

Under certain circumstances, the Audit and Pricing Committee believes that it may be appropriate for Putnam Investment Management, LLC ("Putnam Management") and certain of its affiliates to engage the services of the funds' independent auditors, but only after prior approval by the Committee. Such requests are required to be submitted in writing to the Committee and explain, among other things, the nature of the proposed engagement, the estimated fees, and why this work must be performed by that particular audit firm. The Committee will review the proposed engagement at its next meeting.

Since May 6, 2003, all work performed by the independent auditors for the funds, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund was pre-approved by the Committee or a member of the Committee pursuant to the pre-approval policies discussed above. Prior to that date, the Committee had a general policy to pre-approve the independent auditor's engagements

for non-audit services with the funds, Putnam Management and any entity controlling, controlled by or under common control with Putnam Management that provides ongoing services to the fund.

The following table presents fees billed by the fund's principal auditor for services required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

Fiscal year ended	Audit-Related Fees	Tax Fees	All Other Fees	Total Non-Audit Fees
October 31, 2005	\$--	\$--	\$--	\$--
October 31,				



## I. BOARD-APPROVED PROPOSALS

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself (sometimes referred to as "management proposals"), which have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies and of the funds' intent to hold corporate boards accountable for their actions in promoting shareholder interests, the funds' proxies generally will be voted for the decisions reached by majority independent boards of directors, except as otherwise indicated in these guidelines. Accordingly, the funds' proxies will be voted for board-approved proposals, except as follows:

### Matters relating to the Board of Directors

#### Uncontested Election of Directors

The funds' proxies will be voted for the election of a company's nominees for the board of directors, except as follows:

The funds will withhold votes for the entire board of directors if

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- \* the board does not have a majority of independent directors,
- \* the board has not established independent nominating, audit, and compensation committees,
- \* the board has more than 19 members or fewer than five members, absent special circumstances,
- \* the board has not acted to implement a policy requested in a shareholder proposal that received the support of a majority of the shares of the company at its previous two annual meetings, or
- \* the board has adopted or renewed a shareholder rights plan (commonly referred to as a "poison pill") without shareholder approval during the current or prior calendar year.

The funds will withhold votes for any nominee for director who:

- \* is considered an independent director by the company and who has received compensation from the company other than for service as a director (e.g., investment banking, consulting, legal, or financial advisory fees),
- \* attends less than 75% of board and committee meetings without valid reasons for the absences (e.g., illness, personal emergency, etc.),
- \* as a director of a public company (Company A), is employed as a senior executive of another public company (Company B) if a director of Company B serves as a senior executive of Company A (commonly referred to as an "interlocking directorate"), or
- \* serves on more than five unaffiliated public company boards (for the purpose of this guideline, boards of affiliated registered investment companies will count as one board).

#### Commentary:

Board independence: Unless otherwise indicated, for the purposes of determining whether a board has a majority of independent directors and independent nominating, audit, and compensation committees, an "independent director" is a director who (1) meets all requirements to serve as an independent director of a company under the final NYSE Corporate Governance Rules (e.g., no material business relationships with the company and no present or recent employment relationship with the company (including employment of an immediate family member as an executive officer)), and (2) has not accepted directly or indirectly any consulting, advisory, or other compensatory fee from the company other than in his or her capacity as a member of the board of directors or any board committee. The funds' Trustees believe that the receipt of compensation for services other than service as a director raises significant independence issues.



Board size: The funds' Trustees believe that the size of the board

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of directors can have a direct impact on the ability of the board to govern effectively. Boards that have too many members can be unwieldy and ultimately inhibit their ability to oversee management performance. Boards that have too few members can stifle innovation and lead to excessive influence by management.

**Time commitment:** Being a director of a company requires a significant time commitment to adequately prepare for and attend the company's board and committee meetings. Directors must be able to commit the time and attention necessary to perform their fiduciary duties in proper fashion, particularly in times of crisis. The funds' Trustees are concerned about over-committed directors. In some cases, directors may serve on too many boards to make a meaningful contribution. This may be particularly true for senior executives of public companies (or other directors with substantially full-time employment) who serve on more than a few outside boards. The funds may withhold votes from such directors on a case-by-case basis where it appears that they may be unable to discharge their duties properly because of excessive commitments.

**Interlocking directorships:** The funds' Trustees believe that interlocking directorships are inconsistent with the degree of independence required for outside directors of public companies.

**Corporate governance practices:** Board independence depends not only on its members' individual relationships, but also on the board's overall attitude toward management. Independent boards are committed to good corporate governance practices and, by providing objective independent judgment, enhancing shareholder value. The funds may withhold votes on a case-by-case basis from some or all directors who, through their lack of independence, have failed to observe good corporate governance practices or, through specific corporate action, have demonstrated a disregard for the interest of shareholders.

#### Contested Elections of Directors

The funds will vote on a case-by-case basis in contested elections of directors.

#### Classified Boards

The funds will vote against proposals to classify a board, absent special circumstances indicating that shareholder interests would be better served by this structure.

**Commentary:** Under a typical classified board structure, the directors are divided into three classes, with each class serving a three-year term. The classified board structure results in directors serving staggered terms, with usually only a third of the directors up for re-election at any given annual meeting. The funds' Trustees generally believe that it is appropriate for directors to stand for election each year, but recognize that, in special circumstances, shareholder interests may be better served under a classified board structure.

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#### Other Board-Related Proposals

The funds will generally vote for board-approved proposals that have been approved by a majority independent board, and on a case-by-case basis on board-approved proposals where the board fails to meet the guidelines' basic independence standards (i.e., majority of independent directors and independent nominating, audit, and compensation committees).

#### Executive Compensation

The funds generally favor compensation programs that relate executive compensation to a company's long-term performance. The funds will vote on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

Except where the funds are otherwise withholding votes for the entire board of directors, the funds will vote for stock option and restricted stock plans that will result in an average annual dilution of 1.67% or less (based on the disclosed term of the plan and including all equity-based plans).

The funds will vote against stock option and restricted stock plans that will result in an average annual dilution of greater than 1.67% (based on the disclosed term of the plan and including all equity-based plans).

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The funds will vote against any stock option or restricted stock plan where the company's actual grants of stock options and restricted stock under all equity-based compensation plans during the prior three (3) fiscal years have resulted in an average annual dilution of greater than 1.67% .

The funds will vote against stock option plans that permit the replacing or repricing of underwater options (and against any proposal to authorize such replacement or repricing of underwater options).

The funds will vote against stock option plans that permit issuance of options with an exercise price below the stock's current market price.

Except where the funds are otherwise withholding votes for the entire board of directors, the funds will vote for an employee stock purchase plan that has the following features: (1) the shares purchased under the plan are acquired for no less than 85% of their market value; (2) the offering period under the plan is 27 months or less; and (3) dilution is 10% or less.

Commentary: Companies should have compensation programs that are reasonable and that align shareholder and management interests over the longer term. Further, disclosure of compensation programs should provide absolute transparency to shareholders regarding the sources and amounts of, and the factors influencing, executive compensation. Appropriately designed equity-based compensation plans can be an effective way to align the interests of long-term

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shareholders with the interests of management. The funds may vote against executive compensation proposals on a case-by-case basis where compensation is excessive by reasonable corporate standards, or where a company fails to provide transparent disclosure of executive compensation. In voting on a proposal relating to executive compensation, the funds will consider whether the proposal has been approved by an independent compensation committee of the board.

### Capitalization

Many proxy proposals involve changes in a company's capitalization, including the authorization of additional stock, the issuance of stock, the repurchase of outstanding stock, or the approval of a stock split. The management of a company's capital structure involves a number of important issues, including cash flow, financing needs, and market conditions that are unique to the circumstances of the company. As a result, the funds will vote on a case-by-case basis on board-approved proposals involving changes to a company's capitalization, except that where the funds are not otherwise withholding votes from the entire board of directors:

The funds will vote for proposals relating to the authorization and issuance of additional common stock (except where such proposals relate to a specific transaction).

The funds will vote for proposals to effect stock splits (excluding reverse stock splits).

The funds will vote for proposals authorizing share repurchase programs.

Commentary: A company may decide to authorize additional shares of common stock for reasons relating to executive compensation or for routine business purposes. For the most part, these decisions are best left to the board of directors and senior management. The funds will vote on a case-by-case basis, however, on other proposals to change a company's capitalization, including the authorization of common stock with special voting rights, the authorization or issuance of common stock in connection with a specific transaction (e.g., an acquisition, merger or reorganization), or the authorization or issuance of preferred stock. Actions such as these involve a number of considerations that may affect a shareholder's investment and that warrant a case-by-case determination.

### Acquisitions, Mergers, Reincorporations, Reorganizations and Other Transactions

Shareholders may be confronted with a number of different types of transactions, including acquisitions, mergers, reorganizations involving business combinations, liquidations, and the sale of all or substantially all of a company's assets, which may require their consent. Voting on such proposals involves considerations unique to each transaction. As a result, the funds will vote on a case-by-case basis on board-approved proposals to effect these

types of transactions, except as follows:

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The funds will vote for mergers and reorganizations involving business combinations designed solely to reincorporate a company in Delaware.

Commentary: A company may reincorporate into another state through a merger or reorganization by setting up a "shell" company in a different state and then merging the company into the new company. While reincorporation into states with extensive and established corporate laws - notably Delaware - provides companies and shareholders with a more well-defined legal framework, shareholders must carefully consider the reasons for a reincorporation into another jurisdiction, including especially an offshore jurisdiction.

#### Anti-Takeover Measures

Some proxy proposals involve efforts by management to make it more difficult for an outside party to take control of the company without the approval of the company's board of directors. These include the adoption of a shareholder rights plan, requiring supermajority voting on particular issues, the adoption of fair price provisions, the issuance of blank check preferred stock, and the creation of a separate class of stock with disparate voting rights. Such proposals may adversely affect shareholder rights, lead to management entrenchment, or create conflicts of interest. As a result, the funds will vote against board-approved proposals to adopt such anti-takeover measures, except as follows:

The funds will vote on a case-by-case basis on proposals to ratify or approve shareholder rights plans; and

The funds will vote on a case-by-case basis on proposals to adopt fair price provisions.

Commentary: The funds' Trustees recognize that poison pills and fair price provisions may enhance shareholder value under certain circumstances. As a result, the funds will consider proposals to approve such matters on a case-by-case basis.

#### Other Business Matters

Many proxies involve approval of routine business matters, such as changing a company's name, ratifying the appointment of auditors, and procedural matters relating to the shareholder meeting. For the most part, these routine matters do not materially affect shareholder interests and are best left to the board of directors and senior management of the company. The funds will vote for board-approved proposals approving such matters, except as follows:

The funds will vote on a case-by-case basis on proposals to amend a company's charter or bylaws (except for charter amendments necessary or to effect stock splits to change a company's name or to authorize additional shares of common stock).

The funds will vote against authorization to transact other unidentified, substantive business at the meeting.

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The funds will vote on a case-by-case basis on other business matters where the funds are otherwise withholding votes for the entire board of directors.

Commentary: Charter and bylaw amendments and the transaction of other unidentified, substantive business at a shareholder meeting may directly affect shareholder rights and have a significant impact on shareholder value. As a result, the funds do not view such items as routine business matters. Putnam Management's investment professionals and the funds' proxy voting service may also bring to the Proxy Coordinator's attention company-specific items that they believe to be non-routine and warranting special consideration. Under these circumstances, the funds will vote on a case-by-case basis.

## II. SHAREHOLDER PROPOSALS

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of the company's corporate governance structure or to change

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some aspect of its business operations. The funds generally will vote in accordance with the recommendation of the company's board of directors on all shareholder proposals, except as follows:

The funds will vote for shareholder proposals to declassify a board, absent special circumstances which would indicate that shareholder interests are better served by a classified board structure.

The funds will vote for shareholder proposals to require shareholder approval of shareholder rights plans.

The funds will vote for shareholder proposals that are consistent with the funds' proxy voting guidelines for board-approved proposals.

The funds will vote on a case-by-case basis on other shareholder proposals where the funds are otherwise withholding votes for the entire board of directors.

Commentary: In light of the substantial reforms in corporate governance that are currently underway, the funds' Trustees believe that effective corporate reforms should be promoted by holding boards of directors - and in particular their independent directors - accountable for their actions, rather than imposing additional legal restrictions on board governance through piecemeal proposals. Generally speaking, shareholder proposals relating to business operations are often motivated primarily by political or social concerns, rather than the interests of shareholders as investors in an economic enterprise. As stated above, the funds' Trustees believe that boards of directors and management are responsible for ensuring that their businesses are operating in accordance with high legal and ethical standards and should be held accountable for resulting corporate behavior. Accordingly, the funds will generally

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support the recommendations of boards that meet the basic independence and governance standards established in these guidelines. Where boards fail to meet these standards, the funds will generally evaluate shareholder proposals on a case-by-case basis.

### III. VOTING SHARES OF NON-U.S. ISSUERS

Many of the Putnam funds invest on a global basis, and, as a result, they may be required to vote shares held in non-U.S. issuers - i.e., issuers that are incorporated under the laws of foreign jurisdictions and that are not listed on a U.S. securities exchange or the NASDAQ stock market. Because non-U.S. issuers are incorporated under the laws of countries and jurisdictions outside the U.S., protection for shareholders may vary significantly from jurisdiction to jurisdiction. Laws governing non-U.S. issuers may, in some cases, provide substantially less protection for shareholders. As a result, the foregoing guidelines, which are premised on the existence of a sound corporate governance and disclosure framework, may not be appropriate under some circumstances for non-U.S. issuers.

In many non-U.S. markets, shareholders who vote proxies of a non-U.S. issuer are not able to trade in that company's stock on or around the shareholder meeting date. This practice is known as "share blocking." In countries where share blocking is practiced, the funds will vote proxies only with direction from Putnam Management's investment professionals.

In addition, some non-U.S. markets require that a company's shares be re-registered out of the name of the local custodian or nominee into the name of the shareholder for the meeting. This practice is known as "share re-registration." As a result, shareholders, including the funds, are not able to trade in that company's stock until the shares are re-registered back in the name of the local custodian or nominee. In countries where share re-registration is practiced, the funds will generally not vote proxies.

The funds will vote proxies of non-U.S. issuers in accordance with the foregoing guidelines where applicable, except as follows:

#### Uncontested Election of Directors

##### Japan

For companies that have established a U.S.-style corporate structure, the funds will withhold votes for the entire board of directors if

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- \* the board does not have a majority of outside directors,
  - \* the board has not established nominating and compensation committees composed of a majority of outside directors, or
  - \* the board has not established an audit committee composed of a majority of independent directors.
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The funds will withhold votes for the appointment of members of a company's board of statutory auditors if a majority of the members of the board of statutory auditors is not independent.

### Commentary:

Board structure: Recent amendments to the Japanese Commercial Code give companies the option to adopt a U.S.-style corporate structure (i.e., a board of directors and audit, nominating, and compensation committees). The funds will vote for proposals to amend a company's articles of incorporation to adopt the U.S.-style corporate structure.

Definition of outside director and independent director: Corporate governance principles in Japan focus on the distinction between outside directors and independent directors. Under these principles, an outside director is a director who is not and has never been a director, executive, or employee of the company or its parent company, subsidiaries or affiliates. An outside director is "independent" if that person can make decisions completely independent from the managers of the company, its parent, subsidiaries, or affiliates and does not have a material relationship with the company (i.e., major client, trading partner, or other business relationship; familial relationship with current director or executive; etc.). The guidelines have incorporated these definitions in applying the board independence standards above.

### Korea

The funds will withhold votes for the entire board of directors if

- \* the board does not have a majority of outside directors,
- \* the board has not established a nominating committee composed of at least a majority of outside directors, or
- \* the board has not established an audit committee composed of at least three members and in which at least two-thirds of its members are outside directors.

Commentary: For purposes of these guideline, an "outside director" is a director that is independent from the management or controlling shareholders of the company, and holds no interests that might impair performing his or her duties impartially from the company, management or controlling shareholder. In determining whether a director is an outside director, the funds will also apply the standards included in Article 415-2(2) of the Korean Commercial Code (i.e., no employment relationship with the company for a period of two years before serving on the committee, no director or employment relationship with the company's largest shareholder, etc.) and may consider other business relationships that would affect the independence of an outside director.

### United Kingdom

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The funds will withhold votes for the entire board of directors if

- \* the board does not have at least a majority of independent non-executive directors,
- \* the board has not established nomination committees composed of a majority of independent non-executive directors, or
- \* the board has not established compensation and audit committees composed of (1) at least three directors (in the case of smaller companies, two directors) and (2) solely of independent non-executive directors.

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The funds will withhold votes for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director (e.g., investment banking, consulting, legal, or financial advisory fees).

### Commentary:

Application of guidelines: Although the U.K.'s Combined Code on Corporate Governance ("Combined Code") has adopted the "comply and explain" approach to corporate governance, the funds' Trustees believe that the guidelines discussed above with respect to board independence standards are integral to the protection of investors in U.K. companies. As a result, these guidelines will be applied in a prescriptive manner.

Definition of independence: For the purposes of these guidelines, a non-executive director shall be considered independent if the director meets the independence standards in section A.3.1 of the Combined Code (i.e., no material business or employment relationships with the company, no remuneration from the company for non-board services, no close family ties with senior employees or directors of the company, etc.), except that the funds do not view service on the board for more than nine years as affecting a director's independence.

Smaller companies: A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

### Canada

In January 2004, Canadian securities regulators issued proposed policies that would impose new corporate governance requirements on Canadian public companies. The recommended practices contained in these new corporate governance requirements mirror corporate governance reforms that have been adopted by the NYSE and other U.S. national securities exchanges and stock markets. As a result, the funds will vote on matters relating to the board of directors of Canadian issuers in accordance with the guidelines applicable to U.S. issuers.

Commentary: Like the U.K.'s Combined Code, the proposed policies on

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corporate governance issued by Canadian securities regulators embody the "comply and explain" approach to corporate governance. Because the funds' Trustees believe that the board independence standards contained in the proxy voting guidelines are integral to the protection of investors in Canadian companies, these standards will be applied in a prescriptive manner.

### Other Matters

The funds will vote for shareholder proposals calling for a majority of a company's directors to be independent of management.

The funds will vote for shareholder proposals seeking to increase the independence of board nominating, audit, and compensation committees.

The funds will vote for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

The funds will vote on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of the company's outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of the company's outstanding common stock where shareholders have preemptive rights.

As adopted December 10, 2004

### Proxy Voting Procedures of the Putnam Funds

The proxy voting procedures below explain the role of the funds' Trustees, the proxy voting service and the Proxy Coordinator, as well as how the process will work when a proxy question needs to be handled on a case-by-case basis, or when there may be a conflict of interest.

#### The role of the funds' Trustees

The Trustees of the Putnam funds exercise control of the voting of proxies through their Board Policy and Nominating Committee, which is composed entirely of independent Trustees. The Board Policy and Nominating Committee oversees the proxy voting process and participates, as needed, in the resolution of issues that need to be handled on a case-by-case basis. The Committee annually reviews and recommends, for Trustee approval, guidelines governing the funds' proxy votes, including how the funds vote on specific proposals and which matters are to be considered on a case-by-case basis. The Trustees are assisted in this process by their independent administrative staff (the Office of the Trustees), independent legal counsel, and an independent proxy voting service. The Trustees also receive assistance from Putnam Investment Management, LLC (Putnam Management), the funds' investment advisor, on matters involving investment judgments. In

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all cases, the ultimate decision on voting proxies rests with the Trustees, acting as fiduciaries on behalf of the shareholders of the funds.

#### The role of the proxy voting service

The funds have engaged an independent proxy voting service to assist in the voting of proxies. The proxy voting service is responsible for coordinating with the funds' custodians to ensure that all proxy materials received by the custodians relating to the funds' portfolio securities are processed in a timely fashion. To the extent applicable, the proxy voting service votes all proxies in accordance with the proxy voting guidelines established by the Trustees. The proxy voting service will refer proxy questions to the Proxy Coordinator (described below) for instructions under circumstances where: (1) the application of the proxy voting guidelines is unclear; (2) a particular proxy question is not covered by the guidelines; or (3) the guidelines call for specific instructions on a case-by-case basis. The proxy voting service is also requested to call to the Proxy Coordinator's attention specific proxy questions that, while governed by a guideline, appear to involve unusual or controversial issues. The funds also utilize research services relating to proxy questions provided by the proxy voting service and by other firms.

#### The role of the Proxy Coordinator

Each year, a member of the Office of the Trustees is appointed Proxy Coordinator to assist in the coordination and voting of the funds' proxies. The Proxy Coordinator will deal directly with the proxy voting service and, in the case of proxy questions referred by the proxy voting service, will solicit voting recommendations and instructions from the Office of the Trustees, the Chair of the Board Policy and Nominating Committee, and Putnam Management's investment professionals, as appropriate. The Proxy

Coordinator is responsible for ensuring that these questions and referrals are responded to in a timely fashion and for transmitting appropriate voting instructions to the proxy voting service.

#### Voting procedures for referral items

As discussed above, the proxy voting service will refer proxy questions to the Proxy Coordinator under certain circumstances. When the application of the proxy voting guidelines is unclear or a particular proxy question is not covered by the guidelines (and does not involve investment considerations), the Proxy Coordinator will assist in interpreting the guidelines and, as appropriate, consult with one of more senior staff members of the Office of the Trustees and the Chair of the Board Policy and Nominating Committee on how the funds' shares will be voted.

For proxy questions that require a case-by-case analysis pursuant to the guidelines or that are not covered by the guidelines but involve investment considerations, the Proxy Coordinator will refer such questions, through a written request, to Putnam Management's investment professionals for a voting recommendation. Such referrals will be made in cooperation with the person or persons designated by Putnam Management's Legal and Compliance Department to assist in processing such referral items. In connection with each such referral item, the Legal and Compliance Department will conduct a conflicts of interest review, as described below under "Conflicts of Interest," and provide a conflicts of interest report (the "Conflicts

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Report") to the Proxy Coordinator describing the results of such review. After receiving a referral item from the Proxy Coordinator, Putnam Management's investment professionals will provide a written recommendation to the Proxy Coordinator and the person or persons designated by the Legal and Compliance Department to assist in processing referral items. Such recommendation will set forth (1) how the proxies should be voted; (2) the basis and rationale for such recommendation; and (3) any contacts the investment professionals have had with respect

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to the referral item with non-investment personnel of Putnam Management or with outside parties (except for routine communications from proxy solicitors). The Proxy Coordinator will then review the investment professionals' recommendation and the Conflicts Report with one of more senior staff members of the Office of the Trustees in determining how to vote the funds' proxies. The Proxy Coordinator will maintain a record of all proxy questions that have been referred to Putnam Management's investment professionals, the voting recommendation, and the Conflicts Report.

In some situations, the Proxy Coordinator and/or one of more senior staff members of the Office of the Trustees may determine that a particular proxy question raises policy issues requiring consultation with the Chair of the Board Policy and Nominating Committee, who, in turn, may decide to bring the particular proxy question to the Committee or the full Board of Trustees for consideration.

### Conflicts of interest

Occasions may arise where a person or organization involved in the proxy voting process may have a conflict of interest. A conflict of interest may exist, for example, if Putnam Management has a business relationship with (or is actively soliciting business from) either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote or that is actively lobbying for a particular outcome of a proxy vote. Any individual with knowledge of a personal conflict of interest (e.g., familial relationship with company management) relating to a particular referral item shall disclose that conflict to the Proxy Coordinator and the Legal and Compliance Department and otherwise remove himself or herself from the proxy voting process. The Legal and Compliance Department will review each item referred to Putnam Management's investment professionals to determine if a conflict of interest exists and will provide the Proxy Coordinator with a Conflicts Report for each referral item that (1) describes any conflict of interest; (2) discusses the procedures used to address such conflict of interest; and (3) discloses any contacts from parties outside Putnam Management (other than routine communications from proxy solicitors) with respect to the referral item not otherwise reported in an investment professional's recommendation. The Conflicts Report will also include written confirmation that any recommendation from an investment professional provided under circumstances where a conflict of interest exists was made solely on the investment merits and without regard to any other consideration.

As adopted March 11, 2005

### Item 8. Purchases of Equity Securities by Investment Company and Affiliated Purchasers Closed-End Management

#### Registrant Purchase of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value ) of Shares that May Yet Be Purchased under the Plans or Programs</u>
October 7- October 31, 2005	63,145	\$7.26	63,145	2,297,172

The Board of Trustees announced a repurchase plan on October 7, 2005 for which 2,360,317 shares have been approved to be repurchased by the fund. The repurchase plan has been approved through October 6, 2006.

### Item 9. Submission of Matters to a Vote of Security Holders:

Not applicable



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Item 10. Controls and Procedures:

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

(b) Changes in internal control over financial reporting: Not applicable

Item 11. Exhibits:

(a) The Code of Ethics of The Putnam Funds, which incorporates the Code of Ethics of Putnam Investments, is filed herewith.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Investment Company Act of 1940, as amended, and the officer certifications as required by Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith.

SIGNATURES

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

NAME OF REGISTRANT

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By (Signature and Title):

/s/Michael T. Healy

Michael T. Healy  
Principal Accounting Officer

Date: December 29, 2005

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

By (Signature and Title):

/s/Charles E. Porter

Charles E. Porter  
Principal Executive Officer

Date: December 29, 2005

By (Signature and Title):

/s/Steven D. Krichmar

Steven D. Krichmar  
Principal Financial Officer

Date: December 29, 2005

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