Lloyds Banking Group plc
Form 6-K
May 18, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

18 May 2018

LLOYDS BANKING GROUP plc
(Translation of registrant's name into English)

5th Floor
25 Gresham Street
London
EC2V 7HN
United Kingdom

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover Form 20-F or Form 40-F.

Form 20-F..X.. Form 40-F

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule
12g3-2(b): 82- ________

Index to Exhibits

Item

No. 1 Regulatory News Service Announcement, dated 18 May 2018
re: Sale of Irish Residential Mortgage Portfolio

18 May 2018

LLOYDS BANKING GROUP ANNOUNCES SALE OF ITS IRISH RESIDENTIAL MORTGAGE PORTFOLIO

Lloyds Banking Group plc (the 'Group') announces today that it has agreed the sale of its Irish residential mortgage portfolio to Barclays Bank plc, for a cash consideration of around £4 billion at current exchange rates.

The transaction will generate approximately 25 basis points of CET1 capital upon completion, slightly better than originally expected, and will complete in the second half of 2018. The transaction will also generate a pre-tax loss on sale of c.£110 million, recognised in the first half results.

The gross assets subject to the transaction are c.£4.3 billion, of which £0.3 billion are impaired, and in the year to 31 December 2017 generated a pre-tax loss of c.£40 million.

The sale is in line with the Group's strategy of becoming a low risk, UK focused bank. Following the transaction the Group will have minimal exposure to Ireland and the total outstanding run-off portfolio will be around £4 billion, less than 1 per cent of the Group's loans and advances to customers.

The sale proceeds will be used for general corporate purposes.

- END -

For further information:

Investor Relations
Douglas Radcliffe +44 (0)20 7356 1571
Group Investor Relations Director
douglas.radcliffe@lloydsbanking.com

Corporate Affairs
Matt Smith +44 (0)20 7356 3522
Head of Corporate Media
matt.smith@lloydsbanking.com

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy, plans and /or results of Lloyds Banking Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about Lloyds Banking Group's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, instability as a result of the exit by the UK from the European Union (EU) and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the US or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints. Please refer to the latest Annual Report on Form 20-F filed with the US Securities and Exchange Commission for a discussion of certain factors together with examples of forward looking statements. Except as required by any applicable law or regulation, the forward looking statements contained in this document are made as of today's date, and Lloyds Banking Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements. The information, statements and opinions contained in this document do not constitute a public offer under any applicable law or an offer to sell any securities or financial instruments or any advice or recommendation with respect to such securities or financial instruments.

Signatures

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

LLOYDS BANKING GROUP plc
(Registrant)

By: Douglas Radcliffe
Name: Douglas Radcliffe
Title: Group Investor Relations Director

Date: 18 May 2018

"12%"> guaranty 7 1/2s, 2014 410,000 407,950 Qwest Corp. notes 8 7/8s, 2012 330,000 353,925 Qwest Corp. sr. notes 7 5/8s, 2015 115,000 117,013 Qwest Corp. debs. 7 1/4s, 2025 55,000 52,663 Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada) 180,000 209,700 Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada) 40,000 44,050 Rogers Wireless, Inc. sec. notes 6 3/8s, 2014 (Canada) 250,000 242,500 Rural Cellular Corp. sr. notes 9 7/8s, 2010 120,000 126,300 Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010 30,000 30,300 Rural Cellular Corp. 144A sr. sub. notes FRN 10.899s, 2012 40,000 41,700 Syniverse Technologies, Inc. sr. sub. notes Ser. B, 7 3/4s, 2013 130,000 129,675 Time Warner Telecom, Inc. company guaranty 9 1/4s, 2014 185,000 197,256 Valor Telecommunications Enterprises, LLC/Finance Corp. company guaranty 7 3/4s, 2015 60,000 61,800 4,687,683

Consumer (0.8%) Jostens IH Corp. company guaranty 7 5/8s, 2012 245,000 240,713 Samsonite Corp. sr. sub. notes 8 7/8s, 2011 260,000 271,050 511,763

Consumer Goods (1.9%) Church & Dwight Co., Inc. company guaranty 6s, 2012 105,000 99,750 Elizabeth Arden, Inc. company guaranty 7 3/4s, 2014 120,000 120,000 Playtex Products, Inc. sec. notes 8s, 2011 305,000 319,488 Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012 259,000 260,295 Remington Arms Co., Inc. company guaranty 10 1/2s, 2011 105,000 89,250 Scotts Co. (The) sr. sub. notes 6 5/8s, 2013 45,000 44,100 Spectrum Brands, Inc. company guaranty 7 3/8s, 2015 335,000 272,188 Spectrum Brands, Inc. sr. sub. notes 8 1/2s, 2013 80,000 69,600 1,274,671

34

CORPORATE BONDS AND NOTES (89.8%)* *continued*

		Principal amount		Value
Consumer Services (1.0%)				
AMR Holding Co., Inc./EmCare Holding Co., Inc.				
sr. sub. notes 10s, 2015	$	85,000	$	90,525
Brand Services, Inc. company guaranty 12s, 2012		235,000		267,900
iPayment, Inc. 144A sr. sub. notes 9 3/4s, 2014		55,000		55,138
United Rentals NA, Inc. company guaranty 6 1/2s, 2012		80,000		76,800
United Rentals NA, Inc. sr. sub. notes 7 3/4s, 2013		18,000		17,640
United Rentals NA, Inc. sr. sub. notes 7s, 2014		175,000		164,500
				672,503
Energy (7.5%)				
Arch Western Finance, LLC sr. notes 6 3/4s, 2013		270,000		261,900
Bluewater Finance, Ltd. company guaranty 10 1/4s,				
2012 (Cayman Islands)		70,000		72,450
Chaparral Energy, Inc. 144A sr. notes 8 1/2s, 2015		110,000		111,375
CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)		185,000		181,300
Chesapeake Energy Corp. company guaranty 7 3/4s, 2015		45,000		46,013
Chesapeake Energy Corp. sr. notes 7 1/2s, 2013		210,000		214,725
Chesapeake Energy Corp. sr. notes 7s, 2014		60,000		59,775
Compton Petroleum Corp. company guaranty 7 5/8s,				
2013 (Canada)		145,000		141,375
Comstock Resources, Inc. sr. notes 6 7/8s, 2012		95,000		91,438
Delta Petroleum Corp. company guaranty 7s, 2015		365,000		333,975
Denbury Resources, Inc. sr. sub. notes 7 1/2s, 2015		75,000		75,938

Dresser-Rand Group, Inc. company guaranty 7 3/8s, 2014	22,000	22,110
Encore Acquisition Co. sr. sub. notes 6 1/4s, 2014	45,000	41,288
Encore Acquisition Co. sr. sub. notes 6s, 2015	152,000	135,660
EXCO Resources, Inc. company guaranty 7 1/4s, 2011	175,000	170,625
Forest Oil Corp. company guaranty 7 3/4s, 2014	70,000	71,400
Forest Oil Corp. sr. notes 8s, 2011	145,000	150,438
Forest Oil Corp. sr. notes 8s, 2008	35,000	35,700
Hanover Compressor Co. sr. notes 9s, 2014	70,000	74,375
Hanover Compressor Co. sr. notes 8 5/8s, 2010	40,000	41,200
Hanover Equipment Trust sec. notes Ser. B, 8 3/4s, 2011	30,000	31,200
Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)	275,000	268,813
Inergy, LP/Inergy Finance Corp. sr. notes 6 7/8s, 2014	365,000	344,013
KCS Energy, Inc. sr. notes 7 1/8s, 2012	65,000	65,163
Massey Energy Co. sr. notes 6 5/8s, 2010	260,000	260,000
Newfield Exploration Co. sr. notes 7 5/8s, 2011	130,000	133,250
Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014	125,000	119,688
Pacific Energy Partners/Pacific Energy Finance Corp.		
sr. notes 7 1/8s, 2014	75,000	74,813
Peabody Energy Corp. sr. notes 5 7/8s, 2016	135,000	126,563
Plains Exploration & Production Co. sr. notes 7 1/8s, 2014	95,000	93,813
Plains Exploration & Production Co.		
sr. sub. notes 8 3/4s, 2012	145,000	151,525
Pogo Producing Co. sr. sub. notes 6 7/8s, 2017	140,000	132,300
Pride International, Inc. sr. notes 7 3/8s, 2014	185,000	189,163
Quicksilver Resources, Inc. company guaranty 7 1/8s, 2016	100,000	95,500

35

CORPORATE BONDS AND NOTES (89.8%)* *continued*

		Principal amount		Value
Energy *continued*				
Stone Energy Corp. sr. sub. notes 6 3/4s, 2014	$	160,000	$	160,400
Whiting Petroleum Corp. company guaranty 7s, 2014		435,000		419,775
				4,999,039
Entertainment (1.3%)				
AMC Entertainment, Inc. sr. sub. notes 8s, 2014		22,000		20,515
AMC Entertainment, Inc. 144A company guaranty 11s, 2016		100,000		108,000
Cinemark USA, Inc. sr. sub. notes 9s, 2013		60,000		63,900
Cinemark, Inc. sr. disc. notes stepped-coupon zero %				
(9 3/4s, 3/15/07), 2014 □□		245,000		192,019
Marquee Holdings, Inc. sr. disc. notes stepped-coupon				
zero % (12s, 8/15/09), 2014 □□		140,000		99,750
Six Flags, Inc. sr. notes 8 7/8s, 2010		105,000		104,213

Universal City Florida Holding Co. sr. notes 8 3/8s, 2010		220,000	224,400
Universal City Florida Holding Co. sr. notes FRN 9.899s, 2010		75,000	77,438
			890,235
Financial (0.4%)			
Crescent Real Estate Equities, LP notes 7 1/2s, 2007 (R)		55,000	55,550
E*Trade Finance Corp. sr. notes 8s, 2011		175,000	181,125
Finova Group, Inc. notes 7 1/2s, 2009		169,070	54,525
			291,200
Food (1.8%)			
Archibald Candy Corp. company guaranty 10s, 2007 (In default) (F)		16,542	864
Dean Foods Co. company guaranty 7s, 2016		105,000	102,900
Dean Foods Co. sr. notes 6 5/8s, 2009		160,000	160,000
Del Monte Corp. company guaranty 6 3/4s, 2015		80,000	75,800
Del Monte Corp. sr. sub. notes 8 5/8s, 2012		205,000	213,713
Doane Pet Care Co. sr. sub. notes 10 5/8s, 2015		265,000	329,482
Nutro Products, Inc. 144A sr. notes FRN 9.23s, 2013		60,000	60,750
Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013		285,000	280,013
			1,223,522
Forest Products and Packaging (2.9%)			
Abitibi-Consolidated, Inc. debs. 8.85s, 2030 (Canada)		45,000	39,038
Abitibi-Consolidated, Inc. notes 7 3/4s, 2011 (Canada)		40,000	37,700
Abitibi-Consolidated, Inc. notes 6s, 2013 (Canada)		90,000	76,050
Chesapeake Corp. sr. sub. notes 7s, 2014	EUR	85,000	97,103
Covalence Specialty Materials Corp. 144A sr. sub. notes 10 1/4s, 2016	$	300,000	303,000
Georgia-Pacific Corp. debs. 9 1/2s, 2011		120,000	128,400
Graphic Packaging International Corp. sr. notes 8 1/2s, 2011		40,000	40,300
Jefferson Smurfit Corp. company guaranty 8 1/4s, 2012		18,000	16,920
Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013		15,000	13,500
JSG Holding PLC 144A sr. notes 11 1/2s, 2015 (Ireland)	EUR	114,009	151,180
MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	$	245,000	255,413

36

CORPORATE BONDS AND NOTES (89.8%)* *continued*

		Principal amount	Value
Forest Products and Packaging *continued*			
MDP Acquisitions PLC sr. notes Ser. EUR, 10 1/8s, 2012 (Ireland)	EUR	5,000	$ 7,073

NewPage Corp. sec. notes 10s, 2012	$	245,000	259,088
Norske Skog Canada, Ltd. sr. notes 7 3/8s, 2014 (Canada)		110,000	101,200
Smurfit Capital Funding PLC debs. 7 1/2s, 2025 (Ireland)		60,000	55,500
Stone Container Corp. sr. notes 9 3/4s, 2011		115,000	118,738
Stone Container Corp. sr. notes 8 3/8s, 2012		30,000	28,350
Stone Container Finance company guaranty 7 3/8s,			
2014 (Canada)		215,000	192,425
			1,920,978
Gaming & Lottery (3.3%)			
Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012		160,000	169,200
Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012		30,000	30,675
Boyd Gaming Corp. sr. sub. notes 7 1/8s, 2016		145,000	142,463
Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014		60,000	57,900
MGM Mirage, Inc. company guaranty 8 1/2s, 2010		125,000	131,875
MGM Mirage, Inc. company guaranty 6s, 2009		175,000	172,594
Mirage Resorts, Inc. debs. 7 1/4s, 2017		40,000	39,400
Park Place Entertainment Corp. sr. notes 7s, 2013		115,000	118,474
Park Place Entertainment Corp. sr. sub. notes 7 7/8s, 2010		95,000	99,513
Penn National Gaming, Inc. sr. sub. notes 6 3/4s, 2015		50,000	47,813
Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012		130,000	131,950
Resorts International Hotel and Casino, Inc. company			
guaranty 11 1/2s, 2009		120,000	130,800
Scientific Games Corp. company guaranty 6 1/4s, 2012		130,000	125,125
Station Casinos, Inc. sr. notes 6s, 2012		235,000	225,013
Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016		90,000	86,963
Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015		260,000	254,800
Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 1st			
mtge. 6 5/8s, 2014		280,000	265,650
			2,230,208
Health Care (5.7%)			
Athena Neurosciences Finance, LLC company			
guaranty 7 1/4s, 2008		270,000	268,650
Community Health Systems, Inc.			
sr. sub. notes 6 1/2s, 2012		310,000	297,213
DaVita, Inc. company guaranty 6 5/8s, 2013		225,000	216,281
HCA, Inc. debs. 7.19s, 2015		60,000	59,491
HCA, Inc. notes 8.36s, 2024		60,000	60,651
HCA, Inc. notes 7.69s, 2025		70,000	66,452
HCA, Inc. notes 6 3/8s, 2015		55,000	52,103
IASIS Healthcare/IASIS Capital Corp. sr. sub. notes 8 3/4s, 2014		60,000	60,675
Insight Health Services Corp. company guaranty FRB			
10.399s, 2011		230,000	207,288
MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012		40,000	36,200
Omnicare, Inc. sr. sub. notes 6 7/8s, 2015		75,000	72,750

Omnicare, Inc. sr. sub. notes 6 1/8s, 2013	120,000	113,400

37

CORPORATE BONDS AND NOTES (89.8%)* *continued*

	Principal amount	Value
Health Care *continued*		
Psychiatric Solutions, Inc. company guaranty 7 3/4s, 2015	$ 270,000	$ 272,025
Select Medical Corp. company guaranty 7 5/8s, 2015	225,000	200,813
Service Corp. International debs. 7 7/8s, 2013	40,000	40,400
Service Corp. International notes Ser. *, 7.7s, 2009	50,000	50,625
Service Corp. International notes 6 1/2s, 2008	20,000	19,950
Service Corp. International 144A sr. notes 7 1/4s, 2017	50,000	47,500
Service Corp. International sr. notes 6 3/4s, 2016	140,000	131,250
Stewart Enterprises, Inc. 144A sr. notes 7 3/4s, 2013	260,000	243,100
Tenet Healthcare Corp. notes 7 3/8s, 2013	175,000	161,875
Tenet Healthcare Corp. sr. notes 9 7/8s, 2014	175,000	178,063
Triad Hospitals, Inc. sr. notes 7s, 2012	130,000	128,863
Triad Hospitals, Inc. sr. sub. notes 7s, 2013	225,000	217,969
Universal Hospital Services, Inc. sr. notes 10 1/8s, 2011 (Canada)	65,000	68,250
Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014	300,000	307,500
Ventas Realty, LP/Capital Corp. company guaranty 9s, 2012 (R)	55,000	60,775
Ventas Realty, LP/Capital Corp. company guaranty 6 3/4s, 2010 (R)	55,000	55,206
Ventas Realty, LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)	40,000	39,100
Ventas Realty, LP/Capital Corp. sr. notes 6 1/2s, 2016 (R)	60,000	58,050
		3,792,468
Homebuilding (0.8%)		
Ashton Woods USA, LLC/Ashton Woods Finance Co. sr. sub. notes 9 1/2s, 2015	75,000	69,188
Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011	70,000	72,975
K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	90,000	92,700
K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014	25,000	22,963
Meritage Homes Corp. company guaranty 6 1/4s, 2015	60,000	53,100
Schuler Homes, Inc. company guaranty 10 1/2s, 2011	70,000	73,937
Standard Pacific Corp. sr. notes 7s, 2015	25,000	22,625
Technical Olympic USA, Inc. company guaranty 10 3/8s, 2012	55,000	55,825
WCI Communities, Inc. company guaranty 9 1/8s, 2012	45,000	43,931
		507,244

Household Furniture and Appliances (0.3%)		
Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	200,000	208,000
Lodging/Tourism (0.5%)		
FelCor Lodging, LP company guaranty 8 1/2s, 2008 (R)	55,000	58,850
Host Marriott, LP sr. notes Ser. M, 7s, 2012 (R)	165,000	165,413
Starwood Hotels & Resorts Worldwide, Inc.		
debs. 7 3/8s, 2015	95,000	97,613
		321,876

CORPORATE BONDS AND NOTES (89.8%)* *continued*

	Principal amount	Value
Media (0.5%)		
Affinity Group, Inc. sr. sub. notes 9s, 2012	$ 270,000	$ 267,300
Warner Music Group sr. sub. notes 7 3/8s, 2014	100,000	99,000
		366,300
Metals (3.0%)		
AK Steel Corp. company guaranty 7 3/4s, 2012	285,000	280,725
Century Aluminum Co. company guaranty 7 1/2s, 2014	60,000	61,800
Chaparral Steel Co. company guaranty 10s, 2013	240,000	267,000
Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)	175,000	189,438
Ispat Inland ULC sec. notes 9 3/4s, 2014	230,000	257,313
Metals USA, Inc. 144A sec. notes 11 1/8s, 2015	120,000	133,800
Novelis, Inc. 144A sr. notes 7 3/4s, 2015	460,000	439,300
Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	110,000	114,675
Ucar Finance, Inc. company guaranty 10 1/4s, 2012	90,000	95,850
United States Steel Corp. sr. notes 9 3/4s, 2010	114,000	122,550
Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010 □□	7,790	6,154
Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011 □□	14,089	11,130
		1,979,735
Publishing (4.1%)		
American Media, Inc. company guaranty Ser. B, 10 1/4s, 2009	250,000	230,625
CanWest Media, Inc. company guaranty 8s, 2012 (Canada)	177,086	178,414
Cenveo Corp, sr. sub. notes 7 7/8s, 2013	145,000	139,925
Dex Media West, LLC/Dex Media Finance Co.		
sr. notes Ser. B, 8 1/2s, 2010	155,000	160,425
Dex Media, Inc. disc. notes stepped-coupon zero %		
(9s, 11/15/08), 2013 □□	85,000	71,400

Dex Media, Inc. notes 8s, 2013	65,000	65,813
Houghton Mifflin Co. sr. sub. notes 9 7/8s, 2013	315,000	332,325
Mail-Well I Corp. company guaranty 9 5/8s, 2012	135,000	144,113
PRIMEDIA, Inc. company guaranty 8 7/8s, 2011	130,000	124,475
PRIMEDIA, Inc. sr. notes 8s, 2013	190,000	171,000
R.H. Donnelley Corp. sr. notes 6 7/8s, 2013	65,000	59,638
R.H. Donnelley Corp. 144A sr. disc. notes Ser. A-2, 6 7/8s, 2013	110,000	100,650
R.H. Donnelley Corp. 144A sr. notes Ser. A-3, 8 7/8s, 2016	145,000	146,088
R.H. Donnelley Corp. 144A sr. disc. notes 6 7/8s, 2013	55,000	50,325
Reader□s Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	335,000	325,788
Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	340,000	333,625
Vertis, Inc. 144A sub. notes 13 1/2s, 2009	120,000	97,200
		2,731,829
Restaurants (0.4%)		
Domino□s, Inc. sr. sub. notes 8 1/4s, 2011	80,000	82,400
Sbarro, Inc. company guaranty 11s, 2009	155,000	156,550
		238,950
Retail (2.3%)		
Asbury Automotive Group, Inc. sr. sub. notes 8s, 2014	80,000	79,600
Autonation, Inc. 144A company guaranty 7s, 2014	30,000	29,850
Autonation, Inc. 144A company guaranty FRB 7.045s, 2013	40,000	40,400

39

CORPORATE BONDS AND NOTES (89.8%)* *continued*

	Principal amount	Value
Retail *continued*		
Bon-Ton Stores, Inc. (The) 144A sr. notes 10 1/4s, 2014	$ 215,000	$ 201,025
Burlington Coat Factory Warehouse Corp. 144A		
sr. notes 11 1/8s, 2014	150,000	147,188
Harry & David Holdings, Inc. company guaranty 9s, 2013	60,000	55,200
Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada)	115,000	111,838
Jean Coutu Group, Inc. sr. sub. notes 8 1/2s, 2014 (Canada)	55,000	51,150
Movie Gallery, Inc. sr. unsecd. notes 11s, 2012	50,000	38,000
Neiman-Marcus Group, Inc. 144A sr. notes 9s, 2015	335,000	348,819
Rite Aid Corp. company guaranty 9 1/2s, 2011	100,000	104,500
Rite Aid Corp. company guaranty 7 1/2s, 2015	80,000	78,000
Rite Aid Corp. sr. notes 9 1/4s, 2013	75,000	73,125
United Auto Group, Inc. company guaranty 9 5/8s, 2012	205,000	216,531
		1,575,226

Technology (4.6%)		
Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012	130,000	134,225
Amkor Technologies, Inc. sr. notes 7 3/4s, 2013	143,000	130,130
Amkor Technologies, Inc. sr. unsecd. notes 9 1/4s, 2016	75,000	72,000
Avago Technologies Finance 144A sr. notes 10 1/8s, 2013 (Singapore)	90,000	96,300
Celestica, Inc. sr. sub. notes 7 7/8s, 2011 (Canada)	70,000	70,175
Celestica, Inc. sr. sub. notes 7 5/8s, 2013 (Canada)	110,000	109,175
Freescale Semiconductor, Inc. sr. notes Ser. B, 7 1/8s, 2014	160,000	163,200
Iron Mountain, Inc. company guaranty 8 5/8s, 2013	115,000	118,163
Iron Mountain, Inc. company guaranty 7 3/4s, 2015	125,000	124,688
Iron Mountain, Inc. company guaranty 6 5/8s, 2016	295,000	274,350
Lucent Technologies, Inc. debs. 6 1/2s, 2028	10,000	8,650
Lucent Technologies, Inc. debs. 6.45s, 2029	175,000	152,469
Lucent Technologies, Inc. notes 5 1/2s, 2008	40,000	39,000
New ASAT Finance, Ltd. company guaranty 9 1/4s, 2011 (Cayman Islands)	65,000	57,200
Sensata Technologies BV 144A 8s, 2014 (Netherlands)	75,000	73,875
Serena Software, Inc. 144A sr. sub. notes 10 3/8s, 2016	30,000	31,350
Solectron Corp. 144A sr. sub. notes 8s, 2016	135,000	135,675
SunGard Data Systems, Inc. 144A sr. sub. notes 10 1/4s, 2015	192,000	200,640
SunGard Data Systems, Inc. 144A sr. unsecd. notes 9 1/8s, 2013	326,000	341,893
UGS Corp. company guaranty 10s, 2012	280,000	303,800
Unisys Corp. sr. notes 8s, 2012	105,000	98,569
Xerox Capital Trust I company guaranty 8s, 2027	130,000	132,763
Xerox Corp. sr. notes 7 5/8s, 2013	45,000	46,125
Xerox Corp. sr. notes 6 7/8s, 2011	180,000	181,800
Xerox Corp. sr. notes 6.4s, 2016	5,000	4,775
		3,100,990

Textiles (0.6%)		
Levi Strauss & Co. sr. notes 9 3/4s, 2015	190,000	196,175
Levi Strauss & Co. 144A sr. notes 8 7/8s, 2016	110,000	108,075
Oxford Industries, Inc. sr. notes 8 7/8s, 2011	75,000	76,875
		381,125

40

CORPORATE BONDS AND NOTES (89.8%)* *continued*

	Principal amount	Value
Tire & Rubber (0.6%)		
Goodyear Tire & Rubber Co. (The) notes 8 1/2s, 2007	$ 35,000	$ 35,263
Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011	50,000	48,375
Goodyear Tire & Rubber Co. (The) sr. notes 9s, 2015	330,000	335,775
		419,413

Transportation (0.6%)		
Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008	170,000	162,350
Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008	200,000	209,500
Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009	30,000	30,150
		402,000

Utilities & Power (7.1%)		
AES Corp. (The) sr. notes 8 7/8s, 2011	13,000	13,813
AES Corp. (The) sr. notes 8 3/4s, 2008	4,000	4,170
AES Corp. (The) 144A sec. notes 9s, 2015	130,000	140,075
AES Corp. (The) 144A sec. notes 8 3/4s, 2013	190,000	204,725
ANR Pipeline Co. debs. 9 5/8s, 2021	135,000	160,776
CMS Energy Corp. sr. notes 8.9s, 2008	130,000	135,525
CMS Energy Corp. sr. notes 8 1/2s, 2011	40,000	42,200
CMS Energy Corp. sr. notes 7 3/4s, 2010	30,000	30,750
Colorado Interstate Gas Co. debs. 6.85s, 2037	75,000	75,656
Colorado Interstate Gas Co. sr. notes 5.95s, 2015	20,000	18,681
Copano Energy, LLC. 144A sr. notes 8 1/8s, 2016	60,000	61,500
Dynegy Holdings, Inc. 144A sr. unsecd. notes 8 3/8s, 2016	145,000	144,275
Dynegy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010	65,000	66,219
Dynegy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016	100,000	102,875
Edison Mission Energy 144A sr. notes 7 3/4s, 2016	55,000	54,450
Edison Mission Energy 144A sr. notes 7 1/2s, 2013	70,000	69,300
El Paso Corp. 144A notes 7 3/4s, 2010	40,000	41,000
El Paso Corp. sr. notes 8.05s, 2030	95,000	94,763
El Paso Corp. sr. notes 7 3/8s, 2012	65,000	65,325
El Paso Corp. sr. notes Ser. MTN, 7.8s, 2031	65,000	63,456
El Paso Natural Gas Co. debs. 8 5/8s, 2022	30,000	33,038
El Paso Production Holding Co. company guaranty 7 3/4s, 2013	275,000	280,500
Ferrellgas, LP/Finance sr. notes 8 3/4s, 2012	217,000	221,340
Ferrellgas, LP/Finance sr. notes 6 3/4s, 2014	115,000	110,113
Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034	225,000	240,750
Mirant North America, LLC 144A sr. notes 7 3/8s, 2013	175,000	172,813
Mission Energy Holding Co. sec. notes 13 1/2s, 2008	135,000	152,381
Monongahela Power Co. 1st mtge. 6.7s, 2014	70,000	72,514
Nevada Power Co. 2nd mtge. 9s, 2013	55,000	60,116
Northwestern Corp. sec. notes 5 7/8s, 2014	350,000	342,276
NRG Energy, Inc. sr. notes 7 3/8s, 2016	365,000	365,456
Orion Power Holdings, Inc. sr. notes 12s, 2010	100,000	112,750
SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	85,000	86,345
SEMCO Energy, Inc. 144A sr. notes 7 3/4s, 2013	110,000	111,788

CORPORATE BONDS AND NOTES (89.8%)* *continued*

		Principal amount		Value
Utilities & Power *continued*				
Sierra Pacific Power Co. general ref. mtge. 6 1/4s, 2012	$	25,000	$	24,802
Sierra Pacific Resources sr. notes 8 5/8s, 2014		125,000		134,647
Teco Energy, Inc. notes 7.2s, 2011		35,000		36,006
Teco Energy, Inc. notes 7s, 2012		55,000		56,100
Teco Energy, Inc. sr. notes 6 3/4s, 2015		10,000		10,000
Tennessee Gas Pipeline Co. debs. 7s, 2028		15,000		14,283
Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017		30,000		30,971
Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026		120,000		121,950
Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)		105,000		109,463
Utilicorp United, Inc. sr. notes 9.95s, 2011		75,000		83,813
Williams Cos., Inc. (The) notes 8 3/4s, 2032		25,000		28,000
Williams Cos., Inc. (The) notes 8 1/8s, 2012		25,000		26,500
Williams Cos., Inc. (The) notes 7 5/8s, 2019		95,000		98,088
Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010		45,000		44,438
York Power Funding 144A notes 12s, 2007 (Cayman Islands) (In default) (F)		65,719		5,481
				4,776,256
Total corporate bonds and notes (cost $60,583,420)			$	60,174,319

CONVERTIBLE BONDS AND NOTES (2.6%)*

		Principal amount		Value
ArvinMeritor, Inc. 144A cv. unsec. stepped-coupon 4 5/8s (zero %, 3/1/16) 2026	$	65,000	$	68,413
DRS Technologies, Inc. 144A cv. unsec. notes 2s, 2026		190,000		196,888
Intel Corp. cv. sub. bonds 2.95s, 2035		120,000		98,700
Kulicke & Soffa Industries, Inc. cv. sub. notes 0.5s, 2008		390,000		324,675
L-3 Communications Corp. 144A cv. bonds 3s, 2035		125,000		121,250
LIN Television Corp. cv. sr. sub. notes 2 1/2s, 2033		45,000		40,781
Manor Care, Inc. 144A cv. sr. notes 2 1/8s, 2035		25,000		27,844
Nash Finch Co. cv. sr. sub. notes stepped-coupon 1.631s (zero %, 3/15/13) 2035		375,000		142,031
Safeguard Scientifics, Inc. cv. sr. notes 2 5/8s, 2024		425,000		322,469
Sinclair Broadcast Group, Inc. cv. sr. sub. notes stepped-coupon 4 7/8s (2s, 1/15/11) 2018		315,000		276,019
Wabash National Corp. cv. sr. notes 3 1/4s, 2008		60,000		62,775
WCI Communities, Inc. cv. sr. sub. notes 4s, 2023		60,000		60,975

Total convertible bonds and notes (cost $1,713,897)	$ 1,742,820

CONVERTIBLE PREFERRED STOCKS (2.0%)*

	Shares	Value
Chesapeake Energy Corp. Ser. *, $4.50 cum. cv. pfd	1,139	$ 105,927
Citigroup Funding, Inc. Ser. GNW, 5.02% cv. pfd	5,160	162,850
Crown Castle International Corp. $3.125 cum. cv. pfd.	1,537	83,382

CONVERTIBLE PREFERRED STOCKS (2.0%)* *continued*

	Shares		Value
Emmis Communications Corp. Ser. A, $3.125 cum. cv. pfd.	2,929	$	133,270
Freeport-McMoRan Copper & Gold, Inc. 5.50% cv. pfd.	121		151,719
Huntsman Corp. $2.50 cv. pfd.	6,062		252,331
Interpublic Group of Cos., Inc. 144A Ser. B, 5.25% cum. cv. pfd	207		193,804
Northrop Grumman Corp. Ser. B, $7.00 cum. cv. pfd.	2,225		289,250
Total convertible preferred stocks (cost $1,403,385)		$	1,372,533

COMMON STOCKS (1.1%)*

	Shares		Value
Coinmach Service Corp. IDS (Income Deposit Securities)	15,654	$	267,995
Comdisco Holding Co., Inc.	86		1,333
Compass Minerals International, Inc.	112		2,854
Contifinancial Corp. Liquidating Trust Units	505,286		158
Crown Castle International Corp.	235		7,466
Dobson Communications Corp.	338		2,903
HCA, Inc.	2,195		97,568
Knology, Inc.	33		295
Legrand SA (France)	3,018		88,489
Playtex Products, Inc.	9,606		110,469
Samsonite Corp.	120,508		132,559
Sterling Chemicals, Inc.	10		128
Sun Healthcare Group, Inc.	178		1,461
USA Mobility, Inc.	40		812
VFB, LLC (acquired various dates from 12/21/99			

to 10/27/00, cost $214,226) (F)	259,509		5,515
VS Holdings, Inc.	40,417		1
WHX Corp.	3,964		36,667
Total common stocks (cost $2,053,805)		$	756,673

UNITS (0.7%)* (cost $812,266)

	Units		Value
XCL, Ltd. Equity Units (F)	446	$	476,662

PREFERRED STOCKS (0.3%)*

	Shares		Value
First Republic Capital Corp. 144A 10.50% pfd.	80	$	85,200
Paxson Communications Corp. 14.25% cum. pfd.	4		34,200
Rural Cellular Corp. Ser. B, 11.375% cum. pfd.	49		60,270
Total preferred stocks (cost $166,937)		$	179,670

43

FOREIGN GOVERNMENT BONDS AND NOTES (0.2%)*

	Principal amount		Value
Argentina (Republic of) FRB 4.889s, 2012	$153,125	$	140,648
Philippines (Republic of) bonds 9 1/2s, 2024	5,000		5,745
Total foreign government bonds and notes (cost $146,250)		$	146,393

SENIOR LOANS (0.1%)* (c) (cost $82,545)

	Principal amount		Value
Olympus Cable Holdings, LLC bank term loan FRN Ser. B, 10s, 2010	$90,000	$	87,445

WARRANTS (%)*

	Expiration date	Strike price	Warrants	Value

Dayton Superior Corp. 144A	6/15/09	$ 0.01	200	$ 2
MDP Acquisitions PLC 144A (Ireland)	10/01/13	EUR .001	89	2,492
Ubiquitel, Inc. 144A	4/15/10	$22.74	350	4
Total warrants (cost $23,541)				$ 2,498

SHORT-TERM INVESTMENTS (2.4%)* (cost $1,616,573)

	Shares	Value
Putnam Prime Money Market Fund (e)	1,616,573	$ 1,616,573

TOTAL INVESTMENTS

Total investments (cost $68,602,619)	$ 66,555,586

** Percentages indicated are based on net assets of $67,033,343.*

***** Security is in default of principal and interest.*

□ Non-income-producing security.

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

□ Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at May 31, 2006 was $251,215 or 0.4% of net assets.

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

(R) Real Estate Investment Trust.

(c) Senior loans are exempt from registration under the Security Act of 1933, as amended, but contain certain restrictions on resale and cannot be sold publicly. These loans pay interest at rates which adjust periodically. The interest rate shown for senior loans are the current interest rates at May 31, 2006. Senior loans are also subject to mandatory and/or optional prepayment which cannot be predicted. As a result, the remaining maturity may be substantially less than the stated maturity shown (Notes 1 and 6).

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

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

At May 31, 2006, liquid assets totaling $1,122,000 have been designated as collateral for open swap contracts.

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

The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at May 31, 2006.

FORWARD CURRENCY CONTRACTS TO SELL at 5/31/06 (aggregate face value $2,048,592)

	Value	Aggregate face value	Delivery date	Unrealized depreciation
Euro	$2,192,346	$2,048,592	6/21/06	$(143,754)

CREDIT DEFAULT CONTRACTS OUTSTANDING at 5/31/06

Swap counterparty / Referenced Debt*	Upfront premium received (paid)**	Notional amount	Termination date	Fixed payments received (paid) fund per annum	Unrealized by appreciation/ (depreciation)
Bank of America, N.A. Abitibi-Consolidated, Inc., 8.375%, 4/1/2015	—	$75,000	6/20/11	365 bp	$(2,142)
Citibank, N.A. Ford Motor Co., 7.45%, 7/16/2031	—	60,000	6/20/07	620 bp	1,109
Lear Corp., 8.11%, 5/15/2009	—	45,000	6/20/08	845 bp	4,342
Visteon Corp., 7%, 3/10/2014	—	75,000	6/20/09	535 bp	(199)
Deutsche Bank AG Ford Motor Co., 7.45%, 7/16/2031	—	84,000	6/20/07	595 bp	1,302
Lear Corp., 8.11%, 5/15/2009	—	150,000	6/20/08	860 bp	14,922
Visteon Corp., 7%, 3/10/2014	—	75,000	6/20/09	535 bp	(199)
Goldman Sachs Capital Markets, L.P. Ford Motor Co., 7.45%, 7/16/2031	—	60,000	6/20/07	630 bp	1,215
Visteon Corp., 7%, 3/10/2014	—	50,000	6/20/09	545 bp	(10)
Goldman Sachs International One of the underlying					

securities in the basket of BB CMBS securities	□	83,000	(a)	2.461%	4,037
JPMorgan Chase Bank, N.A.					
Abitibi-Consolidated, Inc., 8.375%, 4/1/2015	□	45,000	6/20/11	365 bp	(1,291)
Ford Motor Co., 7.45%, 7/16/2031	□	60,000	6/20/07	635 bp	1,248
Ford Motor Co., 7.45%, 7/16/2031	□	75,000	6/20/07	665 bp	1,817
Visteon Corp., 7%, 3/10/2014	□	30,000	6/20/09	530 bp	(116)
Lehman Brothers Special Financing, Inc.					
General Motors, 7 1/8%, 7/15/2013	□	155,000	12/20/06	750 bp	(661)
Total					$25,374

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

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

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

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

45

Statement of assets and liabilities 5/31/06

ASSETS	
Investment in securities, at value (Note 1):	
Unaffiliated issuers (identified cost $66,986,046)	$ 64,939,013
Affiliated issuers (identified cost $1,616,573) (Note 5)	1,616,573
Foreign currency (cost $79) (Note 1)	84
Dividends, interest and other receivables	1,331,091

Receivable for securities sold	211,020
Unrealized appreciation on swap contracts (Note 1)	29,992
Receivable for closed swap contracts (Note 1)	6,439
Total assets	68,134,212
LIABILITIES	
Distributions payable to shareholders	360,901
Payable for securities purchased	299,118
Payable for compensation of Manager (Notes 2 and 5)	127,968
Payable for investor servicing and custodian fees (Note 2)	19,052
Payable for Trustee compensation and expenses (Note 2)	41,903
Payable for administrative services (Note 2)	3,708
Payable for open forward currency contracts (Note 1)	143,754
Unrealized depreciation on swap contracts (Note 1)	4,618
Payable for closed forward currency contracts (Note 1)	151
Other accrued expenses	99,696
Total liabilities	1,100,869
Net assets	$ 67,033,343
REPRESENTED BY	
Paid-in capital (Unlimited shares authorized) (Note 1)	$103,767,957
Undistributed net investment income (Note 1)	244,436
Accumulated net realized loss on investments and foreign currency transactions (Note 1)	(34,813,438)
Net unrealized depreciation of investments and assets and liabilities in foreign currencies	(2,165,612)

Total Representing net assets applicable to capital shares outstanding	$ 67,033,343
COMPUTATION OF NET ASSET VALUE	
Net asset value per share ($67,033,343 divided by 7,366,381 shares)	$9.10

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

46

Statement of operations Year ended 5/31/06

INVESTMENT INCOME		
Interest (including interest income of $51,597 from investments in affiliated issuers) (Note 5)	$	5,385,288
Dividends		225,062
Total investment income		5,610,350
EXPENSES		
Compensation of Manager (Note 2)		509,359
Investor servicing fees (Note 2)		33,911
Custodian fees (Note 2)		81,597
Trustee compensation and expenses (Note 2)		26,565
Administrative services (Note 2)		18,379
Reports to shareholders		48,391
Other		168,462
Fees waived and reimbursed by Manager or affiliate (Note 5)		(1,628)
Total expenses		885,036
Expense reduction (Note 2)		(2,395)

Net expenses		882,641
Net investment income		4,727,709
Net realized loss on investments (Notes 1 and 3)		(1,064,362)
Net realized gain on swap contracts (Note 1)		15,488
Net realized gain on foreign currency transactions (Note 1)		205,468
Net unrealized depreciation of assets and liabilities in foreign currencies during the year		(265,695)
Net unrealized appreciation of investments and swap contracts during the year		1,038,877
Net loss on investments		(70,224)
Net increase in net assets resulting from operations	$	4,657,485

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

47

Statement of changes in net assets

INCREASE (DECREASE) IN NET ASSETS

	Year ended 5/31/06	Year ended 5/31/05
Operations: Net investment income	$ 4,727,709	$ 4,694,336
Net realized loss on investments and foreign currency transactions	(843,406)	(218,155)
Net unrealized appreciation of investments and assets and liabilities in foreign currencies	773,182	1,863,485
Net increase in net assets resulting from operations	4,657,485	6,339,666
Distributions to shareholders: (Note 1)		
From net investment income	(4,377,047)	(4,638,801)

Decrease from shares repurchased (Note 4)	(1,126,581)	
Total increase (decrease) in net assets	(846,143)	1,700,865
NET ASSETS		
Beginning of year	67,879,486	66,178,621
End of year (including undistributed net investment income of $244,436 and distributions in excess of net investment income of $504,220, respectively)	$67,033,343	$67,879,486
NUMBER OF FUND SHARES		
Shares outstanding at beginning of year	7,507,107	7,507,107
Shares repurchased (Note 4)	(140,726)	
Shares outstanding at end of year	7,366,381	7,507,107

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

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

PER-SHARE OPERATING PERFORMANCE

			Year ended		
	5/31/06	5/31/05	5/31/04	5/31/03	5/31/02
Net asset value, beginning of period	$9.04	$8.82	$8.45	$8.50	$9.49
Investment operations:					
Net investment income (a)	.63(d)	.63(d)	.67(d)	.73	.86
Net realized and unrealized gain (loss) on investments	(e)	.21	.37	(.01)	(.86)
Total from investment operations	.63	.84	1.04	.72	(e)
Less distributions:					
From net investment income	(.59)	(.62)	(.66)	(.76)	(.87)

From return of capital	□	□	(.01)	(.01)	(.12)
Total distributions	(.59)	(.62)	(.67)	(.77)	(.99)
Increase from shares repurchased	.02	□	□	□	□
Net asset value, end of period	$9.10	$9.04	$8.82	$8.45	$8.50
Market price, end of period	$8.78	$7.97	$7.92	$9.02	$9.48
Total return at market price (%)(b)	18.23	8.43	(4.99)	4.15	(2.91)
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of period (in thousands)	$67,033	$67,879	$66,179	$63,418	$63,826
Ratio of expenses to average net assets (%)(c)	1.30(d)	1.16(d)	1.19(d)	1.22	1.19
Ratio of net investment income to average net assets (%)	6.96(d)	6.85(d)	7.57(d)	9.17	9.69
Portfolio turnover (%)	58.51	53.12	66.18	73.72	73.39

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

(d) *Reflects waivers of certain fund expenses in connection with investments in Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of the fund for the periods ended May 31, 2006, May 31, 2005 and May 31, 2004 reflect a reduction of less than 0.01% based on average net assets (Note 5).*

(e) *Amount represents less than $0.01 per share.*

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

Notes to financial statements 5/31/06

Note 1: Significant accounting policies

Putnam Managed High Yield Trust (the fund), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The funds primary investment objective is to seek high current income. Its secondary objective is capital growth to the extent consistent with seeking high current income. The fund intends to achieve its objective by investing in high yielding income securities. The fund invests in higher yielding, lower rated bonds that have a higher rate of default due to the nature of the issuers.

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

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

A) Security valuation Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported as in the case of some securities traded over-the-counter a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected by Putnam Investment Management, LLC (Putnam Management), the funds manager, an indirect wholly-owned subsidiary of Putnam, LLC. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities. Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value foreign equity securities taking into account multiple factors, including movements in the U.S. securities markets. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies, if any, are translated into U.S. dollars at the current exchange rate. Other investments, including certain restricted securities, 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 (the date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis.

Interest income is recorded on the accrual basis. Dividend income, net of applicable withholding taxes, is recognized on the ex-dividend date except that certain dividends from foreign securities, if any, are recognized as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

The fund earned certain fees in connection with its senior loan purchasing activities. These fees are

50

---

treated as market discount and are recorded as income in the statement of operations.

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

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

E) Credit default contracts The fund may enter into credit default contracts where one party, the protection buyer, makes an upfront or periodic payment to a counterparty, the protection seller, in exchange for the right to receive a contingent payment. The maximum amount of the payment may equal the notional amount, at par, of the underlying index or security as a result of a related credit event. An upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund’s books. An upfront payment made by the fund, as the protection buyer, is recorded as an asset on the fund’s books. Periodic payments received or paid by the fund are recorded as realized gains or losses. The credit default contracts are marked-to-market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit

---

event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that the counterparty may default on its obligation to perform. Risks of loss may exceed amounts recognized on the statement of assets and liabilities. Credit default contracts outstanding at period end, if any, are listed after the fund’s portfolio.

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

At May 31, 2006, the fund had a capital loss carryover of $34,280,119 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
$ 2,584,483	May 31, 2007
4,168,119	May 31, 2008
3,778,275	May 31, 2009
8,384,999	May 31, 2010
11,264,568	May 31, 2011
1,858,608	May 31, 2012
1,322,746	May 31, 2013
918,321	May 31, 2014

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending May 31, 2007 $497,803 of losses recognized during the period November 1, 2005 to May 31, 2006.

G) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences include temporary and permanent differences of foreign currency gains and losses, post-October loss deferrals, dividends payable and amortization and accretion. 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 May 31, 2006, the fund reclassified $397,994 to decrease distributions in excess of net investment income and $18,594 to increase paid-in-capital, with an increase to accumulated net realized loss of $416,588.

The tax basis components of distributable earnings and the federal tax cost as of period end May 31, 2006, were as follows:

Unrealized appreciation	$ 1,452,379
Unrealized depreciation	(3,542,949)
Net unrealized depreciation	(2,090,570)
Undistributed ordinary income	494,979
Capital loss carryforward	(34,280,119)
Post-October loss	(497,803)
Cost for federal income tax purposes	$ 68,646,156

Note 2: Management fee, administrative services and other transactions

Putnam Management is paid for management and investment advisory services quarterly based on the average weekly assets of the fund. Average

52

---

weekly assets is defined to mean the average of the weekly determinations of the difference between the total assets of the fund (including any assets attributable to leverage for investment purposes through incurrence of indebtedness) and the total liabilities of the fund (excluding liabilities incurred in connection with leverage for investment purposes). This fee is based on the following annual rates: 0.55% of the first $500 million of average weekly assets, 0.45% of the next $500 million, 0.40% of the next $500 million and 0.35% of the next $5 billion, with additional breakpoints at higher asset levels.

Prior to January 1, 2006, the funds management fee was based on the following annual rates: 0.55% of the first $500 million of average weekly net assets, 0.48% of the next $500 million, 0.44% of the next $500 million and 0.40% thereafter.

In addition, the fund pays an administrative services fee to Putnam Management quarterly based on an annual rate of 0.20% of the average weekly assets of the fund.

Prior to January 1, 2006, the funds administrative services fee was based on the following annual rates: 0.20% of the first $500 million of average weekly net assets, 0.17% of the next $500 million, 0.16% of the next $500 million and 0.15% thereafter.

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

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 funds assets are provided by Putnam Fiduciary Trust Company (PFTC), a subsidiary of Putnam, LLC. PFTC receives fees for custody services based on the funds 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 funds average net assets. During the year ended May 31, 2006, the fund incurred $115,508 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 funds expenses. For the year ended May 31, 2006, the funds expenses were reduced by $2,395 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which $255, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings, industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

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

The fund has adopted an unfunded noncontribu-tory 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 Trustees average annual attendance and retainer fees for the three years ended December 31, 2005. Pension expense for the fund is included in Trustee

---

compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

Note 3: Purchases and sales of securities

During the year ended May 31, 2006, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated $38,465,509 and $39,781,137, respectively. There were no purchases or sales of U.S. government securities.

Note 4: Share repurchase program

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding shares over the 12 months ending October 6, 2006. In March 2006, the Trustees approved an increase in this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period. Repurchases will only be made when the funds shares are trading at less than net asset value and in accordance with procedures approved by the funds Trustees.

For the year ended May 31, 2006, the fund repurchased 140,726 common shares for an aggregate purchase price of $1,126,581, which reflects a weighted-average discount from net asset value per share of 11.5% .

Note 5: Investment in Putnam Prime Money Market Fund

Pursuant to an exemptive order from the Securities and Exchange Commission, the fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Management fees paid by the fund are reduced by an amount equal to the management and administrative services fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the year ended May 31, 2006, management fees paid were reduced by $1,628 relating to the funds investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled $51,597 for the year ended May 31, 2006. During the year ended May 31, 2006, cost of purchases and cost of sales of investments in Putnam Prime Money Market Fund aggregated $19,850,367 and $19,316,640, respectively.

Note 6: Senior loan commitments

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

Note 7: 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 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

54

penalties and restitution, with $153.5 million being paid to certain open-end funds and their shareholders. 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.

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

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

Note 8: Other matters

On May 12, 2006 the Trustees of Putnam Managed High Yield Trust approved the merger of the fund into Putnam High Yield Trust, an open-end fund managed by Putnam Management with similar investment objectives and strategies. The merger is subject to a number of conditions and there is no guarantee it will occur.

55

Federal tax information (Unaudited)

The fund designated 4.57% of ordinary income distributions as qualifying for the dividends received deduction for corporations.

For its tax year ended May 31, 2006, the fund hereby designates 4.57% or the maximum amount allowable, of its taxable ordinary income distributions as qualified dividends taxed at the individual net capital gain rates.

The Form 1099 you receive in January 2007 will show the tax status of all distributions paid to your account in calendar 2006.

56

Shareholder meeting results (Unaudited)

October 28, 2005 meeting

The annual meeting of shareholders of the fund was convened on October 28, 2005. At that meeting, consideration of all proposals was adjourned to a final meeting held on December 6, 2005.

December 6, 2005 meeting

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

	Votes for	Votes withheld
Jameson A. Baxter	4,909,926	324,267
Charles B. Curtis	4,903,686	330,507
Myra R. Drucker	4,910,725	323,468
Charles E. Haldeman, Jr.	4,913,137	321,056
John A. Hill	4,912,541	321,652
Paul L. Joskow	4,910,040	324,153
Elizabeth T. Kennan	4,906,253	327,940
John H. Mullin, III	4,906,968	327,225
Robert E. Patterson	4,908,903	325,290
George Putnam, III	4,908,040	326,153
W. Thomas Stephens	4,723,916	510,277
Richard B. Worley	4,907,646	326,547

A proposal to amend the fund's fundamental investment restriction with respect to borrowing to permit the fund to engage in investment leverage was approved as follows:

Votes for	Votes against	Abstentions	Broker non-votes
3,537,729	811,197	148,972	736,295

A proposal to approve the Amended and Restated Management Contract between the fund and Putnam Investment Management, LLC, which provides for payment of management fees with respect to fund assets attributable to investment leverage, was approved as follows:

Votes for	Votes against	Abstentions	Broker non-votes
3,587,256	744,778	165,864	736,295

All tabulations are rounded to the nearest whole number.

Compliance certifications (Unaudited)

On December 7, 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.

About the Trustees

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 and Under Secretary of the U.S. Department 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.

59

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

Ms. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College, Vice Chair of the Board of Trustees of the 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.

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

60

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. Until 2006, she was 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.

61

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

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.

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 2005, Mr. Stephens was a director of TransCanadaPipelines, Ltd. 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.

62

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). 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.

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 on the Board of Governors of the Investment Company Institute and as a Trustee of Dartmouth College, and he 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.

63

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. Marks 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 May 31, 2006, 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.*

64

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

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

Francis J. McNamara, III *(Born 1955)*
Vice President and Chief Legal Officer
Since 2004

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

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

Since 2002

Managing Director, Putnam Investments

James P. Pappas *(Born 1953)*
Vice President
Since 2004

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

Managing Director, 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 E. 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.

65

The Putnam family of funds

The following is a complete list of Putnams 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*

Income funds
American Government Income Fund
Diversified Income Trust
Floating Rate Income Fund
Global Income Trust*
High Yield Advantage Fund*

International Capital
Opportunities Fund*
International Equity Fund*
Investors Fund
Research Fund
Tax Smart Equity Fund®
Utilities Growth and Income 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.

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.

67

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

Investment Sub-Manager
Putnam Investments Limited
57–59 St. James Street
London, England SW1A 1LD

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

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

James P. Pappas
Vice President

Richard S. Robie, III
Vice President

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

Charles A. Ruys de Perez
Vice President and Chief Compliance Officer

Mark C. Trenchard
Vice President and BSA Compliance Officer

Judith Cohen
Vice President, Clerk and Assistant Treasurer

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

Nancy E. Florek
Vice President, Assistant Clerk, 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) anytime for up-to-date information about the fund's NAV.

68

Item 2. Code of Ethics:

(a) The Fund□s 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 2005, 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. 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.

The July 2005 amendments were incorporated into a restated Code of Ethics dated December 2005 (filed as an exhibit hereto).

Item 3. Audit Committee Financial Expert:

The Funds' Audit and Compliance 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 Compliance 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 Compliance Committee meet the financial literacy requirements of the New York Stock Exchange's rules and that Mr. Patterson, Mr. Stephens and Mr. Hill 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 Compliance 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 Compliance 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 auditor:

Fiscal year	Audit	Audit-Related	Tax	All Other

ended	Fees	Fees	Fees	Fees
May 31, 2006	$37,838	$--	$3,838	$ -
May 31, 2005	$40,500	$--	$3,800	$ -

For the fiscal years ended May 31, 2006 and May 31, 2005, the fund's independent auditor billed aggregate non-audit fees in the amounts of $3,838 and $3,800 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 represent fees billed for the fund's last two fiscal years.

Audit-Related Fees represent 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.

Pre-Approval Policies of the Audit and Compliance Committee. The Audit and Compliance 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 itself and thus will generally not be subject to pre-approval procedures.

The Audit and Compliance Committee also has adopted a policy to pre-approve the engagement by Putnam Management and certain of its affiliates of the funds' independent auditors, even in circumstances where pre-approval is not required by applicable law. Any such requests by Putnam Management or certain of its affiliates are typically submitted in writing to the Committee and explain, among other things, the nature of the proposed engagement, the estimated fees, and why this work should be performed by that particular audit firm as opposed to another one.

The following table presents fees billed by the fund's independent 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
May 31, 2006	$ -	$ -	$ -	$ -
May 31, 2005	$ -	$ -	$ -	$ -

Item 5. Audit Committee of Listed Registrants

(a) The fund has a separately-designated Audit and Compliance Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit and Compliance Committee of the fund's Board of Trustees is composed of the following persons:

Robert E. Patterson (Chairperson)
W. Thomas Stephens
John A. Hill

(b) Not applicable

Item 6. Schedule of Investments:

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

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

Proxy voting guidelines of the Putnam funds

The proxy voting guidelines below summarize the funds positions on various issues of concern to investors, and give a general indication of how fund portfolio securities will be voted on proposals dealing with particular issues. The funds proxy voting service is instructed to vote all proxies relating to fund portfolio securities in accordance with these guidelines, except as otherwise instructed by the Proxy Coordinator, a member of the Office of the Trustees who is appointed to assist in the coordination and voting of the funds proxies.

The proxy voting guidelines are just that guidelines. The guidelines are not exhaustive and do not include all potential voting issues. Because proxy issues and the circumstances of individual companies are so varied, there may be instances when the funds may not vote in strict adherence to these guidelines. For example, the proxy voting service is expected to bring to the Proxy Coordinators attention proxy questions that are company-specific and of a non-routine nature and that, even if covered by the guidelines, may be more appropriately handled on a case-by-case basis.

Similarly, Putnam Managements investment professionals, as part of their ongoing review and analysis of all fund portfolio holdings, are responsible for monitoring significant corporate developments, including proxy proposals submitted to shareholders, and notifying the Proxy Coordinator of circumstances where the interests of fund shareholders may warrant a vote contrary to these guidelines. In such instances, the investment professionals will submit a written recommendation to the Proxy Coordinator and the person or persons designated by Putnam Managements Legal and Compliance Department to assist in processing referral items pursuant to the funds Proxy Voting Procedures. The Proxy Coordinator, in consultation with the funds Senior Vice President, Executive Vice President, and/or the Chair of the Board Policy and Nominating Committee, as appropriate, will determine how the funds proxies will be voted. When indicated, the Chair of the Board Policy and Nominating Committee may consult with other members of the Committee or the full Board of Trustees.

The following guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals that have been put forth by management and approved and recommended by a companys board of directors. Part II deals with proposals submitted by shareholders for inclusion in proxy statements. Part III addresses unique considerations pertaining to non-U.S. issuers.

The Putnam funds will disclose their proxy votes in accordance with the timetable established by SEC rules (i.e., not later than August 31 of each year for the most recent 12-month period ended June 30).

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

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 cast 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 on a **case-by-case basis withhold votes** from the entire board of directors where the board has approved compensation arrangements for one or more company executives that the funds determine are unreasonably excessive relative to the company s performance.

* 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).

<u>Commentary</u>:

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 any amount 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 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. Such instances may include cases where a board of directors has approved compensation arrangements for one or more members of management that, in the judgment of the funds' Trustees, are excessive by reasonable corporate standards relative to the company's record of performance.

Contested Elections of Directors

* The funds will vote on a **<u>case-by-case basis</u>** in contested elections of directors.

Classified Boards

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

<u>Commentary</u>: 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.

Other Board-Related Proposals

The funds will generally vote **<u>for</u>** board-approved proposals that have been approved by a majority independent board, and on a **<u>case-by-case basis</u>** 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).

<u>Executive Compensation</u>

The funds generally favor compensation programs that relate executive compensation to a company’s long-term performance. The funds will vote on a **<u>case-by-case basis</u>** 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 **<u>for</u>** stock option and restricted stock plans that will result in an average <u>annual</u> dilution of 1.67% or less (based on the disclosed term of the plan and including all equity-based plans).

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

* The funds will vote **<u>against</u>** 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 **<u>against</u>** 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 **<u>against</u>** 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 **<u>for</u>** 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.

<u>Commentary</u>: 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 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.

<u>Capitalization</u>

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 **<u>case-by-case basis</u>** 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 **<u>for</u>** 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:

* 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 companys charter or bylaws (except for charter amendments necessary or to effect stock splits to change a companys name or to authorize additional shares of common stock).

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

* 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 Managements investment professionals and the funds proxy voting service may also bring to the Proxy Coordinators 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 companys proxy statement. These proposals generally seek to change some aspect of the companys corporate governance structure or to change some aspect of its business operations. The funds generally will vote **in accordance with the recommendation of the companys 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 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

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.

* 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

---

* 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.

* 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 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 January 13, 2006

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 ("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 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 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 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 Managements 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 professionals 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. Portfolio Managers of Closed-End Management Investment Companies

(a)(1) **Investment management teams.** Putnam Managements and Putnam Investments Limiteds (for funds having Putnam Investments Limited as sub-manager) investment professionals are organized into investment management teams, with a particular team dedicated to a specific asset class. The members of the team or teams identified in the shareholder report included in Item 1 of this report manage the funds investments. The names of all team members can be found at www.putnam.com.

The team members identified as the funds Portfolio Leader(s) and Portfolio Member(s) coordinate team efforts related to the fund and are primarily responsible for the day-today management of the funds portfolio. In addition to these individuals, each team also includes other investment professionals, whose analysis, recommendations and research inform investment decisions made for the fund.

Portfolio Leader	**Joined Fund**	**Employer**	**Positions Over Past Five Years**
Paul Scanlon	2002	**Putnam Management** 1999 Present	Team Leader, US High Yield; Portfolio Manager; Analyst

Portfolio Members	**Joined Fund**	**Employer**	**Positions Over Past Five Years**
Norm Boucher	2005	**Putnam Management** 1998 Present	Portfolio Manager
Rob Salvin	2005	**Putnam Management** 2000 Present	Portfolio Manager; Analyst; Convertible Specialist

(a)(2) **Other Accounts Managed by the Fund’s Portfolio Managers.**

The following table shows the number and approximate assets of other investment accounts (or portions of investment accounts) that the fund’s Portfolio Leader(s) and

Portfolio Member(s) managed as of the fund’s most recent fiscal year-end. The other accounts may include accounts for which the individual was not designated as a portfolio member. Unless noted, none of the other accounts pays a fee based on the account’s performance.

Portfolio Leader or Member	**Other SEC-registered open-end and closed-end funds**		**Other accounts that pool assets from more than one client**		**Other accounts (including separate accounts, managed account programs and single-sponsor defined contribution plan offerings)**	
	Number of accounts	Assets	Number of accounts	Assets	Number of accounts	Assets
Norm Boucher	9	$4,176,900,000	3	$35,500,000	4	$209,100,000
Rob Salvin	10	$4,864,500,000	3	$35,500,000	4	$209,300,000
Paul Scanlon	14	$10,148,600,000	7	$583,200,000	7	$427,900,000

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

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

The most attractive investments could be allocated to higher-fee accounts or performance fee accounts.

The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time.

The trading of other accounts could be used to benefit higher-fee accounts (front- running).

The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation.

Putnam Management attempts to address these potential conflicts of interest relating to higher-fee accounts through various compliance policies that are generally intended to place all accounts, regardless of fee structure, on the same footing for investment management purposes. For example, under Putnam Management's policies:

Performance fee accounts must be included in all standard trading and allocation procedures with all other accounts.

All accounts must be allocated to a specific category of account and trade in parallel with allocations of similar accounts based on the procedures generally applicable to all accounts in those groups (e.g., based on relative risk budgets of accounts).

All trading must be effected through Putnam's trading desks and normal queues and procedures must be followed (i.e., no special treatment is permitted for performance fee accounts or higher-fee accounts based on account fee structure).

 Front running is strictly prohibited.

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

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

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

A potential conflict of interest may arise when the fund and other accounts purchase or sell the same securities. On occasions when the Portfolio Leader(s) or Portfolio Member(s) consider the purchase or sale of a security to be in the best interests of the fund as well as other accounts, Putnam Management’s trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased in order to obtain the best execution and lower brokerage commissions, if any. Aggregation of trades may create the potential for unfairness to the fund or another

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

“Cross trades,” in which one Putnam account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest. Cross trades may be seen to involve a potential conflict of interest if, for example, one account is permitted to sell a security to another account at a higher price than an independent third party would pay. Putnam Management and the fund’s Trustees have adopted compliance procedures that provide that any transactions between the fund and another Putnam-advised account are to be made at an independent current market price, as required by law.

Another potential conflict of interest may arise based on the different investment objectives and strategies of the fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than the fund. Depending on another account’s objectives or other factors, the Portfolio Leader(s) and Portfolio Member(s) may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to the fund. In addition, investment decisions are the product of many factors in addition to basic suitability for the particular account involved. Thus, a particular security may be bought or sold for certain accounts even though it could have been bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by the

Portfolio Leader(s) or Portfolio Member(s) when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. As noted above, Putnam Management has implemented trade oversight and review procedures to monitor whether any account is systematically favored over time.

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

(a)(3) **Compensation of investment professionals.** Putnam Management believes that its investment management teams should be compensated primarily based on their success in helping investors achieve their goals. The portion of Putnam Investments total incentive compensation pool that is available to Putnam Managements Investment

---

Division is based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time. The peer group for the fund, which is identified in the shareholder report included in Item 1, is its broad investment category as determined by Lipper Inc. The portion of the incentive compensation pool available to each investment management team varies based primarily on its delivery, across all of the portfolios it manages, of consistent, dependable and superior performance over time on (i) for tax-exempt funds, a tax-adjusted basis to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions a before-tax basis or (ii) for taxable funds, on a before-tax basis.

 Consistent performance means being above median over one year.

 Dependable performance means not being in the 4th quartile of the peer group over one, three or five years.

 Superior performance (which is the largest component of Putnam Managements incentive compensation program) means being in the top third of the peer group over three and five years.

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

(a)(4) **Fund ownership.** The following table shows the dollar ranges of shares of the fund owned by the professionals listed above at the end of the funds last two fiscal years, including investments by their immediate family members and amounts invested through retirement and deferred compensation plans.

	Year	$0	$1 – $10,000	$10,001 – $50,000	$50,001 – $100,000	$100,001 – $500,000	$500,001 – $1,000,000	$1,000,001 and over
Paul Scanlon	2006	*						
Portfolio Leader	2005	*						
Norman Boucher	2006	*						
Portfolio Member	N/A							
Robert Salvin	2006	*						
Portfolio Member	2005	*						

(b) Not applicable

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

Registrant Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs *
October 7- October 31,2005	12,419	$7.84	12,419	738,292
November 1 - November 30, 2005	31,019	$7.91	31,019	707,273
December 1 -				

December 31, 2005	37,535	$7.97	37,535	669,738
January 1 - January 31, 2006	30,234	$8.14	30,234	639,504
February 1 - February 28, 2006	29,519	$8.08	29,519	609,985
March 1 - March 31, 2006	-	-	-	-
April 1 - April 30, 2006	-	-	-	-
May 1 - May 31, 2006	-	-	-	-

The Board of Trustees announced a repurchase plan on October 7, 2005 for which **375,355** shares were approved for repurchase by the fund. The repurchase plan

---

was approved through October 6, 2006. On March 10, 2006, the Trustees announced that the repurchase program was increased to allow repurchases of up to a total of 750,711 shares over the original term of the program

*Information is based on the total number of shares eligible for repurchase under the program, as amended on March 10, 2006.

The registrant currently does not intend to repurchase shares under this program pending the outcome of voting by shareholders of the registrant on a proposal (as disclosed in a prospectus-proxy statement filed with the Commission by Putnam High Yield Trust) to merge the registrant into Putnam High Yield Trust, an open-end investment company.

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

Not applicable

Item 11. Controls and Procedures:

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

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

Item 12. Exhibits:

(a)(1) The Code of Ethics of The Putnam Funds, which incorporates the Code of Ethics of Putnam Investments, is filed herewith.

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

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

SIGNATURES

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

Putnam Managed High Yield Trust

By (Signature and Title):

/s/Michael T. Healy
Michael T. Healy
Principal Accounting Officer

Date: July 27, 2006

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: July 27, 2006

By (Signature and Title):

/s/Steven D. Krichmar
Steven D. Krichmar
Principal Financial Officer

Date: July 27, 2006
