

PUTNAM MANAGED MUNICIPAL INCOME TRUST

Form N-14 8C/A

September 12, 2007

As filed with the Securities and Exchange Commission on September 12, 2007

Registration No. 333-145143

(Investment Company Act Registration Number 811-5740)

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

**FORM N-14**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. 1

Post-Effective Amendment No. \_\_\_\_

**PUTNAM MANAGED MUNICIPAL INCOME TRUST**

*(Exact Name of Registrant as Specified in Charter)*

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**One Post Office Square**  
**Boston, Massachusetts 02109**  
*(Address of Principal Executive Offices)*

**617-292-1000**  
*(Area Code and Telephone Number)*

**Beth S. Mazor**  
**Putnam Managed Municipal Income Trust**  
**One Post Office Square**  
**Boston, Massachusetts 02109**  
*(Name and Address of Agent for Service)*

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With copies to:

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

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Calculation of Registration Fee under the Securities Act of 1933:

| Title of Securities Being Registered | Amount Being Registered | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|--------------------------------------|-------------------------|--|---|----------------------------|
| Common Shares of beneficial interest | 18,238,112              | \$8.17(1)                                | \$149,005,373                             | \$4,574.46                 |
| Preferred Shares                     |                         |  | \$45,000,000                              | \$1,381.50                 |

(1) Net asset value per share for Common Shares on July 31, 2007.

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

## Important information for shareholders of

### **PUTNAM MANAGED MUNICIPAL INCOME TRUST AND PUTNAM HIGH YIELD MUNICIPAL TRUST**

The document you hold in your hands is a combined prospectus/proxy statement and was delivered with a proxy card. A proxy card is, in essence, a ballot. When you fill out your proxy card, it tells us how to vote on your behalf on important issues relating to your fund. If you complete and sign the proxy, we'll vote it exactly as you tell us. If you simply sign the proxy, we'll vote it in accordance with the Trustees' recommendations on pages 18 and 19.

We urge you to review the prospectus/proxy statement carefully, and to provide your voting instructions by using any of the methods shown on your proxy card. When shareholders don't return their proxies in sufficient numbers, we have to make follow-up solicitations, which can cost your fund money.

We want to know how you would like to vote and welcome your comments. Please take a few minutes with these materials and return your proxy to us.

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**PROXY CARD ENCLOSED**

If you have any questions, please contact us at 1-800-301-3998, the toll-free number we have set up for you, or call your financial representative.

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*A Message from the Chairman*

Dear Putnam Managed Municipal Income Trust Shareholder:

I am writing to you to ask for your vote on an important matter that affects your investment in Putnam Managed Municipal Income Trust ( Managed Municipal Income Trust ). While you are, of course, welcome to join us at Managed Municipal Income Trust s meeting, most shareholders cast their vote by filling out and signing the enclosed proxy card, by calling or by voting via the Internet.

We are asking for your vote on the following:

1. Approval of the proposed merger of Putnam High Yield Municipal Trust ( High Yield Municipal Trust ) into Managed Municipal Income Trust. In this merger, common shares of High Yield Municipal Trust would, in effect, be exchanged, on a tax-free basis, for new common shares of Managed Municipal Income Trust with an equal net asset value, and preferred shares of High Yield Municipal Trust would, in effect, be exchanged for new preferred shares of Managed Municipal Income Trust with an equal aggregate liquidation preference. (To be voted on by common and preferred shareholders.)
2. Approval of (a) the authorization of \$45 million of additional preferred shares of Managed Municipal Income Trust to be exchanged for existing preferred shares of High Yield Municipal Trust as described in Proposal 1 above and (b) a two-for-one stock-split of the Series C preferred shares of Managed Municipal Income Trust and a corresponding reduction in liquidation preference from \$100,000 per share to \$50,000 per share, in order to facilitate the proposed merger. (To be voted on by preferred shareholders only.)

The investment objectives of Managed Municipal Income Trust and High Yield Municipal Trust are identical. Both are leveraged closed-end funds seeking as high a level of current income exempt from federal income tax as Putnam Management believes is consistent with the preservation of capital. Although the proposed merger is not expected to materially affect the operation of your fund, we are required by your fund s Agreement and Declaration of Trust and by the rules of the New York Stock Exchange to solicit your vote on these matters.

If shareholders approve the proposed merger and certain conditions are met, the merger is expected to take place in October 2007.

The Trustees of Managed Municipal Income Trust have carefully reviewed the terms of the proposals and unanimously recommend that shareholders approve them. The Trustees expect that, as a result of the proposed merger, shareholders of Managed Municipal Income Trust will benefit from participation in a larger combined fund with a lower expense ratio. Other potential benefits, and potential disadvantages, of the proposals are discussed in the prospectus/proxy statement, which we urge you to review carefully.

I'm sure that you, like most people, lead a busy life and are tempted to put this proxy aside for another day. Please don't. When shareholders do not return their proxies, their fund may have to incur the expense of follow-up solicitations. All shareholders benefit from the speedy return of proxies.

Your vote is important to us. We appreciate the time and consideration I am sure you will give this important matter. If you have questions about the proposal, please call 1-800-301-3998, or call your financial representative.

Sincerely yours,

John A. Hill  
Chairman of the Trustees

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### *A Message from the Chairman*

Dear Putnam High Yield Municipal Trust Shareholder:

I am writing to you to ask for your vote on an important matter that affects your investment in Putnam High Yield Municipal Trust ( High Yield Municipal Trust ). While you are, of course, welcome to join us at High Yield Municipal Trust's meeting, most shareholders cast their vote by filling out and signing the enclosed proxy card, by calling or by voting via the Internet. We are asking for your vote on the following:

1. Approval of the proposed merger of High Yield Municipal Trust into Putnam Managed Municipal Income Trust ( Managed Municipal Income Trust ). In this merger, common shares of High Yield Municipal Trust would, in effect, be exchanged, on a tax-free basis, for new common shares of Managed Municipal Income Trust with an equal net asset value, and preferred shares of High Yield Municipal Trust would, in effect, be exchanged for new preferred shares of Managed Municipal Income Trust with an equal aggregate liquidation preference. The proposed merger would be accomplished in two steps, each of which requires the approval of common and preferred shareholders of High Yield Municipal Trust:

- (a) conversion of High Yield Municipal Trust from a Massachusetts business trust into a Massachusetts limited liability company; and
- (b) merger of the converted High Yield Municipal Trust with and into Managed Municipal Income Trust.

The investment objectives of Managed Municipal Income Trust and High Yield Municipal Trust are identical. Both are leveraged closed-end funds seeking as high a level of current income exempt from federal income tax as Putnam

Management believes is consistent with the preservation of capital.

If shareholders approve the proposed merger and certain conditions are met, the merger is expected to take place in October 2007.

The Trustees of High Yield Municipal Trust have carefully reviewed the terms of the proposal and unanimously recommend that shareholders approve the merger. The Trustees expect that, as a result of the proposed merger, shareholders of High Yield Municipal Trust will benefit from participation in a larger combined fund. Other potential benefits, and potential disadvantages, of the proposals are discussed in the prospectus/proxy statement, which we urge you to review carefully.

I am sure that you, like most people, lead a busy life and are tempted to put this proxy aside for another day. Please don't. When shareholders do not return their proxies, their fund may have to incur the expense of follow-up solicitations. All shareholders benefit from the speedy return of proxies.

Your vote is important to us. We appreciate the time and consideration I am sure you will give this important matter. If you have questions about the proposal, please call 1-800-301-3998, or call your financial representative.

Sincerely yours,

John A. Hill  
Chairman of the Trustees

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**PUTNAM MANAGED MUNICIPAL INCOME TRUST AND  
PUTNAM HIGH YIELD MUNICIPAL TRUST**

## Notice of a Joint Special Meeting of Shareholders

**\* This is the formal agenda for the joint shareholder meeting of Putnam Managed Municipal Income Trust ( Managed Municipal Income Trust ) and Putnam High Yield Municipal Trust ( High Yield Municipal Trust ). It tells you what matters will be voted on and the time and place of the meeting, in the event that you attend in person.**

To the Shareholders of Managed Municipal Income Trust:

A Special Meeting of Shareholders of Managed Municipal Income Trust will be held October 22, 2007 at 11:00 a.m. Eastern time, on the 12th Floor of One Post Office Square, Boston, Massachusetts, to consider the following:

**1. A proposal to merge High Yield Municipal Trust with and into Managed Municipal Income Trust, which shall require the following shareholder action:**

**a. Approval of an Agreement and Plan of Merger that provides that High Yield Municipal Trust will merge with and into Managed Municipal Income Trust. See page 2. (To be voted on by common and preferred shareholders separately.)**

**2. A proposal regarding the preferred shares of Managed Municipal Income Trust which shall require the following shareholder actions:**

**a. Approval of the authorization, creation and issuance of additional preferred shares of Managed Municipal Income Trust with an aggregate liquidation preference of \$45 million. See page 19. (To be voted on by preferred shareholders only.)**

**b. Approval of a two-for-one stock-split of the Series C preferred shares of Managed Municipal Income Trust and a corresponding reduction in liquidation preference from \$100,000 per share to \$50,000 per share. See page 19. (To be voted on by preferred shareholders only.)**

To the Shareholders of High Yield Municipal Trust:

A Special Meeting of Shareholders of High Yield Municipal Trust will be held October 22, 2007, at 11:00 a.m. Eastern time, on the 12th Floor of One Post Office Square, Boston, Massachusetts, to consider the following:

**1. A proposal to merge High Yield Municipal Trust with and into Managed Municipal Income Trust, which shall require the following shareholder actions:**

**a. Approval of a Plan of Entity Conversion providing for the conversion of High Yield Municipal Trust from a Massachusetts business trust to a Massachusetts limited liability company (the Conversion ). See page 2. (To be voted on by common and preferred shareholders separately.)**

**b. Approval of an Agreement and Plan of Merger providing that, following the Conversion, High Yield Municipal Trust will merge with and into Managed Municipal Income Trust pursuant to the Massachusetts Limited Liability Company Act. See page 2. (To be voted on by common and preferred shareholders separately.)**

By Judith Cohen, Clerk, on behalf of the Trustees:

John A. Hill, Chairman  
Jameson A. Baxter, Vice Chairman  
Charles E. Haldeman, Jr., President

Charles B. Curtis  
Robert J. Darretta  
Myra R. Drucker  
Paul L. Joskow  
Elizabeth T. Kennan  
Kenneth R. Leibler  
Robert E. Patterson  
George Putnam, III  
W. Thomas Stephens  
Richard B. Worley

**THE TRUSTEES URGE YOU TO MARK, SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE POSTAGE-PAID ENVELOPE PROVIDED OR, IF YOU HOLD COMMON SHARES OF A FUND, TO RECORD YOUR VOTING INSTRUCTIONS BY AUTOMATED TELEPHONE OR VIA THE INTERNET SO THAT YOU WILL BE REPRESENTED AT THE MEETING.**

September 17, 2007

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## Prospectus/Proxy Statement

September 17, 2007

**Merger of:**  
**Putnam High Yield**  
**Municipal Trust**  
**( High Yield**

**With and into:**  
**Putnam Managed**  
**Municipal Income Trust**  
**( Managed Municipal**

**Municipal Trust )**

One Post Office Square  
Boston, Massachusetts 02109  
(617) 292-1000

**Income Trust )**

One Post Office Square  
Boston, Massachusetts 02109  
(617) 292-1000

This Prospectus/Proxy Statement relates to the proposed merger of High Yield Municipal Trust with and into Managed Municipal Income Trust. As a result of the proposed merger, each holder of High Yield Municipal Trust's common shares will receive a number of full and fractional common shares of Managed Municipal Income Trust equal in value at the date of the exchange to the total value of the shareholder's common shares of High Yield Municipal Trust. Similarly, each holder of High Yield Municipal Trust's preferred shares will receive a number of full and fractional preferred shares of Managed Municipal Income Trust with an equal aggregate liquidation preference. The Notice of Special Joint Meeting, the proxy card and this Prospectus/Proxy Statement are being mailed on or about September 17, 2007. The Prospectus/Proxy Statement explains concisely what you should know before voting on the matters described herein or investing in Managed Municipal Income Trust, a diversified, closed-end management investment company. Please read this Prospectus/Proxy Statement and keep it for future reference.

The statement of additional information relating to the proposed merger, dated September 17, 2007 (the Merger SAI), along with the other documents identified below, has been filed with the Securities and Exchange Commission (the SEC) and is incorporated by reference into this Prospectus/Proxy Statement. Shareholders may obtain free copies of any document incorporated by reference into this Prospectus/Proxy Statement, request other information about the funds or make shareholder inquiries by contacting their financial representative, by visiting the Putnam Investments website at [www.putnam.com](http://www.putnam.com), or by calling Putnam Investments toll-free at 1-800-225-1581. This information may also be obtained by contacting the SEC, as described below.

**The securities offered by this Prospectus/Proxy Statement have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of this Prospectus/Proxy Statement. Any representation to the contrary is a criminal offense.**

The following documents have been filed with the SEC and are incorporated by reference into this Prospectus/Proxy Statement:

(i) the Merger SAI;

(ii) the Performance Summary, Report of Independent Registered Public Accounting Firm and financial statements included in Managed Municipal Income Trust's Annual Report to Shareholders for the fiscal year ended October 31, 2006;

(iii) the unaudited financial statements included in Managed Municipal Income Trust's Semiannual Report to Shareholders for the period ended April 30, 2007; and

(iv) the Performance Summary, Report of Independent Registered Public Accounting Firm and financial statements included in High Yield Municipal Trust's Annual Report to Shareholders for the fiscal year ended March 31, 2007.

**Shares of Managed Municipal Income Trust are not deposits or obligations of, or guaranteed or endorsed by, any financial institution, are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other agency, and involve risk, including the possible loss of principal amount invested.**

This document will give you the information you need to vote on the proposals. Much of the information contained in this Prospectus/Proxy statement is required by SEC rules; some of it is technical. If there is anything you don't understand, please contact us at our toll-free number, 1-800-780-7316, or call your financial representative. Managed Municipal Income Trust and High Yield Municipal Trust are in the family of funds managed by Putnam Investment Management, LLC

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( Putnam Management ). Managed Municipal Income Trust and High Yield Municipal Trust are collectively referred to herein as the funds, and each is referred to individually as a fund.

The common shares of Managed Municipal Income Trust and High Yield Municipal Trust are listed on the New York Stock Exchange (the NYSE) under the symbols PMM and PYM, respectively. You may inspect reports, proxy material and other information concerning each of the funds at the NYSE.

The funds are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the 1934 Act ) and the Investment Company Act of 1940, as amended (the 1940 Act ), and, as a result, file reports and other information with the SEC. You may review and copy information about the funds, including the Merger SAI, at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may call the SEC at 1-202-551-8090 for information about the operation of the public reference room. You may obtain copies of this information, with payment of a duplication fee, by electronic request at the following email address: pub-licinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549. You may also access reports and other information about the funds on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>.

## I. PROPOSAL REGARDING APPROVAL OF MERGER AND RELATED TRANSACTIONS

### A. Questions and Answers

**The responses to the questions that follow provide an overview of key points typically of concern to shareholders considering a proposed merger between closed-end funds. These responses are qualified in their entirety by the remainder of the Prospectus/Proxy Statement, which contains additional information and further details regarding the proposed merger.**

#### 1. What is being proposed?

The Trustees of the funds are recommending that shareholders approve the transactions whereby High Yield Municipal Trust will be merged with and into Managed Municipal Income Trust, as contemplated by the transaction documents described in more detail under Information about the Proposed Merger Merger Documents. If approved by shareholders, the assets and liabilities of High Yield Municipal Trust will become assets and liabilities of Managed Municipal Income Trust, and the outstanding common and preferred shares of High Yield Municipal Trust will, in effect, be exchanged for common and preferred shares, respectively, of Managed Municipal Income Trust (the Common Merger Shares and the Preferred Merger Shares, respectively, and together, the Merger Shares ) with an aggregate value equal to the value of High Yield Municipal Trust's assets net of liabilities (other than liabilities consisting of the aggregate liquidation preference of High Yield Municipal Trust's outstanding preferred shares).

#### 2. What will happen to my shares as a result of the merger?

If you are a shareholder of High Yield Municipal Trust, your common shares will, in effect, be exchanged on a tax-free basis for common shares of Managed Municipal Income Trust with an equal aggregate net asset value on the date of the merger. It is possible, however, that the market value of such shares may differ. See the response to question 12 below. Your preferred shares of High Yield Municipal Trust will, in effect, be exchanged on a tax-free basis for preferred shares of Managed Municipal Income Trust with an equal aggregate liquidation preference and substantially the same terms.

If you are a shareholder of Managed Municipal Income Trust, your common and preferred shares of Managed Municipal Income Trust will not be affected by the merger, but will represent interests in a larger fund

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pursuing the same investment goals, strategies and policies and subject to similar restrictions.

#### 3. Why are the Trustees proposing the merger?

As discussed in more detail below, the funds have identical investment goals and strategies and have substantially similar policies and restrictions. The Trustees are recommending the merger to allow shareholders to benefit from the larger asset size and, in the case of Managed Municipal Income Trust, lower expense ratio of the combined fund, without significantly changing the nature of their investment. The same management team that is responsible for day-to-day management of each fund will continue to be responsible for the management of the combined fund.

The Trustees of the Putnam Funds, who serve as Trustees of each fund involved in the proposed merger, have carefully considered the anticipated benefits and costs of the proposed merger to shareholders of the funds. The Trustees of the funds, including all of the Trustees who are not interested persons (as defined in the 1940 Act) of the funds or Putnam Management (referred to as Independent Trustees throughout this Prospectus/Proxy Statement), have determined that the proposed merger is in the best interests of shareholders of the funds and that the interests of the existing shareholders of each fund would not be diluted by the proposed merger. For a detailed discussion of the Trustees' deliberations, see Information about the Proposed Merger Trustees Considerations Relating to Proposed Merger. **The Trustees unanimously recommend that shareholders vote FOR approval of the proposed merger.**



**4. How do the investment goals, strategies, policies and restrictions of the funds compare?**

*Investment Goals and Strategies*

The investment goals of the funds are identical. Each fund seeks to provide as high a level of current income exempt from federal income tax as Putnam Management believe is consistent with preservation of capital. Additionally, under normal market conditions, each fund invests at least 80% of its respective assets in tax-exempt municipal securities.

*Investment Policies and Restrictions*

The funds have substantially similar investment policies and restrictions. The funds' restrictions regarding the issuance of senior securities and securities lending reflect minor differences, which are explained in more detail below under Information about the Funds Investment Restrictions. Putnam Management does not anticipate that a significant portion of High Yield Municipal Trust's portfolio securities will be disposed of in connection with the merger.

**5. How do the management fees and other expenses of the funds compare, and what are they estimated to be following the merger?**

The following table summarizes the fees and expenses you may pay when investing in the funds, the annual operating expenses for each fund, and the pro forma expenses of Managed Municipal Income Trust, assuming consummation of the proposed merger and based on pro forma combined assets as of April 30, 2007.

Expenses for each fund are based on amounts incurred during the fiscal year ended October 31, 2006 for Managed Municipal Income Trust and for the fiscal year ended March 31, 2007 for High Yield Municipal Trust. Please see Information about the Proposed Merger Trustees Considerations Related to the Proposed Merger for more information on the expenses for each fund.

|   | Managed<br>Municipal<br>Income Trust | High Yield<br>Municipal<br>Trust | Managed<br>Municipal<br>Income Trust<br>(pro forma<br>combined with<br>High Yield<br>Municipal Trust)   |
|---|--------------------------------------|----------------------------------|---|
| Shareholder transaction expenses  |                                      |                                  |   |
| Maximum sales charge imposed on purchases (as a percentage of offering price) | None(a)                              | None(a)                          | None(a)   |
| Dividend Reinvestment Plan  | None(b)                              | None(b)                          | None(b)   |
| Annual Fund Operating expenses (Expenses that are deducted from fund assets)* | Managed<br>Municipal<br>Income Trust | High Yield<br>Municipal<br>Trust | Managed<br>Municipal<br>Income Trust<br>(pro forma<br>combined with<br>High Yield<br>Municipal Trust)** |
| Management Fees***  | 0.81 %*                              | 0.70 %*                          | 0.78%*  |

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|  |        |       |       |
|--|--------|-------|-------|
| Other Expenses                           | 0.30%  | 0.34% | 0.25% |
| Total Annual Fund Operating Expenses**** | 1.11 % | 1.04% | 1.03% |

(a) Shares of each fund purchased on the secondary market are not subject to sales charges, but may be subject to brokerage commissions or other charges. The table does not include any underwriting commission paid by shareholders in the initial offering of each fund.

(b) Each participant in a fund's dividend reinvestment plan pays a proportionate share of the brokerage commissions incurred with respect to open market purchases in connection with such plan. With respect to each fund's last fiscal year, participants in the Plan incurred brokerage commissions representing \$0.03 per share. Beginning with dividends declared in October 2007, High Yield Municipal Trust's Plan has been suspended indefinitely.

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For the fiscal year ended 10/31/06.

For the fiscal year ended 3/31/07.

\* Includes management fees on preferred share assets. Management fees for Managed Municipal Income Trust have been restated to reflect fees payable under the Management Contract that became effective on January 1, 2006.

\*\* Does not reflect non-recurring expenses that each fund is expected to incur in connection with the mergers. If such expenses had been reflected, pro forma other expenses would have been 0.32% and pro forma Total Annual Fund Operating Expenses would have been 1.10%.

\*\*\* Although the management fee rates will not change in connection with the merger, the pro forma combined fund would have proportionately more leverage through preferred shares than High Yield Municipal Trust and proportionately less leverage than Managed Municipal Income Trust. The expenses of the funds in the table above are calculated as of different dates (each fund's fiscal year end). Please see Trustees Considerations Relating to the Proposed Merger Operating Expenses for a comparison of expenses as of April 30, 2007.

\*\*\*\* Expressed as a percentage of assets attributable to common shares.

The tables are provided to help you understand the expenses of investing in the funds and your share of the operating expenses that each fund incurs and that Putnam Management expects the combined fund to incur in the first year following the merger. Please note that, in the expense table, it is assumed that all dividends and distributions are reinvested at net asset value, although some participants in the funds' Dividend Reinvestment Plan may receive shares at the market price in effect at that time, if the market price is below the per-share net asset value.

**Examples**

These examples translate the expenses shown in the preceding table into dollar amounts. By doing this, you can more easily compare the cost of investing in the funds. The examples make certain assumptions. They assume that you invest \$1,000 in common shares of a fund for the time periods shown and then redeem all your shares at the end of those periods. They also assume, as required by the SEC, a 5% return on your investment each year and that a fund's operating expenses remain the same. The examples are hypothetical; your actual costs and returns may be higher or lower.

|                                | 1 Year | 3 Years | 5 Years | 10 Years |
|--------------------------------|--------|---------|---------|----------|
| Managed Municipal Income Trust | \$11   | \$35    | \$61    | \$135    |
| High Yield Municipal Trust     | \$11   | \$33    | \$57    | \$127    |

Managed Municipal Income

Trust (pro forma combined

with High Yield Municipal Trust)

\$11

\$33

\$57

\$126

**6. How does the investment performance of the funds compare?**

The following information provides some indication of each fund's risks. The chart shows year-to-year changes in the net asset value performance of each fund's common shares. The table following the chart compares each fund's performance to that of a broad measure of market performance. Of course, a fund's past performance is not an indication of future performance.

**1997 1998 1999 2000 2001 2002 2003 2004 2005 2006**

Year-to-date performance through June 30, 2007 for Managed Municipal Income Trust's shares was 0.41% (at net asset value) and 5.02% (at market price) and for High Yield Municipal Trust was 0.68% (at net asset value) and 4.59% (at market price). During the periods shown in the bar chart, Managed Municipal Income Trust's highest return at net asset value for a quarter was 6.09% (quarter ended 6/30/03) and lowest return for a quarter was -2.83% (quarter ended 12/31/99); and High Yield Municipal Trust's highest return at net asset value for a quarter was 4.33% (quarter ended 6/30/03) and lowest return for a quarter was -1.84% (quarter ended 6/30/04).

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**Average Annual Total Returns**

(for periods ended 4/30/07)

Past  
1 year

Past  
5 years

Past  
10 years

**Managed Municipal Income Trust**

Common shares

(at net asset value)

6.75%

6.93%

5.43%

Common shares

(at market price)

15.40%

6.81%

3.74%

**High Yield Municipal Trust**

Common shares

(at net asset value)

7.41%

6.34%

5.20%

Common shares

(at market price)

14.50%

6.10%

3.33%

**Lehman Municipal Bond Index**

(no deduction for fees,  
expenses or taxes)

5.78%

5.16%

5.81%

Like the bar chart above, the information does not reflect any brokerage commissions associated with the purchase of shares of the funds on the NYSE or any sales charges paid in the funds' initial public offerings. Each fund's performance is compared to the Lehman Municipal Bond Index, an unmanaged index of long-term, fixed-rate, investment-grade, tax-exempt bonds. It is not possible to invest directly in the index.

**7. What are the federal income tax consequences of the proposed merger?**

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For federal income tax purposes, no gain or loss is expected to be recognized by High Yield Municipal Trust or its shareholders as a result of the proposed merger, and the aggregate tax basis of the Merger Shares received by each shareholder of High Yield Municipal Trust in the merger will be the same as the aggregate tax basis of the shareholder's High Yield Municipal Trust's shares. However, because the merger will end the tax year of High Yield Municipal Trust, the merger may accelerate distributions from High Yield Municipal Trust to its shareholders. At any time prior to the consummation of the merger, a shareholder may sell shares on the NYSE, likely resulting in recognition of gain or loss to such shareholder for federal income tax purposes. Certain other tax consequences are discussed under Information about the Proposed Merger Federal Income Tax Consequences.

### **8. Will my dividend be affected by the proposed merger?**

The Trustees do not expect that the shareholders of the funds will see any material change in the dividends they receive as a result of the proposed merger, although there can be no assurance that this will be the case. As of April 30, 2007, the current dividend rates for common shares of Managed Municipal Income Trust and High Yield Municipal Trust were 4.92% and 4.89%, respectively; and the estimated dividend rate for common shares of Managed Municipal Income Trust on a pro forma basis, after giving effect to the merger of High Yield Municipal Trust, would be 4.95%. As of June 29, 2007, the SEC yields for common shares of Managed Municipal Income Trust and High Yield Municipal Trust were 3.94% and 3.99%, respectively. Over the longer term, the level of dividends will depend on market conditions, the amount of the preferred shares Managed Municipal Income Trust may from time to time have outstanding and the ability of Putnam Management to invest Managed Municipal Income Trust's assets, including those received from High Yield Municipal Trust in the merger, in securities meeting Managed Municipal Income Trust's investment goal and policies.

Managed Municipal Income Trust will not permit any holder of certificated common shares of High Yield Municipal Trust at the time of the merger to receive cash dividends or other distributions, transfer your Common Merger Shares or pledge Common Merger Shares until the certificates for shares of High Yield Municipal Trust have been surrendered to Putnam Fiduciary Trust Company, the fund's transfer agent, or, in the case of lost certificates, until an adequate surety bond has been posted. To obtain information on how to return your share certificates for High Yield Municipal Trust if and when the merger is completed, please call Putnam Investor Services, a division of Putnam Fiduciary Trust Company, at 1-800-225-1581.

If a shareholder is not, for the reasons above, permitted to receive cash dividends or other distributions on Common Merger Shares, Managed Municipal Income Trust will pay all such dividends and distributions in additional shares, notwithstanding any election the shareholder may have made previously to receive dividends and distributions on shares of High Yield Municipal Trust in cash.

### **9. Do the procedures for purchasing and selling shares of the funds differ?**

The procedures for purchasing and selling shares of each fund are identical and are not expected to change. As closed-end funds, the funds do not redeem outstanding shares or continuously offer shares. The funds' shares currently may be bought and sold at prevailing market prices on the NYSE. Managed Municipal Income Trust will apply to list the Common Merger Shares on the NYSE. It is a condition to the closing of the proposed merger that the Common Merger Shares be accepted for listing.

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### **10. How will I be notified of the outcome of the proposed merger?**

If you are a shareholder of High Yield Municipal Trust, you will receive confirmation after the merger is completed, indicating your new account number, and the number of shares of Managed Municipal Income Trust you are receiving. Shareholders of Managed Municipal Income Trust will be notified of the merger in the fund's next annual or semi-annual report. To obtain information on how to return any share certificates you have for High Yield Municipal Trust, please call Putnam Investor Services at 1-800-225-1581.

If the proposed merger is not approved, shareholders of High Yield Municipal Trust will be notified and the results of the meeting will be provided in the next annual or semiannual report of the fund.

### **11. Will the number of shares I own change?**

If you hold common shares of High Yield Municipal Trust, the number of common shares you own will change but the total net asset value of the common shares of Managed Municipal Income Trust you receive will equal the total net asset value of the common shares of High Yield Municipal Trust that you hold at the time High Yield Municipal Trust's common shares are valued for purposes of the merger. If you are a shareholder of Managed Municipal Income Trust common shares, the number of Managed Municipal Income Trust shares you own will not change. Even though the net asset value per common share of each fund is different, the total net asset value of a common shareholder's holdings will not change as a result of the merger. Of course, the Common Merger Shares may trade at a discount from net asset value, which might be

greater or less than the trading discount of High Yield Municipal Trust's common shares at the time of the merger.

If you hold preferred shares of High Yield Municipal Trust, it is anticipated that you will receive one Series C preferred share of Managed Municipal Income Trust for each preferred share you currently own as a result of the difference in liquidation preference for preferred shares of Managed Municipal Income Trust. The preferred shares you receive will bear the same aggregate liquidation preference and dividend period as the shares you currently own. If you hold Series A or Series B preferred shares of Managed Municipal Income Trust, the number of preferred shares of Managed Municipal Income Trust you own will not change as a result of the proposed merger. If the proposed two-for-one stock-split and corresponding reduction in the liquidation preference of Series C preferred shares is approved, the holders of Managed Municipal Income Trust's Series C preferred shares will receive two shares for every share they currently own. See "Proposal Regarding Preferred Shares of Managed Municipal Income Trust" below. Regardless of which series you own, the aggregate liquidation preference of the preferred shares of Managed Municipal Income Trust you own will remain the same.

## 12. Will the market value of my investment change?

Common shares of each fund are expected to continue to be traded on NYSE until the time of the merger. Putnam Management will announce any a suspension in advance of the date such suspension begins. Shares of the funds may at times trade at a market price greater or less than net asset value. During recent years, shares of the funds have consistently traded at a discount to net asset value. Depending on market conditions immediately prior to the exchange, common shares of Managed Municipal Income Trust may trade at a greater or smaller discount or premium to net asset value than common shares of High Yield Municipal Trust, which would cause the Common Merger Shares to have a market value that is greater or less than the current market value the common shares of High Yield Municipal Trust.

## 13. Who will be paying the expenses associated with the proposed merger?

All fees and expenses, including legal and accounting expenses or other similar expenses incurred in connection with the consummation of the proposed merger, will be allocated ratably among the funds in proportion to their net assets, whether or not the mergers are consummated, except that the costs of proxy materials and proxy solicitations for each fund will be borne by that fund only and the costs of SEC filings will be borne by Managed Municipal Income Trust only. See Trustees Considerations Relating to the Proposed Merger Transaction costs of the proposed mergers for more information.

## 14. Why is the vote of Managed Municipal Income Trust's shareholders being solicited?

Although Managed Municipal Income Trust will continue its legal existence and operations as presently conducted, we are required by the fund's Agreement and Declaration and by the rules of the NYSE to solicit the vote of Managed Municipal Income Trust's shareholders in this matter. In addition, because the proposed merger involves the issuance by Managed Municipal

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Income Trust of preferred shares (the Preferred Merger Shares), and a two-for-one stock-split for Series C preferred shares of Managed Municipal Income Trust and a corresponding reduction in liquidation preference, Managed Municipal Income Trust's Bylaws require the approval of existing preferred shareholders of Managed Municipal Income Trust of such issuance. Managed Municipal Income Trust's Bylaws will be amended to reflect that the Preferred Merger Shares have been authorized and the stock-split regarding Series C preferred shares has been approved.

## 15. What percentage of shareholders' votes are required to approve the proposed merger?

The proposed merger will not occur unless a majority of the outstanding common and preferred shares of High Yield Municipal Trust entitled to vote (each class voting separately) approve the Conversion (as hereinafter defined) and the preferred shares of beneficial interest of Managed Municipal Income Trust have approved the authorization of Preferred Merger Shares. Assuming such approvals, the proposed merger will require the "yes" vote of the holders of:

\* a majority of the outstanding common and preferred shares of beneficial interest of Managed Municipal Income Trust entitled to vote (each class voting separately), and

\* a majority of the outstanding common and preferred shares of beneficial interest of High Yield Municipal Trust entitled to vote (each class voting separately).

## B. Risk Factors

***What are the main investment strategies and related risks of Managed Municipal Income Trust and how do they compare with those of High Yield Municipal Trust?***

Because the funds share virtually identical investment goals and strategies and have substantially similar policies and restrictions (in each case, except as otherwise noted in this Prospectus/Proxy Statement), the risks described below for an investment in Managed Municipal Income Trust are substantially similar to the risks of an investment in High Yield Municipal Trust.

Any investment carries with it some level of risk that generally reflects its potential for reward. Putnam Management will consider, among other things, credit, interest rate and prepayment risks as well as general market conditions when deciding whether to buy or sell investments. A description of the risks associated with the funds' main investment strategies follows.

**Tax-exempt investments.** These investments are issued by public authorities to raise money for public purposes, such as loans for the construction of housing, schools or hospitals, or to provide temporary financing in anticipation of the receipt of taxes and other revenue. They also include private activity obligations of public authorities to finance privately owned or operated facilities. Changes in law or adverse determinations by the Internal Revenue Service (the "Service") or a state authority could make the income from some of these obligations taxable.

Interest income from private activity bonds may be subject to Federal Alternative Minimum Tax ("AMT") for individuals. The fund can include these investments for the purpose of complying with the 80% investment policy described above. Corporate shareholders will be required to include all tax-exempt interest dividends in determining their federal AMT. For more information, including possible state, local and other taxes, contact your tax advisor.

**General obligations.** These are backed by the issuer's authority to levy taxes and are considered an obligation of the issuer. They are payable from the issuer's general unrestricted revenues, although payment may depend upon government appropriation or aid from other governments. These investments may be vulnerable to legal limits on a government's power to raise revenue or increase taxes, as well as economic or other developments that can reduce revenues.

**Special revenue obligations.** These are payable from revenue earned by a particular project or other revenue source. They include private activity bonds such as industrial development bonds, which are paid only from the revenues of the private owners or operators of the facilities. Investors can look only to the revenue generated by the project or the private company operating the project rather than the credit of the state or local government authority issuing the bonds. Special revenue obligations are typically subject to greater credit risk than general obligations because of the relatively limited source of revenue.

The Supreme Court has agreed to hear an appeal of a state-court decision that might significantly affect how states tax in-state and out-of-state municipal bonds. A Kentucky state court held that a Kentucky law violates the U.S. Constitution by treating, for Kentucky state tax purposes, the interest income on in-state municipal

bonds differently from the income on out-of-state municipal bonds. If the Supreme Court affirms this holding, most states likely will revisit the way in which they treat the interest on municipal bonds, and this has the potential to increase significantly the amount of state tax paid by shareholders on exempt-interest dividends derived from obligations issued by government agencies located in their state of residence. The Supreme Court has announced oral arguments on this case for the fall of 2007 and would likely issue a decision sometime thereafter. You should consult your tax advisor to discuss the tax consequences of your investment in the Fund.

**Interest rate risk.** The values of bonds and other debt instruments usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the values of existing debt instruments, and rising interest rates generally decrease the values of existing debt instruments. Changes in a debt instrument's value usually will not affect the amount of interest income paid to the fund, but will affect the value of the fund's shares. Interest rate risk is generally greater for investments with longer maturities.

Some investments give the issuer the option to call or redeem an investment before its maturity date. If an issuer calls or redeems an investment during a time of declining interest rates, the fund might have to reinvest the proceeds in an investment offering a lower yield, and therefore might not benefit from any increase in value as a result of declining interest rates.

Premium investments offer coupon rates higher than prevailing market rates. However, they involve a greater risk of loss, because their values tend to decline over time.

**Credit risk.** Investors normally expect to be compensated in proportion to the risk they are assuming. Thus, debt of issuers with poor credit prospects usually offers higher yields than debt of issuers with more secure credit. Higher-rated investments generally have lower credit risk.

Investments rated below BBB by S&P, Baa by Moody's or their equivalent are below investment grade (sometimes referred to as "junk bonds"). This rating reflects a greater possibility that the issuers may be unable to make timely payments of interest and principal and thus default. If this happens, or is perceived as likely to happen, the values of those investments will be more volatile and are likely to fall. A default or expected default could also make it difficult for Putnam Management to sell investments at prices approximating the values Putnam Management had previously placed on them. Tax-exempt debt, particularly lower-rated tax-exempt debt, usually has a more limited market than taxable debt, which may at times make it difficult for us to buy or sell certain investments or to establish their fair value. Credit risk is generally greater for investments that are issued at less than their face value and that are required to make interest payments only at maturity rather than at intervals during the life of the investment. Managed Municipal Income Trust may invest up to 60% of its assets in securities rated BBB or below by Standard & Poor's or Baa or below by Moody's or unrated securities Putnam Management believes are of comparable quality. In addition, Managed Municipal Income Trust may invest up to 10% of its assets in securities rated B or below by Standard & Poor's or B or below by Moody's or unrated securities Putnam Management believes are of comparable quality.

Putnam Management seeks to minimize the risks involved in investing in lower-rated municipal securities through diversification and careful investment analysis. It should be noted, however, that the amount of information about the financial condition of an issuer of municipal securities may not be as extensive as that which is made available by corporations whose securities are publicly traded.

The fund may purchase investments that are insured as to the payment of principal and interest in the event the issuer defaults. Any reduction in the claims paying ability of one of the few insurers that provide this insurance may adversely affect the value of insured investments and, consequently, the value of the fund's shares.

**Focused investment risk.** The fund may make significant investments in a segment of the tax-exempt debt market, such as tobacco settlement bonds or revenue bonds for health care facilities, housing or airports. These investments may cause the value of the fund's shares to change more than the value of shares of funds that invest in a greater variety of investments. Certain events may adversely affect all investments within a particular market segment. Examples include legislation or court decisions, concerns about pending legislation or court decisions, or lower demand for the services or products provided by a particular market segment.

Investing mostly in tax-exempt investments of a single state makes the fund more vulnerable to that state's economy and to factors affecting tax-exempt issuers in that state than would be true for a more geographically diversified fund. These risks include:

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\* the inability or perceived inability of a government authority to collect sufficient tax or other revenues to meet its payment obligations,

\* the introduction of constitutional or statutory limits on a tax-exempt issuer's ability to raise revenues or increase taxes, and

\* economic or demographic factors that may cause a decrease in tax or other revenues for a government authority or for private operators of publicly financed facilities.

At times, the fund and other accounts that Putnam Management and its affiliates manage may own all or most of the debt of a particular issuer. This concentration of ownership may make it more difficult to sell, or to determine the fair value of, these investments.

**Derivatives.** The fund may engage in a variety of transactions involving derivatives, such as futures, options, swap contracts and inverse floaters. Derivatives are financial instruments whose value depends upon, or is derived from, the value of something else, such as one or more underlying investments, pools of investments or indexes. The fund may use derivatives both for hedging and non-hedging purposes, such as to modify the behavior of an investment so it responds differently than it would otherwise to changes in a particular interest rate. For example, derivatives may increase or decrease an investment's exposure to long- or short-term interest rates or cause the value of an investment to move in the opposite direction from prevailing short-term or long-term interest rates. The fund may also use derivatives as a substitute for direct investments in the securities of one or more issuers. However, the fund may also choose not to use derivatives, based on Putnam Management's evaluation of market conditions or the availability of suitable derivatives. Investments in derivatives may be applied toward meeting a requirement to invest in a particular kind of investment if the derivatives have economic characteristics similar to that investment.

Derivatives involve special risks and may result in losses. The successful use of derivatives depends on Putnam Management's ability to manage these sophisticated instruments. Some derivatives are leveraged, which means that they provide a fund with investment exposure greater than the value of the fund's investment in the derivatives. The risk of loss from a short derivatives position is theoretically unlimited. As a result, these

derivatives may magnify or otherwise increase investment losses to the fund. The prices of derivatives may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions, and may result in increased volatility.

Other risks arise from the potential inability to terminate or sell derivatives positions. A liquid secondary market may not always exist for the fund's derivatives positions at any time. In fact, many over-the-counter instruments (investments not traded on an exchange) will not be liquid. Over-the-counter instruments also involve the risk that the other party to the transaction will not meet its obligations. For further information about the risks of derivatives, see the Merger SAI.

**Leverage.** Each fund uses leverage from the sale of preferred shares in an effort to increase the net income of the fund available for distribution to common shareholders. There are risks and possible disadvantages associated with leveraging, including higher volatility of the fund's net asset value and market value of its common shares and the possibility that, due to interest rate or other market changes, the rate at which the fund is required to pay dividends on any preferred shares might at times exceed the fund's investment return on the proceeds of the preferred shares.

Successful use of a leveraging strategy may depend on Putnam Management's ability to correctly predict interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed.

So long as the increase in the fund's net return on its investment portfolio as a result of the leverage provided by preferred shares is greater than the then current dividend rate of the preferred shares, after taking into account the additional operating expenses related to the preferred shares, the effect of the leverage provided by such preferred shares will be to cause the common shareholders to realize a higher current rate of return than if the fund were not so leveraged. On the other hand, to the extent that the then current rate of return on the preferred shares were to exceed the amount of any such increase after expenses in the fund's net return on its investment portfolio as a result of leverage provided by the preferred shares, the fund's leveraged capital structure would result in a lower rate of return to its common shareholders than if the fund had less leverage or an unleveraged capital structure. In addition to the potential effects on investment income and dividends, the fund's leveraged capital structure may also adversely affect the net asset value and market value of its common shares. Similarly, because any decline in the value of the fund's investments is generally borne by its common

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shareholders, the effect of leverage in a declining market would be to cause a greater decline in the net asset value of common shares than if the fund were not leveraged, which would likely be reflected in a greater decline in the market price for the fund's common shares. Under those circumstances, the fund might redeem its preferred shares, thereby eliminating the potential future benefits of leverage to the common shareholders.

If the fund's current investment income is not sufficient to meet dividend payments on preferred shares, it could be necessary for the fund to liquidate certain of its investments, thereby reducing the net asset value attributable to the fund's common shares. In addition, a decline in the net asset value of the fund's investments may affect the ability of the fund to make dividend payments on its common shares, and such failure to pay dividends or make distributions may result in the fund ceasing to qualify as a regulated investment company under the Code.

At any time when preferred shares are outstanding, the fund also is required to meet asset coverage requirements under the 1940 Act or imposed by rating agencies which provide ratings of the preferred shares. Such requirements may limit the fund's ability to take advantage of certain investment opportunities which would be available if no preferred shares were outstanding.

The holders of any preferred shares are entitled to receive distributions on a cumulative basis before any dividend or other distribution may be paid to common shareholders and, upon any liquidation of the fund, will be entitled to receive liquidating distributions (expected to equal the original purchase price per share plus any accrued and unpaid dividends thereon) before any distribution is made to common shareholders.

**Anti-takeover provisions.** The fund's Agreement and Declaration of Trust includes provisions that could limit the ability of other persons or entities to acquire control of the fund or to cause it to engage in certain transactions or to modify its structure. These provisions may have the effect of depriving common shareholders of an opportunity to sell their common shares at a premium over prevailing market prices and may have the effect of inhibiting the fund's conversion to open-end status.

**Market price of shares.** Shares of closed-end investment companies often trade at a discount to their net asset values, although it is possible that they may trade at a premium above net asset value. Net asset value will be reduced prior to or immediately following the merger as a result of merger-related expenses. Since the market price of the fund's common shares will be determined by such factors as relative demand for and supply of such shares in the market, the fund's net asset value, general market and economic conditions, and other factors beyond the control of the fund, the fund cannot predict whether its common shares will trade at, below, or above net asset value.



**Other investments.** In addition to the main investment strategies described above, the fund may also make other types of investments, such as investments in repurchase agreements and forward commitments, which may produce taxable income and be subject to other risks, as described in the Merger SAI. **Alternative strategies.** Under normal market conditions, the fund's portfolio is fully invested, with minimal cash holdings. However, at times Putnam Management may judge that market conditions make pursuing the fund's usual investment strategies inconsistent with the best interests of its shareholders. The fund then may temporarily use alternative strategies that are mainly designed to limit losses, including investing in taxable obligations. However, Putnam Management may choose not to use these strategies for a variety of reasons, even in very volatile market conditions. These strategies may cause the fund to miss out on investment opportunities, and may prevent the fund from achieving its goal.

**Changes in policies.** The fund's Trustees may change the fund's goal, investment strategies and other policies without shareholder approval, except as otherwise provided by the fund's Agreement and Declaration of Trust and Bylaws.

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An investment in Managed Municipal Income Trust may not be appropriate for all investors, and there is no assurance that Managed Municipal Income Trust will achieve its investment objective.

You can lose money on your investment in Managed Municipal Income Trust. Managed Municipal Income Trust is not intended as a complete investment program. An investment in Managed Municipal Income Trust is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

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### C. Information about the Proposed Merger

**General.** The shareholders of the funds are being asked to approve the proposed merger of High Yield Municipal Trust with and into Managed Municipal Income Trust, which will be effected through a two-step process, as described below, in order to assure that the proposed merger would be tax-free to shareholders.

Pursuant to a Plan of Entity Conversion (the **Conversion Plan**), a form of which is attached to this Prospectus/Proxy Statement as Appendix A, High Yield Municipal Trust would convert from a Massachusetts business trust to a Massachusetts limited liability company (the **Conversion**). High Yield Municipal Trust, organized as a limited liability company, then would merge with and into Managed Municipal Income Trust pursuant to an Agreement and Plan of Merger (the **Plan of Merger**), a form of which is attached to this Prospectus/Proxy Statement as Appendix B, and in accordance with the Massachusetts Limited Liability Company Act (the **LLC Act**) (such merger pursuant to the LLC Act being referred to herein as the **Statutory Merger**). Both steps are expected to be tax-free to shareholders (see **Federal Income Tax Consequences** below). In connection with the Conversion, each member of the Board of Trustees of High Yield Municipal Trust would become a member of the Board of Managers of High Yield Municipal Trust once it is organized as a limited liability company and the officers of High Yield Municipal Trust would remain unchanged. Shareholders of High Yield Municipal Trust would remain shareholders of High Yield Municipal Trust upon the Conversion (their ownership interests being referred to as **shares** for convenience of reference in this Prospectus/Proxy Statement) until consummation of the Statutory Merger soon thereafter.

Upon completion of the proposed merger, all the property and liabilities of High Yield Municipal Trust will become property and liabilities of Managed Municipal Income Trust and High Yield Municipal Trust will cease to exist. Common shareholders of High Yield Municipal Trust will receive Common Merger Shares on the date of the exchange (the **Exchange Date**) based on the relative net asset values of their existing shares and such Common Merger Shares, determined at the time as of which each fund's share are valued for purposes of the proposed merger (4:00 p.m. Eastern time on October 26, 2007 or such other time as mutually agreed by the funds (the **Valuation Time**)). Preferred shareholders of High Yield Municipal Trust will receive Preferred Merger Shares on the Exchange Date based on the aggregate liquidation preference of their existing shares and such Preferred Merger Shares as of the Valuation Time. Prior to the Exchange Date, High Yield Municipal Trust expects to declare a distribution to shareholders which, together with all previous distributions, will have the effect of distributing to shareholders all of its investment company income (computed without regard to the deduction for dividends paid) and net realized capital gains, if any, through the Exchange Date.

The Trustees have voted unanimously to approve the proposed merger and the related transactions, and to recommend that shareholders also approve the proposed merger. The Trustees have conditioned effectiveness of the Plan of Merger upon (a) High Yield Municipal Trust's shareholders approving the Conversion Plan, (b) Managed Municipal Income Trust's shareholders approving the issuance of \$45 million of additional preferred shares (the **Preferred Merger Shares**), which are required to consummate the merger and (c) Managed Municipal Income Trust's preferred shareholders approving a two-for-one stock-split of Series C preferred shares of Managed Municipal Income Trust and a corresponding reduction in liquidation preference from \$100,000 per share to \$50,000 per share in order to facilitate the proposed merger. The

Conversion Plan requires the affirmative vote of holders a majority of the outstanding common and preferred shares of beneficial interest of High Yield Municipal Trust entitled to vote (each class voting separately); the issuance of the Preferred Merger Shares requires the affirmative vote of the holders of a majority of the outstanding preferred shares of beneficial interest of Managed Municipal Income Trust; and the two-for-one stock-split of Series C preferred shares of Managed Municipal Income Trust requires the affirmative vote of the holders of a majority of the outstanding preferred shares of beneficial interest of Managed Municipal Income Trust.

It is a condition to the closing of the merger that Standard & Poor's and Moody's, which serve as rating agencies with respect to the funds outstanding preferred shares, shall have advised Managed Municipal Income Trust that the closing of the merger will not result in the withdrawal of their current ratings of Managed Municipal Income Trust's outstanding preferred shares and that the Preferred Merger Shares issued in the transaction will be rated AAA by Standard & Poor's and Aaa by Moody's. It is also a condition that the Common Merger Shares be accepted for listing on the NYSE. A further condition to the closing of the merger that the shareholders of Managed Municipal

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Income Trust do not approval a proposal to convert the fund from a closed-end investment company to an open-end investment company at the fund's annual meeting in October 2007.

Prior to the Conversion, individual investment restrictions of High Yield Municipal Trust may be temporarily revised or suspended to the extent necessary to effect the transactions described herein. Putnam Management does not anticipate that a significant portion of High Yield Municipal Trust's portfolio securities will be disposed of in connection with the merger.

In the event that the proposed merger and related transactions do not receive the required shareholder approvals, each fund will continue to be managed as a separate fund in accordance with its current investment objectives and policies, and the Trustees may then consider such alternative arrangements or transactions as they believe to be in the best interests of its shareholders.

#### **Trustees' Considerations Relating to the Proposed Merger.**

##### *General*

The Trustees of the funds have carefully considered the anticipated benefits and costs of the proposed merger from the perspective of each fund. The Trustees considered a recommendation, including a detailed plan for the mergers, from Putnam Management for this merger at a meeting of the Board of Trustees held on February 8-9, 2007. After carefully considering the terms of the proposed merger, the Trustees determined at the meeting to approve in principle the merger of High Yield Municipal Trust into Managed Municipal Income Trust.

On June 15, 2007, following further review of the proposed transactions and discussion with representatives of Putnam Management, the Trustees unanimously approved all of the terms of the proposed merger on behalf of the funds, adopted the Conversion Plan and the Plan of Merger (subject to shareholder approval) and determined to recommend that shareholders of the funds vote in favor of the transaction. In their deliberations, the Trustees took into account the recommendations of the Contract Committee, which consists solely of Independent Trustees, and which convened on several occasions to consider the attributes of the funds and the terms of the proposed merger. The Contract Committee and the Trustees were assisted in this process by independent legal counsel for the funds and the Independent Trustees. Following their review, the Trustees, including all of the Independent Trustees present, determined that the proposed merger of High Yield Municipal Trust into Managed Municipal Income Trust would be in the best interests of each fund and its shareholders, and that the interests of existing shareholders of each fund would not be diluted by the proposed merger.

##### *The compatibility of the investment goals, strategies and policies of the funds*

The Trustees considered that both funds are leveraged closed-end funds with the same investment goal of seeking as high a level of current income exempt from federal income tax as Putnam Management believes is consistent with the preservation of capital. In addition, each fund invests mainly in municipal securities that are exempt from federal income tax. The Trustees observed that the proposed merger would permit each fund's shareholders to pursue virtually identical investment goals in a larger fund. The Trustees also considered that the same portfolio management team would be responsible for the day-to-day management of the combined fund.

##### *Investment flexibility of the combined fund*

In evaluating the investment flexibility of the combined fund, the Trustees gave weight to Putnam Management's representation that the separate funds incur additional transaction costs in managing smaller position sizes in portfolio securities. Putnam Management informed the Trustees that the larger combined fund would have greater flexibility in the positions it maintains in portfolio securities and in the ease with which it can balance and reposition its holdings.

*Relative performance of the funds*

The Trustees considered the relative performance of the funds, both in relation to one another and relative to their benchmark, which is presented in greater detail under the heading "How does the investment performance of the funds compare?" above. The Trustees observed that Managed Municipal Income Trust outperformed High Yield Municipal Trust over the 5- and 10-year periods based on total returns measured at net asset value and market price. Managed Municipal Income Trust also outperformed High Yield Municipal Trust over the 1-year period based on total returns measured at market price.

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*The substantially larger trading market of the combined fund*

Following the proposed merger, the combined fund will have a substantially larger trading market in common shares than each fund had prior to the merger, which may increase liquidity for shareholders and, to the extent that trading discounts for the fund's common shares may be influenced from time to time by demand for such shares, reduce the extent of trading discounts that would be experienced in a smaller trading market. A larger trading market offers the potential for greater investor and analyst interest as well.

*Operating expenses*

In evaluating the possible operating efficiencies of the combined fund after the proposed merger, the Trustees considered any expected savings in annual fund operating expenses. Putnam Management's unaudited estimates of the funds' expense ratios as a percentage of assets attributable to common shares as of April 30, 2007, and the expected pro forma expense ratio based on combined assets of the funds as of the same date, are shown in the following table:

|   | Managed<br>Municipal<br>Income<br>Trust | High Yield<br>Municipal<br>Trust | Managed<br>Municipal<br>Income Trust<br>(pro forma<br>combined with<br>High Yield<br>Municipal Trust)* |
|---|---|----------------------------------|--|
| Management Fees                           | 0.81%                                   | 0.70%                            | 0.78%  |
| Other Expenses                            | 0.28%                                   | 0.31%                            | 0.25%  |
| Total Annual Fund<br>Operating Expenses * | 1.09%                                   | 1.01%                            | 1.03%  |

Expenses are expressed as a percentage of assets attributable to common shares and include costs and expenses incurred in connection with maintaining preferred shares. Aggregate costs associated with the preferred shares equaled approximately 0.39% and 0.24% of common share net assets over the year ended April 30, 2007 for Managed Municipal Income Trust and High Yield Municipal Trust, respectively. Aggregate costs associated with the preferred shares would be equal to approximately 0.34% of common share net assets over the year ended April 30, 2007 for Managed Municipal Income Trust on a pro forma combined basis.

\* Does not reflect non-recurring expenses that each fund is expected to incur in connection with the merger, which are described below under the heading "Trustees Considerations Related to the Proposed Merger - Transaction Costs." If these expenses had been reflected, the pro forma Other Expenses and Total Annual Fund Operating Expenses for the fiscal year in which the merger occurs would be 0.32% and 1.10%, respectively, for Managed Municipal Income Trust combined with High Yield Municipal Trust.

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The Trustees considered that the pro forma combined fund would have more leverage through preferred shares than High Yield Municipal Trust and less leverage than Managed Municipal Income Trust. As a result, the fees of the pro forma combined fund (expressed as a percentage of assets attributable to common shares) are expected to be 0.02% higher than the total annual fund operating expenses currently incurred by High Yield Municipal Trust and 0.06% lower than the total annual fund operating expenses currently incurred by Managed Municipal Income Trust. (This fee analysis was as of April 30, 2007 for each fund; see *How do the management fees and other expenses of the fund compare, and what are they estimated to be following the merger?* on page 4 for comparisons as of each fund's fiscal year end.) The Trustees noted, however, that the fee schedules for calculating the management fees payable by the two funds (which are based on a percentage of total fund assets) are identical and that accordingly the aggregate effective management fee rate and the aggregate dollar amount of management fees paid to Putnam Management by the combined fund cannot exceed the management fees paid currently by the two funds separately. Rather, by virtue of the operation of breakpoints under Managed Municipal Income Trust's management contract, the aggregate management fees paid to Putnam Management would decrease as a result of the merger. The Trustees also noted that the combined fund's expense ratio may be further reduced over time, since duplicative fees such as NYSE listing fees and costs for legal, audit and administrative services would likely be reduced or eliminated.

### *Tax considerations*

The Trustees took into account that the proposed merger could be accomplished on a tax-free basis, so that shareholders would not be required to realize gains on their investment if they opt to receive and hold shares of Managed Municipal Income Trust. In their consideration of the tax effects of the proposed merger, using data as of December 31, 2006, the Trustees reviewed the historical and pro forma tax attributes of the funds and the effect of a hypothetical merger occurring as of that date on certain tax losses of the funds. The Trustees noted that the potential tax impact on each fund's shareholders was expected not to be significant.

### *Transaction costs of the proposed merger*

The Trustees took into account the expected approximate costs of the proposed merger, including proxy solicitation costs, accounting fees and legal fees. The Trustees weighed these costs (and the estimated portfolio transaction expenses described below) against the quantifiable expected benefits of the proposed merger. The Trustees observed that the two-step merger structure (a conversion to a limited liability company followed by a statutory merger) entailed higher costs than might otherwise have been the case, which they

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weighed against the benefits to shareholders of this structure, including greater clarity on the tax-free character of the transactions. The Trustees determined that all fees and expenses, including legal and accounting expenses or other similar expenses incurred in connection with the consummation of the transactions contemplated by the Plan of Merger, will be allocated ratably between the funds in proportion to their net assets whether or not the merger is consummated, except that the costs of proxy materials and proxy solicitations for each fund will be borne by that fund only and the costs of SEC filings will be borne by Managed Municipal Income Trust only. The Trustees considered this arrangement to be justified in light of the expected advantages of the merger for shareholders of each fund. The Trustees also noted that if one of the funds is unwilling or unable to consummate the merger in certain circumstances, that fund shall be responsible for the other fund's reasonable fees and expenses.

The merger costs (including proxy solicitation costs, legal fees, audit fees and SEC filing fees) borne by Managed Municipal Income Trust and High Yield Municipal Trust in connection with the proposed merger are estimated to be \$253,995 and \$118,813, respectively.

The Trustees noted that, in the proposed merger, the Managed Municipal Income Trust would largely receive High Yield Municipal Trust's investment portfolio rather than cash, and would therefore obtain the potential benefits of increased size without bearing the brokerage expenses associated with making portfolio investments.

### *Other factors*

The Trustees also took into account a number of other factors, including the terms of the Merger Documents.

### *Merger Documents.*

**Conversion Plan.** The first step in completing the proposed merger, High Yield Municipal Trust's Conversion from a Massachusetts business trust to a Massachusetts limited liability company, will be governed by the Conversion Plan, a form of which is attached as Appendix A. The description of the Conversion Plan in this Prospectus/Proxy Statement is qualified in its entirety by the full text of the Conversion Plan. The Conversion Plan provides that upon the effectiveness of Articles of Conversion, the common and preferred shares of beneficial interest of High Yield Municipal Trust will be converted on a one-to-one basis into shares of common and preferred units (which are deemed to be different

classes of limited liability company interests under Massachusetts law), respectively, of High Yield Municipal Trust, as a limited liability company. The Plan of Conversion authorizes the organization documents of High Yield Municipal Trust in limited liability company form, including an operating agreement that continues the ownership, governance and procedural characteristics of the business trust, with only minor alterations to comply with the statutory requirements associated with operating as a limited liability company. As previously noted, the units into which shares of High Yield Municipal Trust are converted upon the Conversion are referred to simply as shares in the Prospectus/Proxy Statement, in large part because of the very close similarities between the pre- and post-Conversion High Yield Municipal Trust.

**Plan of Merger.** Shortly after the Conversion, and contingent upon the approval of the shareholders of Managed Municipal Income Trust and High Yield Municipal Trust, High Yield Municipal Trust, then organized as a Massachusetts limited liability company, and Managed Municipal Income Trust will engage in a Statutory Merger pursuant to the LLC Act and in accordance with the provisions of the Plan of Merger, a form of which is attached as Appendix B. The description of the proposed merger in this Prospectus/Proxy Statement is qualified in its entirety by the full text of the Plan of Merger. The Plan of Merger provides that High Yield Municipal Trust will merge with and into Managed Municipal Income Trust and that all of the property and liabilities of High Yield Municipal Trust will become property and liabilities of Managed Municipal Income Trust. Upon the effectiveness of the merger, preferred and common shares of High Yield Municipal Trust will be converted into Preferred Merger Shares and Common Merger Shares, respectively, at a rate determined as of the Valuation Time. On the Exchange Date, which is expected to occur on the next full business day following the Valuation Time, High Yield Municipal Trust's common and preferred shares will be converted into Common Merger Shares and Preferred Merger Shares, respectively. As a result of the proposed merger, each holder of High Yield Municipal Trust's preferred shares will receive a number of Preferred Merger Shares equal in aggregate liquidation preference to High Yield Municipal Trust's preferred shares. Similarly, each holder of High Yield Municipal Trust's common shares will receive a number of Common Merger Shares equal in aggregate net asset value to the net asset value of High Yield Municipal Trust's common shares.

This will be accomplished by establishing an account on the share records of Managed Municipal Income Trust in the name of each shareholder of High Yield

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Municipal Trust representing the number of Merger Shares due the shareholder. Shareholders who hold certificated common shares of High Yield Municipal Trust will receive certificates representing the number of Common Merger Shares due the shareholder upon surrender of their High Yield Municipal Trust share certificates. No additional certificates will be issued for Merger Shares. To obtain additional information on how to return your share certificate if and when the merger is completed, please call Putnam Investor Services at 1-800-225-1581. Shareholders who fail to surrender certificates they hold representing shares of High Yield Municipal to Putnam Fiduciary Trust Company, the funds' transfer agent, will not, following the merger, be able to receive any cash dividends or other distributions, transfer their Common Merger Shares or pledge Common Merger Shares until the certificates have been surrendered.

The consummation of the merger is subject to the conditions set forth in the Plan of Merger. The Plan of Merger may be terminated and the merger abandoned at any time, before or after approval by the shareholders, prior to the Exchange Date by mutual consent of Managed Municipal Income Trust and High Yield Municipal Trust or, if any condition set forth in the Plan of Merger has not been fulfilled and has not been waived by the party entitled to its benefits, by such party. The Plan of Merger also may be amended prior to closing by the mutual consent of the funds.

In addition, High Yield Municipal Trust may liquidate any of its portfolio securities that Managed Municipal Income Trust indicates it does not wish to hold. High Yield Municipal Trust shareholders will bear the portfolio trading costs associated with this liquidation to the extent that it is completed before the closing. There can be no assurance that this liquidation will be accomplished before the closing. To the extent the liquidation is not accomplished before the closing, the costs of liquidation will be borne by shareholders of the combined fund, including current shareholders of Managed Municipal Income Trust. Putnam Management does not expect that High Yield Municipal Trust will make any significant liquidations or dispositions of securities in connection with the proposed merger.

The fees and expenses for the merger are estimated to be approximately \$372,808 (not including the trading costs associated with the liquidations described above). All fees and expenses, including legal and accounting expenses or other similar expenses incurred in connection with the consummation of the transactions contemplated by the Plan of Merger, will be allocated ratably between the funds in proportion to their net assets whether or not the merger is consummated, except that the costs of proxy materials and proxy solicitations for each fund will be borne by that fund only and the costs of SEC filings will be borne by Managed Municipal Income Trust only. However, to the extent that any payment by a fund of such fees or expenses would result in its disqualification as a regulated investment company within the meaning of Section 851 of the Code, such fees and expenses will be paid directly by the party incurring them. In addition, if one fund is unwilling or unable to consummate the merger in certain circumstances, that fund shall be responsible for the other fund's reasonable fees and expenses.

**Description of the Merger Shares.** Each Merger Share will be fully paid and nonassessable when issued and will have no preemptive or conversion rights. The Preferred Merger Shares will have terms virtually identical to those of Managed Municipal Income Trust's outstanding

Series C preferred shares. The Common Merger Shares will be transferable without restriction, but the Preferred Merger Shares will be subject to the same restrictions on transfer as the outstanding preferred shares of Managed Municipal Income Trust. The Agreement and Declaration of Trust of Managed Municipal Income Trust permits the fund to divide its shares, without shareholder approval, into two or more classes of shares having such preferences and special or relative rights and privileges as the Trustees may determine. Managed Municipal Income Trust's shares are currently divided into four classes (one class of common shares and three classes of preferred shares). Managed Municipal Income Trust's Bylaws will be amended to reflect that the Preferred Merger Shares have been authorized. For more information about the fund's preferred shares, see "Information about the Fund's Preferred Shares" below or for preferred shareholders of High Yield Municipal Trust only, Appendix C to this Prospectus/Proxy Statement.

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of Managed Municipal Income Trust. However, the Agreement and Declaration of Trust disclaims shareholder liability for acts or obligations of Managed Municipal Income Trust and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by Managed Municipal Income Trust or its Trustees. The Agreement and Declaration of Trust provides for indemnification out of fund property for all losses and expenses of any shareholder held personally liable for the obligations of Managed Municipal Income Trust.

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Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which Managed Municipal Income Trust would be unable to meet its obligations. The likelihood of such circumstances is remote. The shareholders of High Yield Municipal Trust, currently also a Massachusetts business trust, are currently subject to the same risk of shareholder liability.

**Federal income tax consequences.** As a condition to High Yield Municipal Trust's obligation to consummate the transactions contemplated by the Conversion Plan and the Plan of Merger, High Yield Municipal Trust will receive tax opinions in respect of the conversion and the proposed merger from Ropes & Gray LLP, counsel to the fund. These opinions, which will be based on certain factual representations and certain customary assumptions, will be to the effect that, on the basis of the existing provisions of the Code, current administrative rules and court decisions, generally for federal income tax purposes, the Conversion and the proposed merger will qualify as a tax-free reorganization as set forth in clauses (i) and (ii) as follows, and that such steps taken together will have the combined effects set forth in clauses (iii) through (x) as follows:

- (i) the conversion of High Yield Municipal Trust from a Massachusetts business trust to a Massachusetts limited liability company, pursuant to the Conversion Plan and Mass. Gen. Laws ch. 156C, constitutes a reorganization within the meaning of Section 368(a) of the Code, and High Yield Municipal Trust will be a party to reorganization within the meaning of Section 368(b) of the Code;
- (ii) the vesting in Managed Municipal Income Trust of all the property and liabilities of High Yield Municipal Trust and the conversion of shares of High Yield Municipal Trust into Merger Shares of Managed Municipal Income Trust, all pursuant to the Plan of Merger and Mass. Gen. Laws ch. 156C, constitutes a reorganization within the meaning of Section 368(a) of the Code, and Managed Municipal Income Trust and High Yield Municipal Trust will each be a party to a reorganization within the meaning of Section 368(b) of the Code;
- (iii) under Section 361 of the Code, no gain or loss will be recognized by High Yield Municipal Trust upon the vesting of High Yield Municipal Trust's property and liabilities in Managed Municipal Income Trust or upon the distribution of Merger Shares to High Yield Municipal Trust's shareholders;
- (iv) under Section 354 of the Code, no gain or loss will be recognized by shareholders of High Yield Municipal Trust on the exchange of their shares of High Yield Municipal Trust for Merger Shares;
- (v) under Section 358 of the Code, the aggregate tax basis of the Merger Shares received by High Yield Municipal Trust's shareholders will be the same as the aggregate tax basis of High Yield Municipal Trust shares exchanged therefor;
- (vi) under Section 1223(1) of the Code, the holding periods of the Merger Shares received by the shareholders of High Yield Municipal Trust will include the holding periods of High Yield Municipal Trust shares exchanged therefor, provided that, at the time of the reorganization, High Yield Municipal Trust shares are held by such shareholders as a capital asset;
- (vii) under Section 1032 of the Code, no gain or loss will be recognized by Managed Municipal Income Trust upon the vesting of High Yield Municipal Trust's property and liabilities in Managed Municipal Income Trust in exchange for Merger Shares;
- (viii) under Section 362(b) of the Code, the tax basis in the hands of Managed Municipal Income Trust of the assets of High Yield Municipal Trust transferred to Managed Municipal Income Trust will be the same as the tax basis of such assets in the hands of High Yield Municipal Trust immediately prior to the transfer;

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(ix) under Section 1223(2) of the Code, the holding periods of the assets of High Yield Municipal Trust in the hands of Managed Municipal Income Trust will include the periods during which such assets were held by High Yield Municipal Trust; and

(x) Managed Municipal Income Trust will succeed to and take into account the items of High Yield Municipal Trust described in Section 381(c) of the Code, subject to the conditions and limitations specified in Sections 381, 382, 383 and 384 of the Code and regulations thereunder.

Ropes & Gray LLP will express no view with respect to the effect of the reorganization on any transferred asset as to which any unrealized gain or loss is required to be recognized at the end of a taxable year (or on the termination or transfer thereof) under federal income tax principles. The opinion will be based on certain factual certifications made by officers of High Yield Municipal Trust and Managed Municipal Income Trust and will also be

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based on customary assumptions. The opinion is not a guarantee that the tax consequences of the proposed merger would be as described above. The opinion may note and distinguish certain published precedent. There is no assurance that the Internal Revenue Service would agree with this opinion.

Before consummating the merger, High Yield Municipal Trust expects to, and Managed Municipal Income Trust may, declare a distribution to shareholders that, together with all previous distributions, will have the effect of distributing to shareholders all of its investment company income (computed without regard to the deduction for dividends paid) and net capital gains, including those realized on disposition of portfolio securities in connection with the proposed merger (after reduction by any available capital loss carryforwards). These distributions will be taxable to shareholders (except, in the case of a distribution of investment company income, for federal tax purposes to the extent that it is comprised of exempt-interest dividends).

Historic losses of High Yield Municipal Trust available to offset gains, if any, in each year following the proposed merger would technically be subject to a limitation under Section 382 of the Code. If the merger had occurred on December 31, 2006, approximately \$9 million of High Yield Municipal Trust's historic losses would have been available to offset gains, if any, in each year following the proposed merger. As of December 31, 2006, the funds also had similar percentage levels of built-in gains. Additionally, for five years following the proposed merger, the combined fund will not be allowed to offset the built-in gains of one fund with the built-in losses of the other fund at the time of the Exchange Date. If the merger had taken place on December 31, 2006, this limitation would not have affected the combined fund, however, since each fund had built-in gains against which its built-in losses could be used.

Managed Municipal Income Trust will file the tax opinion with the SEC shortly after the completion of the proposed merger. This description of the federal income tax consequences of the proposed merger is made without regard to the particular facts and circumstances of any shareholder. Shareholders are urged to consult their own tax advisers as to the specific consequences to them of the proposed merger, including the applicability and effect of state, local and other tax laws.

**Capitalization.** The following table shows on an unaudited basis the capitalization of the funds as of April 30, 2007, and on a *pro forma* combined basis, giving effect to the proposed merger as of that date:

|            | Managed<br>Municipal<br>Income<br>Trust | High Yield<br>Municipal<br>Trust | <i>Pro forma</i><br>Adjustment | Managed<br>Municipal<br>Income Trust<br>( <i>pro forma</i><br>combined with<br>High Yield<br>Municipal<br>Trust)* |
|------------|---|----------------------------------|--------------------------------|---|
| Net assets |   |                                  |                                |   |
| Common     |   |                                  |                                |   |
| (000 s)    | \$371,155                               | \$168,317                        | (\$373)                        | \$539,099   |
| Preferred  |   |                                  |                                |   |
| (000 s)    | \$175,000                               | \$45,000                         |                                | \$220,000   |

Shares Outstanding

Common

|         |        |        |       |        |
|---------|--------|--------|-------|--------|
| (000 s) | 44,659 | 21,132 | (892) | 64,899 |
|---------|--------|--------|-------|--------|

Preferred

|          |     |     |       |     |
|----------|-----|-----|-------|-----|
| Series A | 550 | 900 | (900) | 550 |
|----------|-----|-----|-------|-----|

|          |     |  |  |     |
|----------|-----|--|--|-----|
| Series B | 550 |  |  | 550 |
|----------|-----|--|--|-----|

|          |     |  |          |         |
|----------|-----|--|----------|---------|
| Series C | 650 |  | 1,550*** | 2,200** |
|----------|-----|--|----------|---------|

Series I

Net asset value

per common

|       |        |        |  |        |
|-------|--------|--------|--|--------|
| share | \$8.31 | \$7.97 |  | \$8.31 |
|-------|--------|--------|--|--------|

\* *Pro forma* combined net assets reflects non-recurring costs that each fund is expected to incur in connection with the merger.

\*\* Reflects proposed two-for-one stock-split of Series C preferred shares of Managed Municipal Income Trust.

\*\*\* It is anticipated that Series A preferred shareholders of High Yield Municipal Trust will receive Series C preferred shares of Managed Municipal Income Trust in the merger.

Unaudited *pro forma* combining financial statements of the funds as of April 30, 2007, and for the twelve-month period then ended are included in the Merger SAI. Because the Plan of Merger provides that Managed Municipal Income Trust will be the surviving fund following the merger and because Managed Municipal Income Trust's investment objectives and policies will remain unchanged, the *pro forma* combining financial statements reflect the transfer of the assets and liabilities of High Yield Municipal Trust to Managed Municipal Income Trust as contemplated by the Plan of Merger.

**THE TRUSTEES, INCLUDING THE INDEPENDENT TRUSTEES, UNANIMOUSLY RECOMMEND APPROVAL OF THE PROPOSED MERGER.**

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**II. PROPOSAL REGARDING PREFERRED SHARES OF MANAGED MUNICIPAL INCOME TRUST (*For Managed Municipal Income Trust only*)**

**A. Questions and Answers.** The responses to the questions that follow provide an overview of key points typically of concern to shareholders considering the authorization of additional preferred shares. These responses are qualified in their entirety by the remainder of the Prospectus/Proxy Statement, which contains additional information and further details regarding the proposal.

**1. What is being proposed?**

The Trustees are recommending that Managed Municipal Income Trust preferred shareholders authorize the issuance of \$45 million in aggregate liquidation preference of additional preferred shares. These additional shares will be Preferred Merger Shares issued on terms virtually identical to those of the outstanding Series C preferred shares of Managed Municipal Income Trust. The Preferred Merger Shares would be on parity with Managed Municipal Income Trust's outstanding preferred shares (regardless of series determination) with respect to the payment of dividends or distribution of assets in liquidation.

In addition, in order to align the characteristics of the series of preferred shares of the funds, the Trustees are recommending that Managed Municipal Income Trust's shareholders authorize a two-for-one stock-split of Series C preferred shares ( Series C Shares ) of Managed Municipal Income Trust and a corresponding reduction in liquidation preference from \$100,000 per share to \$50,000 per share. If you hold Series C Shares of Managed Municipal Income Trust, the number of Series C Shares you hold will double as a result of the stock-split, but the aggregate liquidation preference of those shares will remain the same. The terms of Managed Municipal Income Trust's Series C Shares will otherwise



remain the same. This proposal is conditioned upon shareholder approval of the proposed merger and the authorization of the additional preferred shares. For more information about the funds' preferred shares, see "Information about the Funds' Preferred Shares" below or, for preferred shareholders of High Yield Municipal Trust only, Appendix C to this Prospectus/Proxy Statement.

## **2. Why are the Trustees proposing the issuance of the additional preferred shares?**

The authorization of additional preferred shares is required to consummate the proposed merger discussed in this Prospectus/Proxy Statement so that the combined fund's leverage ratio would not be substantially lower than Municipal Income Trust's leverage ratio. The funds use leverage from the sale of preferred shares in an effort to increase the income of the fund available for distributions to common shareholders. See "What are the main investment strategies and related risks of Managed Municipal Income Trust and how do they compare with High Yield Municipal Trust?" Leverage" above for a discussion of the risks associated with leverage.

Pursuant to the Plan of Merger, Managed Municipal Income Trust will exchange Preferred Merger Shares for preferred shares of High Yield Municipal Trust equal in aggregate liquidation preference to High Yield Municipal Trust's preferred shares. The proposed merger is conditioned upon the preferred shareholders of Managed Municipal Income Trust approving the issuance of the additional preferred shares.

## **3. Why are the Trustees proposing reducing the liquidation preference of Series C Shares of Managed Municipal Income Trust?**

A two-for-one stock-split of Series C Shares of Managed Municipal Income Trust that will reduce the liquidation preference of the Series C Shares from \$100,000 per share to \$50,000 per share is required to facilitate the proposed merger discussed in this Prospectus/Proxy Statement. In connection with the proposed merger, holders of High Yield Municipal Trust's preferred shares will receive preferred shares of Managed Municipal Income Trust that bear the same aggregate liquidation preference and dividend period as the shares they currently own. Only Managed Municipal Income Trust's Series C Shares have the same dividend period (*i.e.*, 7 days) as High Yield Municipal Trust's Series A preferred shares. The per-share liquidation preference of Managed Municipal Income Trust's Series C Shares, however, is double the per-share liquidation preference of High Yield Municipal Trust's Series A preferred shares. As a result, in order for holders of an odd number of High Yield Municipal Trust Series A preferred shares to receive only whole numbers of Series C Shares of Managed Municipal Income Trust in connection with the merger, the liquidation preference of the Series C Shares of Managed Municipal Income Trust will have to be reduced by half. In addition, the Remarketing Agent has indicated that a stock-split reducing the liquidation preference of the Series C Shares of Managed Municipal Income Trust will not adversely affect the holders of those shares, and it may result in an increase in the marketability of those shares.

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As a result of the proposed two-for-one stock-split for Series C preferred shares of Management Municipal Income Trust and the corresponding reduction in liquidation preference of the Series C preferred shares of Managed Municipal Income Trust, the number of authorized and outstanding Series C preferred shares of Managed Municipal Income Trust would increase without a proportionate increase in the authorized shares of the other series of Managed Municipal Income Trust's preferred shares. Accordingly, the voting power of Series C Shares would increase vis-à-vis the other series of preferred shares of Managed Municipal Income Trust. Accordingly, the approval of each series of Managed Municipal Income Trust's preferred shares, voting separately, would be required in order to approve the reduction in liquidation preference of the Series C Shares.

## **4. What percentage of shareholders' votes are required to authorize the issuance of Preferred Merger Shares?**

Approval of the issuance of the Preferred Merger Shares requires the affirmative vote of the holders of a majority of the outstanding preferred shares of Managed Municipal Income Trust, all series voting together.

Approval of the two-for-one stock-split and the corresponding reduction in liquidation preference of Series C Shares of Managed Municipal Income Trust requires the affirmative vote of the holders of a majority of the outstanding preferred shares of Managed Municipal Income Trust, each series voting separately.

**THE TRUSTEES, INCLUDING THE INDEPENDENT TRUSTEES, UNANIMOUSLY RECOMMEND APPROVAL OF THE PROPOSALS REGARDING PREFERRED SHARES OF MANAGED MUNICIPAL INCOME TRUST.**

## **III. INFORMATION ABOUT THE FUNDS**

Each fund is a Massachusetts business trust. Managed Municipal Income Trust is a diversified, closed-end management investment company that was organized on February 24, 1989. High Yield Municipal Trust is a diversified closed-end management investment company that was organized on May 25, 1989.

**Preferred Shares.** Each fund has outstanding preferred shares intended to increase the current income available for distribution to holders of the funds' common shares. The preferred shares pay dividends at rates that are adjusted over the short- or medium-term and reflect prevailing short- and medium-term tax-exempt interest rates.

Assuming such comparative yields, the leveraged capital structure of Managed Municipal Income Trust would potentially enable Managed Municipal Income Trust to pay a higher yield on its common shares than investment companies with investment objectives similar to that of Managed Municipal Income Trust, but without an additional class of shares with preference and dividend rights similar to those of Managed Municipal Income Trust's outstanding preferred shares. Use of leverage may, under certain circumstances, cause the yield on Managed Municipal Income Trust's common shares to be lower and cause Managed Municipal Income Trust's net asset value to decline to a greater extent than would be the case if Managed Municipal Income Trust were not to use leverage, as described below.

Managed Municipal Income Trust's use of leverage through issuance of preferred shares requires Managed Municipal Income Trust to meet certain requirements and may entail certain risks. Under the asset coverage requirements of the 1940 Act, the value of the total assets of Managed Municipal Income Trust, less all liabilities and indebtedness of Managed Municipal Income Trust, must be at least equal to 200% of the aggregate liquidation preference of the outstanding preferred shares. The liquidation preference of the preferred shares equals their aggregate original purchase price plus any accrued and unpaid dividends thereon. In addition, Managed Municipal Income Trust is required, at all times when the preferred shares are outstanding, to meet additional requirements imposed by rating agencies in connection with the rating of the preferred shares, as more fully discussed below. Because of the 1940 Act asset coverage requirements and/or the rating agency requirements, Managed Municipal Income Trust may be required to redeem the preferred shares at a time when, in the judgment of Putnam Management, it may not be desirable to do so.

As long as any preferred shares are outstanding, Managed Municipal Income Trust will not declare, pay, or set apart for payment any dividend or other distribution in respect of the common shares, or call for redemption, redeem, purchase, or otherwise acquire for consideration any common shares, unless (i) immediately thereafter, the asset coverage requirements imposed by the 1940 Act and any rating agency are met, (ii) full cumulative dividends on all preferred shares for all past dividend periods have been paid or declared and a sum sufficient for the payment of such dividends set apart for payment, and (iii) Managed Municipal Income Trust has redeemed the full number of preferred shares required to be redeemed pursuant

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to any provision of the fund's Bylaws requiring such mandatory redemption.

The holders of any preferred shares are entitled to receive dividends on a cumulative basis before any dividend or other distribution may be paid to common shareholders of Managed Municipal Income Trust. Moreover, the terms of the preferred shares require Managed Municipal Income Trust to pay additional dividends (Additional Dividends), on the preferred shares, if income other than exempt interest is required to be allocated to the preferred shares in an amount such that the net after-tax return on the preferred shares would be the same as the net after-tax return that would have been realized if the dividends paid to the holders of the preferred shares, not including any such Additional Dividends, had qualified in their entirety as exempt-interest dividends. Dividends paid to holders of preferred shares will reduce the net tax-exempt and taxable investment income and capital gain net income of Managed Municipal Income Trust available for distribution to its common shareholders.

As noted above, Managed Municipal Income Trust is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, Managed Municipal Income Trust meets the 200% asset coverage requirement (determined after deducting the amount of such dividend or distribution). Such prohibition on the payment of dividends or other distributions might impair the ability of Managed Municipal Income Trust to maintain its qualification, for federal income tax purposes, as a regulated investment company and/or might cause Managed Municipal Income Trust to be subject to federal tax. Managed Municipal Income Trust intends, however, to the extent possible, to purchase or redeem preferred shares from time to time to maintain such asset coverage of at least 200%.

In addition to the requirements of the 1940 Act, Managed Municipal Income Trust is required under the terms of its Bylaws to comply with other asset coverage requirements as a condition to obtaining a rating of the preferred shares from a nationally recognized rating service. These requirements include an asset coverage test more stringent than under the 1940 Act. These rating agency requirements and the requirements of the 1940 Act limit Managed Municipal Income Trust's ability to take advantage of certain investments which might otherwise be available to it, require Managed Municipal Income Trust to invest a greater portion of its assets in more highly-rated, potentially lower-yielding securities than it might otherwise do, and require Managed Municipal Income Trust to sell a portion of its assets when it might otherwise be disadvantageous to do so. Such requirements also restrict the amount of preferred shares that may be outstanding from time to time. The amount of preferred share leverage used by Managed Municipal Income Trust may vary from time to time depending primarily on Putnam Management's analysis of conditions in the tax-exempt securities market, including expectations regarding movements of short-, medium- and long-term interest rates.

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The rating agencies also impose certain requirements as to minimum issue size, issuer and geographical diversification, and other factors in determining portfolio assets that are eligible for computing compliance with their asset coverage requirements. Such requirements may limit Managed Municipal Income Trust's ability to engage in transactions involving options and futures contracts.

In the event that Managed Municipal Income Trust is precluded from making distributions on its common shares because of any applicable asset coverage requirements, the terms of its preferred shares provide that any amounts so precluded from being distributed, but required to be distributed in order for Managed Municipal Income Trust to meet the distribution requirements for federal tax purposes, will be paid to the holders of the preferred shares as a special dividend.

High Yield Municipal Trust also is subject to the 1940 Act requirements and to rating agency requirements virtually identical to those discussed herein pertaining to Managed Municipal Income Trust.

**Financial Highlights and Senior Securities.** The financial highlights and senior securities tables are intended to help you understand the funds' recent financial performance. Certain financial highlights information reflects financial results for a single fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the relevant fund, assuming reinvestment of all dividends and distributions. This information has been derived from the funds' financial statements, which have been audited by KPMG LLP. The information included in the senior securities tables for the last five years has been audited by KPMG LLP. Its reports and the funds' financial statements for the past five fiscal years are included in each fund's annual report to shareholders, which are available upon request.

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22 PROSPECTUS OF THE TRUST

## PUTNAM MANAGED MUNICIPAL INCOME TRUST

### Financial Highlights

(For a share outstanding throughout the period)

#### Per-share operating performance

|   | Unaudited<br>period from<br>11/1/06 through<br>4/30/07 | Year ended October 31 |        |        |        |        |        |        |        |
|---|--|-----------------------|--------|--------|--------|--------|--------|--------|--------|
|   |  | 2006                  | 2005   | 2004   | 2003   | 2002   | 2001   | 2000   | 1999   |
| Net asset value, beginning of period<br>(common shares)   | \$8.37   | \$8.20                | \$8.18 | \$7.98 | \$7.84 | \$8.49 | \$8.44 | \$8.77 | \$8.77 |
| Investment operations:                                    |  |                       |        |        |        |        |        |        |        |
| Net investment income (a)                                 | .28  | .53                   | .51    | .54    | .61    | .70    | .72    | .75    | .75    |
| Net realized and unrealized gain (loss)<br>on investments | (.07)  | .13                   | .04    | .20    | .14    | (.73)  | .04    | (.16)  | (.16)  |
| Total from investment operations                          | .21  | .66                   | .55    | .74    | .75    | (.03)  | .76    | .59    | .59    |

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Distributions to preferred shareholders:

|                            |       |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| From net investment income | (.07) | (.13) | (.08) | (.04) | (.04) | (.05) | (.12) | (.16) | (.01) |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|

Total from investment operations

|                                     |     |     |     |     |     |       |     |     |       |
|-------------------------------------|-----|-----|-----|-----|-----|-------|-----|-----|-------|
| (applicable to common shareholders) | .14 | .53 | .47 | .70 | .71 | (.08) | .64 | .43 | (.01) |
|-------------------------------------|-----|-----|-----|-----|-----|-------|-----|-----|-------|

Distributions to common shareholders:

|                            |       |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| From net investment income | (.20) | (.41) | (.45) | (.50) | (.57) | (.57) | (.59) | (.76) | (.01) |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|

Total distributions

|  |       |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | (.20) | (.41) | (.45) | (.50) | (.57) | (.57) | (.59) | (.76) | (.01) |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|

Increase from shares repurchased

|  |  |     |     |  |  |  |  |  |  |
|--|--|-----|-----|--|--|--|--|--|--|
|  |  | .05 | (e) |  |  |  |  |  |  |
|--|--|-----|-----|--|--|--|--|--|--|

Net asset value, end of period

|                 |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| (common shares) | \$8.31 | \$8.37 | \$8.20 | \$8.18 | \$7.98 | \$7.84 | \$8.49 | \$8.44 | \$8.31 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

Market value, end of period

|                 |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| (common shares) | \$7.90 | \$7.58 | \$7.15 | \$7.29 | \$7.34 | \$7.43 | \$8.44 | \$9.63 | \$8.31 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

Total return at market price (%)

|                     |       |       |      |      |      |        |        |      |        |
|---------------------|-------|-------|------|------|------|--------|--------|------|--------|
| (common shares) (b) | 6.95* | 12.07 | 4.21 | 6.35 | 6.44 | (5.57) | (6.21) | 6.84 | (7.01) |
|---------------------|-------|-------|------|------|------|--------|--------|------|--------|

Ratios and supplemental data:

Net assets, end of period

|                                |           |           |           |           |           |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| (common shares) (in thousands) | \$371,155 | \$373,773 | \$386,437 | \$386,073 | \$376,865 | \$370,281 | \$400,255 | \$396,212 | \$408,155 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|

Ratio of expenses to average

|                       |      |      |      |      |      |      |          |      |      |
|-----------------------|------|------|------|------|------|------|----------|------|------|
| net assets (%) (c, d) | .53* | 1.14 | 1.30 | 1.28 | 1.27 | 1.25 | 1.50%(f) | 1.27 | 1.27 |
|-----------------------|------|------|------|------|------|------|----------|------|------|

Ratio of net investment income

|                               |       |      |      |      |      |      |      |      |      |
|-------------------------------|-------|------|------|------|------|------|------|------|------|
| to average net assets (%) (c) | 2.46* | 4.83 | 5.18 | 6.12 | 7.21 | 7.84 | 7.01 | 6.97 | 7.01 |
|-------------------------------|-------|------|------|------|------|------|------|------|------|

Portfolio turnover (%)

|  |       |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | 8.00* | 23.14 | 21.87 | 25.54 | 40.82 | 20.44 | 17.95 | 16.72 | 16.72 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|

\* Not annualized.

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

(b) Total return assumes dividend reinvestment.

(c) Ratios reflect net assets available to common shares only; net investment income ratio also reflects reduction for dividend payments to preferred shareholders.

(d) Includes amounts paid through expense offset arrangements.

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

(f) Putnam Managed Municipal Income Trust recently determined that the criteria for sale accounting in FASB Statement No. 140 had not been met for certain transfers of municipal bonds during the fiscal year ended October 31, 2001 and that its transfers of municipal bonds in connection with inverse floaters should have been accounted for as secured borrowings rather than as sales. Accordingly, the fund's ratio of expenses to average net assets for the fiscal year ended October 31, 2001 has been restated to reflect interest expense that would have been recorded had the Fund accounted for the transactions as secured borrowings. The impact of the restatement was to increase the ratio of expenses to average net assets from 1.22% to 1.50%. This restatement had no impact on the fund's net assets, total return, net investment income or dividends paid for the fiscal year ended October 31, 2001.

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## PUTNAM HIGH YIELD MUNICIPAL TRUST

### Financial Highlights

(For a share outstanding throughout the period)

#### Per-share operating performance

|   | Year ended March 31 |        |        |        |        |        |        |
|---|---------------------|--------|--------|--------|--------|--------|--------|
|   | 2007                | 2006   | 2005   | 2004   | 2003   | 2002   | 2001   |
| Net asset value, beginning of period (common shares)                    | \$7.82              | \$7.72 | \$7.76 | \$7.53 | \$7.79 | \$8.22 | \$8.18 |
| Investment operations:  |                     |        |        |        |        |        |        |
| Net investment income (a)   | .46                 | .44    | .43    | .47    | .55    | .61    | .63    |
| Net realized and unrealized gain (loss) on investments                  | .11                 | .07    | (.05)  | .22    | (.26)  | (.46)  | .06    |
| Total from investment operations  | .57                 | .51    | .38    | .69    | .29    | .15    | .69    |
| Distributions to preferred shareholders:                                |                     |        |        |        |        |        |        |
| From net investment income  | (.07)               | (.05)  | (.03)  | (.02)  | (.03)  | (.04)  | (.08)  |
| Total from investment operations<br>(applicable to common shareholders) | .50                 | .46    | .35    | .67    | .26    | .11    | .61    |

|  |           |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Distributions to common shareholders:                        |           |           |           |           |           |           |           |
| From net investment income                                   | (.38)     | (.38)     | (.39)     | (.44)     | (.52)     | (.54)     | (.57)     |
| Total distributions  | (.38)     | (.38)     | (.39)     | (.44)     | (.52)     | (.54)     | (.57)     |
| Increase from shares repurchased                             | .03       | .02       |           |           |           |           |           |
| Net asset value, end of period (common shares)               | \$7.97    | \$7.82    | \$7.72    | \$7.76    | \$7.53    | \$7.79    | \$8.22    |
| Market value, end of period (common shares)                  | \$7.54    | \$7.01    | \$6.67    | \$7.04    | \$6.97    | \$7.59    | \$8.22    |
| Total return at market price (%) (common shares) (b)         | 13.39     | 10.92     | 0.50      | 7.54      | (1.55)    | (1.23)    | 21.63     |
| Ratios and supplemental data:                                |           |           |           |           |           |           |           |
| Net assets, end of period<br>(common shares) (in thousands)  | \$168,482 | \$170,384 | \$171,804 | \$172,815 | \$167,734 | \$173,406 | \$182,614 |
| Ratio of expenses to average net assets (%) (c, d)           | 1.04      | 1.15      | 1.19      | 1.16      | 1.17      | 1.15      | 1.14      |
| Ratio of net investment income to average net assets (%) (c) | 4.89      | 4.93      | 5.26      | 5.84      | 6.70      | 7.04      | 6.74      |
| Portfolio turnover (%)                                       | 9.77      | 22.39     | 24.67     | 36.95     | 34.56     | 18.38     | 12.30     |

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

(b) Total return assumes dividend reinvestment.

(c) Ratios reflect net assets available to common shares only; net investment income ratio also reflects reduction for dividend payments to preferred shareholders.

(d) The ratio of expenses to average net assets includes amounts paid through expense offset arrangements.

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## SENIOR SECURITIES TABLES

### Managed Municipal Income Trust

|  | Year ended October 31 |           |           |           |           |           |           |
|--|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | 2006                  | 2005      | 2004      | 2003      | 2002      | 2001      | 2000      |
| Preferred shares outstanding, end of period (in thousands) | \$175,000             | \$175,000 | \$175,000 | \$175,000 | \$175,000 | \$175,000 | \$175,000 |

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|   |           |           |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Asset Coverage ratio per Preferred Share      | 313%      | 320%      | 320%      | 315%      | 311%      | 329%      | 326%      | 333%      |
| Liquidation Preference per Preferred Share    |           |           |           |           |           |           |           |           |
| Series A                                      | \$100,278 | \$100,198 | \$100,101 | \$100,039 | \$100,091 | \$100,115 | \$100,252 | \$100,000 |
| Series B                                      | \$100,139 | \$100,096 | \$100,053 | \$100,023 | \$100,039 | \$100,042 | \$100,082 | \$100,000 |
| Series C                                      | \$100,067 | \$100,042 | \$100,023 | \$100,022 | \$100,010 | \$100,005 | \$100,079 | \$100,000 |
| Average Market Value per Preferred Shares (a) |           |           |           |           |           |           |           |           |
| Series A                                      | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| Series B                                      | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| Series C                                      | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |

(a) Represents the average over the calendar year of the market value determined on each remarketing date for Preferred Shares, typically every 28 days for Series A and Series B Preferred Shares and 7 days for Series C Preferred Shares.

**High Yield Municipal Trust**

|  | Year ended March 31 |          |          |          |          |          |          |          |
|--|---------------------|----------|----------|----------|----------|----------|----------|----------|
|  | 2007                | 2006     | 2005     | 2004     | 2003     | 2002     | 2001     | 2000     |
| Preferred shares outstanding, end of period (in thousands) | \$45,000            | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 | \$45,000 |
| Asset Coverage ratio per Preferred Share                   | 474%                | 479%     | 482%     | 484%     | 473%     | 485%     | 506%     | 503%     |
| Liquidation Preference per Preferred Share                 | \$50,016            | \$50,009 | \$50,003 | \$50,009 | \$50,008 | \$50,008 | \$50,014 | \$50,011 |
| Average Market Value per Preferred Shares (a)              | \$50,000            | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 | \$50,000 |

(a) Represents the average over the calendar year of the market value determined on each remarketing date for Preferred Shares, typically every 28 days.

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**Investment Restrictions.** Each fund has adopted certain investment restrictions that may not be changed without the affirmative vote of a majority of the outstanding voting securities of the fund, which is defined in the 1940 Act to mean the affirmative vote of the lesser of (1) more than 50% of the outstanding common shares and outstanding preferred shares of the fund, each voting as a separate class, or (2) 67% or more of the outstanding common shares and of the outstanding preferred shares, each voting as a separate class, present at a meeting if more than 50% of the outstanding shares of each class are represented at the meeting in person or by proxy (so-called fundamental policies). As noted, the investment policies of the funds are substantially similar, however, there are some differences. The following tables compare the fundamental

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policies of Managed Municipal Income Trust, which will remain unchanged, with High Yield Municipal Trust. Where only one investment policy is set forth with respect to a given category, the investment policy of Managed Municipal Income Trust and High Yield Municipal Trust are identical.

| <b>Managed Municipal Income Trust</b> | <b>High Yield Municipal Trust</b>   |
|---------------------------------------|---|
| Senior Securities                     | <p>The fund may not issue senior securities, as defined in the 1940 Act, other than shares of beneficial interest with preference rights, except to the extent such issuance might be involved with respect to borrowings described under restriction [regarding borrowing] below or with respect to transactions involving futures contracts or the writing of options within the limits described in the prospectus.</p>                            |
| Borrowing                             | <p>The fund may not issue senior securities, as defined in the 1940 Act, other than shares of beneficial interest with preference rights, except to the extent such issuance might be involved with respect to borrowings described under restriction [regarding borrowing] below or with respect to transactions involving financial futures contracts or the writing of options.</p>  |
| Borrowing                             | <p>The fund may not borrow money, except that the fund may borrow amounts not exceeding 15% of the value (taken at the lower of cost or current value) of its total assets (not including the amount borrowed) at the time the borrowing is made for temporary purposes (including repurchasing its shares while effecting an orderly liquidation of portfolio securities) or for emergency purposes.</p>   |
| Underwriting                          | <p>The fund may not underwrite securities issued by other persons except to the extent that, in connection with the disposition of its portfolio investments, it may be deemed to be an underwriter under the federal securities laws.</p>  |
| Real Estate                           | <p>The fund may not purchase or sell real estate, although it may purchase securities of issuers which deal in real estate, securities which are secured by interests in real estate, and securities which represent interests in real estate, and it may acquire and dispose of real estate or interests in real estate acquired through the exercise of its rights as a holder of debt obligations secured by real estate or interests therein.</p> |
| Commodities                           | <p>The fund may not purchase or sell commodities or commodity contracts, except that the fund may purchase and sell financial futures contracts and options and may enter into foreign exchange contracts and other financial transactions not involving physical commodities.</p>  |
| Loans                                 | <p>The fund may not make loans, except by purchase of debt obligations in which the fund may invest consistent with its investment policies (including without limitation debt obligations issued by other Putnam funds), by entering into repurchase agreements or by lending its portfolio securities.</p>  |
| Loans                                 | <p>The fund may not make loans, except by the purchase of debt obligations in which the fund may invest consistent with its investment policies, by entering into repurchase agreements, or by lending its portfolio securities.</p>  |
| Diversification                       | <p>The fund may not, with respect to 75% of its total assets, invest in the securities of any issuer if, immediately after such investment, more than 5% of the total assets of the fund (taken at current value) would be invested in the securities of such issuer; provided that this limitation does not apply to obligations issued or guaranteed as to interest or principal by the U.S. Government or its agencies or instrumentalities.</p>   |
| Voting Securities                     | <p>The fund may not, with respect to 75% of its total assets, acquire more the 10% of the outstanding voting securities of any issuer.</p>  |
| Concentration                         | <p>The fund may not purchase securities (other than securities of the U.S. Government, its agencies or instrumentalities or tax-exempt securities, except tax-exempt securities backed only by the assets and revenues of non-governmental</p>  |



issuers) if, as a result of such purchase, more than 25% of the fund's total assets would be invested in any one industry.

All percentage limitations on investments described in the tables above apply at the time of investment and are not considered violated unless an excess or deficiency occurs or exists immediately after and as a result of such investment. In addition to the fundamental policies discussed above, each fund invests at least 80% of its total assets in tax-exempt municipal securities. Each fund also has a non-fundamental investment restriction that it may not invest in the securities of a registered open-end investment company, except as they may be acquired as part of a merger or consolidation or acquisition of assets or by purchases in the open market involving only customary broker's commissions.

**Management.** Each fund's Trustees oversee the general conduct of each fund's business. The funds have the same Trustees. The Trustees have retained Putnam Management to serve as each fund's investment manager, responsible for making investment decisions for each fund and managing each fund's other affairs and business. The basis for the Trustees' approval of Managed Municipal Income Trust's management contract is discussed in that fund's semi-annual report to shareholders dated April 30, 2007 and the basis for the Trustees' approval of High Yield Municipal Trust's management contract is discussed in that fund's annual report to shareholders dated March 31, 2007.

Putnam Management is paid a management and investment advisory fee for services it provides to Managed Municipal Income Fund and High Yield Municipal Trust. For each fund, the management fee is paid quarterly and based on the lesser of (i) an annual rate of 0.55% of the fund's average net assets attributable to common shares and preferred shares outstanding or (ii) the following annual rates express as a percentage of the fund's average net assets attributable to common shares and preferred shares outstanding: 0.65% of the first \$500 million, 0.55% of the next \$500 million, 0.50% of the next \$500 million, 0.45% of the next \$5 billion, 0.425% of the next \$5 billion, 0.405% of the next \$5 billion, 0.39% of the next \$5 billion, and 0.38% thereafter.

Under the terms of these agreements, if dividends payable on preferred shares during any dividend period plus any expenses attributable to preferred shares for that period, exceed the fund's net income and net short-term capital gains attributable to the proceeds of the preferred shares during that period, in each case as determined in accordance with procedures established by the fund's Trustees, then the fees payable to Putnam Management for that period will be reduced by the amount of the excess (but not by more than the effective management fee rate under the contract multiplied by the aggregate liquidation preference of the preferred shares outstanding during the period).

Putnam Management, located at One Post Office Square, Boston, Massachusetts 02109, is a subsidiary of Putnam, LLC, which is also the parent company of Putnam Retail Management Limited Partnership, Putnam Advisory Company, LLC (a wholly owned subsidiary of Putnam Advisory Company, Limited Partnership), Putnam Investments Limited (a wholly owned subsidiary of The Putnam Advisory Company, LLC) and Putnam Fiduciary Trust Company. Putnam, LLC, which generally conducts business under the name Putnam Investments, is owned by Great-West Lifeco Inc., a subsidiary of Power Financial Corporation. Power Financial Corporation is a diversified management and holding company that has interests, directly or indirectly, in companies that are active in the financial services sector in Canada, the United States and Europe. It also has substantial holdings in a group of energy, water, waste services, specialty minerals and cement and building materials companies based in Europe. Great-West Lifeco Inc. purchased its majority interest in Putnam Investments Trust on August 3, 2007 from Marsh & McLennan Companies, Inc., a publicly-owned holding company whose principal businesses are international insurance and reinsurance brokerage and employee benefit consulting.

**Investment Management Team.** Putnam Management's investment professionals are organized into investment management teams, with a particular team dedicated to a specific asset class. The members of the Tax-Exempt Fixed-Income Team manage the investments of Managed Municipal Income Trust and High Yield Municipal Trust. The names of all team members can be found at [www.putnam.com](http://www.putnam.com).

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

| Portfolio Leader | Joined Fund | Employer | Positions Over Past Five Years |
|------------------|-------------|----------|--------------------------------|
|------------------|-------------|----------|--------------------------------|

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|            |      |                                      |   |
|------------|------|--------------------------------------|---|
| Paul Drury | 2002 | Putnam<br>Management<br>1989 Present | Tax Exempt Specialist<br>Previously, Portfolio<br>Manager<br>SeniorTrader |
|------------|------|--------------------------------------|---|

| <b>Portfolio Members</b> | <b>Joined Fund</b> | <b>Employer</b>                      | <b>Positions Over Past Five Years</b>  |
|--------------------------|--------------------|--------------------------------------|--|
| Thalia Meehan            | 2006               | Putnam<br>Management<br>1989 Present | Team Leader, Tax<br>Exempt Fixed Income<br>Team. Previously,<br>Director, Tax<br>Exempt Research |
| Brad Libby               | 2006               | Putnam<br>Management<br>2001 Present | Tax Exempt Specialist<br>Previously, Analyst   |
| Susan McCormack          | 2002               | Putnam<br>Management<br>1994 Present | Tax Exempt Specialist<br>Previously, Portfolio<br>Manager  |

For more information on the other accounts that these individuals manage, these individuals' compensation and ownership of Managed Municipal Income Trust's shares, see the Merger SAI.

The funds pay all expenses not assumed by Putnam Management, including Trustees' fees, auditing, legal, custodial, investor servicing and shareholder reporting expenses. The funds also reimburse Putnam Management for the compensation and related expenses of certain funds officers and their staff who provide administrative services. The total reimbursement is determined annually by the Trustees.

Effective January 1, 2007, the funds retained State Street Bank and Trust Company (State Street), 2 Avenue de Lafayette, Boston, Massachusetts 02111, as their custodian. (State Street also provides certain administrative pricing and bookkeeping services.) Putnam Fiduciary Trust Company (PFTC), the funds' previous custodian, managed the transfer of the funds' assets to State Street. State Street is responsible for safeguarding and controlling the funds' cash and securities, handling the receipt and delivery of securities, collecting interest and dividends on the funds' investments, serving as the funds' foreign custody manager, providing reports on foreign securities depositaries, making payments covering the expenses of the funds and performing other administrative duties. State Street does not determine the investment policies of the funds or decide which securities the funds will buy or sell. State Street has a lien on the funds' assets to secure charges and advances made by it.

The funds pay State Street an annual fee based on the funds' assets held with State Street and on securities transactions processed by State Street and reimburses State Street for certain out-of-pocket expenses. The funds will make payments to PFTC in 2007 for managing the transition of custody services from PFTC to State Street and for providing oversight services. The funds may from time to time enter into brokerage arrangements that reduce or recapture fund expenses, including custody expenses. The funds also have an offset arrangement that may reduce the funds' custody fee based on the amount of cash maintained by their custodian. Putnam Investor Services, a division of PFTC, P.O. Box 8383, Boston, Massachusetts 02266-8383, is the investor servicing, transfer and dividend disbursing agent for the funds.

**Description of Fund Shares.** The Trustees of each fund have authority to issue an unlimited number of shares of beneficial interest without par value in such classes and series as may be provided for in the Bylaws. The Bylaws of Managed Municipal Income Trust currently authorize the issuance of up to 550 Series A preferred shares, 550 Series B preferred shares, 650 Series C preferred shares and 1,750 Series I preferred shares (and approval of the holders of Managed Municipal Income Trust's outstanding preferred shares is currently being sought to authorize \$45 million in Preferred Merger Shares, which will be issued as Series C preferred shares); and the Bylaws of High Yield Municipal Trust currently authorize up to 4,000 Series A preferred shares and 4,000 Series I preferred shares. No Series I preferred shares of the funds are outstanding. The Bylaws of each fund also prohibit the fund from offering additional preferred shares on parity with or having priority on liquidation over the fund's outstanding preferred shares without the approval of a majority of the fund's outstanding preferred shares. Except for the Merger Shares to

be issued in the merger, the funds do not have a present intention of offering additional shares. All other offerings of a fund's shares require approval of the Trustees. Any additional offering of common shares would be subject to the requirements of the 1940 Act that such shares may not be sold at a price per common share below the then-current net asset value per share, exclusive of underwriting discounts and commissions, except in connection with an offering to existing common shareholders or with the consent of the holders of a majority of a fund's outstanding common shares.

The outstanding common shares of each fund are, and the Common Merger Shares, when issued and sold, will be, except as described under Description of the Merger Shares above, fully paid and non-assessable by the fund. The outstanding common shares of each fund have, and the Common Merger Shares will have, no preemptive, conversion, exchange or redemption rights. Each common share of a fund has one vote, with fractional shares voting proportionately, and is freely transferable.

Common shares of each fund are traded on the NYSE, with an average weekly trading volume for the year ended December 31, 2006 of 383,292.30 shares for Managed Municipal Income Trust and 159,984.60 shares for High Yield Municipal Trust.

Each series of preferred shares of Managed Municipal Income Trust has a liquidation preference of \$100,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared). If the proposal regarding the two-for-one stock-split of Series C preferred shares of Managed Municipal Income is approved, the liquidation preference of Series C preferred shares of Managed Municipal Income Trust will be \$50,000. Each series of preferred shares of High Yield Municipal Trust has a liquidation preference of \$50,000 per share plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared). Preferred Merger Shares have a liquidation preference of \$100,000 per share per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared). All outstanding preferred shares are, and all Preferred Merger Shares, when issued and sold, will be, except as described under Description of the Merger Shares above, fully paid and non-assessable and not convertible into common shares. Further, such shares do not, and will not, have any preemptive rights. Such preferred shares are not, and will not be, subject to any sinking fund, but are redeemable under certain circumstances.

The Bylaws of each fund provide generally that holders of preferred shares will be entitled to receive, when, as and if declared by the fund, cumulative cash dividends for each dividend period (generally either 28 days for Series A and Series B preferred shares of Managed Municipal Income Trust or 7 days for Series C preferred shares of Managed Municipal Income Trust and preferred shares of High Yield Municipal Trust, although the fund may, subject to certain conditions, designate a special dividend period of longer periods) at an annual rate set by the fund's remarketing agent in accordance with the remarketing procedures set forth in the fund's Bylaws. The holder of a preferred share may elect, by notice to the fund's remarketing agent, to tender such share in any remarketing or to hold such share for the next dividend period. The dividend rate applicable to a dividend period for preferred shares of a fund is the rate that the fund's remarketing agent determines is the lowest rate that will enable it to remarket, on behalf of the holders of such preferred shares, all preferred shares tendered in such remarketing. This dividend rate is subject to a maximum rate based on the credit rating assigned to such preferred shares and an applicable reference rate (the maximum rate is increased for periods during which the fund has failed to make dividend payments on preferred shares when due). If a fund includes any income subject to regular federal income tax in a dividend on preferred shares, it will generally be required to pay Additional Dividends on such preferred shares in an amount that approximates the related regular federal income tax effects. The preferred shares of each fund are generally held only in book entry form through The Depository Trust Company; transfers of beneficial ownership of preferred shares will be recorded only in accordance with the procedures of the fund's paying agent.

Each fund's preferred shares are subject to mandatory redemption in the event the fund should fail to meet the asset coverage requirements imposed by the 1940 Act or by the agencies rating such preferred shares, and, subject to certain conditions (including the condition that the fund be current in the payment of dividends on all preferred shares), to involuntary redemption, either in part or full, at the option of the fund, at a price equal to the applicable liquidation preference (plus any applicable premium, if the fund has designated a premium call period).

The Bylaws of each fund require that the holders of the fund's preferred shares, voting as a separate class, have the right to elect at least two Trustees at all times, and to elect a majority of the Trustees at any time two years' dividends on the preferred shares are unpaid. The holders of each fund's preferred shares will vote as a separate class on certain other matters as required by the fund's Bylaws, the 1940 Act and Massachusetts law, including the merger or consolidation of the fund. Except as expressly required by applicable law or expressly set forth in the fund's Agreement and Declaration of Trust and Bylaws and as otherwise indicated in this Prospectus/Proxy Statement, each holder of preferred shares and each holder of common shares of the funds shall be entitled to one vote for each share held on each matter submitted to a vote of shareholders of the fund, and the holders of outstanding

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preferred shares and of common shares shall vote together as a single class. The Agreement and Declaration of Trust and Bylaws of each fund may not be amended in a manner that would materially and adversely affect its preferred shareholders without the consent of holders of a majority of its outstanding preferred shares. For more information about the funds' preferred shares, see Information about the Funds' Preferred Shares and Information about the funds' preferred shares in the Merger SAI or, for preferred shareholders of High Yield Municipal Trust only, Appendix C.

Set forth below is information about each fund's securities as of July 20, 2007:

### Managed Municipal Income Trust

| Title of Class          | Amount<br>Authorized | Amount<br>Held by Fund | Amount<br>Outstanding |
|-------------------------|----------------------|------------------------|-----------------------|
| Common Shares           | unlimited            | 0                      | 40,192,989            |
| <b>Preferred Shares</b> |                      |                        |                       |
| Series A                | 550                  | 0                      | 550                   |
| Series B                | 550                  | 0                      | 550                   |
| Series C                | 650                  | 0                      | 650                   |
| Series I                | 1,750                | 0                      | 0                     |

### High Yield Municipal Trust

| Title of Class          | Amount<br>Authorized | Amount<br>Held by Fund | Amount<br>Outstanding |
|-------------------------|----------------------|------------------------|-----------------------|
| Common Shares           | unlimited            | 0                      | 19,018,783            |
| <b>Preferred Shares</b> |                      |                        |                       |
| Series A                | 4,000                | 0                      | 900                   |
| Series I                | 4,000                | 0                      | 0                     |

**Declaration of Trust and Bylaws.** Each fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the fund, or to cause it to engage in certain transactions or to modify its structure. The affirmative vote of at least two-thirds of the outstanding common and preferred shares of a fund, voting together, is required to authorize any of the following actions:

- (1) merger or consolidation of the fund,
- (2) sale of all or substantially all of the assets of the fund,
- (3) conversion of the fund to an open-end investment company, or

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(4) amendment of the Agreement and Declaration of Trust to reduce the two-thirds vote required to authorize the actions in (1) through (3) above.

With respect to any of the actions listed in (1) through (3) above, if authorized by the affirmative vote of two-thirds of the total number of Trustees, a vote of a majority of the outstanding common and preferred shares of a fund, voting together, serves as sufficient authorization for the action pursuant to each fund's Declaration of Trust.

The Trustees have determined that the two-thirds voting requirements described above, which are greater than the minimum requirements under the 1940 Act, are in the best interests of each fund and its shareholders generally. Reference is made to the Agreement and Declaration of Trust of each fund, on file with the SEC, for the full text of these provisions. These provisions could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of a fund in a tender offer or similar transaction and may have the net effect of inhibiting the fund's conversion to open-end status.

The Bylaws of the funds contain stricter voting requirements with respect to certain actions than each fund's Agreement and Declaration of Trust. For example, the authorization of the merger or consolidation of the fund requires the affirmative vote of the applicable percentage (i.e., two-thirds or a majority, as determined by the Declaration of Trust and noted above) of the outstanding common and preferred shares of a fund, each voting separately as a class.

### **Trading discounts and repurchase of shares.**

Because each fund is a closed-end investment company, common shareholders of each fund do not, and will not, have the right to redeem their shares. Shares of the funds trade in the open market at a price which is a function of several factors, including yield and net asset value of the shares and the extent of market activity. Shares of closed-end investment companies frequently trade at a discount from net asset value, but in some cases trade at a premium. When a fund repurchases its shares at a price below their net asset value, the net asset value of those shares that remain outstanding will be increased, but this does not necessarily mean that the market price of those outstanding shares will be affected either positively or negatively.

The Trustees carefully monitor the trading prices of each fund's shares, recognizing that trading prices and discounts fluctuate over time. At times when the fund trades at a material discount for an extended period of time, the Trustees may examine possible factors contributing to the situation and consider a broad range of possible actions in an effort to reduce or eliminate the discount.

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Such actions that could be implemented consistent with the funds' closed-end structure might include:

- \* Communications with the marketplace regarding the benefits of investing in each fund in an effort to increase investor demand for the fund's shares;
- \* Repurchases by each fund of its shares at prevailing market prices; and
- \* Tender offers by each fund to repurchase its shares at net asset value (or at a price above market and below net asset value).

It is possible that these actions may have a temporary effect on the fund's trading discount, but industry experience suggests that they generally have little, if any, long term impact. Repurchases of shares, whether in the market or in tender offers, reduce the fund's size and may result in an increase in the fund's expense ratio. To the extent that shares are repurchased at prices below net asset value, such repurchases would also enhance the net asset value of the fund's shares and the total return for remaining shareholders. The Trustees have authorized share repurchases by certain Putnam closed-end funds on past occasions. More recently, in October 2005 and through subsequent actions, the Trustees authorized all of the Putnam closed-end funds, including Managed Municipal Income Trust and High Yield Municipal Trust, to repurchase up to 10% of their outstanding shares at market prices through October 2007. Under that repurchase program, Managed Municipal Income Trust and High Yield Municipal Trust repurchased shares representing 5.4% and 5.1%, respectively, of such fund's net assets during the period from October 2005 through April 30, 2007. In early 2007, the Trustees approved, for eight Putnam closed-end funds, including the funds, a comprehensive program to conduct tender offers for up to 10% of the outstanding common shares at a purchase price equal to 98% of the fund's per-share net asset value at the closing date of the offer. These tender offers expired in July 2007 and resulted in the full 10% of outstanding common shares being repurchased by each of the funds.

See Information about the Funds' Trading Information on page 36.

**Determination of net asset value.** Each fund calculates the net asset value of a share at least weekly by dividing the total value of its assets, less liabilities and the net assets allocated to the preferred shares, by the number of its shares outstanding. Each fund's shares are valued as of the close of regular trading on the NYSE each day the exchange is open.

Each fund values its investments for which market quotations are readily available at market value. They value all other investments and assets at their fair value. The fair value determined for an investment may differ from recent market prices for an investment.

Each fund's tax-exempt investments are generally valued at fair value on the basis of valuations provided by an independent pricing service approved by the applicable fund's Trustees. Such services determine valuations for normal institutional-size trading units of such securities using information with respect to transactions in the bond being valued, quotations from bond dealers, market transactions in comparable securities and various relationships, generally recognized by institutional traders, between securities in determining value.

**Dividend reinvestment plan.** Each fund offers a dividend reinvestment plan (each, a Plan). With respect to High Yield Municipal Trust, the Trustees have determined to suspend the Plan indefinitely, beginning with the October 2007 dividend, in connection with the proposed merger. The following describes each fund's Plan.

For shareholders participating in the Plan, all income dividends and capital gains distributions are automatically reinvested in additional shares of the fund. Reinvestment transactions are executed by Investors Bank and Trust Company, 200 Clarendon St., Boston, MA (617-937-6300) (the Plan Agent). If a shareholder is not participating in the Plan, every month the shareholder will receive all dividends and/or capital gains distributions in cash, paid by check and mailed directly to the shareholder. If a shareholder would like to participate in the Plan, the shareholder may instruct Putnam Investor Services (which provides certain administrative and bookkeeping services to the Plan) to enroll the shareholder. The Plan Agent will automatically reinvest subsequent distributions and Putnam Investor Services will send the shareholder a confirmation in the mail telling the shareholder how many additional shares were credited to the shareholder's account. Shareholders of the funds are automatically enrolled in the Plan unless they elect not to participate. Shareholders may contact Putnam Investor Services either in writing at P.O. Box 8383, Boston, Massachusetts 02266-8383, or by telephone at 1-800-225-1581 during normal East Coast business hours. Shareholders of High Yield Municipal Trust who have elected not to participate in High Yield Municipal Trust's Plan will, if the merger is approved, be deemed to have elected not to participate in Managed Municipal Income Trust's Plan.

The Plan Agent will buy fund shares for participating accounts in the open market. The acquisition cost of these shares may be higher or lower than the net asset value of the fund's shares at the time of the reinvestment.

Participants may withdraw from a Plan at any time by notifying Putnam Investor Services, either in writing or by telephone. If a participant withdraws from the Plan (or if a Plan is terminated), the participant will receive future income dividends and capital gains distributions in cash. There is no penalty for withdrawing from or not participating in a Plan.

Putnam Investor Services maintains all participants' accounts in a Plan on behalf of the Plan Agent and furnishes written confirmation of all transactions, including information needed by participants for tax records. Each participant's shares will be held by Putnam Investor Services in the participant's name, and each participant's proxy will include those shares purchased through the Plan.

Each participant bears a proportionate share of brokerage commissions incurred when the Plan Agent purchases additional shares on the open market, in accordance with a Plan. In each case, the cost of shares purchased for each participant's account will be the average cost, including brokerage commissions, of any shares so purchased plus the cost of any shares issued by a fund. If a participant instructs the Plan Agent to sell the participant's shares, the participant will incur brokerage commissions for the sale.

Reinvesting dividends and capital gains distributions in shares of the funds does not relieve a participant of tax obligations, which are the same as if the participant had received cash distributions. Putnam Investor Services supplies tax information to the participant and to the Service annually and complies with all Service withholding requirements. Each fund reserves the right to amend a Plan to include service charges, to make other changes or to terminate a Plan upon 30 days' written notice.

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

In situations where a bank, broker or nominee holds shares for others, a Plan will be administered according to instructions and information provided by the bank, broker or nominee.

**Dividends and distributions.** Each fund has a policy to make monthly distributions to common shareholders from net investment income. Monthly distributions to common shareholders consist of the net investment income of each fund remaining after the payment of dividends on the preferred shares.

Net investment income of each fund consists of all interest and other income (excluding capital gains and losses) accrued on portfolio assets, less all expenses of each fund allocable thereto. Income and expenses of each fund are accrued each day. Amounts which economically represent the excess of realized capital gains over realized capital losses, if any, are distributed to common shareholders at least annually to the extent not necessary to pay dividends (including Additional Dividends) on or to meet the liquidation preference of the preferred shares. However, for federal income tax purposes, the common shareholders and the preferred shareholders are treated as receiving their proportionate share of the excess of each fund's realized capital gains over realized capital losses, based upon the percentage of total dividends paid by the fund for the year that is received by each class.

While there are any preferred shares outstanding, neither fund may declare any cash dividend or other distribution on its common shares, unless at the time of such declaration (1) all accrued dividends on the preferred shares have been paid and (2) the value of each fund's total assets, less all liabilities and indebtedness of the fund (determined after deducting the amount of such dividend or other distribution), is at least 200% of the liquidation preference of the outstanding preferred shares (expected to equal the aggregate original purchase price of the outstanding preferred shares plus any accrued and unpaid dividends thereon). In addition to the requirements of the 1940 Act, each fund is required to comply with other asset coverage requirements as a condition of the fund obtaining a rating of the preferred shares from a nationally recognized rating service. These requirements include, among other things, an asset coverage test more stringent than under the 1940 Act. The limitation on each fund's ability to make distributions on its common shares could, in certain circumstances, impair the ability of each fund to maintain its qualification for taxation as a regulated investment company or might otherwise cause the fund to be subject to federal tax. Each fund intends, however, to the extent possible, to repurchase or redeem preferred

shares from time to time to maintain compliance with such asset coverage requirements and may pay special dividends to the holders of the preferred shares in certain circumstances in an effort to maintain the fund's status as a regulated investment company and to relieve the fund of any federal tax.

As noted above under Information about the Funds Preferred Shares, the terms of the preferred shares require that if, for any taxable year, any portion of the dividends on the preferred shares is not designated by a fund as exempt-interest dividends solely because that fund, in its judgment, is required to allocate capital gains or taxable income to the preferred shares, Additional Dividends will become payable on the preferred shares in an amount such that the net after-tax return on the preferred shares would be the same as the net after-tax return that would have been derived if the dividends paid to the holders of the preferred shares, not including any such Additional Dividends, had qualified in their entirety as exempt-interest dividends. The amount of any dividend payable to common shareholders will be reduced by the amount of any such Additional Dividends.

To permit each fund to maintain a more stable monthly distribution, each fund may from time to time pay out less than the entire amount of available net investment income to common shareholders earned in any particular period. Any such amount retained by a fund would be available to stabilize future distributions. As a result, the distributions paid by a fund for any particular period may be more or less than the amount of net investment income actually earned by that fund during such period. For information concerning the tax treatment of distributions to common shareholders, see Taxation below. The funds intend, however, to make such distributions as are necessary to maintain qualification as a regulated investment company.

Common shareholders may have their dividend or distribution checks sent to parties other than themselves. A Dividend Order form is available from Putnam Investor Services, mailing address: P.O. Box 8383, Boston, Massachusetts 02266-8383. After Putnam Investor Services receives this completed form with all registered owners' signatures guaranteed, the common shareholder's distribution checks will be sent to the bank or other person that the common shareholder has designated.

For information concerning the tax treatment of such dividends and distributions to shareholders, see the discussion under Taxation.

**Taxation.** The following federal tax discussion is based on the advice of Ropes & Gray LLP, counsel to the funds, and reflects provisions of the Code, existing treasury regulations, rulings published by the Service, and other applicable authority, as of the date of this Prospectus/Proxy Statement. These authorities are subject to change by legislative or administrative action.

The following discussion is only a summary of some of the important tax considerations generally applicable to investments in Managed Municipal Income Trust. For more detailed information regarding tax considerations, see the Merger SAI. There may be other tax considerations applicable to particular investors. In addition, income earned through an investment in Managed Municipal Income Trust may be subject to state

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and local taxes. Because Managed Municipal Income Trust will be the surviving fund if the merger is approved, the discussion deals only with the taxation of Managed Municipal Income Trust.

Managed Municipal Income Trust intends to qualify each year for taxation as a regulated investment company under Subchapter M of the Code. If the fund so qualifies, it will not be subject to federal income tax on income distributed timely to its shareholders in the form of dividends or capital gain distributions.

To satisfy the distribution requirement applicable to regulated investment companies, amounts paid as dividends by Managed Municipal Income Trust to its shareholders, including holders of its preferred shares, must qualify for the dividends-paid deduction. In certain circumstances, the Service could take the position that dividends paid on the preferred shares constitute preferential dividends under section 562(c) of the Code, and thus do not qualify for the dividends-paid deduction.

If at any time when preferred shares are outstanding Managed Municipal Income Trust does not meet applicable asset coverage requirements, it will be required to suspend distributions to common shareholders until the requisite asset coverage is restored. Any such suspension may cause the fund to pay a 4% federal excise tax (imposed on regulated investment companies that fail to distribute for a given calendar year, generally, at least 98% of their net investment income and capital gain net income), or may, in certain circumstances, prevent Managed Municipal Income Trust from qualifying as a regulated investment company. The fund may redeem preferred shares or pay special dividends to the holders of the preferred shares in an effort to comply with the distribution requirement applicable to regulated investment companies and to avoid the excise tax.

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Fund distributions designated as tax-exempt dividends are not generally subject to federal income tax. In addition, an investment in the fund may result in liability for federal alternative minimum tax, both for individual and corporate shareholders.

The Supreme Court has agreed to hear an appeal of a state-court decision that might significantly affect how states tax in-state and out-of-state municipal bonds. A Kentucky state court held that a Kentucky law violates the U.S. Constitution by treating, for Kentucky state tax purposes, the interest income on in-state municipal bonds differently from the income on out-of-state municipal bonds. If the Supreme Court affirms this holding, most states likely will revisit the way in which they treat the interest on municipal bonds, and this has the potential to increase significantly the amount of state tax paid by shareholders on exempt-interest dividends derived from obligations issued by government agencies located in their state of residence. The Supreme Court has announced oral arguments on this case for the fall of 2007 and would likely issue a decision sometime thereafter. You should consult your tax advisor to discuss the tax consequences of your investment in the Fund.

The terms of the preferred shares require that if, for any taxable year, any portion of the distributions paid by Managed Municipal Income Trust on the preferred shares at the applicable rate is not designated by the fund as exempt-interest dividends solely because the fund, in its judgment, is required to allocate capital gains and taxable income to the preferred shares, then the fund will be required to pay Additional Dividends to holders of the preferred shares to compensate for the resulting reduction in the after-tax return to such holders. It is anticipated that the allocation rules described above will in many circumstances require Managed Municipal Income Trust to pay such Additional Dividends. Such a distribution would reduce the amount available for distribution to common shareholders.

The fund may at times buy tax-exempt investments at a discount from the price at which they were originally issued, especially during periods of rising interest rates. For federal income tax purposes, some or all of this market discount will be included in the fund's ordinary income and will be taxable to shareholders as such when it is distributed.

The fund's investments in certain debt obligations may cause the fund to recognize taxable income in excess of the cash generated by such obligations. Thus, the fund could be required at times to liquidate other investments in order to satisfy its distribution requirements.

For federal income tax purposes, distributions of investment income other than tax-exempt dividends are taxable as ordinary income. Generally, gains realized by a fund on the sale or exchange of investments will be taxable to its shareholders, even though the income from such investments generally will be tax-exempt. Taxes on distributions of capital gains are determined by how long the fund owned the investments that generated them, rather than how long a shareholder has owned his or her shares. Distributions are taxable to shareholders even if they are paid from income or gains earned by the fund before a shareholder's investment (and thus were included in the price the shareholder paid). Distributions of gains from investments that the fund owned for more than one year will be taxable as capital gains. Distributions of gains from investments that the fund owned for one year or less will be taxable as ordinary income. Distributions are taxable whether shareholders receive them in cash or reinvest them in additional shares through the Dividend Reinvestment Plan.

Any gain resulting from the sale or exchange of fund shares will generally also be subject to tax. You should consult your tax advisor for more information on your own tax situation, including possible state and local taxes.



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**Trading Information.** The following chart shows quarterly per common share trading information of each fund for the past two fiscal years and the current fiscal year of the funds, as listed on the NYSE.

**Managed Municipal Income Trust**

(Unaudited)

| Quarter Ended | Market High Price (\$) | Market Low Price (\$) | Closing Market Price (\$) | Closing NAV (\$) | Discount or (Premium) to NAV (%) |
|---------------|------------------------|-----------------------|---------------------------|------------------|----------------------------------|
| 7/31/07       | 8.13                   | 7.55                  | 7.77                      | 8.17             | 5.15                             |
| 4/30/07       | 7.97                   | 7.73                  | 7.90                      | 8.31             | 5.19                             |
| 1/31/07       | 7.83                   | 7.58                  | 7.79                      | 8.32             | 6.80                             |
| 10/31/06      | 7.65                   | 7.34                  | 7.58                      | 8.37             | 9.44                             |
| 7/31/06       | 7.35                   | 7.12                  | 7.35                      | 8.24             | 10.80                            |
| 4/30/06       | 7.49                   | 7.10                  | 7.22                      | 8.21             | 12.06                            |
| 1/31/06       | 7.33                   | 6.95                  | 7.25                      | 8.25             | 12.12                            |
| 10/31/05      | 7.83                   | 7.15                  | 7.15                      | 8.20             | 12.80                            |
| 7/31/05       | 7.93                   | 7.14                  | 7.77                      | 8.30             | 6.39                             |
| 4/30/05       | 7.37                   | 6.96                  | 7.15                      | 8.26             | 13.44                            |
| 1/31/05       | 7.34                   | 7.08                  | 7.31                      | 8.28             | 11.71                            |
| 10/31/04      | 7.35                   | 7.11                  | 7.29                      | 8.18             | 10.88                            |

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**High Yield Municipal Trust**

(Unaudited)

| Quarter Ended | Market High Price (\$) | Market Low Price (\$) | Closing Market Price (\$) | Closing NAV (\$) | Discount or (Premium) to NAV (%) |
|---------------|------------------------|-----------------------|---------------------------|------------------|----------------------------------|
| 6/30/07       | 7.62                   | 7.24                  | 7.39                      | 7.84             | 6.09                             |
| 3/31/07       | 7.65                   | 7.29                  | 7.54                      | 7.97             | 5.40                             |
| 12/31/06      | 7.27                   | 7.10                  | 7.25                      | 7.99             | 9.26                             |

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|          |      |      |      |      |       |
|----------|------|------|------|------|-------|
| 9/30/06  | 7.12 | 6.76 | 7.10 | 7.96 | 10.80 |
| 6/30/06  | 7.00 | 6.76 | 6.81 | 7.81 | 12.80 |
| 3/31/06  | 7.05 | 6.79 | 7.01 | 7.82 | 10.36 |
| 12/31/05 | 6.95 | 6.62 | 6.77 | 7.82 | 13.43 |
| 9/30/05  | 7.18 | 6.94 | 6.94 | 7.83 | 11.37 |
| 6/30/05  | 7.17 | 6.66 | 7.14 | 7.86 | 9.16  |
| 3/31/05  | 6.81 | 6.52 | 6.67 | 7.72 | 13.60 |

On June 29, 2007, the market price, net asset value per common share, and discount to net asset value were \$7.86, \$8.18, and 3.91%, respectively for Managed Municipal Income Trust; and \$7.39, \$7.84, and 5.74%, respectively, for High Yield Municipal Trust.

#### IV. FURTHER INFORMATION ABOUT VOTING AND THE MEETING.

**General.** This Prospectus/Proxy Statement is furnished in connection with the proposed merger of High Yield Municipal Trust into Managed Municipal Income Trust, the proposed authorization of the issuance of the Preferred Merger Shares and the solicitation of proxies by and on behalf of the Trustees for use at the Joint Special Meeting of Shareholders (the Meeting). The Meeting is to be held on October 22, 2007, at 11:00 a.m. Eastern time at One Post Office Square, 12th Floor, Boston, Massachusetts, or at such later time as is made necessary by adjournment. The Notice of the Special Meeting, the combined Prospectus/Proxy Statement and the enclosed form of proxy are being mailed to shareholders on or about September 17, 2007.

Only shareholders of record on August 6, 2007 (the Record Date) are entitled to notice of and to vote at the Meeting. Each share is entitled to one vote, with fractional shares voting proportionately.

As of August 6, 2007, there were 40,190,738 outstanding common, 550 outstanding Series A preferred shares, 550 outstanding Series B preferred shares, 650 outstanding Series C preferred shares and 0 outstanding Series I preferred shares of beneficial interest of Managed Municipal Income Trust; and 19,017,435 outstanding common, 900 outstanding Series A preferred shares, and 0 outstanding Series I preferred shares of beneficial interest of High Yield Municipal Trust.

The Trustees know of no matters other than those set forth herein to be brought before the Meeting. If, however, any other matters properly come before the Meeting, it is the Trustees' intention that proxies will be voted on such matters in accordance with the judgment of the persons named in the enclosed form of proxy.

**Required vote.** Proxies are being solicited from each fund's shareholders by its Trustees for the Meeting. Unless revoked, all valid proxies will be voted in accordance with the specification thereon or, in the absence of specifications, FOR approval of the Conversion Plan, FOR approval of the Plan of Merger, and FOR approval of the Preferred Merger Shares of Managed Municipal Income Trust. The transactions will be consummated only if the following approvals are received:

- (a) The Conversion Plan requires the affirmative vote of holders of a majority of the outstanding common and preferred shares of High Yield Municipal Trust entitled to vote (each class voting separately);
- (b) The Plan of Merger requires the affirmative vote of (i) holders of a majority of the outstanding common and preferred shares of beneficial interest of Managed Municipal Income Trust entitled to vote (each class voting separately) and (ii) holders of a majority of the outstanding common and preferred shares of High Yield Municipal Trust entitled to vote (each class voting separately);

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(c) Issuance of the Preferred Merger Shares requires the affirmative vote of a majority of the outstanding preferred shares of Managed Municipal Income Trust entitled to vote; and

(d) The two-for-one stock-split of Series C preferred shares of Managed Municipal Income Trust and the corresponding reduction in liquidation preference requires the affirmative vote of a majority of the outstanding preferred shares of Managed Municipal Income Trust entitled to vote (each series voting separately).

Shareholders of Managed Municipal Income Trust who vote against the proposed mergers will not have any appraisal or other dissenters' rights. Common shareholders of High Yield Municipal Trust who object to the merger of their fund will have, as an exclusive remedy under the LLC Act, the right to resign as a member of High Yield Municipal Trust, in its limited liability company form, following the Conversion. Under the operating agreement of High Yield Municipal Trust in its limited liability company

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form (which will become effective upon the conversion in substantially the form appended to the Plan of Conversion attached hereto as Appendix A), a resigning member is entitled solely to the market value of his or her shares, which may be less than or greater than the net asset value of such shares. In order to assert the right to resign from High Yield Municipal Trust, you must: (i) before the vote to approve the applicable Plan of Merger, deliver to High Yield Municipal Trust at One Post Office Square, Boston, MA 02109, written notice of your request to resign; (ii) NOT vote your shares in favor of the proposal to approve the applicable Plan of Merger; and (iii) comply with such other procedures set forth in your fund's operating agreement upon its effectiveness or as otherwise required by the Board of your fund.

**Quorum and method of tabulation.** Shareholders of record of each fund at the close of business on the Record Date will be entitled to vote at the Meeting or any adjournment thereof. The holders of a majority of the shares of each fund outstanding at the close of business on the Record Date present in person or represented by proxy will constitute a quorum for the Meeting.

Votes cast by proxy or in person at the meeting will be counted by persons appointed by the relevant fund as tellers for the Meeting. The tellers will count the total number of votes cast for approval of the proposal for purposes of determining whether sufficient affirmative votes have been cast. The tellers will count shares represented by proxies that reflect abstentions and broker non-votes (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have the discretionary voting power on a particular matter) as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum. Abstentions and broker non-votes have the effect of a negative vote on the proposal.

As of July 31, 2007, the officers and Trustees of each fund as a group beneficially owned less than 1% of the outstanding shares of such fund, and no person owned of record or, to the knowledge of a fund, beneficially 5% or more of the outstanding shares of each fund, except as follows:

### Managed Municipal Income Trust

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| Shareholder Name<br>and Address                            | Holdings                       | Percentage<br>Owned |
|--|--------------------------------|---------------------|
| Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408 | 36,181,006<br>Common<br>Shares | 90.00%              |

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\* Believed to hold shares only as a nominee.

### High Yield Municipal Trust

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| Shareholder Name<br>and Address | Holdings | Percentage<br>Owned |
|---------------------------------|----------|---------------------|
|---------------------------------|----------|---------------------|

|   |                                |        |
|---|--------------------------------|--------|
| Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408                                | 17,146,272<br>Common<br>Shares | 90.10% |
| Roumell Asset<br>Management, LLC<br>2 Wisconsin Circle, Ste. 660<br>Chevy Chase, MD 20815 | 1,281,699<br>Common<br>Shares  | 5.98%  |

\* Believed to hold shares only as a nominee.

The following tables sets forth those persons who are expected to own of record or beneficially 5% or more of the outstanding shares of Managed Municipal Income Trust, based on the share ownership record discussed above, after the consummation of the proposed merger:

**Managed Municipal Income Trust (pro forma combined with High Yield Municipal Trust)**

|  |        |
|--|--------|
| Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408 | 90.08% |
|--|--------|

\* Believed to hold shares only as a nominee. **Solicitation of proxies.** In addition to soliciting proxies by mail, the Trustees of the funds and employees of Putnam Management, PFTC and Putnam Retail Management may solicit proxies in person or by telephone. Each fund may also arrange to have a proxy solicitation firm call you to record your voting instructions by telephone. The procedures for voting proxies by telephone are designed to authenticate shareholders' identities, to allow shareholders to authorize the voting of their shares in accordance with their instructions and to confirm that their instructions have been properly recorded. Each fund has been advised by counsel that these procedures are consistent with the requirements of applicable law. If these procedures were subject to a successful legal challenge, such votes would not be counted at the Meeting. The funds are unaware of any such challenge at this time. Shareholders would be called at the phone number Putnam Management has in its records for their accounts, and would be asked for their Social Security number or other identifying information. The shareholders would then be given an opportunity to authorize the proxies to vote their shares in accordance with their instructions. To ensure that the shareholders' instructions have been recorded correctly, they will also receive a confirmation of their instructions in the mail. A special toll-free number will be available in the event the information in the confirmation is incorrect.

Common shareholders have the opportunity to submit their voting instructions via the Internet by utilizing a program provided by a third-party vendor hired by Putnam Management, or via automated telephone service. To use the Internet, please access the Internet address listed on your proxy card and follow the instructions on the Internet site. To record your voting instructions via automated telephone service, use the toll-free number listed on your proxy card. The Internet and automated telephone voting procedures are designed to authenticate shareholder identities, to allow shareholders to give their voting instructions, and to confirm that shareholders' instructions have been recorded properly. Shareholders voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies that must be borne by shareholders.

The giving of a proxy will not affect your right to vote in person should you decide to attend the Meeting.

The Trustees of the funds have adopted a general policy of maintaining confidentiality in the voting of proxies. Consistent with this policy, your fund may solicit proxies from shareholders who have not voted their shares or who have abstained from voting, including brokers and nominees.

Persons holding shares as nominees will, upon request, be reimbursed for their reasonable expenses in soliciting instructions from their principals. Each fund has retained at its own expense The Altman Group, 60 East 42nd Street, New York, New York 10165, to aid in the solicitation of instructions for registered and nominee accounts for a projected management fee at \$2,000 per fund, plus reasonable out-of-pocket expenses. The expenses of the preparation of proxy statements and related materials, including printing and delivery costs, are borne by the funds.

**Revocation of proxies.** Proxies, including proxies given by telephone or over the Internet, may be revoked at any time before they are voted either: (i) by a written revocation received by the Clerk of the funds; (ii) by properly executing a later-dated proxy; (iii) by recording later-dated voting instructions by telephone or via the Internet; (iv) in the case of brokers and nominees, by submitting written instructions to your fund's solicitation agent or the applicable record shareholder; or (v) by attending the Meeting and voting in person.

**Date for receipt of shareholders' proposals for the next annual meeting** It is currently anticipated that Managed Municipal Income Trust's next annual meeting of shareholders will be held in October 2007. Shareholders who wish to make a proposal at the upcoming annual meeting of Managed Municipal Income Trust other than one that will be included in the fund's proxy materials were required to have notified the fund no later than August 1, 2007. The Board Policy and Nominating Committee will consider nominees recommended by shareholders of Managed Municipal Income Trust to serve as Trustees, provided that shareholders submitted their recommendations by the above date. If a shareholder who wishes to present a proposal failed to notify Managed Municipal Income Trust by this date, the proxies solicited for the meeting will have discretionary authority to vote on the shareholder's proposal if it is properly brought before the meeting. If a shareholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC's proxy rules. Shareholders who wish to propose one or more nominees for election as Trustees, or to make a proposal fixing the number of Trustees, at the annual meeting of Municipal Trust were required to provide written notice to the fund (including all required information) so that such notice is received in good order by each fund no earlier than August 1, 2007 and no later than August 31, 2007.

If the proposed merger is approved, there will be no 2007 annual meeting for High Yield Municipal Trust. Shareholders of High Yield Municipal Trust will not be entitled to vote at the 2007 annual meeting of Managed Municipal Income Trust since the record date for determining shareholders entitled to vote at the meeting was before the closing of the merger. If the proposed merger is not approved, the Trustees will announce plans for future annual meetings of High Yield Municipal Trust.

**Adjournment.** If sufficient votes in favor of the proposal are not received by the time scheduled for the Meeting, or for such other reasons as they may determine appropriate, the persons named as proxies may propose adjournments of the Meeting for a reasonable time after the date set for the original meeting to permit further solicitation of proxies. Any adjournment will require the affirmative vote of a majority of the votes cast on the question in person or by proxy at the session of the Meeting to be adjourned. The persons named as proxies will vote in favor of such adjournment those proxies which they are entitled to vote in favor of the proposal. They will vote against any such adjournment those proxies required to be voted against the proposal. Each fund pays the costs of any additional solicitation and of any adjourned session for that fund.

## APPENDIX A

### PLAN OF ENTITY CONVERSION OF PUTNAM HIGH YIELD MUNICIPAL TRUST TO PUTNAM HIGH YIELD MUNICIPAL TRUST LLC

Putnam High Yield Municipal Trust, a Massachusetts business trust (the *Company* or *Converting Entity*), hereby adopts the following Plan of Entity Conversion, dated as of August \_\_, 2007 (the *Plan*) pursuant to which the Company shall convert (the *Conversion*) into a Massachusetts limited liability company (the *Surviving Company*).

#### ARTICLE I.

##### Surviving Company

**Section 1.01.** Effective upon filing a Certificate of Conversion and Certificate of Organization in substantially the form set forth as Exhibit A and Exhibit B, respectively, the Company, a Massachusetts business trust, shall convert, pursuant to this Plan, into the Surviving Company, a Massachusetts limited liability company, in accordance with the provisions of Mass. Gen. Laws ch. 156C. The name of the Surviving Company shall be Putnam High Yield Municipal Trust LLC.

#### ARTICLE II.

### Conditions Precedent to the Conversion

**Section 2.01. Shareholder Approval.** This Plan shall be deemed approved by shareholders of the Company if a majority of the Company's common shares of beneficial interest ( Common Shares ) and preferred shares of beneficial interest ( Preferred Shares ) (collectively, Common Shares and Preferred Shares being referred to herein as the Shares ) outstanding on August 6, 2007 (the Record Date ), each voting as a separate class, are voted in favor of the Plan at a meeting of Company shareholders called for the purpose of voting on this Plan (such approval of this Plan being referred to herein as Shareholder Approval ).

### ARTICLE III.

#### Effective Date

**Section 3.01. Effective Date.** The Conversion Effective Time shall be the time and date specified in the Certificate of Conversion as submitted to the Secretary of The Commonwealth of Massachusetts pursuant to this Plan.

### ARTICLE IV.

#### Manner of Converting Interests in the Company into Units of the Surviving Company

**Section 4.01. Common and Preferred Shares.** The Operating Agreement of the Surviving Company shall authorize the Surviving Company to issue a class of limited liability company interests of the Surviving Company corresponding to each class of Shares authorized under the Company's by-laws in effect immediately prior to the Conversion ( LLC Units ). The class of LLC Units corresponding to Common Shares, Preferred Shares designated as Remarketed Preferred Shares, Series A ( Preferred A Shares ) and Preferred Shares designated as Remarketed Preferred Shares, Series I ( Preferred I Shares ) shall be designated Common Units, Preferred A Units and Preferred I Units, respectively. At the Conversion Effective Time, each Common Share, Preferred A Share and Preferred I Share outstanding shall convert on a one-to-one basis into, and shall from and after such Conversion Effective Time constitute, a Common Unit, Preferred A Unit and Preferred I Unit, respectively, of the Surviving Company. The LLC Units into which the Shares are converted shall constitute limited liability company interests of the Surviving Company that are fully paid, validly issued and non-assessable.

### ARTICLE V.

#### Organic Documents of the Surviving Company, Officers & Tax Status

**Section 5.01. Certificate of Organization & Operating Agreement; Officers.** Except as otherwise provided in Section 5.02 of this Plan, immediately after consummation of the Conversion, the Certificate of Organization substantially in the form set forth in Exhibit B hereto and the Operating Agreement substantially in the form set forth in Exhibit C hereto, with such changes as are authorized by this Plan, shall be the Certificate of Organization and Operating Agreement of the Surviving Company. The slate of officers of the Surviving Company upon effectiveness of the Conversion shall be the same as that of the Converting Entity immediately prior to the effectiveness of the Conversion.

**Section 5.02. Amendment of the Plan.** From time to time subsequent to Shareholder Approval and prior to the Conversion Effective Time, the Plan may be amended by the Board of Trustees of the Company,

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except that subsequent to Shareholder Approval, the Plan shall not be amended by the Board of Trustees of the Company to change:

(a) the amount or kind of shares or other securities, interests, obligations, rights to acquire shares, or other securities or interests, cash, or other property to be received by holders of the Company Shares; or

(b) any of the other terms or conditions of this Plan if the change would adversely affect any of the holders of the Company Shares in any material respect.

**Section 5.03. Tax Status.** The Surviving Company will take the steps necessary to meet the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended, (the Code ) and the Treasury Regulations promulgated thereunder, for qualification as a regulated

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investment company, will elect to be treated as such and will compute its federal income tax under Section 852 of the Code. The officers of the Surviving Company are hereby severally authorized to make any and all elections under the Code, or the Treasury Regulations promulgated thereunder, that may be required to satisfy the foregoing, including (but not limited to) any election in respect of entity classification under Treasury Regulation Section 301.7701 -3(c), and the authorization required by Treasury Regulation Section 301.7701 -3(c)(1) and (2).

**EXHIBIT A**

THE COMMONWEALTH OF MASSACHUSETTS

**William Francis Galvin**

Secretary of the Commonwealth

One Ashburton Place,  
Boston, Massachusetts 02108-1512

**Certificate of Conversion to a Limited Liability Company (General Laws Chapter 156C, Section 69)**

(1) The date on which, and jurisdiction in which, the other business entity was first created, incorporated or otherwise came into being and, if it has changed, its jurisdiction immediately prior to the conversion to a domestic limited liability company:

**Putnam High Yield Municipal Trust was first organized on May 25, 1989 in The Commonwealth of Massachusetts as an unincorporated voluntary association with transferable shares under and by virtue of Mass. Gen. Laws ch. 182. Its jurisdiction has not changed.**

(2) The name of the other business entity immediately prior to the filing of the Certificate of Conversion to a Limited Liability Company:

**Putnam High Yield Municipal Trust**

(3) The name of the limited liability company as set forth in its certificate of organization filed in accordance with subsection (b) of Mass. Gen. Laws ch. 156C § 69:

**Putnam High Yield Municipal Trust LLC**

(4) The future effective date of the conversion to a limited liability company if it is not to be effective upon the filing of the Certificate of Conversion to a Limited Liability Company and Certificate of Organization:

\_\_\_\_\_

Signed by:

\_\_\_\_\_

on this \_\_\_\_ day of, \_\_\_\_\_, 2007

**EXHIBIT B**

CERTIFICATE OF ORGANIZATION  
OF  
**PUTNAM HIGH YIELD MUNICIPAL TRUST LLC**

1. The Federal Employer Identification Number for the limited liability company is: \_\_\_\_\_.

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2. The name of the limited liability company is Putnam High Yield Municipal Trust LLC (the Limited Liability Company ).
3. The street address of the office of the Limited Liability Company within The Commonwealth of Massachusetts at which its records will be maintained is:  
  
One Post Office Square  
Boston, Massachusetts 02109
4. The general character of the Limited Liability Company s business is carrying on the business of an investment company.
5. The Limited Liability Company is not to have a specific date of dissolution.
6. The name and business address of the agent for service of process required to be maintained by M.G.L. Chapter 156C, §5, are:

Beth S. Mazor, Vice President  
Putnam High Yield Municipal Trust LLC  
One Post Office Square  
Boston, Massachusetts 02109

7. The managers of the Limited Liability Company are Jameson A. Baxter, Charles B. Curtis, Robert J. Darretta, Myra R. Drucker, Charles E. Haldeman, Jr., John A. Hill, Paul L. Joskow, Elizabeth T. Kennan, Kenneth R. Leibler, Robert E. Patterson, George Putnam, III, W. Thomas Stephens and Richard B. Worley. The business address of each manager is:

Putnam High Yield Municipal Trust LLC  
One Post Office Square  
Boston, Massachusetts 02109

8. In addition to the managers, Charles E. Porter, Jonathan S. Horwitz, Steven D. Krichmar, Janet C. Smith, Robert R. Leveille, Francis J. McNamara, III, Susan G. Malloy, Beth S. Mazor and James P. Pappas are authorized to execute documents to be filed by the Limited Liability Company with the Secretary of The Commonwealth of Massachusetts.

Executed on  
\_\_\_\_\_, 2007

By: \_\_\_\_\_

Name:

Authorized Signatory

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**EXHIBIT C**

OPERATING AGREEMENT  
OF  
**PUTNAM HIGH YIELD MUNICIPAL TRUST LLC**

This Operating Agreement (this Agreement ) of Putnam High Yield Municipal Trust LLC (the Company ) is dated \_\_\_\_\_, 2007 (the Effective Date ) and made effective as of the Effective Date.

WITNESSETH:



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WHEREAS, the Company was organized as a Massachusetts business trust on March 30, 1989 and has operated, in accordance with an Agreement and Declaration of Trust (as amended and/or restated prior to the Effective Date, the Declaration of Trust ) and Bylaws (as amended and/or restated prior to the Effective Date, the Bylaws ) and, together with the Declaration of Trust, the Trust Documents ) of the Company, as a closed-end investment company registered under the Investment Company Act of 1940, as amended.

WHEREAS, on \_\_\_\_\_, 2007, the Company entered into an Agreement and Plan of Merger with Putnam Managed Municipal Income Trust, a Massachusetts business trust (the Acquiring Fund ), pursuant to which the Company has agreed, subject to certain conditions, to merge with and into the Acquiring Fund pursuant to the Massachusetts Limited Liability Company Act (*M.G.L. Ch. 156C, §1 et seq.*), as amended and in effect from time to time (the LLC Act ) (such merger transaction, the Proposed Merger ).

WHEREAS, one of the conditions precedent to the Proposed Merger is that the Company be converted from a Massachusetts business trust to a Massachusetts limited liability company (the Conversion ), and that the shareholders of the Company in its business trust form become members of the Company upon conversion to a limited liability company.

WHEREAS, on the Effective Date, and following the affirmative vote of the requisite number of shareholders of the Company in accordance with the Trust Documents, the Company was converted from a business trust to a limited liability company pursuant to the LLC Act, and a Certificate of Entity Conversion and a Certificate of Organization of the Company were filed with the Secretary of the Commonwealth of The Commonwealth of Massachusetts.

WHEREAS, the Unitholders (formerly the shareholders) of the Company, in approving the Conversion, authorized the Board of Managers (formerly the Board of Trustees) of the Company to enter into this Agreement on their behalf in order to provide for the management of the business and affairs of the Company as a limited liability company, the allocation of profits and losses among the Unitholders, the respective rights and obligations of the Unitholders to each other and to the Company, and certain other matters.

NOW, THEREFORE, it is hereby agreed as follows:

### ARTICLE I

#### Organization

**1.1 Name.** The name of the Company shall be Putnam High Yield Municipal Trust LLC or such other name as the Board may choose from time to time.

**1.2 Trust Documents.** The organization, purpose and operation of the Company shall be as set forth in the Trust Documents, with such changes as are set forth in this Agreement or required under the LLC Act. For avoidance of doubt, it is intended that this Agreement incorporate the provisions of the Trust Documents to the greatest extent practicable and/or permissible under the LLC Act, and that the relationships and structures created by this Agreement as of the Effective Date reflect as closely as practicable those created by the Trust Documents.

**1.3 Initial Authorization.** The initial authorization to enter into this Agreement as of the Effective Date was provided by the shareholders of the Company in connection with the approval of the Conversion in accordance with the Trust Documents and the LLC Act. Pursuant to such authorization, the Board of Managers (defined below) has the authority to execute this Agreement on behalf of Unitholders (defined below).

### ARTICLE II

#### Units and Unitholders

**2.1 Unitholders as of the Effective Date.** As of the Effective Date, the persons admitted as members of the Company (the Unitholders ) shall be those persons holding limited liability company interests ( Units ) issued by the Company, which shall be identical in number and ownership as the shares of beneficial interest issued by the Company immediately prior to the Conversion. The titles and classes of Units as of the Effective Date shall be the same as those of the shares of the Company under the Trust Documents, except that they shall be referred to as units rather than as shares.

**2.2 Rights and Obligations of Unitholders.** The rights and obligations of the Unitholders shall be identical to the rights and obligations of shareholders

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of the Company under the Trust Documents, except as otherwise set forth in this Agreement or required under the LLC Act. To the extent that the rights or obligations of any Unitholder are different by reason of any provision of this Agreement (including as it incorporates the provisions of the Trust Documents) than they would be in the absence of such provision, this Agreement shall, to the extent permitted by the LLC Act, control.

**2.3 Allocation of Profits and Losses.** The profits and losses of the Company shall be allocated among the Unitholders in the same manner as would have been allocated under the Trust Documents among shareholders of the Company if the Conversion had not occurred.

**2.4 Rights of Transfer of Units.** Unitholders' rights regarding the transfer of Units shall be the same as the rights of shareholders of the Company under the Trust Documents. If a Unitholder transfers all of its Units in accordance with this Agreement, such person shall cease to be a member of the Company.

**2.5 Withdrawal.** Except as provided in this section, no Unitholder shall resign or withdraw from the Company. The death, retirement, resignation, expulsion, bankruptcy or dissolution of any Unitholder or the occurrence of any other event that terminates the continued membership of any Unitholder shall not in and of itself cause the Company to be dissolved or its affairs to be wound up, and upon the occurrence of any such event, the Company shall be continued without dissolution. Notwithstanding anything to the contrary in this Agreement, in the event the Company has voted to consolidate or merge with another entity under the provisions of the LLC Act, a Unitholder that objects to such consolidation or merger may, as its exclusive remedy, resign as a member of the Company and receive a cash liquidation payment equal to the market value (which may be greater or less than the net asset value) of such Unitholder's Units. The market value of common Units shall be determined for all purposes as equal to the closing market price of the common shares of the Company on the last day of trading on the New York Stock Exchange immediately preceding the Conversion; the market value of preferred Units shall be calculated as the applicable redemption amount provided for in the Trust Documents; and, in the event of any discrepancy or uncertainty as to calculation, the market value shall be calculated in accordance with such procedures and subject to such terms as the Board of Managers may in its sole discretion determine.

### ARTICLE III

#### Management of the Company

**3.1 Board of Managers.** The business of the Company shall be managed by its board of managers (the Board of Managers), and the persons constituting the Board of Managers shall be the managers of the Company for all purposes under the LLC Act. The authority and powers of the Board of Managers shall be the same as the authority and powers of the board of trustees of the Company under the Trust Documents. As of the Effective Date, the persons serving as the board of trustees of the Company immediately prior to the Conversion shall become the members of the Board of Managers upon effectiveness of the Conversion.

**3.2 Decisions of the Board of Managers.** Decisions of the Board of Managers shall be decisions of the manager for all purposes of the LLC Act and shall be carried out by officers or agents of the Company appointed by the Board of Managers in accordance with this Agreement (incorporating the applicable provisions of the Trust Documents). The Board of Managers may adopt such other rules for the conduct of its business as it may from time to time reasonably deem necessary or appropriate.

**3.3 Officers.** The authority and powers of the officers of the Company shall be the same as the authority and of the officers of the Company under the Trust Documents. As of the Effective Date, the persons serving as officers of the Company immediately prior to the Conversion shall remain the officers of the Company upon effectiveness of the Conversion. Officers of the Company shall be appointed and shall serve in the same manner as officers of the Company under the Trust Documents.

**3.4 Duty of Care and Indemnification.** The duty of care of the Board of Managers or any officer in the discharge of his, her or its duties to the Company shall be as set forth in the Trust Documents with respect to the board of trustees or officers, as applicable, and the indemnification obligations created by this agreement shall be those set forth in the Trust Documents.

### ARTICLE IV

#### Miscellaneous

**4.1 Amendments.** This terms of this Agreement may be modified, supplemented or otherwise amended only with the consent required to amend the analogous terms under the Trust Documents. To the extent the terms subject to amendment have no analogue in the Trust Documents, such terms may be modified, supplemented or otherwise amended only with the consent of the

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holders of a majority of each class of the outstanding Units, except as otherwise provided in this Agreement.

**4.2 Interpretation.** In cases of ambiguity or uncertainty in the interpretation of this Agreement, including the interpretation of its incorporation of the Trust Documents, the Board of Managers shall have the authority to interpret and clarify the meaning of any and all provisions of this Agreement, and any such interpretation made in good faith shall be conclusive and binding as to all parties. The Board of Managers may amend this Agreement to clarify any such ambiguity or uncertainty without approval of the Unitholders.

**4.3 Severability.** If any provision of this Agreement is determined by a court to be invalid or unenforceable, that determination shall not affect the other provisions hereof, each of which shall be construed and enforced as if the invalid or unenforceable portion were not contained herein. That invalidity or unenforceability shall not affect any valid and enforceable application thereof, and each said provision shall be deemed to be effective, operative, made, entered into or taken in the manner and to the full extent permitted by law.

**4.4 General.** This Agreement: (i) shall be binding upon the executors, administrators, estates, heirs, and legal successors of the Unitholders; (ii) shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts; and (iii) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof. The waiver of any of the provisions, terms, or conditions contained in this Agreement shall not be considered as a waiver of any of the other provisions, terms, or conditions hereof.

**4.5 Counterpart Execution.** This Agreement may be executed in two or more counterparts, and by facsimile each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, has duly executed this Agreement as of the date and year first above written.

PUTNAM HIGH YIELD MUNICIPAL TRUST LLC

By: \_\_\_\_\_

Name:

Title:

IN FURTHER WITNESS WHEREOF, the undersigned, constituting at least a majority of the Board of Managers, and acting on behalf of Unitholders of the Company, have duly executed this Agreement as of the date and year first above written.

Jameson A. Baxter

Charles B. Curtis

Robert J. Darretta

Myra R. Drucker

Charles E. Haldeman, Jr.

John A. Hill

Paul L. Joskow

Elizabeth T. Kennan

Kenneth R. Leibler

Robert E. Patterson

George Putnam, III

W. Thomas Stephens

Richard B. Worley

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## APPENDIX B

### AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER ( Agreement ) dated as of August \_\_, 2007, by and between Putnam Managed Municipal Income Trust, a Massachusetts business trust ( Surviving Fund ), and Putnam High Yield Municipal Trust, a Massachusetts business trust that will have completed an entity conversion (the Conversion ) into a Massachusetts limited liability company prior to the Effective Time (as herein defined) ( Merging Fund ).

WITNESSETH:

WHEREAS, Surviving Fund has an authorized capitalization consisting of an unlimited number of common shares of beneficial interest, without par value ( Surviving Fund Common Shares ); 550 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series A, without par value ( Surviving Fund Preferred A Shares ); (c) 550 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series B, without par value ( Surviving Fund Preferred B Shares ); 650 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series C, without par value ( Surviving Fund Preferred C Shares ); and 1,750 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series I, without par value ( Surviving Fund Preferred I Shares, and together with the Surviving Fund Preferred A Shares, Surviving Fund Preferred B Shares and Surviving Fund Preferred C Shares, the Surviving Fund Preferred Shares );

WHEREAS, the Board of Trustees of Merging Fund has adopted, subject to shareholder approval, the Plan of Conversion in substantially the form attached hereto as Annex I, pursuant to which Merging Fund will convert to a Massachusetts limited liability company with the name Putnam High Yield Municipal Trust LLC (the Plan of Conversion );

WHEREAS, Merging Fund has an authorized capitalization consisting of an unlimited number of common shares of beneficial interest, without par value, which will be converted on a one-to-one basis into a class of limited liability company interests of the Merging Fund in connection with the Conversion (referred to herein as Merging Fund Common Units ); 900 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series A, without par value, which will be converted on a one-to-one basis into a class of limited liability company interests of the Merging Fund in connection with the Conversion (referred to herein as Merging Fund Preferred A Units ); and 4,000 preferred shares of beneficial interest, designated Remarketed Preferred Shares, Series I, without par value, which will be converted on a one-to-one basis into a class of limited liability company interests of the Merging Fund in connection with the Conversion (referred to herein as Merging Fund Preferred I Units, and together with the Merging Fund Preferred A Units, the Merging Fund Preferred Units );

WHEREAS, the Board of Trustees of the Merging Fund, to become the Board of Managers of the Merging Fund in connection with the Conversion, and the Board of Trustees of the Surviving Fund deem it advisable and in the best interests of Merging Fund and Surviving Fund, respectively, and their respective shareholders for Merging Fund to merge with and into Surviving Fund (the Merger ) in accordance with Mass. Gen. Laws ch. 156C and pursuant to this Agreement and the Certificate of Merger substantially in the form attached hereto as Annex II and incorporated herein (the Certificate of Merger );

NOW, THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties hereto agree that Merging Fund shall be merged with and into Surviving Fund, which shall be the entity surviving the Merger, and that the terms and conditions of the Merger, the mode of carrying it into effect, and the manner of converting interests of Merging Fund shall be as follows:

### ARTICLE I.

## The Merger

**Section 1.01.** Subject to and in accordance with the provisions of this Agreement, the Certificate of Merger shall be executed and acknowledged by each of Surviving Fund and Merging Fund and thereafter delivered to the Secretary of The Commonwealth of Massachusetts by the Surviving Fund for filing, as provided in Mass. Gen. Laws ch. 156C. The Merger shall become effective at such time as the Certificate of Merger are filed by the Secretary of The Commonwealth of Massachusetts or such date, not more than ninety days after submission to the Secretary of The Commonwealth of Massachusetts, as may be specified in the Certificate of Merger (the Effective Time ). The Effective Time will be as of the next full business day following the Valuation Time (as defined below), unless otherwise mutually agreed by the parties hereto. At the Effective Time, the separate existence of Merging Fund shall cease and Merging Fund shall be merged with and into Surviving Fund (Merging Fund and Surviving Fund being sometimes referred to

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individually herein as a Fund and collectively herein as the Funds ).

**Section 1.02.** At the Effective Time, by virtue of the Merger and without any action on the part of the Funds or the holders of Merging Fund Common Units or Surviving Fund Common Shares, each Merging Fund Common Unit issued and outstanding immediately prior to the Merger shall be converted into a number of shares of Surviving Fund Common Shares equal to the Merging Fund Exchange Ratio (as defined below), which Surviving Fund Common Shares shall be issued, fully paid and non-assessable, except as set forth in the Registration Statement (as defined below) (the Common Merger Shares ). The Merging Fund Exchange Ratio shall be equal to a fraction, the numerator of which shall be the net asset value per share of the Surviving Fund Common Shares at the Valuation Time and the denominator of which shall be the net asset value per Merging Fund Common Unit at the Valuation Time. The Valuation Time shall be 4:00 p.m. Eastern Time on October 26, 2007 or such other date as mutually agreed by the parties hereto.

**Section 1.03.** At the Effective Time, by virtue of the Merger and without any action on the part of the Funds or the holders of Merging Fund Preferred Units or Surviving Fund Preferred Shares, each Merging Fund Preferred Unit issued and outstanding immediately prior to the Merger shall be converted into a number of shares of Surviving Fund Preferred Shares having an aggregate liquidation preference equal to the aggregate liquidation preference of such Merging Fund Preferred Unit at the Valuation Time, which Surviving Fund Preferred Shares shall be issued, fully paid and non-assessable, except as set forth in the Registration Statement (the Preferred Merger Shares, and together with the Common Merger Shares, the Merger Shares ). Holders of Merging Fund Preferred A Units will receive one Surviving Fund Preferred C Shares for each Merging Fund Preferred A Unit they hold at the Valuation Time. No Merging Fund Preferred I Units are outstanding and no Merging Fund Preferred I Units will be outstanding at the Valuation Time; therefore, no Surviving Fund Preferred Shares will be exchanged for Merging Fund Preferred I Units. **Section 1.04.** On the next full business day following the Valuation Time or otherwise as promptly as practicable after the Valuation Time, an account on the share records of the Surviving Fund will be established in the name of each record holder of the Merging Fund as of the Effective Time representing the number of full and fractional Merger Shares due the shareholder.

## ARTICLE II.

### Representations and Warranties of Surviving Fund

**Section 2.01.** Surviving Fund represents and warrants to and agrees with Merging Fund that:

(a) Surviving Fund is a business trust duly established and validly existing under the laws of The Commonwealth of Massachusetts and has power to own all of its property and assets and to carry out its obligations under this Agreement. Surviving Fund is not required to qualify as a foreign association in any jurisdiction. Surviving Fund has all necessary federal, state and local authorizations to carry on its business as now being conducted and to carry out this Agreement.

(b) Surviving Fund is registered under the Investment Company Act of 1940, as amended (the 1940 Act ), as a closed-end management investment company, and such registration has not been revoked or rescinded and is in full force and effect. (c) Statements of assets and liabilities, statements of operations, statements of changes in net assets and schedule of investments (indicating their market values) of Surviving Fund for the fiscal year ended October 31, 2006, audited by KPMG LLP, the Surviving Fund's independent registered public accounting firm, and an unaudited statement of assets and liabilities, statement of operations, statement of changes in net assets and schedule of investments (indicating their market value) of Merging Fund for the six-months ended April 30, 2007, have been furnished to Merging Fund. Such statements of assets and liabilities and schedules of investments fairly present the financial position of Surviving Fund as of the dates thereof, and the statements of operations and changes in net assets fairly reflect the results of its operations and changes in net assets for the periods covered thereby in conformity with U.S. generally accepted accounting principles.

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(d) There are no material legal, administrative or other proceedings pending or, to the knowledge of Surviving Fund, threatened against Surviving Fund which assert liability or which may, if successfully prosecuted to their conclusion, result in liability on the part of Surviving Fund, other than as have been disclosed in the Registration Statement (as defined below) or otherwise disclosed in writing to Merging Fund.

(e) Surviving Fund has no known liabilities of a material nature, contingent or otherwise, other than those shown as belonging to it on its statement of assets and liabilities as of April 30, 2007 and those

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incurred in the ordinary course of Surviving Fund's business as an investment company since that date.

(f) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by Surviving Fund of the transactions contemplated by this Agreement, except such as may be required under the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended (the "1934 Act"), the 1940 Act, state securities or blue sky laws (which term as used herein will include the laws of the District of Columbia and of Puerto Rico) or the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "H-S-R Act").

(g) The registration statement and any amendment thereto (including any post-effective amendment) (the "Registration Statement") filed with the Securities and Exchange Commission (the "Commission") by Surviving Fund on Form N-14 relating to the Merger Shares issuable hereunder, the proxy statement of Merging Fund and Surviving Fund included therein (the "Proxy Statement"), as of the effective date of the Registration Statement, (i) comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and at the time of the shareholders' meeting referred to in Section 6.01 and at the Effective Time, the prospectus contained in the Registration Statement (collectively, the "Prospectus"), as amended or supplemented by any amendments or supplements filed or requested to be filed with the Commission, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that none of the representations and warranties in this subsection will apply to statements in or omissions from the Registration Statement, the Prospectus or the Proxy Statement made in reliance upon and in conformity with information furnished by Merging Fund for use in the Registration Statement, the Prospectus or the Proxy Statement.

(h) There are no material contracts outstanding to which Surviving Fund is a party, other than as disclosed in the Registration Statement.

(i) All of the issued and outstanding shares of beneficial interest of Surviving Fund have been offered for sale and sold in material conformity with all applicable federal securities laws.

(j) Surviving Fund is and will at all times through the Effective Time qualify for taxation as a regulated investment company under Sections 851 and 852 of the Code.

(k) Surviving Fund has filed or will file all federal and state tax returns which, to the knowledge of Surviving Fund's officers, are required to be filed by Surviving Fund and has paid or will pay all federal and state taxes shown to be due on said returns or on any assessments received by Surviving Fund. All tax liabilities of Surviving Fund have been adequately provided for on its books, and to the knowledge of Surviving Fund, no tax deficiency or liability of Surviving Fund has been asserted, and no question with respect thereto has been raised, by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid. As of the Effective Time, Surviving Fund is not under audit by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid.

(l) The conversion of Merging Fund Common Units and Merging Fund Preferred Units to the Common Merger Shares and Preferred Merger Shares, respectively, pursuant to this Agreement will be in compliance with all applicable federal securities laws.

(m) The Merger Shares have been duly authorized and, when issued and delivered pursuant to this Agreement, will be legally and validly issued and will be fully paid and non-assessable by Surviving Fund (except as set forth in the Registration Statement), and no shareholder of Surviving Fund will have any preemptive right of subscription or purchase in respect thereof.

### ARTICLE III.

**Representations and Warranties of Merging Fund Section 3.01.** Merging Fund represents and warrants to and agrees with Surviving Fund that:

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(a) Merging Fund is a business trust duly established and validly existing under the laws of The Commonwealth of Massachusetts and has power to own all of its property and assets and to carry out its obligations under this Agreement and will take the steps necessary to convert into a limited liability company under the applicable provisions in Mass. Gen. Laws ch. 156C prior to the Effective Time. As of the Effective Time, Merging Fund will

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be a limited liability company duly established and validly existing under the laws of The Commonwealth of Massachusetts. Merging Fund is not required to qualify as a foreign association in any jurisdiction. Merging Fund has all necessary federal, state and local authorizations to carry on its business as now being conducted and to carry out this Agreement.

(b) Merging Fund is registered under the 1940 Act as a closed-end management investment company, and such registration has not been revoked or rescinded and is in full force and effect.

(c) A statement of assets and liabilities, statement of operations, statement of changes in net assets and schedule of investments (indicating their market values) of Merging Fund for the fiscal year ended March 31, 2007, audited by KPMG LLP, the Merging Fund's independent registered public accounting firm, have been furnished to Surviving Fund. The statement of assets and liabilities and the schedule of investments fairly present the financial position of Merging Fund as of the date thereof, and the statement of operations and changes in net assets fairly reflect the results of its operations and changes in net assets for the period covered thereby in conformity with U.S. generally accepted accounting principles.

(d) There are no material legal, administrative or other proceedings pending or, to the knowledge of Merging Fund, threatened against Merging Fund which assert liability or which may, if successfully prosecuted to their conclusion, result in liability on the part of Merging Fund, other than as have been disclosed in the Registration Statement or otherwise disclosed in writing to the Surviving Fund.

(e) Merging Fund has no known liabilities of a material nature, contingent or otherwise, other than those shown as belonging to it on its statement of assets and liabilities as of March 31, 2007 and those incurred in the ordinary course of Merging Fund's business as an investment company since such date. Before the Effective Time, Merging Fund will advise Surviving Fund of all material liabilities, contingent or otherwise, incurred by it subsequent to March 31, 2007, whether or not incurred in the ordinary course of business.

(f) No consent, approval, authorization or order of any court or governmental authority is required for the consummation by Merging Fund of the transactions contemplated by this Agreement, except such as may be required under the 1933 Act, the 1934 Act, the 1940 Act, state securities or blue sky laws or the H-S-R Act.

(g) The Registration Statement, the Prospectus and the Proxy Statement, as of the effective date of the Registration Statement and insofar as they do not relate to Surviving Fund (i) comply in all material respects with the provisions of the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder and (ii) do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and at the time of the shareholder meeting referred to in Section 6.01 below and on the Effective Time, the Prospectus, as amended or supplemented by any amendments or supplements filed or requested to be filed with the Commission, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the representations and warranties in this subsection will apply only to statements of fact or omissions of statements of fact relating to Merging Fund contained in the Registration Statement, the Prospectus or the Proxy Statement, as such Registration Statement, Prospectus and Proxy Statement shall have been furnished to Merging Fund in definitive form as soon as practicable following effectiveness of the Registration Statement and before any public distribution of the Prospectus or Proxy Statement.

(h) All of the issued shares of beneficial interest of Merging Fund that will be converted into Merging Fund Common Units and Merging Fund Preferred Units prior to the Effective Time have been offered for sale and sold in material conformity with all applicable federal securities laws.

(i) Merging Fund is and will at all times through the Effective Time qualify for taxation as a regulated investment company under Sections 851 and 852 of the Code.

(j) Merging Fund has filed or will file all federal and state tax returns which, to the knowledge of Merging Fund's officers, are required to be filed by Merging Fund and has paid or will pay all federal and state taxes shown to be due on said returns or on any assessments received by Merging Fund. All tax liabilities of Merging Fund have been adequately provided for on its books, and to the knowledge of Merging Fund, no tax deficiency or liability of Merging Fund has been asserted, and

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no question with respect thereto has been raised, by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid. As of the Effective Time, Merging Fund is not under audit by the Internal Revenue Service or by any state or local tax authority for taxes in excess of those already paid.

(k) At both the Valuation Time and the Effective Time, Merging Fund will have full right, power and authority to merge with Surviving Fund pursuant to this Agreement. At the Effective Time, the property and liabilities of the Merging Fund will vest in the Surviving Fund subject to no encumbrances, liens or security interests whatsoever and without any restrictions upon the transfer thereof (except as previously disclosed to Surviving Fund by Merging Fund). As used in this Agreement, the term Investments means Merging Fund's investments shown on the schedule of its investments as of March 31, 2007 referred to in Section 3.01(c) hereof, as supplemented with such changes as Merging Fund makes and changes resulting from stock dividends, stock splits, mergers and similar corporate actions.

(l) No registration under the 1933 Act of any of the Investments would be required if they were, as of the Effective Time, the subject of a public distribution by either of Surviving Fund or Merging Fund, except as previously disclosed to Surviving Fund by Merging Fund.

#### **ARTICLE IV.**

##### **Exchange of Shares**

**Section 4.01.** Shareholders of certificated Merging Fund Common Units will receive certificates representing the number of Common Merger Shares due the shareholder upon surrender of their Merging Fund certificates (Certificates) in accordance with this Agreement. Shareholders of Merging Fund who do not surrender their Certificates by the Valuation Date will not be permitted to receive cash dividends or other distributions, transfer any Common Merger Shares or pledge any Common Merger Shares until such Certificates have been surrendered, or, in the case of lost Certificates, until an adequate surety bond has been posted. If the Common Merger Shares are to be issued to any person other than the person in whose name the Certificate(s) so surrendered in exchange therefore are registered, it shall be a condition to such exchange that the Certificate(s) so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the person requesting such exchange shall pay to the Surviving Fund any transfer or other taxes required by reason of the payment of such consideration to a person other than the registered holder of the Certificate(s) surrendered, or shall establish to the reasonable satisfaction of the Surviving Fund that such tax has been paid or is not applicable.

**Section 4.02.** With respect to uncertificated Merging Fund Common Units and Merging Fund Preferred Units, the record owner of such limited liability company interests on the books and records of the Fund's transfer agent as of the Valuation Time shall be entitled to receive on the Effective Time Preferred Common Shares and Preferred Merger Shares, respectively, in accordance with this Agreement.

#### **ARTICLE V.**

##### **Expenses, Fees, etc.**

**Section 5.01.** All fees and expenses, including legal and accounting expenses, portfolio transfer taxes (if any) or other similar expenses incurred in connection with the consummation by Merging Fund and Surviving Fund of the transactions contemplated by this Agreement will be allocated ratably between Merging Fund and Surviving Fund in proportion to their net assets as of the Valuation Time, except that (i) the costs of proxy materials and proxy solicitation for each Fund will be borne by that Fund (except the costs of SEC filings will be borne by the Surviving Fund only) and (ii) the costs of repositioning the portfolio of Merging Fund to reflect the investment policies of Surviving Fund incurred prior to the Effective Time shall be borne by Merging Fund; provided, however, that such expenses will in any event be paid by the party directly incurring such expenses if and to the extent that the payment by the other party of such expenses would result in the disqualification of Surviving Fund or Merging Fund, as the case may be, as a regulated investment company within the meaning of Section 851 of the Code.

**Section 5.02.** In the event the transactions contemplated by this Agreement are not consummated by reason of (i) Surviving Fund's being either unwilling or unable to go forward (other than by reason of the non-fulfillment or failure of any condition to Surviving Fund's obligations referred to in Article VII) or (ii) the non-fulfillment or failure of any condition to Merging Fund's obligations referred to in Article VIII, Surviving Fund will pay directly all reasonable fees and expenses incurred by Merging Fund in connection with such transactions, including, without limitation, legal, accounting and filing fees.



**Section 5.03.** In the event the transactions contemplated by this Agreement are not consummated by reason of (i) Merging Fund s being either unwilling or unable to go forward (other than by reason of the non-fulfillment or failure of any condition to Merging Fund s obligations referred to in Article VIII) or (ii) the non-fulfillment or failure of any condition to Surviving Fund s obligations referred to in Article VII, Merging Fund will pay directly all reasonable fees and expenses incurred by Surviving Fund in connection with such transactions, including without limitation legal, accounting and filing fees.

**Section 5.04.** In the event the transactions contemplated by this Agreement are not consummated for any reason other than (i) Surviving Fund s or Merging Fund s being either unwilling or unable to go forward or (ii) the non-fulfillment or failure of any condition to Surviving Fund s or Merging Fund s obligations referred to in Article VII or Article VIII of this Agreement, then each of Surviving Fund and Merging Fund will bear all of its own expenses incurred in connection with such transactions.

**Section 5.05.** Notwithstanding any other provisions of this Agreement, if for any reason the transactions contemplated by this Agreement are not consummated, no party will be liable to the other party for any damages resulting therefrom, including without limitation consequential damages, except as specifically set forth above.

## **ARTICLE VI.**

### **Meeting of Shareholders**

**Section 6.01.** Each of Surviving Fund and Merging Fund agrees to hold a meeting of its shareholders as soon as is advisable in the discretion of the applicable Fund s Board of Trustees after the effective date of the Registration Statement for, among other things, the purpose of considering the matters contemplated by this Agreement.

**Section 6.02.** Surviving Fund has, after the preparation and delivery to it by Merging Fund of a preliminary version of the Proxy Statement which was satisfactory to Surviving Fund and to Ropes & Gray LLP for inclusion in the Registration Statement, filed the Registration Statement with the Commission. Each of Merging Fund and Surviving Fund will cooperate with the other, and each will furnish to the other the information relating to itself required by the 1933 Act, the 1934 Act and the 1940 Act and the rules and regulations thereunder to be set forth in the Registration Statement, including the Prospectus and the Proxy Statement.

## **ARTICLE VII.**

### **Conditions to Surviving Fund s Obligations**

**Section 7.01.** The obligations of Surviving Fund hereunder are subject to the following conditions:

(a) That this Agreement will have been adopted and the transactions contemplated hereby will have been approved by the affirmative vote of (i) at least two-thirds of the Trustees of Merging Fund (including a majority of those Trustees who are not interested persons of Merging Fund, as defined in Section 2(a)(19) of the 1940 Act), (ii) holders of a majority of the outstanding limited liability company interests of Merging Fund entitled to vote on the Merger, each class voting separately, (iii) at least two-thirds of the Trustees of Surviving Fund (including a majority of those Trustees who are not interested persons of Surviving Fund, as defined in Section 2(a)(19) of the 1940 Act), and (iv) holders of a majority of the outstanding shares of Surviving Fund entitled to vote on the Merger, each class voting separately.

(b) That Merging Fund will have furnished to Surviving Fund a statement of Merging Fund s net assets, with values determined as provided in Section 1.02 of this Agreement, together with a list of Investments with their respective tax costs, all as of the Valuation Time, certified on Merging Fund s behalf by Merging Fund s President (or any Executive Vice President or Vice President) and Treasurer (or any Associate Treasurer or Assistant Treasurer) and a certificate of both such officers, dated as of the Effective Time, to the effect that as of the Valuation Time and as of the Effective Date there has been no material adverse change in the financial position of Merging Fund since March 31, 2007 other than changes in the Investments and other assets and properties since that date or changes in the market value of the Investments and other assets of Merging Fund or changes due to dividends paid or losses from operations.

(c) That Merging Fund will have furnished to Surviving Fund a statement, dated as of the Effective Time, signed on behalf of Merging Fund by Merging Fund s President (or any Executive Vice President or Vice President) and Treasurer (or any Associate Treasurer or Assistant Treasurer) certifying that as of the Valuation Time and as of the Effective Time all representations and warranties of Merging Fund made in this

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Agreement are true and correct in all material respects as if made at and as of such dates, and that Merging Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or before each of such dates.

(d) That Merging Fund will have delivered to Surviving Fund an agreed upon procedures letter from KPMG LLP dated as of the Effective Time, setting forth findings of KPMG LLP pursuant to its performance of the agreed upon procedures set forth therein relating to management's assertions that Merging Fund, (i) for the taxable period from March 31, 2007 to the Effective Time, qualified as a regulated investment company under the Code, (ii) as of the Effective Time, has no liability other than liabilities stated for federal or state income taxes and (iii) as of the Effective Time, has no liability for federal excise tax purposes under section 4982 of the Code.

(e) That there will not be any material litigation pending with respect to the matters contemplated by this Agreement.

(f) That Surviving Fund will have received an opinion of Ropes & Gray LLP dated as of the Effective Time, in form satisfactory to Surviving Fund, to the effect that (i) Merging Fund is a limited liability company duly established and validly existing under the laws of The Commonwealth of Massachusetts, and, to the knowledge of such counsel, is not required to qualify to do business as a foreign association in any jurisdiction except as may be required by state securities or blue sky laws, (ii) this Agreement has been duly authorized, executed, and delivered by Merging Fund and, assuming that the Registration Statement, the Prospectus and the Proxy Statement comply with the 1933 Act, the 1934 Act and the 1940 Act and assuming due authorization, execution and delivery of this Agreement by Surviving Fund, is a valid and binding obligation of Merging Fund, (iii) Merging Fund has power to merge with the Surviving Fund as contemplated hereby and, upon consummation of the transactions contemplated hereby in accordance with the terms of this Agreement, the property and liabilities of the Merging Fund will be vested in Surviving Fund, (iv) the execution and delivery of this Agreement did not, and the consummation of the transactions contemplated hereby will not, violate Merging Fund's Certificate of Organization or Operating Agreement or any provision of any agreement known to such counsel to which Merging Fund is a party or by which it is bound, it being understood that with respect to investment restrictions as contained in Merging Fund's Certificate of Organization, Operating Agreement, prospectus or the Registration Statement, such counsel may rely upon a certificate of an officer of Merging Fund, (v) no consent, approval, authorization or order of any court or governmental authority is required for the consummation by Merging Fund of the transactions contemplated hereby, except such as have been obtained under the 1933 Act, the 1934 Act, the 1940 Act and such as may be required under state securities or blue sky laws and the H-S-R Act and (vi) such other matters as Surviving Fund may reasonably deem necessary or desirable.

(g) That Surviving Fund will have received an opinion of Ropes & Gray LLP dated as of the Effective Time (which opinion would be based upon certain factual representations and subject to certain qualifications) to the effect that, on the basis of the existing provisions of the Code, current administrative rules and court decisions, for federal income tax purposes: (i) the vesting of all of the property and liabilities of the Merging Fund in the Surviving Fund, constitutes a reorganization within the meaning of Section 368(a) of the Code and Merging Fund and Surviving Fund will each be a party to a reorganization within the meaning of Section 368(b) of the Code, (ii) no gain or loss will be recognized by Surviving Fund or its shareholders upon vesting of the Investments in Surviving Fund pursuant to this Agreement, (iii) the basis to Surviving Fund of the Investments will be the same as the basis of the Investments in the hands of Merging Fund immediately prior to the merger, (iv) Surviving Fund's holding periods with respect to the Investments will include the respective periods for which the Investments were held by Merging Fund and (v) Surviving Fund will succeed to and take into account the items of Merging Fund described in Section 381(c) of the Code, subject to the conditions and limitations specified in Sections 381, 382, 383 and 384 of the Code and Regulations thereunder; however, Ropes & Gray LLP will express no view with respect to the effect of the reorganization on any transferred asset as to which any unrealized gain or loss is required to be recognized at the end of a taxable year (or on the

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termination or transfer thereof) under federal income tax principles.

(h) That the property of Merging Fund to be vested in Surviving Fund pursuant to the Merger will include no assets which Surviving Fund, by reason of charter limitations or investment restrictions disclosed in the Registration Statement in effect on the Effective Time, may not properly hold.

(i) That the Registration Statement will have become effective under the 1933 Act, and no stop order suspending such effectiveness will have been instituted or, to the knowledge of Surviving Fund, threatened by the Commission.

(j) That Surviving Fund will have received from the Commission, any relevant state securities administrator, the Federal Trade Commission (the FTC) and the Department of Justice (the Department) such order or orders as Ropes & Gray LLP deems reasonably necessary or desirable under the 1933 Act, the 1934 Act, the 1940 Act, any applicable state securities or blue sky laws and the H-S-R Act in connection with the transactions contemplated hereby and that all such orders will be in full force and effect.

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(k) That all actions taken by or on behalf of Merging Fund in connection with the transactions contemplated by this Agreement and all documents incidental thereto will be satisfactory in form and substance to Surviving Fund and Ropes & Gray LLP.

(l) That, before the Effective Time, Merging Fund will have declared a dividend or dividends which, together with all previous such dividends, will have the effect of distributing to the shareholders of Merging Fund (i) all of the excess of (X) Merging Fund's investment income excludable from gross income under Section 103 of the Code over (Y) Merging Fund's deductions disallowed under Sections 265 and 171 of the Code, (ii) all of Merging Fund's investment company taxable income (as defined in Section 852 of the Code) for its taxable years ending on or after March 31, 2007, and on or prior to the Effective Time (computed in each case without regard to any deduction for dividends paid), and (iii) all of its net capital gain realized after reduction by any capital loss carryover in each of its taxable years ending on or after March 31, 2007, and on or prior to the Effective Time.

(m) That Merging Fund's custodian will have delivered to Surviving Fund a certificate identifying all of the assets of Merging Fund held by such custodian as of the Valuation Time.

(n) That Merging Fund's transfer agent will have provided to Surviving Fund (i) the originals or true copies of all of the records of Merging Fund in the possession of such transfer agent as of the Effective Time, (ii) a certificate setting forth the number of shares of Merging Fund outstanding as of the Valuation Time and (iii) the name and address of each holder of record of any such shares and the number of shares held of record by each such shareholder.

(o) That all of the issued and outstanding shares of beneficial interest that will have been converted into Merging Fund Common Units and Merging Fund Preferred Units will have been offered for sale and sold in material conformity with all applicable state securities or blue sky laws and, to the extent that any audit of the records of Merging Fund or its transfer agent by Surviving Fund or its agents will have revealed otherwise, either (i) Merging Fund will have taken all actions that in the opinion of Surviving Fund or its counsel are necessary to remedy any prior failure on the part of Merging Fund to have offered for sale and sold such shares in conformity with such laws or (ii) Merging Fund will have furnished (or caused to be furnished) surety, or deposited (or caused to be deposited) assets in escrow, for the benefit of Surviving Fund in amounts sufficient and upon terms satisfactory, in the opinion of Surviving Fund or its counsel, to indemnify Surviving Fund against any expense, loss, claim, damage or liability whatsoever that may be asserted or threatened by reason of such failure on the part of Merging Fund to have offered and sold such shares in conformity with such laws.

(p) That Surviving Fund will have received from KPMG LLP an agreed upon procedures letter addressed to Surviving Fund dated as of the Effective Time satisfactory in form and substance to Surviving Fund setting forth the findings of KPMG LLP pursuant to its performance of the agreed upon procedures set forth therein relating to management's assertion that as of the Valuation Time the value of the assets of Merging Fund to be vested in Surviving Fund has been determined in accordance with the provisions of Article 10, Section 5 of Surviving Fund's Bylaws pursuant to

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the procedures customarily utilized by Surviving Fund in valuing its assets and issuing its shares.

(q) That Merging Fund will have executed and delivered to Surviving Fund Certificate of Merger pursuant to which all of the property and liabilities of Merging Fund will be vested in Surviving Fund.

(r) That Standard & Poor's Ratings Group and Moody's Investor Service, Inc. shall have advised Surviving Fund that the consummation of the transactions described in this Agreement will not result in the withdrawal of their current ratings of Surviving Fund's outstanding Surviving Fund Preferred Shares.

(s) That the authorization, creation and issuance of the Preferred Merger Shares shall have been approved by holders of a majority of Surviving Fund's outstanding preferred shares.

(t) That the Common Merger Shares shall have been accepted for listing by the New York Stock Exchange.

### ARTICLE VIII.

**Conditions to the Merging Fund's Obligations Section 8.01** The obligations of Merging Fund hereunder will be subject to the following conditions:

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(a) That a Plan of Entity Conversion substantially in the form set forth as Annex I will have been adopted and the transactions contemplated hereby will have been approved by the affirmative vote of (i) at least two-thirds of the Trustees of Merging Fund and (ii) holders of a majority of the outstanding shares of Merging Fund entitled to vote on the Conversion, each voting separately as a class.

(b) That this Agreement will have been adopted and the transactions contemplated hereby will have been approved by the affirmative vote of (i) at least two-thirds of the Trustees of Merging Fund (including a majority of those Trustees who are not interested persons of Merging Fund, as defined in Section 2(a)(19) of the 1940 Act), (ii) holders of a majority of the outstanding limited liability company interests of Merging Fund entitled to vote on the Merger, each class voting separately, (iii) at least two-thirds of the Trustees of Surviving Fund (including a majority of those Trustees who are not interested persons of Surviving Fund, as defined in Section 2(a)(19) of the 1940 Act), and (iv) holders of a majority of the outstanding shares of Surviving Fund entitled to vote on the Merger, each class voting separately.

(c) That Surviving Fund will have furnished to Merging Fund a statement of Surviving Fund's net assets, together with a list of portfolio holdings with values determined as provided in Section 1.02 of this Agreement, all as of the Valuation Time, certified on behalf of Surviving Fund by Surviving Fund's President (or any Executive Vice President or Vice President) and Treasurer (or any Associate Treasurer or Assistant Treasurer) and a certificate of both such officers, dated as of the Effective Time, to the effect that as of the Valuation Time and as of the Effective Time there has been no material adverse change in the financial position of Surviving Fund since April 30, 2007, other than changes in its portfolio securities since that date, changes due to net sales or net redemptions, changes in the market value of its portfolio securities or changes due to dividends paid or losses from operations.

(d) That Surviving Fund will have furnished to Merging Fund a statement, dated the Effective Time, signed on behalf of Surviving Fund by Surviving Fund's President (or any Executive Vice President Vice President) and Treasurer (or any Associate Treasurer or Assistant Treasurer) certifying that as of the Valuation Time and as of the Effective Time all representations and warranties of Surviving Fund made in this Agreement are true and correct in all material respects as if made at and as of such dates, and that Surviving Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to each of such dates.

(e) That there will not be any material litigation pending or threatened with respect to the matters contemplated by this Agreement.

(f) That Merging Fund will have received an opinion of Ropes & Gray LLP, in form satisfactory to Merging Fund and dated as of the Effective Time, to the effect that (i) Surviving Fund is a business trust duly established and validly existing in conformity with the laws of The Commonwealth of Massachusetts and, to the knowledge of such counsel, is not required to qualify to do business as a foreign association in any jurisdiction except as may be required by state securities or blue sky laws, (ii) this Agreement has been duly authorized, executed and delivered by Surviving Fund and, assuming

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that the Prospectus, the Registration Statement and the Proxy Statement comply with the 1933 Act, the 1934 Act and the 1940 Act and assuming due authorization, execution and delivery of this Agreement by Merging Fund, is a valid and binding obligation of Surviving Fund, (iii) the Merger Shares are duly authorized and upon conversion will be validly issued and will be fully paid and non-assessable (except as set forth in the Registration Statement) by Surviving Fund and no shareholder of Surviving Fund has any preemptive right to subscription or purchase in respect thereof, (iv) the execution and delivery of this Agreement did not, and the consummation of the transactions contemplated hereby will not, violate Surviving Fund's Agreement and Declaration of Trust, as amended, or Bylaws, or any provision of any agreement known to such counsel to which Surviving Fund is a party or by which it is bound, it being understood that with respect to investment restrictions as contained in Surviving Fund's Agreement and Declaration of Trust, as amended, Bylaws or the Registration Statement, such counsel may rely upon a certificate of an officer of Surviving Fund whose responsibility it is to advise Surviving Fund with respect to such matters, (v) no consent, approval, authorization or order of any court or governmental authority is required for the consummation by Surviving Fund of the transactions contemplated herein, except such as have been obtained under the 1933 Act, the 1934 Act and the 1940 Act and such as may be required under state securities or blue sky laws and the H-S-R Act and (vi) the Registration Statement has become effective under the 1933 Act, and, to the best of the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the 1933 Act.

(g) That Merging Fund will have received an opinion of Ropes & Gray LLP dated as of the Effective Time (which opinion would be based upon certain factual representations and subject to certain qualifications) to the effect that, on the basis of the existing provisions of the Code, current administrative rules and court decisions, subject to the qualification below, for federal income tax purposes: (i) the vesting in Surviving Fund of all of the property and liabilities of Merging Fund pursuant to the Certificate of Merger, constitutes a reorganization within the meaning of Section 368(a) of the Code and Merging Fund and Surviving Fund will each be a party to a reorganization within the meaning of Section 368(b) of the Code, (ii) no gain or loss will be recognized by Merging Fund upon the vesting of the Investments in Surviving Fund, (iii) no gain or loss will be recognized by the Merging Fund shareholders on the conversion of their shares of the Merging Fund into Merger Shares, (iv) the aggregate basis of the Merger Shares a Merging Fund shareholder receives in connection with the transaction will be the same as the aggregate basis of the Merging Fund shares he or she held immediately prior to the merger and (v) a Merging Fund shareholder's holding period for his or

her Merger Shares will be determined by including the period for which he or she held Merging Fund shares that were converted into such Merger Shares, provided that the shareholder held Merging Fund's shares as a capital asset; however, Ropes & Gray LLP will express no view with respect to the effect of the reorganization on any transferred asset as to which any unrealized gain or loss is required to be recognized at the end of a taxable year (or on the termination or transfer thereof) under federal income tax principles.

(h) That all actions taken by or on behalf of Surviving Fund in connection with the transactions contemplated by this Agreement and all documents incidental thereto will be satisfactory in form and substance to Merging Fund and Ropes & Gray LLP.

(i) That the Registration Statement will have become effective under the 1933 Act and no stop order suspending such effectiveness will have been instituted or, to the knowledge of Surviving Fund, threatened by the Commission.

(j) That Merging Fund will have received from the Commission, any relevant state securities administrator, the FTC and the Department such order or orders as Ropes & Gray LLP deems reasonably necessary or desirable under the 1933 Act, the 1934 Act, the 1940 Act, any applicable state securities or blue sky laws and the H-S-R Act in connection with the transactions contemplated hereby and that all such orders will be in full force and effect.

(k) That Merging Fund shall have been advised by Standard & Poor's and Moody's Investors Services, Inc. that the Preferred Merger Shares will be rated AAA and Aaa, respectively.

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(l) That the Common Merger Shares shall have been accepted for listing by the New York Stock Exchange.

(m) That Merging Fund will have received confirmation, to its reasonable satisfaction, that the proposal to convert the Surviving Fund from a closed-end investment company to an open-end investment company, which is scheduled to be voted on by shareholders of the Surviving Fund at the Surviving Fund's 2007 annual meeting, has been or is reasonably certain to be, defeated by shareholders of the Surviving Fund.

## ARTICLE IX.

### Indemnification

**Section 9.01.** Merging Fund will indemnify and hold harmless, out of the assets of Merging Fund but no other assets, Surviving Fund, its trustees and its officers (for purposes of this section, the Indemnified Parties) against any and all expenses, losses, claims, damages and liabilities at any time imposed upon or reasonably incurred by any one or more of the Indemnified Parties in connection with, arising out of, or resulting from any claim, action, suit or proceeding in which any one or more of the Indemnified Parties may be involved or with which any one or more of the Indemnified Parties may be threatened by reason of any untrue statement or alleged untrue statement of a material fact relating to Merging Fund contained in the Registration Statement, the Prospectus, the Proxy Statement or any amendment or supplement to any of the foregoing, or arising out of or based upon the omission or alleged omission to state in any of the foregoing a material fact relating to Merging Fund required to be stated therein or necessary to make the statements relating to Merging Fund therein not misleading, including, without limitation, any amounts paid by any one or more of the Indemnified Parties in a reasonable compromise or settlement of any such claim, action, suit or proceeding, or threatened claim, action, suit or proceeding made with the consent of Merging Fund. The Indemnified Parties will notify Merging Fund in writing within ten days after the receipt by any one or more of the Indemnified Parties of any notice of legal process or any suit brought against or claim made against such Indemnified Party as to any matters covered by this Section 9.01. Merging Fund shall be entitled to participate at its own expense in the defense of any claim, action, suit or proceeding covered by this Section 9.01, or, if it so elects, to assume at its expense by counsel satisfactory to the Indemnified Parties the defense of any such claim, action, suit or proceeding, and if Merging Fund elects to assume such defense, the Indemnified Parties will be entitled to participate in the defense of any such claim, action, suit or proceeding at their expense. Merging Fund's obligation under this Section 9.01 to indemnify and hold harmless the Indemnified Parties will constitute a guarantee of payment so that Merging Fund will pay in the first instance any expenses, losses, claims, damages and liabilities required to be paid by it under this Section 9.01 without the necessity of the Indemnified Parties first paying the same.

**Section 9.02.** Surviving Fund will indemnify and hold harmless, out of the assets of Surviving Fund but no other assets, Merging Fund, its trustees and its officers (for purposes of this section, the Indemnified Parties) against any and all expenses, losses, claims, damages and liabilities at any time imposed upon or reasonably incurred by any one or more of the Indemnified Parties in connection with, arising out of, or resulting from any claim, action, suit or proceeding in which any one or more of the Indemnified Parties may be involved or with which any one or more of the Indemnified Parties may be threatened by reason of any untrue statement or alleged untrue statement of a material fact relating to Surviving Fund contained in the Registration Statement, the Prospectus, the Proxy Statement, or any amendment or supplement to any thereof, or arising out of, or based upon, the omission or alleged omission to state in any of the foregoing a material fact relating to Surviving Fund required to be stated therein or necessary to make the statements relating to Surviving Fund therein not misleading, including without limitation any amounts paid by any one or more of the Indemnified Parties in a reasonable compromise or settlement of any such claim, action, suit or

proceeding, or threatened claim, action, suit or proceeding made with the consent of Surviving Fund. The Indemnified Parties will notify Surviving Fund in writing within ten days after the receipt by any one or more of the Indemnified Parties of any notice of legal process or any suit brought against or claim made against such Indemnified Party as to any matters covered by this Section 9.02. Surviving Fund shall be entitled to participate at its own expense in the defense of any claim, action, suit or proceeding covered by this Section 9.02, or, if it so elects, to assume at its expense by counsel satisfactory to the Indemnified Parties the defense of any such claim, action, suit or proceeding, and, if Surviving Fund elects to assume such defense, the Indemnified Parties will be entitled to participate in the defense of any such claim, action, suit or proceeding at their own expense. Surviving Fund's obligation under this Section 9.02 to

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indemnify and hold harmless the Indemnified Parties will constitute a guarantee of payment so that Surviving Fund will pay in the first instance any expenses, losses, claims, damages and liabilities required to be paid by it under this Section 9.02 without the necessity of the Indemnified Parties first paying the same.

#### **ARTICLE X.**

##### **No Broker**

**Section 10.01.** Each of Merging Fund and Surviving Fund represents that there is no person who has dealt with it who by reason of such dealings is entitled to any broker's or finder's or other similar fee or commission arising out of the transactions contemplated by this Agreement.

#### **ARTICLE XI.**

##### **Rule 145**

**Section 11.01.** Pursuant to Rule 145 under the 1933 Act, Surviving Fund will, in connection with the issuance of any Merger Shares to any person who at the time of the transaction contemplated hereby is deemed to be an affiliate of a party to the transaction pursuant to Rule 145(c), cause to be affixed upon any certificates issued to such person a legend as follows:

**THE SHARES REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A TRANSACTION TO WHICH RULE 145 UNDER THE SECURITIES ACT OF 1933, AS AMENDED, APPLIES. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE TRANSFERRED IN ACCORDANCE WITH SUCH RULE.**

and, further, Surviving Fund will issue stop transfer instructions to Surviving Fund's transfer agent with respect to such shares. Merging Fund will provide Surviving Fund on the Effective Time with the name of any Merging Fund shareholder who is to the knowledge of Merging Fund an affiliate of Merging Fund on such date.

#### **ARTICLE XII.**

##### **Covenants, Etc. Deemed Material**

**Section 12.01.** All covenants, agreements, representations and warranties made under this Agreement and any certificates delivered pursuant to this Agreement will be deemed to have been material and relied upon by each of the parties, notwithstanding any investigation made by them or on their behalf.

#### **ARTICLE XIII.**

##### **Sole Agreement**

**Section 13.01.** This Agreement supersedes all previous correspondence and oral communications between the parties regarding the subject matter hereof, constitutes the only understanding with respect to such subject matter, may not be changed except by a letter of agreement signed by each party hereto and will be construed in accordance with and governed by the laws of The Commonwealth of Massachusetts.

#### **ARTICLE XIV.**

##### **Agreement and Declaration Of Trust**

**Section 14.01.** Copies of the Agreements and Declaration of Trust, as amended, of Surviving Fund and Merging Fund (prior to the Conversion) are on file with the Secretary of The Commonwealth of Massachusetts, and notice is hereby given that this instrument is executed on behalf of the Trustees of each of Surviving Fund and Merging Fund, respectively, as Trustees and not individually and that the obligations of this instrument are not binding upon any of the Trustees, officers or shareholders of Surviving Fund or Merging Fund individually but are binding only upon the assets and property of Surviving Fund and Merging Fund, respectively.

**ARTICLE XV.**

**Amendment and Termination**

**Section 15.01.** The parties hereto by mutual consent of their respective Boards of Trustees and Managers, as applicable, may amend, modify or supplement this Agreement in such manner as may be agreed upon by them in writing, at any time prior to the Effective Time, including after it is approved by shareholders of the Merging Fund or the Surviving Fund, to the extent permitted by applicable law.

**Section 15.02.** This Agreement may be terminated and the Merger and other transactions herein provided for abandoned at any time, whether before or after approval of this Agreement by the shareholders of the Merging Fund, by action of the Board of Managers or Board of Trustees of either Fund, as applicable, if the applicable Board for such Fund determines for any reason that the consummation of the transactions provided for herein would for any reason be inadvisable or not in the best interests of such Fund or its shareholders.

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**ARTICLE XVI.**

**EFFECTIVE TIME OF THE MERGER**

**Section 16.01.** Subject to the authority to terminate this Agreement as set forth in Section 16.02 hereof, each Fund shall do all such acts and things as shall be necessary or desirable in order to make the Effective Time occur on October 29, 2007 or such other date as mutually agreed by the Funds.

**ARTICLE XVII.**

**MISCELLANEOUS**

**Section 17.01.** This Agreement may be executed in counterparts, each of which when so executed shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

*[Signature page follows]*

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IN WITNESS WHEREOF, Surviving Fund and Merging Fund, pursuant to approval and authorization duly given by resolutions adopted by their respective Boards of Managers and Trustees, as applicable, have each caused this Agreement and Plan of Merger to be executed as of the date first written above by its President or Executive Vice President or Treasurer or Associate Treasurer or Assistant Treasurer.

**PUTNAM MANAGED MUNICIPAL  
INCOME TRUST**

**PUTNAM HIGH YIELD MUNICIPAL TRUST**

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title:

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## Annex I: Form of Plan of Entity Conversion

See Appendix A

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## Annex II: Form of Certificate of Merger

THE COMMONWEALTH OF MASSACHUSETTS

**William Francis Galvin**

Secretary of the Commonwealth

One Ashburton Place,  
Boston, Massachusetts 02108-1512

**Certificate of Merger**

**(General Laws Chapter 156C, Section 61)**

(1) Exact name of each limited liability company or other entity involved in the merger and jurisdiction of formation or organization:

**Putnam High Yield Municipal Trust LLC, a Massachusetts limited liability company**

**Putnam Managed Municipal Income Trust, a Massachusetts business trust**

(2) An Agreement and Plan of Merger between Putnam High Yield Municipal Trust LLC and Putnam Managed Municipal Income Trust (the Plan of Merger ) has been approved and executed by each of Putnam High Yield Municipal Trust LLC and Putnam Managed Municipal Income Trust.

(3) Exact name of the surviving entity: Putnam Managed Municipal Income Trust

(4) The future effective date or time of the merger if not effective upon the filing of the Certificate of Merger with the office of the Secretary of the Commonwealth: \_\_\_\_\_.

(5) The Plan of Merger is on file at the offices of Putnam Managed Municipal Income Trust, One Post Office Square, Boston, Massachusetts 02109.



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(6) A copy of the Plan of Merger will be furnished by Putnam Managed Municipal Income Trust, upon request and without cost, to any member of Putnam High Yield Municipal Trust LLC or any person holding an interest in Putnam Managed Municipal Income Trust.

Executed on \_\_\_\_\_, 2007

By: \_\_\_\_\_

Name:

Authorized Signatory

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### APPENDIX C

#### INFORMATION ABOUT THE FUNDS

##### PREFERRED SHARES

Except as noted below, the terms of each fund's outstanding preferred shares and the Preferred Merger Shares (collectively, the Preferred Shares) are substantially similar. Accordingly, the following description of the Preferred Shares of Managed Municipal Income Trust applies equally to the Preferred Shares of High Yield Municipal Trust. This description does not purport to be complete and is subject to and qualified in its entirety by reference to each fund's Bylaws. A copy of Managed Municipal Income Trust's Bylaws has been filed as an exhibit to the Registration Statement of which this Prospectus/Proxy Statement is a part and may be inspected, and copies thereof may be obtained from the Securities and Exchange Commission, as described on page 3 of the Prospectus/Proxy Statement. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Prospectus/Proxy Statement or the Glossary that begins on page C-19.

##### **Comparison of the outstanding Preferred Shares of High Yield Municipal Trust with the outstanding Preferred Shares of Managed Municipal Income Trust**

As noted above, the terms of the outstanding Preferred Shares of High Yield Municipal Trust and the terms of the outstanding Preferred Shares of Managed Municipal Income Trust are substantially similar. There are, however, certain material differences.

First, each Dividend Period that commences during a Non-Payment Period shall be (i) a 28-day Dividend Period in the case of outstanding Series A Preferred Shares and Series B Preferred Shares of Managed Municipal Income Trust and (ii) a 7-day Dividend Period in the case of outstanding Series C Preferred Shares of Managed Municipal Income Trust and outstanding Preferred Shares of High Yield Municipal Trust. References herein to "Series A Preferred Shares," "Series B Preferred Shares" and "Series C Preferred Shares" shall be deemed to refer, as applicable, to the respective series of preferred shares of Managed Municipal Income Trust.

Second, holders of Preferred Shares of Managed Municipal Income Trust as of 12:00 noon on the applicable Dividend Payment Date shall be entitled to receive dividends at the Applicable Dividend Rate, whereas holders of Preferred Shares of High Yield Municipal Trust as of 5:00 p.m. on the date preceding the Dividend Payment Date shall be entitled to such dividends.

Third, each fund's ability to engage in certain transactions is limited unless the fund receives confirmation from Moody's and S&P that such action would not impair the ratings then assigned to the fund. High Yield Municipal Trust (but not Managed Municipal Income Trust) may not designate a new Pricing Service without receiving confirmation from Moody's and S&P that such action would not impair the ratings then assigned to the fund. See Rating Agency Guidelines.

Fourth, although each fund must give Moody's and S&P written notice of certain events, the events triggering notification differ. High Yield Municipal Trust must provide notice if there is any change in the fund's Agreement and Declaration of Trust or Article 12 (Shares of Beneficial Interest) of the fund's Bylaws. Managed Municipal Income Trust, on the other hand, must only provide notice if there is a material change in the fund's Agreement and Declaration of Trust or Article 12 (Shares of Beneficial Interest) of the fund's Bylaws. In addition, unlike High Yield Municipal Trust, Managed Municipal Income Trust must provide notice if there is a change in the Pricing Service.

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Fifth, in the case of a partial redemption of Preferred Shares of High Yield Municipal Trust, the Paying Agent shall use reasonable efforts to provide telephonic notice to each beneficial owner of Preferred Shares called for redemption not later than the close of business on the Business Day immediately following the day on which the Paying Agent receives Notice of Redemption from the fund during a Non-Payment Period. In the case of a partial redemption of Preferred Shares of Managed Municipal Income Trust, the Paying Agent shall use reasonable efforts to provide telephonic notice to each beneficial owner of Preferred Shares called for redemption not later than the close of business on the Business Date immediately following the day on which the Paying Agent receives Notice of Redemption from the fund only if certificates representing the Preferred Shares are held by persons other than the Securities Depository.

Sixth, the Tender Date, Dividend Reset Date and Settlement Date are normally Monday, Tuesday and Wednesday, respectively, in the case of outstanding Preferred Shares of Managed Municipal Income Trust and are normally Tuesday, Wednesday and Thursday, respectively, in the case of outstanding Preferred Shares of High Yield Municipal Trust.

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Seventh, the liquidation preference for each series of Managed Municipal Income Trust is \$100,000 per share plus accumulated but unpaid dividends, if any, thereon (whether or not earned or declared) plus the premium, if any, resulting from the designation of a Premium Call Period. The liquidation preference for each series of High Yield Municipal Trust is \$50,000 per share plus accumulated but unpaid dividends, if any, thereon (whether or not earned or declared) plus the premium, if any, resulting from the designation of a Premium Call Period.

Finally, the procedures whereby each fund determines whether Gross-Up Dividends will be paid to holders of Preferred Shares differ. See *Gross-Up Dividends* below for a discussion of the circumstances in which Managed Municipal Trust will pay Gross-Up Dividends.

### **Dividends and Dividend Periods**

The Bylaws provide generally that holders of Preferred Shares will be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor, cumulative dividends, at the Applicable Dividend Rate for the applicable Dividend Period, payable on the respective dates set forth below and, except as described below, set by the Remarketing Agent in accordance with the remarketing procedures described under *Remarketing*, *Remarketing Procedures* and Exhibit C-1 attached hereto. Dividends on Preferred Shares will be designated as exempt-interest dividends up to the amount of net tax-exempt income of the fund for purposes of Section 852 of the Code.

The Applicable Dividend Rate on Preferred Merger Shares for the Initial Dividend Period will be the rate determined by the Remarketing Agent in connection with the Remarketing occurring on the date before the Date of Original Issue. For each Dividend Period thereafter, except as otherwise described herein, the Applicable Dividend Rate on the Preferred Merger Shares and all other Preferred Shares will be the dividend rate per annum determined by the Remarketing Agent in its sole discretion (which discretion will be conclusive and binding on all holders) in accordance with the remarketing procedures described below.

Each Dividend Period for Series A Preferred Shares and Series B Preferred Shares will generally consist of 28 consecutive days (a 28-day Dividend Period), unless the fund elects, prior to any Remarketing, a Special Dividend Period. Each Dividend Period for Series C Preferred Shares will generally consist of seven consecutive days (a 7-day Dividend Period), unless the fund elects, prior to any Remarketing, a Special Dividend Period. A Special Dividend Period is a Dividend Period consisting of a specified number of days that is a multiple of 28 (in the case of Series A Preferred Shares and Series B Preferred Shares) or a multiple of seven (in the case of Series C Preferred Shares), and the number of days so specified must be such that the starting date and the ending date for a Special Dividend Period or any subsequent Dividend Period for a series shall not be the same as the starting and the ending date for any other Dividend Periods for any other series.

Dividends on Preferred Shares will be cumulative from their Date of Original Issue and will be payable, when, as and if declared by the Trustees on each Dividend Payment Date. The holder of a Preferred Share may elect to tender such share or hold such share for the next Dividend Period by providing notice to the Remarketing Agent in connection with the Remarketing for that Dividend Period. The Initial Dividend Period, 28-day Dividend Periods (in the case of Series A Preferred Shares and Series B Preferred Shares), 7-day Dividend Periods (in the case of Series C Preferred Shares) and Special Dividend Periods are hereinafter sometimes referred to as *Dividend Periods*.

*Dividend Periods for the Preferred Shares.* A Dividend Period for Preferred Shares will commence on each (but not the final) Dividend Payment Date for such share (which, except during a Non-Payment Period, shall be a Settlement Date for such share). Each subsequent Dividend Period for such shares will be comprised of, beginning with and including the date on which it commences, 28 consecutive days (in the case of Series A Preferred Shares and Series B Preferred Shares) or seven consecutive days (in the case of Series C Preferred Shares) or, in the event the fund has designated such Dividend Period as a Special Dividend Period, such number of consecutive days as specified by the Trustees of the fund in accordance with the fund's Bylaws. Notwithstanding the foregoing, any adjustment of the remarketing schedule which includes an adjustment of a Settlement Date shall lengthen or shorten Dividend Periods by causing them always to end on and include the day before the Settlement Date as so adjusted.

*Special Dividend Periods for Preferred Shares.* The Board of Trustees may at any time designate a subsequent Dividend Period as a Special Dividend Period with such number of days as the Board of Trustees shall specify; provided that (i) such number of days to be specified as a Special Dividend Period shall be a multiple of 28 (in the case of Series A Preferred Shares and Series B

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Preferred Shares) or a multiple of seven (in the case of Series C Preferred Shares) and the number of days so specified must be such that the starting date and the ending date for a Special Dividend Period or any subsequent Dividend Periods for a series shall not be the same as the starting and the ending date for any other Dividend Periods for any other series; (ii) written notice of any such designation, of the Maximum Dividend Rate, and Specified Redemption Provisions, if any, in respect thereof and of the consequences of failure to tender or to elect to hold shares, must be given at least seven days prior to such Tender Date to the Remarketing Agent, the Paying Agent, the Securities Depository and the beneficial owners of Preferred Shares which are subject to such Special Dividend Period; (iii) no Special Dividend Period may commence for any Preferred Shares during a Non-Payment Period or if the fund fails to maintain either the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage and such failure is not cured; (iv) if such Special Dividend Period contains 365 or more days, the Preferred Shares subject to such Special Dividend Period shall have an aggregate liquidation preference (exclusive of accumulated but unpaid dividends and premium, if any) of at least \$30 million or such greater or lesser amount as may be specified by the Trustees; (v) in respect of any Special Dividend Period, the Trustees shall also determine a Maximum Dividend Rate after consultation with the Remarketing Agent, which rate, as determined from time to time by formula or other means, may be fixed or variable; and (vi) in respect of any Special Dividend Period of 365 or more days, the Trustees, after consultation with the Remarketing Agent, may establish Specific Redemption Provisions.

On or before 5:00 p.m., New York City time, on the third Business Day prior to the designation of a Special Dividend Period, the fund shall complete and deliver to S&P, on a pro forma basis, a Preferred Shares Basic Maintenance Report for such proposed Special Dividend Period, taking into account the proposed number of days to be specified as a Special Dividend Period and the proposed Maximum Dividend Rate to be determined with respect to such Dividend Period.

The existence or rescission of any Special Dividend Period shall not affect any current Dividend Period or prevent the Trustees from establishing other Special Dividend Periods of similar duration or in any restrict the Maximum Dividend Rate or Specific Redemption Provisions which may be designated in connection with any other Special Dividend Period.

If the Remarketing Agent is unable to remarket sufficient Preferred Shares at the commencement of a Special Dividend Period so that, if such Special Dividend Period contains 365 or more days, the Preferred Shares subject to such Special Dividend Period have an aggregate liquidation preference (exclusive of accumulated but unpaid dividends and premium, if any) of at least \$30 million or such greater or lesser amount as may be specified by the Trustees, then the Dividend Period in respect of any Preferred Shares which otherwise would have been subject to such Special Dividend Period shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares) and an Applicable Dividend Rate shall be set by the Remarketing Agent in accordance with the remarketing procedures.

*Dividend Payment Dates.* Dividends on each Preferred Share will accumulate from its Date of Original Issue and will be payable, when, as and if declared by the Trustees, on the applicable Dividend Payment Dates. The Dividend Payment Dates will be: (i) with respect to any Special Dividend Period of more than 91 but fewer than 365 days, the 92nd day thereof, the 183rd day thereof, if any, the 274th day thereof, if any, and the day after the last day thereof; (ii) with respect to any Special Dividend Period of 365 or more days, the third Wednesday of each January, April, July and October therein and the day after the last day thereof; (ii) with respect to any other Dividend Period, the date after the last day thereof; provided that, if any such date shall not be a Business Day, the Dividend Payment Date shall be the Business Day next succeeding such day. Each dividend payment date determined as provided above is hereinafter referred to as a Dividend Payment Date.

*Dividend Payments.* So long as there is a Securities Depository with respect to the Preferred Shares, each dividend on Preferred Shares will be paid to the Securities Depository or its nominee as the record holder of all such shares, and such payment shall for all purposes discharge the fund's obligations in respect of such payment. The Securities Depository is responsible for crediting the accounts of the Agent Members of the beneficial owners of Preferred Shares in accordance with the Securities Depository's procedures. Each Agent Member will be responsible for holding or disbursing such payments to the beneficial owners of the Preferred Shares for which it is acting in accordance with the instructions of such beneficial owners. If, and as long as, neither the Securities Depository nor its nominee is the record holder of a Preferred Share, dividends thereon

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will be paid in same-day funds directly to the record holder thereof in accordance with the instructions of such holder.

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Dividends on any share in arrears with respect to any past Dividend Payment Date may be declared and paid at any time, without reference to any regular Dividend Payment Date, pro rata to the holders thereof as of a date not exceeding five Business Days preceding the date of payment thereof as may be fixed by the Trustees. Any dividend payment made on Preferred Shares will be first credited against the dividends accumulated but unpaid (whether or not earned or declared) with respect to the earliest Dividend Payment Date on which dividends were not paid. Neither holders nor beneficial owners of Preferred Shares will not be entitled to any dividends, whether payable in cash, property or shares, in excess of full cumulative dividends thereon (including any amounts actually due and payable as Gross-Up Dividends). Except for the late charge described under Dividends and Dividend Periods - Non-Payment Period; Late Charge, holders and beneficial owners of Preferred Shares will not be entitled to any interest, or other additional amount, on any dividend payment on any Preferred Shares which may be in arrears.

The amount of declared dividends per Preferred Share payable on each Dividend Payment Date shall be computed by the fund by multiplying the Applicable Dividend Rate in effect with respect to dividends payable on such share on such Dividend Payment Date by a fraction, the numerator of which shall be the number of days such share was outstanding from and including its Date of Original Issue or the preceding Dividend Payment Date, as the case may be, to and including the last day of such Dividend Period, and the denominator of which shall be 365, and then multiplying the percentage so obtained by \$100,000.

In the event that the Remarketing Agent, the Paying Agent, the Securities Depository, any Agent Member and any beneficial owner fails for any reason to perform any of its obligations in respect of a remarketing or otherwise, no holder of record of, or of any beneficial interest in, any Preferred Shares shall have any right in respect thereof against the fund or any Trustee or officer of the fund, and the sole obligation of the fund in respect of the determination of the amount and the payment of any dividend shall be to pay to the Paying Agent, for the benefit of the holders of record of the Preferred Shares, dividends when due at the Applicable Dividend Rate notified to it from time to time.

*Non-Payment Period; Late Charge.* A Non-Payment Period will commence on and include the day on which the fund fails to (i) declare, prior to 12:00 noon, New York City time, on any Dividend Payment Date for a Preferred Share, for payment on or (to the extent permitted below) within three Business Days after such Dividend Payment Date to the holder of such share as of 12:00 noon, New York City time, on the Business Day preceding such Dividend Payment Date (the Record Date), the full amount of any dividend on such Preferred Share payable on such Dividend Payment Date or (ii) deposit, irrevocably in trust, in same-day funds, with the Paying Agent by 12:00 noon, New York City time, (A) on or (to the extent permitted below) within three Business Days after any Dividend Payment Date for a Preferred Share the full amount of any dividend on such share (whether or not earned or declared) payable on such Dividend Payment Date or (B) on or (to the extent permitted below) within three Business Days after any redemption date for a Preferred Share called for redemption, the redemption price of \$100,000 per share plus the full amount of any dividends thereon (whether or not earned or declared) accumulated but unpaid to such redemption date, plus the premium, if any, resulting from the designation of a Premium Call Period. Such Non-Payment Period will end on and include the Business Day on which, by 12:00 noon, New York City time, all unpaid dividends and unpaid redemption prices shall have been so deposited or shall have otherwise been made available to the applicable holders in same-day funds; provided that a Non-Payment Period will not end during the first seven days thereof unless the fund shall have given at least three days written notice to the Paying Agent, the Remarketing Agent and the Securities Depository and thereafter will not end unless the fund shall have given at least fourteen days written notice to the Paying Agent, the Remarketing Agent, the Securities Depository and all beneficial owners of shares.

The Applicable Dividend Rate for each Dividend Period for Preferred Shares commencing during a Non-Payment Period will be equal to the Non-Payment Period Rate and any Preferred Shares for which a Special Dividend Period would otherwise have commenced on the first day of or during a Non-Payment Period will have a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) and a 7-day Dividend Period (in the case of Series C Preferred Shares). The Non-Payment Period Rate, initially, will be 200% of the applicable AA Composite Commercial Paper Rate. The initial Non-Payment Period Rate may

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be changed from time to time by the fund without shareholder approval, but only in the event the fund receives written confirmation from the Ratings Agencies that any such change would not impair the ratings then assigned by the Ratings Agencies to Preferred Shares.

Any dividend on Preferred Shares due on any Dividend Payment Date for such shares (if, prior to 12:00 noon, New York City time, on such Dividend Payment Date, the fund has declared such dividend payable on or within three Business Days after such Dividend Payment Date to the holders who held such shares as of the Record Date) or redemption price with respect to such shares not paid to holders when due may be paid pro rata to such holders in the same form of funds by 12:00 noon, New York City time, on any of the first three Business Days after such Dividend Payment Date or due date, as the case may be, (if such non-payment is not solely due to the willful failure of the fund), and will incur a late charge to be paid therewith to such holders. The late charge will be calculated for such period of non-payment at the Non-Payment Period Rate applied to the amount of such non-payment based on the actual number of days comprising such period divided by 365; such late charge will be taxable as interest.

*Restrictions on Dividends and Other Payments.* Under the 1940 Act, the fund may not declare dividends or make other distributions on the common shares or purchase any such shares if, at the time of the declaration, distribution or purchase, as applicable (and after giving effect

thereto), asset coverage (as defined in the 1940 Act) with respect to the outstanding Preferred Shares would be less than 200% (or such other percentage as may in the future be required by law). In addition, for so long as any Preferred Shares are outstanding, (i) the fund will not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of, or options, warrants or rights to subscribe for or purchase, common shares or other shares, if any, ranking junior to or on a parity with the Preferred Shares as to dividends and upon liquidation) in respect of common shares, Preferred Shares or any other shares of the fund ranking junior to or on a parity with the Preferred Shares as to dividends or upon liquidation, or call for redemption, redeem, purchase or otherwise acquire for consideration any common shares or any other such junior shares (except by conversion into or exchange for shares of the fund ranking junior to the Preferred Shares as to dividends and upon liquidation), unless (a) full cumulative dividends on Preferred Shares and any other remarketed preferred shares of the fund through their most recently ended respective Dividend Periods (or, if such transaction is on a Dividend Payment Date, through the Dividend Period ending on the day prior to such Dividend Payment Date) shall have been paid or shall have been declared and sufficient funds for the payment thereof have been deposited with the Paying Agent, and (b) the fund has redeemed the full number of Preferred Shares and any other remarketing preferred shares of the fund required to be redeemed by any provision for mandatory redemption contained in the Bylaws; and (ii) the fund will not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of, or options, warrants or rights to subscribe for or purchase, common shares or other shares, if any, ranking junior to the Preferred Shares as to dividends and upon liquidation) in respect of common shares or any other shares of the fund ranking junior to or on a parity with the Preferred Shares as to dividends or upon liquidation, or call for redemption, redeem, purchase or otherwise acquire for consideration any common shares or any other junior shares (except by conversion into or exchange for shares of the fund ranking junior to the Preferred Shares as to dividends and upon liquidation), unless immediately after such transaction the Discounted Value of the fund's portfolio would at least equal the Preferred Shares Basic Maintenance Amount. See Asset Maintenance and Redemption.

Under the Code the fund must, among other things, distribute each year at least 90% of the sum of its investment company taxable income and net tax-exempt income in order to maintain its qualification for tax treatment as a regulated investment company. The foregoing limitations on dividends, distributions and purchases may under certain circumstances impair the fund's ability to maintain such qualification. See Taxation of Preferred Shares. Upon any failure by the fund to pay dividends on the Preferred Shares for two years or more, the holders of the Preferred Shares will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of Preferred Shares upon any failure to pay dividends on shares of the fund.

*Gross-Up Dividends.* If all or any part of the dividends on Preferred Shares determined by implementation of the remarketing procedures is not designated by the fund in good faith as an exempt-interest dividend within the meaning of Section 852(b)(5) of the Code solely because the fund allocates capital gains or ordinary income to the Preferred Shares (such portion of the dividends on Preferred Shares (other than any Gross-Up Dividends) is referred to herein as a Non-qualifying Distribution), the fund will, not later than 270 days

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after the end of the fund's fiscal year for which such designation is made, provide notice thereof to the Paying Agent. The Paying Agent will mail a copy of such notice to each beneficial owner of Preferred Shares during such fiscal year to whom Non-qualifying Distributions were made during such fiscal year (Qualified Investor) at the address specified in the share transfer books as promptly as practicable after its receipt of such notice from the fund. The fund will, within 30 days after such notice is given to the Paying Agent, pay to the Paying Agent (who will then distribute to such beneficial owners), out of funds legally available therefor, an amount equal to the aggregate Gross-Up Dividends with respect to all Non-qualifying Distributions made to Qualified Investors during the fiscal year in question.

A Gross-Up Dividend means payment to Qualified Investors of an amount which, when taken together with the aggregate Non-qualifying Distributions paid to such Qualified Investor during the fiscal year in question, would cause such Qualified Investor's net yield in dollars for such fiscal year (after federal income tax consequences) from the aggregate of both Non-qualifying Distributions (determined without regard to the Gross-Up Dividend) and the Gross-Up Dividend to be equal to the net yield in dollars for such fiscal year (after federal income tax consequences) which would have been received by such Qualified Investor if the amount of the aggregate Non-qualifying Distributions had been so designated. Such Gross-Up Dividend shall be calculated (i) without consideration being given to the time value of money, (ii) assuming that no Qualified Investor is subject to the alternative minimum tax with respect to dividends received from the fund, and (iii) assuming that each Non-qualifying Distribution and Gross-Up Dividend (to the extent that such Gross-Up Dividend is not exempt from federal income tax) would be taxable in the hands of each Qualified Investor at the maximum marginal corporate federal income tax rate in effect during the fiscal year in question. All such designations made by the fund in good faith following the end of each fiscal year of the fund and all other determinations made by the fund in good faith with respect to dividends on the Preferred Shares shall be binding and conclusive for all purposes of determining the amount of Gross-Up Dividends required to be made. A Gross-Up Dividend will not include any amount to account for the fact that either the Gross-Up Dividend or the Non-qualifying Distribution may be subject to state and local taxes. Except as provided in this section, the fund will not distribute any additional amounts with respect to dividends previously paid to holders of Preferred Shares.

*Applicable Dividend Rate.* Except during a Non-Payment Period, the Applicable Dividend Rate for any Dividend Period will not exceed the applicable Maximum Dividend Rate. The Maximum Dividend Rate for any Dividend Period of seven or 28 days at any Dividend Reset Date shall be the Applicable Percentage of the applicable AA Composite Commercial Paper Rate. The Applicable Percentage on each Dividend Reset

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Date shall vary with the lower of the credit rating or ratings assigned on such date to the Preferred Shares by Moody's and S&P (or if Moody's or S&P or both shall not make such rating available, the equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies or, in the event that only one such rating shall be available, such rating) as follows:

| Moody's       | S&P          | Applicable Percentage<br>of AA Composite<br>Commercial Paper Rate |
|---------------|--------------|---|
| Aa3 or higher | AA or higher | 110%  |
| A3 to a1      | A to A+      | 125%  |
| Baa3 to Baa1  | BBB to BBB+  | 150%  |
| Below Baa3    | Below BBB    | 200%  |

The Applicable Dividend Rate for any Dividend Period commencing during any Non-Payment Period, and the rate to calculate any applicable late charge will initially be 200% of the applicable AA Composite Commercial Paper Rate.

### Remarketing

The Bylaws provide that the Applicable Dividend Rate for each Preferred Share for each Dividend Period therefor (except the Initial Dividend Period) will be (i) unless such Dividend Period commences during a Non-Payment Period, equal to the lower of (a) the rate of dividend per annum that the Remarketing Agent advises results on the Dividend Reset Date preceding the first day of such Dividend Period pursuant to the remarketing procedures set forth in the Bylaws and (b) the Maximum Dividend Rate or (ii) if such Dividend Period commences during a Non-Payment Period, equal to the Non-Payment Period Rate.

Prospective purchasers should carefully review the remarketing procedures described below and should note that (i) an election to tender Preferred Shares cannot be revoked except as provided in the Bylaws and as more fully described herein, (ii) each Remarketing will be conducted through telephonic communications, (iii) settlement for purchases and sales in a Remarketing will be made on the Settlement Date, and (iv) each prospective purchaser and each beneficial owner of Preferred Shares will be bound by the remarketing

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procedures, including the Remarketing Agent's determination of the Applicable Dividend Rate pursuant to the remarketing procedures.

*Remarketing Schedule.* Each Remarketing for Preferred Shares will take place over a three-day period consisting of the Tender Date, the Dividend Reset Date and the Settlement Date. An example of the time sequence of the events in a normal remarketing schedule is provided in Exhibit C-1 hereto. The first Dividend Reset Date for the Preferred Merger Shares will be the last day of the Initial Dividend Period.

*Tender Date.* By 12:00 noon, New York City time, on such Tender Date, the Remarketing Agent will, after canvassing the market and considering prevailing market conditions at the time for such shares and similar securities, provide to beneficial owners of such shares non-binding indications of the Applicable Dividend Rate for the next succeeding 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares), 7-day Dividend Period (in the case of Series C Preferred Shares) or Special Dividend Period, as the case may be; provided, however, that if the Trustees have designated the next Dividend Period as a Special Dividend Period, the Remarketing Agent will provide to beneficial owners a non-binding indication only of the Applicable Dividend Rate for such Special Dividend Period.

THE ACTUAL APPLICABLE DIVIDEND RATE FOR SUCH DIVIDEND PERIOD MAY BE GREATER THAN OR LESS THAN THE RATE INDICATED IN SUCH NON-BINDING INDICATIONS (BUT NOT GREATER THAN THE APPLICABLE MAXIMUM DIVIDEND RATE) AND WILL NOT BE DETERMINED UNTIL AFTER A BENEFICIAL OWNER IS REQUIRED TO ELECT TO HOLD OR TENDER ITS PREFERRED SHARES AND A NEW PURCHASER IS REQUIRED TO AGREE TO PURCHASE PREFERRED SHARES.

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By 1:00 p.m., New York City time, on such Tender Date, each beneficial owner of Preferred Shares must notify the Remarketing Agent of its desire (on a share-by-share basis) either to tender such share at a price of \$100,000 per share or to continue to hold such share for the next 28-day Dividend Period (in the case of Series A Preferred Shares or Series B Preferred Shares) or 7-day Dividend Period (in the case of Series C Preferred Shares) or, if applicable, to accept the designated Special Dividend Period. If the beneficial owner of such Preferred Shares fails to elect to tender or hold such share by 1:00 p.m. on such Tender Date, such beneficial owner shall continue to hold such share at the Applicable Dividend Rate determined in such Remarketing for a Dividend Period of the same type as the current Dividend Period for such share; provided that, (i) if there are no Remarketing Agents, the Remarketing Agents are not required to conduct a Remarketing on the Dividend Reset Date following such Tender Date all Preferred Shares tendered (or deemed tendered) to them at a price of \$100,000 per share, then the next Dividend Period for all Preferred Shares shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares) and the Applicable Dividend Rate therefor shall be the Maximum Dividend Rate for a 28-day Dividend Period or 7-day Dividend Period, as the case may be, and (ii) if such current Dividend Period or succeeding Dividend Period is a Special Dividend Period, then such beneficial owner is deemed to have elected to tender the shares.

Any notice given to the Remarketing Agent to tender or hold shares for a particular Dividend Period is irrevocable and may not be conditioned upon the level at which Applicable Dividend Rates are set. Any notice of tender or to hold shares may not be waived by the Remarketing Agent, except that prior to 4:00 p.m., New York City time, on a Dividend Reset Date, a Remarketing Agent may, in its sole discretion, (i) at the request of a beneficial owner that has tendered one or more Preferred Shares to the Remarketing Agent, waive such beneficial owner's tender, and thereby enable such beneficial owner to continue to hold such share(s) for the next Dividend Period or, if applicable, a designated Special Dividend Period, as agreed to by the beneficial owner and the Remarketing Agent at such time, so long as such tendering beneficial owner has indicated to the Remarketing Agent that it would accept the new Applicable Dividend Rate for such Dividend Period, such waiver to be contingent upon the Remarketing Agent's being able to remarket all shares tendered to it in such Remarketing, and (ii) at the request of a beneficial owner that has elected to hold one or more of its Preferred Shares, waive such beneficial owner's election with respect thereto.

There can be no assurance that the Remarketing Agent will be able to remarket all Preferred Shares tendered in a Remarketing. If any Preferred Shares tendered in a Remarketing are not remarketed, a beneficial owner thereof may be required to hold some or all of its shares at least until the end of the next Dividend Period therefor or to sell its shares outside a Remarketing. If the Remarketing Agents are unable to remarket all tendered

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Preferred Shares, the remarketing procedures may require an allocation of Preferred Shares on a pro rata basis, to the extent practicable, or by lot, as determined by the Remarketing Agent in its sole discretion, which may result in a beneficial owner selling a number of Preferred Shares that is less than the number of Preferred Shares specified in such holder's tender order. Thus, under certain circumstances, Preferred Shares may be illiquid investments.

If a Preferred Share is tendered (or deemed tendered) and purchased in a Remarketing, the next Dividend Period for such share shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares) or a Special Dividend Period with respect to such share, as the case may be, at the Applicable Dividend Rate therefor, except that, if the Remarketing Agents are unable to remarket in such Remarketing all Preferred Shares tendered (or deemed tendered) to them at a price of \$100,000 per share, no purchaser in such Remarketing shall be permitted to acquire shares that have a Special Dividend Period and the next Dividend Period for such share shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or 7-day Dividend Period (in the case of Series C Preferred Shares) and the Applicable Dividend Rate therefor shall be the applicable Maximum Dividend Rate.

*Settlement Date.* On a Settlement Date for Preferred Shares, which will be the first Business Day following the related Dividend Reset Date and which will be the first day of the new Dividend Period, each person purchasing Preferred Shares as a result of a Remarketing must pay, or cause its Agent Member to pay on its behalf, the purchase price against delivery of such shares by the beneficial owner thereof or its Agent Member.

Settlement for purchases and sales of Preferred Shares in a Remarketing will generally be made with respect to each Preferred Share through the Securities Depository on the related Settlement Date therefor, in accordance with its normal procedures, which provide for payment in same-day funds.

Preferred Shares tendered in a Remarketing will be purchased solely out of the proceeds received from purchasers of Preferred Shares in such Remarketing. Neither the fund, nor the Paying Agent nor the Remarketing Agent will be obligated to provide funds to make payment upon any beneficial owner's tender in a Remarketing unless, in the case of each of the Paying Agent or the Remarketing Agent, the shares are purchased for its own account. Tendered Preferred Shares will also be subject to purchase in a Remarketing by the Remarketing Agent for its own account or as nominee for others, although the Remarketing Agent is not obligated to purchase any shares.

*Remarketing Agent.* The Remarketing Agent for the outstanding Preferred Shares of the fund and for the Preferred Merger Shares, is Merrill Lynch, Pierce, Fenner & Smith Incorporated and Prudential-Bache Securities Inc. (and any additional or successor companies or entities, if any, which have entered into an agreement with the fund to follow the remarketing procedures for the purpose of determining the Applicable Dividend Rate). The fund has entered into a Remarketing Agreement with the Remarketing Agents which will provide, among other things, that the Remarketing Agents will follow certain procedures for remarketing Preferred Shares on behalf of beneficial owners thereof as provided in the Bylaws for the purpose of determining the Applicable Dividend Rate that will enable the Remarketing Agent to remarket Preferred Shares tendered to it at a price of \$100,000 per share for a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares), a 7-day Dividend Period (in the case of Series C Preferred Shares) or a Special Dividend Period, as the case may be. Each periodic operation of such procedures with respect to Preferred Shares is referred to as a Remarketing. Under certain circumstances, Preferred Shares tendered in a Remarketing may be tendered or purchased by the Remarketing Agent for its own account. See Remarketing Procedures.

#### **Restriction on Transfer**

*General.* The Paying Agent will maintain a record of certain beneficial owners of Preferred Shares for purposes of determining such owners entitled to participate in Remarketings and for certain other purposes. The Paying Agent will only record transfers of such beneficial ownership, in a Remarketing or otherwise, of which it is notified in accordance with its procedures in effect from time to time.

*Book Entry Only.* DTC currently acts as Securities Depository for the Agent Members with respect to Preferred Shares. Except as discussed below, as long as DTC is the Securities Depository, one certificate for the outstanding Preferred Shares currently is registered in the name of Cede as nominee of the Securities Depository, and Cede currently is the holder of record of

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all Preferred Shares. Such certificate will bear a legend to the effect that such certificate is issued subject to the provisions contained in the Bylaws. Unless the fund shall have waived this requirement during a Non-Payment Period, Preferred Shares may be held only in book entry form through the Securities Depository (which, either directly or through a nominee, will be the registered owner of Preferred Shares as described above), and the fund will issue stop-transfer instructions to the Paying Agent for the Preferred Shares to this effect. If the fund shall have waived the foregoing requirement during a Non-Payment Period or if there is no Securities Depository, the fund may at its option issue one or more new certificates with respect to such shares (without the legend referred to above) registered in the names of the beneficial owners or their nominees and rescind the stop-transfer instructions referred to above. The fund is advised that DTC is a New York-chartered limited purpose trust company, which performs services for its participants (including the Agent Members), some of which (and/or their representatives) own DTC. The fund is advised further that DTC maintains lists of its participants and will maintain as record holder the positions (beneficial ownership interests) held by each Agent Member in the Preferred Shares, whether such Agent Member is a holder for its own account or as a nominee for another holder. The fund shall have no obligation, including without limitation any obligation to provide notice or to make any payment (in respect of any dividend or otherwise) to any person (including without limitation any holder of any beneficial interest in Preferred Shares, whether or not such interest is reflected on the share transfer books of the Paying Agent) other than the holders of record of the Preferred Shares shown on the share transfer books of the Paying Agent from time to time. The share transfer books of the fund as kept by the Paying Agent shall be conclusive as to who is the holder of record of any Preferred Shares at any time and as to the number of Preferred Shares held from time to time by any such holder. No Remarketing Agent, Paying Agent, Securities Depository, or Agent Member will have any obligation to any person having any interest in any Preferred Share other than the beneficial owner thereof. The Paying Agent shall have no obligation to record any transfer of record or beneficial ownership in any share unless and until it shall have received proper notice and evidence of such transfer and the right of the transferee in accordance with the Paying Agent's procedures in effect from time to time.

#### **Remarketing Procedures**

*Tender by Beneficial Owner.* Each share of Preferred Shares is subject to Tender and Dividend Reset at the end of each Dividend Period and may be tendered in a Remarketing which commences on the Tender Date immediately prior to the end of the current Dividend Period. By 1:00 p.m., New York City time, on such Tender Date, the beneficial owner of a Preferred Share must notify a Remarketing Agent of its election, on a share-by-share basis, to tender such share or hold such share for the next Dividend Period. If the beneficial owner of such Preferred Share elects to hold such share, such beneficial owner shall hold such Preferred Share at the Applicable Dividend Rate for a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares), a 7-day Dividend Period (in the case of Series C Preferred Shares) or a Special Dividend Period if the succeeding Dividend Period with respect to such share has been designated by the Trustees as a Special Dividend Period, provided that, except during a Non-Payment Period if (i) there is no Remarketing Agent, (ii) the Remarketing Agent is not required to conduct a Remarketing or (iii) the Remarketing Agent is unable to remarket in the Remarketing on such Tender Date all such Preferred Shares tendered (or deemed tendered) to it at a price of \$100,000 per share, then the Applicable Dividend Rate for the subsequent Dividend Period and for each subsequent Dividend Period in which no Remarketing takes place because of the foregoing shall be the applicable Maximum Dividend Rate for a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares) and the next Dividend Period and each subsequent Dividend Period shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares).



When Preferred Shares are tendered in a Remarketing therefor, the Remarketing Agent is required to use its best efforts to remarket such tendered shares on behalf of the beneficial owners thereof, but there can be no assurance that the Remarketing Agent will be able to remarket all Preferred Shares tendered. Each beneficial owner's right to tender Preferred Shares in a Remarketing therefor is limited to the extent that (i) the Remarketing Agent conducts a Remarketing pursuant to the terms of the Remarketing Agreement, (ii) shares tendered have not been called for redemption, and (iii) the Remarketing Agent is able to find purchasers for

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tendered Preferred Shares at an Applicable Dividend Rate for the next applicable Dividend Period that is not in excess of the Maximum Dividend Rate for such Dividend Period. If the Remarketing Agent is unable to find a purchaser or purchasers for all Preferred Shares tendered in a Remarketing therefor, the shares to be sold in such Remarketing will be selected either pro rata or by lot from among all the tendered shares. Each purchase or sale in a Remarketing will be made for settlement on the related Settlement Date. There can be no assurance that the Remarketing Agent will be able to remarket all Preferred Shares tendered in a Remarketing therefor. If any Preferred Shares so tendered are not remarketed, a beneficial owner thereof may be required to continue to hold some or all of its shares until at least the end of the next Dividend Period therefor or to sell such shares outside a Remarketing.

Tendered Preferred Shares will also be subject to purchase in a Remarketing therefor by the Remarketing Agent. If the Remarketing Agent holds Preferred Shares for its own account after a Remarketing, it is required to establish an Applicable Dividend Rate in such Remarketing that is no higher than the Applicable Dividend Rate that would have been set if the Remarketing Agent did not hold or had not purchased such shares. The Remarketing Agent may purchase Preferred Shares for its own account in a Remarketing only if the Remarketing Agent purchases for its own account or the account of others all tendered (or deemed tendered) Preferred Shares subject to Tender and Dividend Reset but not sold to other purchasers in such Remarketing. The Remarketing Agent is not obligated to purchase any Preferred Shares that would otherwise remain unsold in a Remarketing. If the Remarketing Agent holds any Preferred Shares immediately prior to a Remarketing and if all other Preferred Shares subject to Tender and Dividend Reset and tendered for sale by other owners have been sold in such Remarketing, then the Remarketing Agent may sell in such Remarketing such number of its shares which are subject to Tender and Dividend Reset as there are outstanding orders to purchase that have not been filled by shares tendered for sale on behalf of accounts other than that of the Remarketing Agent. Neither the fund, nor the Paying Agent nor the Remarketing Agent will be obligated in any case to provide funds to make payment to any beneficial owner upon such beneficial owner's tender of its Preferred Shares in any Remarketing. If the Remarketing Agent purchases Preferred Shares in the secondary market or in a Remarketing, it may be in the position of holding for its own account or as nominee for others Preferred Shares subject to Tender and Dividend Reset in a Remarketing at the time it determines the Applicable Dividend Rate in such Remarketing and may tender such shares in such Remarketing.

*Applicable Dividend Rates.* Between 1:00 p.m., New York City time, on each Tender Date and 4:00 p.m. New York City time, on the succeeding Dividend Reset Date, the Remarketing Agent will determine the Applicable Dividend Rate to the nearest one-thousandth (0.001) of one percent per annum for the next Dividend Period or, if designated, a Special Dividend Period. The Applicable Dividend Rate for Preferred Shares will be determined by the Remarketing Agent in its sole discretion and will be conclusive and binding on the fund and all beneficial owners of Preferred Shares. In determining such Applicable Dividend Rate, the Remarketing Agent will, after taking into account market conditions as reflected in the prevailing yields on fixed and variable rate taxable and tax-exempt debt securities and the prevailing dividend yields of fixed and variable rate preferred stocks determined for the purpose of providing non-binding indications of the Applicable Dividend Rates to beneficial owners and potential purchasers of Preferred Shares, (i) consider the number of Preferred Shares tendered in the applicable Remarketing and the number of Preferred Shares prospective purchasers are willing to purchase and (ii) contact by telephone or otherwise current and prospective beneficial owners of the Preferred Shares subject to Tender and Dividend Reset to ascertain the dividend rates at which they would be willing to hold such shares.

If no Applicable Dividend Rate shall have been established on a Dividend Reset Date in a Remarketing for the next Dividend Period, or Special Dividend Period, if any, for any reason (other than because there is no Remarketing Agent, the Remarketing Agent is not required to conduct a Remarketing pursuant to the terms of the Remarketing Agreement or the Remarketing Agent is unable to remarket on the Dividend Reset Date all Preferred Shares tendered (or deemed tendered) to it at a price of \$100,000 per share), then the Remarketing Agent, in its sole discretion, shall, if necessary and except during a Non-Payment Period, after taking into account market conditions as reflected in the prevailing yields on fixed and variable rate taxable and tax-exempt debt securities and the prevailing dividend yields of fixed and variable rate preferred stock, determine the Applicable Dividend Rate that would be the rate per annum that would be the initial dividend rate fixed in an offering on such Dividend Reset Date, assuming in each case a comparable dividend period, issuer and security. If a Remarketing for Preferred Shares does not take place because there is no Remarketing Agent, the Remarketing Agent is not

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required to conduct a Remarketing or the Remarketing Agent is unable to remarket in the Remarketing all such Preferred Shares tendered (or deemed tendered) to it at a price of \$100,000 per share, then, except during a Non-Payment Period, the Applicable Dividend Rate for the

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subsequent Dividend Period for such shares will be the applicable Maximum Dividend Rate for a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or 7-day Dividend Period (in the case of Series C Preferred Shares) and such subsequent Dividend Period shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares).

Except during a Non-Payment Period, the Applicable Dividend Rate for any Dividend Period for Preferred Shares will not be more than the Maximum Dividend Rate applicable to such shares.

The Maximum Dividend Rate for Preferred Shares will be the Applicable Percentage of the applicable AA Composite Commercial Paper Rate. The Remarketing Agent will round each Maximum Dividend Rate to the nearest one-thousandth (0.001) of one percent per annum, with any such number ending in five ten-thousandths (0.0005) of one percent being rounded upwards to the nearest one-thousandth (0.001) of one percent. The Remarketing Agent will not round the applicable AA Composite Commercial Paper Rate as part of its calculation of any Maximum Dividend Rate.

*Allocation of Shares; Failure to Remarket.* If the Remarketing Agent is unable to remarket by 4:00 p.m., New York City time, on a Dividend Reset Date all Preferred Shares tendered to it in such Remarketing at a price of \$100,000 per share, (i) each beneficial owner that tendered shares or was deemed to have tendered Preferred Shares for sale will sell a number of Preferred Shares on a pro rata basis, to the extent practicable, or by lot, as determined by the Remarketing Agent in its sole discretion, based on the number of orders to purchase Preferred Shares in such Remarketing, and (ii) the Applicable Dividend Rate for the next Dividend Period, which shall be a 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or a 7-day Dividend Period (in the case of Series C Preferred Shares) will be the Maximum Dividend Rate for such 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares) or 7-day Dividend Period (in the case of Series C Preferred Shares).

If the allocation procedures described above would result in the sale of a fraction of a Preferred Share, the Remarketing Agent will, in its sole discretion, round up or down the number of Preferred Shares sold by each beneficial owner on the applicable Dividend Reset Date so that each share sold by each beneficial owner shall be a whole Preferred Share, and the total number of shares sold equals the total number of shares purchased on such Dividend Reset Date.

*Notification of Results; Settlement.* By telephone at approximately 4:30 p.m., New York City time, on each Dividend Reset Date with respect to Preferred Shares, the Remarketing Agent will advise each beneficial owner of tendered Preferred Shares and each purchaser thereof (or the Agent Member thereof) (i) of the number of shares such beneficial owner or purchaser is to sell or purchase and (ii) to give instructions to its Agent Member to deliver such shares against payment therefor or to pay the purchase price against delivery as appropriate. The Remarketing Agent will also advise each beneficial owner or purchaser that is to continue to hold, or to purchase, shares with a Dividend Period beginning on the Business Day following such Dividend Reset Date of the Applicable Dividend Rate for such shares.

The transactions described above will be executed on the Settlement Date through the Securities Depository in accordance with the Securities Depository's procedures, and the accounts of the respective Agent Members of the Securities Depository will be debited and credited and shares delivered by book entry as necessary to effect the purchases and sales of Preferred Shares, in each case as determined in the related Remarketing. Purchasers of Preferred Shares will make payment through their Agent Members in same-day funds to the Securities Depository against delivery by book entry of Preferred Shares through their Agent members. The Securities Depository will make payment in accordance with its procedures, which currently provide for payment in same-day funds. If the certificates for Preferred Shares are not held by the Securities Depository or its nominee, payment with respect to such shares will be made in same-day funds to the Paying Agent against delivery of such certificates.

If any beneficial owner selling Preferred Shares in a Remarketing fails to deliver such shares, the Agent Member of such selling beneficial owner and of any other person that was to have purchased Preferred Shares in such Remarketing may deliver to any such other person a number of whole Preferred Shares that is less than the number of shares that otherwise was to be

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purchased by such person. In such event, the number of Preferred Shares to be so delivered will be determined by such Agent Member. Delivery of such lesser number of Preferred Shares will constitute good delivery of such number of shares.

As long as the Securities Depository or Cede or any other nominee therefor holds the certificate or certificates representing the Preferred Shares, no share certificates will need to be delivered by any selling beneficial owner to reflect any transfer of Preferred Shares effected in a Remarketing.

The Remarketing Agent may, in its sole discretion, modify the settlement procedures set forth above with respect to any Remarketing of Preferred Shares so long as any such modification does not adversely affect any holders of such shares.

## Redemption

*Optional Redemption.* The fund may at its option, to the extent permitted by the 1940 Act and after giving the requisite Notice of Redemption, redeem shares of any series of Preferred Shares, in whole or in part, on the next succeeding scheduled Dividend Payment Date applicable to those Preferred Shares called for redemption, out of funds legally available therefor, at the redemption price equal to \$100,000 per share plus an amount equal to dividends thereon (whether or not earned or declared) accumulated but unpaid to the date fixed for redemption plus the premium, if any, resulting from the designation of a Premium Call Period; provided that no Preferred Share may be redeemed at the option of the fund during a Non-Call Period to which such share is subject (an *Optional Redemption*). The fund may not give a Notice of Redemption relating to an optional redemption unless, at the time of giving such Notice of Redemption, the fund has available Deposit Securities with maturity or tender dates not later than the day preceding the applicable redemption date and having a Discounted Value not less than the amount due by reason of the redemption of Preferred Shares of such series on such redemption date.

*Mandatory Redemption.* The fund will be required to redeem, out of funds legally available thereof, at \$100,000 per share plus accumulated but unpaid dividends (whether or not earned or declared) to the date fixed by the Trustees for redemption plus the premium, if any, resulting from the designation of a Premium Call Period, certain of the Preferred Shares, to the extent permitted under the 1940 Act and Massachusetts law, if the fund fails to maintain the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage and such failure is not cured on or before the Preferred Shares Basic Maintenance Cure Date or the 1940 Act Cure Date (herein referred to as a *Cure Date*), as the case may be (a *Mandatory Redemption*). The number of Preferred Shares to be redeemed will be equal to the lesser of (i) the minimum number of Preferred Shares the redemption of which, if deemed to have occurred immediately prior to the opening of business on such Cure Date, together with all other preferred shares subject to redemption or retirement, would result in the satisfaction of the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage, as the case may be, on such Cure Date (provided that, if there is no such minimum number of shares of all series of Preferred Shares the redemption of which would have such result, all Preferred Shares then outstanding will be redeemed), and (ii) the maximum number of Preferred Shares, together with all other preferred shares subject to redemption and retirement, that can be redeemed out of funds expected to be legally available therefor. In determining the number of Preferred Shares required to be redeemed in accordance with the foregoing, the fund shall allocate the number required to be redeemed to satisfy the Preferred Shares Basic Maintenance Amount or the 1940 Act Preferred Shares Asset Coverage, as the case may be, pro rata among shares of all series of Preferred Shares and other preferred shares subject to redemption and retirement provisions similar to those contained in this paragraph.

The fund is required to effect such a Mandatory Redemption not later than 45 days after such Cure Date, except that if the fund does not have funds legally available for the redemption of all of the required number of Preferred Shares which are subject to Mandatory Redemption or the fund otherwise is unable to effect such redemption on or prior to 45 days after such Cure Date, the fund will redeem those Preferred Shares which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

Any Preferred Share will be subject to Mandatory Redemption regardless of whether such share is subject to a Non-Call Period, provided that Preferred Shares subject to a Non-Call Period will only be subject to redemption to the extent that other Preferred Shares (not subject to a Non-Call Period) are not available to satisfy the number of shares required to be redeemed. In such event, such shares subject to a Non-Call Period will be selected for redemption in an ascending order of outstanding Non-Call Period (with shares with the lowest number of days remaining in the Non-Call

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Period to be called first) and by lot in the event of shares having equal outstanding Non-Call Periods.

*Allocation.* If fewer than all the outstanding Preferred Shares are to be redeemed, the number of Preferred Shares to be so redeemed will be a whole number of shares and will be determined by the Trustees (subject to the provisions described above under *Redemption*), provided that (i) no such Preferred Share will be subject to optional redemption on any Dividend Payment Date during a Non-Call Period to which it is subject and (ii) Preferred Shares subject to a Non-Call Period will be subject to Mandatory Redemption on the basis described above under *Redemption*. Unless certificates representing Preferred Shares are held by holders other than the Securities Depository or its nominee, the Securities Depository, upon receipt of such Notice of Redemption, will determine by lot the number of Preferred Shares to be redeemed from the account of each Agent Member (which may include an Agent Member, including the Remarketing Agent, holding shares for its own account) and notify the Paying Agent of such determination. The Paying Agent, upon receipt of such notice, will in turn determine by lot the number of Preferred Shares to be redeemed from the accounts of the beneficial owners of the shares whose Agent Members have been selected by the Securities Depository and give notice of such determination to the Remarketing Agent. In doing so, the Paying Agent may determine that shares will be redeemed from the accounts of some beneficial owners, which may include the Remarketing Agent, without shares being redeemed from the accounts of other beneficial owners. Notwithstanding the foregoing, if any certificates representing Preferred Shares are not held by the

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Securities Depository or its nominee, the Preferred Shares to be redeemed will be selected by the Paying Agent by lot.

*Notice of Redemption.* Any Notice of Redemption with respect to Preferred Shares will be given by the fund via telephone to the Paying Agent, the Securities Depository (and any other registered holder of such shares) and the Remarketing Agent not later than 1:00 p.m., New York City time (and later confirmed in writing), (i) in the case of an optional redemption, (a) on the Settlement Date in the case of a partial redemption of Preferred Shares, (b) the Tender Date in the case of a redemption in whole of Preferred Shares or (c) during a Non-Payment Period, the later of the Dividend Payment Date or the seventh day prior to the earliest date upon which any such redemption may occur, and (ii) in the case of a mandatory redemption, on the third Business Day preceding the redemption date established by the Trustees and specified in such notice. In the case of a partial redemption, the Paying Agent will use its reasonable efforts to provide telephonic notice to each beneficial owner of Preferred Shares called for redemption not later than the close of business on the Business Day on which the Paying Agent determines the shares to be redeemed (as described above) (or, if certificates are held by persons other than the Securities Depository, not later than the close of business on the Business Day immediately following the day on which the Paying Agent receives a Notice of Redemption from the fund). Such telephonic notice will be confirmed promptly in writing to each such beneficial owner of Preferred Shares called for redemption, the Remarketing Agent and the Securities Depository not later than the close of business on the Business Day immediately following the day on which the Paying Agent determines the shares to be redeemed. In the case of a redemption in whole, the Paying Agent will use its reasonable efforts to provide telephonic notice to each beneficial owner of Preferred Shares called for redemption not later than the close of business on the Business Day immediately following the day on which the Paying Agent receives a Notice of Redemption from the fund. Such telephonic notice will be confirmed promptly in writing to each beneficial owner of Preferred Shares called for redemption, the Remarketing Agent and the Securities Depository not later than the close of business on the second Business Day following the day on which the Paying Agent receives notice of redemption.

Every Notice of Redemption and other redemption notice with respect to the Preferred Shares will state: (i) the redemption date, (ii) the number of Preferred Shares to be redeemed, (iii) the redemption price, (iv) that dividends on the Preferred Shares to be redeemed will cease to accumulate as of such redemption date, and (v) the provision of the Agreement and Declaration of Trust or the Bylaws pursuant to which such Preferred Shares as are being redeemed. In addition, Notice of Redemption given to a beneficial owner shall state the CUSIP number, if any, of the Preferred Shares to be redeemed and the manner in which the beneficial owner of such shares may obtain payment of the redemption price. No defect in the Notice of Redemption or other redemption notice or in the transmittal or the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law. The Paying Agent will use its reasonable efforts to cause the publication of a Notice of Redemption in an Authorized Newspaper within two

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Business Days of the date of the Notice of Redemption, but failure so to publish such notification will not affect the validity or effectiveness of any such redemption proceedings. Preferred Shares the beneficial owners of which have been given Notice of Redemption shall not be subject to transfer outside of a Remarketing.

*Other Redemption Procedures.* To the extent that any redemption for which Notice of Redemption has been given is not made by reason of the absence of legally available funds therefor, such redemption will be made as soon as practicable to the extent such funds become available. Failure to redeem Preferred Shares will be deemed to exist at any time after the date specified for redemption in a Notice of Redemption when the fund shall have failed, for any reason whatsoever, to deposit with the Paying Agent funds with respect to any shares for which such Notice of Redemption has been given. Notwithstanding the fact that the fund may not have redeemed Preferred Shares for which a Notice of Redemption has been given, dividends may be declared and paid on Preferred Shares and shall include those Preferred Shares for which a Notice of Redemption has been given.

Upon the giving of Notice of Redemption and the deposit of sufficient funds necessary for such redemption with the Paying Agent, the Preferred Shares called for redemption shall no longer be deemed outstanding for any purpose and all rights of the holders and beneficial owners of the shares so called for redemption will cease and terminate, except the right of the holders and beneficial owners thereof to receive the redemption price thereof, inclusive of an amount equal to dividends (whether or not earned or declared) accumulated but unpaid to the redemption date plus the premium, if any, resulting from the designation of a Premium Call Period, but without any interest or other additional amount (except for Gross-Up Dividends described above under Dividends and Dividend Periods-Gross-Up Dividends). The fund will be entitled to receive from the Paying Agent, promptly after the date fixed for redemption, any cash deposited with the Paying Agent in excess of (i) the aggregate redemption price of the Preferred Shares called for redemption on such date and (ii) all other amounts to which holders of Preferred Shares called for redemption may be entitled. The fund will be entitled to receive, from time to time after the date fixed for redemption, any interest on the funds so deposited. Any funds so deposited with the Paying Agent that are unclaimed at the end of 90 days from such redemption date will, to the extent permitted by law, be repaid to the fund, after which time the holders and beneficial owners of Preferred Shares so called for redemption will look only to the fund for payment of the redemption price and all other amounts to which they may be entitled. If any such unclaimed funds are repaid to the fund, the fund shall invest such unclaimed funds in Deposit Securities with a maturity of no more than one Business Day.

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Except as described above with respect to redemptions, nothing contained in the Bylaws limits any legal right of the fund or any affiliate of the fund to purchase or otherwise acquire any Preferred Shares at any price. Any Preferred Shares which have been redeemed, purchased or otherwise acquired by the fund or any affiliate thereof may be resold.

The fund has the right in certain circumstances to arrange for others to purchase from the holders thereof Preferred Shares which are to be redeemed as described above.

The Remarketing Agent may, in its sole discretion, modify the procedures concerning notification of redemption described above with respect to Preferred Shares so long as any such modification does not adversely affect the holders or beneficial owners of the Preferred Shares or materially alter the obligation of the Paying Agent and so long as the fund receives written confirmation from S&P that any such modifications would not impair the ratings then assigned by S&P to the Preferred Shares.

### **Liquidation/Bankruptcy**

Upon a liquidation, dissolution or winding up of the affairs of the fund, whether voluntary or involuntary, the holders of Preferred Shares then outstanding will be entitled, whether from capital or surplus, before any assets of the fund will be distributed among or paid over to the holders of the common shares or any other class or series of shares of the fund ranking junior to the Preferred Shares as to liquidation payments, to be paid the amount of \$100,000 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) plus the premium, if any, resulting from the designation of a Premium Call Period to but excluding the date of final distribution, in same-day funds. After any such payment, the holders and beneficial owners of Preferred Shares will not be entitled to any further participation in any distribution of assets of the fund. If, upon any such liquidation, dissolution or winding up of the fund, the assets of the fund shall be insufficient to make such full payments to the holders of Preferred Shares and to the holders of

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any shares of beneficial interest of the fund having preference rights ranking as to liquidation, dissolution or winding up on a parity with the Preferred Shares, then such assets will be distributed among the holders of Preferred Shares and such parity holders ratably in accordance with the respective amounts which would be payable on such Preferred Shares and any other such preferred shares if all amounts thereof were paid in full. Neither the consolidation nor the merger of the fund with or into any entity or entities nor a reorganization of the fund alone nor the sale, lease or transfer by the fund of all or substantially all of its assets shall be deemed to be a dissolution or liquidation of the fund.

### **Voting Rights**

Except as indicated in this Appendix C or except as expressly required by applicable law, the Agreement and Declaration of Trust or Bylaws, each holder of Preferred Shares and, each holder of common shares shall be entitled to one vote for each share held on each matter submitted to a vote of shareholders of the fund, and the holders of outstanding Preferred Shares and of common shares shall vote together as a single class.

Holders of Preferred Shares, voting as a class, will be entitled to elect two of the fund's Trustees, each Preferred Share entitling the holder thereof to one vote, and the remaining Trustees will be elected by holders of the common shares and the Preferred Shares voting together as a single class. If at the close of business on any Dividend Payment Date (i) accumulated dividends (whether or not earned or declared, and whether or not funds are then legally available in an amount sufficient therefor) on the fund's outstanding Preferred Shares equal to at least two full years dividends thereon shall be due and unpaid and sufficient cash or securities shall not have been deposited with the Paying Agent for the payment of such accumulated dividends, or (ii) holders of preferred shares of the fund (other than the Preferred Shares) are entitled to elect a majority of the Trustees of the fund, then the number of Trustees shall automatically be increased by the smallest number that, when added to the two Trustees elected exclusively by the holders of Preferred Shares as described above, would constitute a majority of the Trustees as so increased and at a special meeting of shareholders which will be called and held as soon as practicable, and at all subsequent meetings at which Trustees are to be elected, the holders of Preferred Shares, voting as a separate class, will be entitled to elect the smallest number of additional Trustees that, together with the two Trustees which such holders will be in any event entitled to elect, constitutes a majority of the total number of Trustees of the fund as so increased. The terms of office of the persons who are Trustees at the time of that election will continue. If the fund thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding Preferred Shares for all past Dividend Periods, the voting rights stated in the preceding sentence shall cease (subject always to revesting in the event of the further occurrence of the circumstances described above), and the terms of office of all the additional Trustees elected by the holders of Preferred Shares (but not of the Trustees with respect to whose election the holders of common shares were entitled to vote along with the holders of Preferred Shares or the two Trustees the holders of Preferred Shares have the right to elect in any event) will terminate automatically.

The affirmative vote of the holders of a majority of the outstanding Preferred Shares, voting separately as a class, would be required to (i) authorize, create or issue, increase or decrease the authorized or issued amount of, any class or series of shares of beneficial interest ranking prior to or on a parity with the Preferred Shares with respect to payment of dividends or the distribution of assets on liquidation, or increase or

decrease the number of authorized Preferred Shares; (ii) amend, alter or repeal any of the provisions of the fund's Agreement and Declaration of Trust and the Bylaws so as to affect materially and adversely any preference, right or power of such Preferred Shares or the holders thereof; or (iii) take any other action requiring a vote of security holders under Section 18(a)(2)(D) of the 1940 Act including, among other things, changes in the investment restrictions of the fund. To the extent permitted under the 1940 Act, the fund shall not take any action which may adversely affect the rights of a holder of shares of a series of Preferred Shares differently than a holder of shares of another series of Preferred Shares without the affirmative vote or consent of at least a majority of the Preferred Shares of such potentially affected series outstanding at the time. To the extent that such an action may affect the rights of holders of shares of series of Preferred Shares in a substantially similar manner, the holders of Preferred Shares of such series shall vote together as a single class. Notwithstanding the foregoing, so long as any Preferred Shares are outstanding, the fund may not take any action described in Sections 4, 5 or 6 of Article IX of the Agreement and Declaration of Trust or amend the provisions of Section 1 of Article IV, Sections 4, 5 or 6 of Article IX or the first sentence of Section 9 of Article IX of the Declaration of Trust, without the affirmative vote or consent of holders of at least two-thirds (or a

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majority if permitted by Sections 4, 5 or 6 of Article IX of the Agreement and Declaration of Trust) of the Preferred Shares and common shares of the fund (each voting separately as a class). The foregoing voting provisions will not apply if, at or prior to the time such vote is required, all outstanding Preferred Shares shall have been redeemed or shall no longer be deemed to be outstanding.

### **Repurchase of Shares**

Shares of closed-end investment companies often trade at a discount to their net asset values, and the fund's common shares may likewise trade at a discount to their net asset value. The market price of the fund's common shares will be determined by such factors as relative demand for and supply of such common shares in the market, the fund's net asset value, general market and economic conditions, and other factors beyond the control of the fund. Although the fund's common shareholders will not have the right to redeem their shares, the fund may take action to repurchase common shares in the open market or make tender or repurchase offers for its common shares at their net asset value. This may have the effect of reducing any market discount from net asset value. The fund's ability to repurchase or to tender for its common shares may be limited by asset coverage requirements and other restrictions in respect of the Preferred Shares outstanding at the time. There is no assurance that if action is undertaken to repurchase or tender for common shares, that such action will result in the common shares trading at a price which approximates their net asset value. Although common share repurchases and tenders could have a favorable effect on the market price of the fund's common shares, it should be recognized that the acquisition of common shares by the fund will decrease the total assets of the fund and, therefore, have the effect of increasing the fund's expense ratio. Any common share repurchases or tender offers will be made in accordance with requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act. If the fund were to make a tender or repurchase offer for its common shares, shareholders would receive any notice thereof required by applicable law, including any required information describing the offer and the means by which shareholders might submit their common shares.

### **Ratings**

It is a condition of the merger that the Preferred Merger Shares be issued with a rating of Aaa from Moody's and AAA from S&P.

### **Rating Agency Guidelines**

The composition of the fund's portfolio will reflect guidelines established by Moody's and S&P in connection with the fund's receipt of a rating for such shares on their date of original issue of at least Aaa by Moody's and AAA by S&P. The credit ratings of Preferred Shares could be reduced while an investor holds Preferred Shares. A decrease in the rating of the Preferred Shares may reflect a reduction in the fund's ability to pay dividends and/or the redemption price and liquidation value in respect of the Preferred Shares in accordance with the terms of the Preferred Shares. Moody's and S&P, nationally recognized statistical rating organizations, issue ratings for various securities reflecting the perceived creditworthiness of such securities. The guidelines described under "Asset Maintenance" and in Exhibit C-2 have been developed by Moody's and S&P in connection with issuances of asset-backed and similar securities, including debt obligations and variable rate preferred stocks, generally on a case-by-case basis through discussions with the issuers of these securities. The guidelines are generally designed to ensure that assets underlying outstanding debt or preferred stock will be sufficiently varied and will be of sufficient quality and amount to justify investment-grade ratings. The guidelines do not have the force of law but have been adopted by the fund in order to satisfy current requirements necessary for Moody's and S&P to issue the above-described ratings for Preferred Shares, which ratings are generally relied upon by institutional investors in purchasing such securities. The guidelines include a set of tests for portfolio composition and asset coverage that supplement (and in some cases are more restrictive than) the applicable requirements under the 1940 Act.

In addition, the fund is prohibited from engaging in the following transactions unless it has received written confirmation from Moody's and S&P that any such action would not impair the ratings then assigned by Moody's and S&P to the Preferred Shares: (i) borrow money if the Preferred Shares Basic Maintenance Amount would not be satisfied after giving effect to such borrowing; (ii) borrow, in the aggregate, money in excess of the lesser of \$10 million or the product of the number of Preferred Shares and other preferred shares outstanding multiplied by \$10,000 or 10%

of the total assets of the fund; (iii) borrowing any money except for the purpose of clearing portfolio transactions; or (iv) lend portfolio securities. The fund also must give Moody's and S&P prompt written notice of any of the following circumstances: (i) any material change to the Declaration of Trust or Article 12 ( Shares of Beneficial Interest ) of the

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Bylaws; (ii) any failure to declare or pay any dividend on Preferred Shares; (iii) any mandatory or optional redemption of Preferred Shares; (iv) any assumption of control of the Board of Trustees by holders of Preferred Shares pursuant to the voting rights described above under Voting ; (v) in the event the fund shall not be a party to a pricing services agreement and dealer quotes on assets are not available; (vi) in the event that the Applicable Dividend Rate equals or exceeds 95% of AA Composite Commercial Paper Rate; (vii) a change in Dividend Period; (viii) any person owning more than 5% of the fund's common shares; (ix) a change in Service rules on Gross-Up Dividends relating to the operation of the fund; and (x) a change in Pricing Service.

#### **Asset Maintenance**

The fund will be required to satisfy a number of asset maintenance requirements under the terms of the Bylaws. These requirements are summarized below.

*1940 Act Preferred Shares Asset Coverage.* The fund will be required under the Bylaws to maintain as of the last Business Day of each month in which any Preferred Shares are outstanding, asset coverage of at least 200% with respect to outstanding senior securities which are shares, including the Preferred Shares (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are shares of a closed-end investment company as a condition of paying dividends on its common shares) ( 1940 Act Preferred Shares Asset Coverage ). If the fund fails to maintain 1940 Act Preferred Shares Asset Coverage and such failure is not cured as of the last Business Day of the month following the date of such failure (the 1940 Act Cure Date ), the fund will be required under certain circumstances to redeem certain of the Preferred Shares. See Redemption.

*Preferred Shares Basic Maintenance Amount.* In connection with their respective ratings of the Preferred Shares, Moody's and S&P have each established asset coverage guidelines which are incorporated into the Bylaws to ensure the payment of the liquidation preference and the fund's other obligations in respect of its outstanding Preferred Shares. These guidelines require the fund among other things to maintain investment-grade assets with a value (discounted in accordance with each rating agency's guidelines) equal to the Preferred Shares Basic Maintenance Amount. These guidelines impose restrictions on the securities in which the fund may invest, limit the fund's use of futures, options and forward commitments, and prohibit the use of borrowing for leverage and the fund's entering into short sales, securities lending and reverse repurchase agreements. These requirements are explained in greater detail in Exhibit C-2. If the fund fails to meet such requirements and such failure is not cured, the fund will be required under certain circumstances to redeem some or all of the Preferred Shares. See Redemption.

*General.* The fund may, but is not required to, adopt any modifications to these guidelines that may hereafter be established by Moody's or S&P. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any rating agency providing a rating for the Preferred Shares may, at any time, change or withdraw any such rating. As set forth in the Bylaws, the Trustees may, without shareholder approval, modify certain definitions or restrictions which have been adopted by the fund pursuant to the rating agency guidelines, provided in certain cases the Trustees have obtained written confirmation from Moody's and S&P that any such change would not impair the ratings then assigned by Moody's and S&P to the Preferred Shares. As described by Moody's and S&P, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings on the Preferred Shares are not recommendations to purchase, hold or sell Preferred Shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. Nor do the rating agency guidelines address the likelihood that a holder of Preferred Shares will be able to sell such shares in a Remarketing. The ratings are based on current information furnished to Moody's and S&P by the fund and Putnam Management and information obtained from other sources. The outstanding Preferred Shares are rated AAA by S&P and Aaa by Moody's. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The fund's common shares have not been rated by a nationally recognized statistical rating organization.

#### **Exchange Provisions**

Upon the authorization of the Board of Trustees based on (i) the receipt by the fund of a rule from the IRS to the effect that the payment of dividends on the shares of Series I Preferred Shares would not jeopardize the fund's status as a regulated investment company or (ii) an opinion of legal counsel in form and substance satisfactory to the Board of Trustees to the effect that the payment of dividends on Series I Preferred Shares would not jeopardize the fund's status as a regulated investment company and the affirmative vote or consent

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of the holders of a majority of each series of Preferred Shares outstanding at the time (each series voting separately as a class) (in each case, an Exchange Event ), then, on the first Dividend Payment Date for the Preferred Shares that is at least 45 days after the occurrence of an Exchange Event and as of which the conditions described below have been satisfied (the Exchange Date ), the Preferred Shares will be exchanged on a share-for-share basis for Series I Preferred Shares. The Preferred Shares will not be issued for Series I Preferred Shares unless each of Moody's and S&P have given the Series I Preferred Shares a rating equivalent to the then-current rating on the Preferred Shares; provided that, if Moody's or S&P shall not make such rating available, such exchange will take place if a Substitute Rating Agency has provided a rating equivalent to such then-current rating on the Exchange Date and (ii) all Preferred Shares subject to exchange that were tendered (or deemed tendered) on the Tender Date preceding such Exchange Date have been remarketed by the Remarketing Agents on the related Dividend Reset Date at a price of \$100,000 per share. Holders of outstanding Preferred Shares will receive one Series I Preferred Share for each Preferred Share held and exchanged by them on the Exchange Date therefor.

The fund will cause the publication of an exchange notice in an Authorized Newspaper, and cause the Paying Agent to mail an exchange notice to each holder of Preferred Shares, not less than 10 nor more than 30 days prior to the Exchange Date therefor. Such notice shall state: (i) the Exchange Date, (ii) that on such Exchange Date all Preferred Shares will be exchanged automatically, and without any action or choice on the part of the holders thereof, on a share-for-share basis for Series I Preferred Shares, (iii) that the Initial Dividend Period for Series I Preferred Shares will be a 28-day Dividend Period commencing on such Exchange Date, (iv) that dividends on Preferred Shares will cease to accumulate on such Exchange Date and (v) whether the Series I Preferred Shares will be rated by Moody's and S&P or by a Substitute Rating Agency. On the Exchange Date, Preferred Shares will cease to accumulate dividends, will no longer be deemed outstanding, the rights of holders of such shares (except the right to receive Series I Preferred Shares, accumulated but unpaid dividends on their Preferred Shares to but excluding the Exchange Date and any Gross-Up Dividends) will cease, and the person entitled to receive Series I Preferred Shares will be treated for all purposes as the holder of such Series I Preferred Shares.

#### **Taxation of Preferred Shares**

The following is a summary of some of the important tax considerations applicable to investments in Preferred Shares of Managed Municipal Income Trust. See Information about the Funds Taxation in the Prospectus/Proxy for a discussion of other important tax considerations generally applicable to investments in Managed Municipal Income Trust. If for any reason it is determined after the payment of any dividend that a portion of that dividend was subject to federal income tax, Managed Municipal Income Trust will not be required to pay any additional amount to compensate for any tax payable on the dividend (other than Gross-Up Dividends payable under the circumstances described in this Appendix C). The federal income tax consequences of Gross-Up Dividends under existing law are uncertain. For example, it is unclear how Gross-Up Dividends will be treated under the rules in Subchapter M of the Code applicable to dividends paid following the close of a taxable year in respect of a prior year's income. Managed Municipal Income Trust intends to treat such Gross-Up Dividends as paid during such prior taxable year for purposes of the rules governing Managed Municipal Income Trust's treatment of such dividends, and to treat a holder as receiving a dividend distribution in the amount of any Gross-Up Dividend only as and when such Gross-Up Dividend is paid. Managed Municipal Income Trust will generally designate Gross-Up Dividends as exempt-interest dividends to the extent it determines such designation is consistent with the allocation principles, as described in Advance Notice of Allocation of Taxable Income; Inclusion of Taxable Income in Dividend. However, the IRS may assert that all or part of a Gross-Up Dividend is a taxable dividend either in the taxable year in which the dividend or dividends to which the Gross-Up Dividend relates, was paid, or in the taxable year in which the Gross-Up Dividend is paid. Managed Municipal Income Trust will not be required to pay any additional amount if it is determined that its treatment of Gross-Up Dividends was improper. Existing authorities do not specifically address whether dividends (including possible Gross-Up Dividends) that are paid following the close of a taxable year, but that are treated for tax purposes as derived from the income of such prior taxable year, are treated as dividends paid during such prior taxable year for purposes of determining each class's proportionate share of a particular type of income. Managed Municipal Income Trust currently intends to treat such dividends as having been paid in the prior taxable year for purposes of determining each class's

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proportionate share of a particular type of income with respect to such prior taxable year. Existing authorities also do not specifically address the allocation of taxable income among the dividends paid to holders of a class of shares during or with respect to a taxable year. It is possible that the IRS could disagree with the fund's position concerning the treatment of dividends paid after the close of a taxable year or with the fund's method of allocation, in which case the IRS could attempt to recharacterize a portion of the dividends paid to the holders of preferred shares and designated by the Fund as exempt-interest dividends as consisting instead of capital gains or other taxable income. If the IRS were to prevail with respect to any such attempted recharacterization, holders of Preferred Shares could be subject to tax on amounts so recharacterized and the fund could be subject to federal income and excise tax. In such event, no additional amounts (including Gross-Up Dividends) would be paid by Managed Municipal Income Trust with respect to dividends so recharacterized to compensate for any additional tax owed by holders of Preferred Shares.



**Glossary**

**AA Composite Commercial Paper Rate** on any date, means (i) the Interest Equivalent of the rate on commercial paper placed for the number of days specified in the succeeding sentence on behalf of issuers whose corporate bonds are rated AA by S&P or Aa by Moody's, or the equivalent of such rating by another nationally recognized rating agency, as such rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date, or (ii) in the event that the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the Interest Equivalent of such rates on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers to the Remarketing Agent for the close of business on the Business Day immediately preceding such date. In respect of any Dividend Period of seven or 28 days (determined without regard to any adjustment in the remarketing schedule in respect of non-Business Days, as provided herein), the AA Composite Commercial Paper Rate shall be the Interest Equivalent of the 60-day rate. If any Commercial Paper Dealer does not quote a rate required to determine the AA Composite Commercial Paper Rate, the AA Composite Commercial Paper Rate will be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Dealers or, if none of the Commercial Paper Dealers quotes such a rate, by any Substitute Commercial Dealers of Dealers selected by the fund to provide such rate or rates not being supplied by any Commercial Paper Dealer.

**Accountant's Confirmation** shall have the meaning set forth in Exhibit C-2.

**Agent Member** means a member of the Securities Depository that will maintain records for a beneficial owner of one or more Preferred Shares.

**Agreement and Declaration of Trust** means the Agreement and Declaration of Trust of Managed Municipal Income Trust, as amended from time to time.

**Applicable Dividend Rate** means, for each Dividend Period after the Initial Dividend Period, the rate of dividend per annum that (i) except for a Dividend Period commencing during a Non-Payment Period, will be equal to the lower of the rate of dividend per annum that the Remarketing Agent advises results on the Dividend Reset Date preceding the first day of such Dividend Period from implementation of the remarketing procedures set forth in the Bylaws and the Maximum Dividend Rate or (ii) for each Dividend Period commencing during a Non-Payment Period, will be equal to the Non-Payment Period Rate.

**Applicable Percentage** has the meaning described on page C-6 of this Appendix C.

**Authorized Newspaper** means a newspaper of general circulation in the English language generally published on Business Days in The City of New York.

**A beneficial owner** means a person that is listed as the beneficial owner of one or more Preferred Shares in the records of the Paying Agent or, with respect to any Preferred Shares not registered in the name of the Securities Depository on the share transfer books of the fund, the person in whose name such share is so registered.

**Business Day** means a day on which the New York Stock Exchange, Inc. is open for trading, and which is not a day on which banks in The City of New York are authorized or obligated by law to close.

**Bylaws** means the Bylaws of Managed Municipal Income Trust, as amended from time to time.

**Cede** means Cede & Co., the nominee of DTC in whose name the Preferred Shares initially will be registered.

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**Code** means the Internal Revenue Code of 1986, as amended from time to time.

**Commercial Paper Dealers** means Merrill Lynch, Pierce, Fenner & Smith, Incorporated and such other commercial paper dealers as the fund may from time to time appoint, or in lieu of any thereof, their respective affiliates or successors.

**Commission** means the Securities and Exchange Commission.

**Cure Date** has the meaning set forth on page C-12 of this Appendix C.

**Date of Original Issue** means, with respect to any Preferred Merger Shares, the date on which the merger is consummated.

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**Deposit Securities** means cash and Municipal Bonds rated at least A-1+ or SP-1+ by S&P.

**Discounted Value** means (i) with respect to an S&P Eligible Asset, the quotient of the Market Value thereof divided by the applicable S&P Discount Factor and (ii) with respect to a Moody's Eligible Asset, the quotient of the Market Value thereof divided by the applicable Moody's Discount Factor; provided that the Discounted Value of such Eligible Asset shall never be greater than the face value of such Eligible Asset.

**Dividend Payment Date** has the meaning set forth on page C-3 of this Appendix C.

**Dividend Period** has the meaning set forth on page C-2 of this Appendix C.

**Dividend Reset Date** means any date on which the Remarketing Agent (i) determines the Applicable Dividend Rate for the ensuing Dividend Period, (ii) notifies holders, purchasers and tendering holders of Preferred Shares by telephone, telex or otherwise of the results of the Remarketing and (iii) announce such Applicable Dividend Rate.

**DTC** means The Depository Trust Company.

**Eligible Asset** means S&P Eligible Asset and/or Moody's Eligible Asset.

**Exchange Date** has the meaning set forth on page C-18 of this Appendix C.

**Exchange Event** has the meaning set forth on page C-17 of this Appendix C.

**Gross-Up Dividend** has the meaning set forth on page C-5 of this Appendix C.

**A holder** of Preferred Shares means, with respect to any share of Preferred Shares, the person who is listed in the share transfer books of the fund as the registered holder of such share.

**Independent Accountant** means a nationally recognized accountant, or firm of accountants, that is, with respect to the fund, an independent registered public accounting firm.

**Initial Dividend Payment Date** has the meanings set forth in the Bylaws of Managed Municipal Income Trust.

**Initial Dividend Period** means, with respect to Preferred Merger Shares, the 7-day Dividend Period commencing on the Date of Original Issue thereof.

**Interest Equivalent** means a yield on a 360-day basis of a discount basis security which is equal to the yield on an equivalent interest-bearing security.

**IRS** means the Internal Revenue Service.

**Mandatory Redemption** has the meaning set forth on page C-12 of this Appendix C.

**Market Value** of any asset of the fund means the market value thereof determined by the Pricing Service. The Market Value of any asset shall include any interest accrued thereon. The Pricing Service shall value portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available shall be valued at fair value as determined by the Pricing Service using methods which include consideration of: yields or prices of municipal bonds of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. The Pricing Service may employ electronic data processing techniques and/or a matrix system to determine valuations.

**Maximum Dividend Rate** has the meaning set forth on page C-6 of this Appendix C.

**Moody's** means Moody's Investors Service, Inc.

**Moody's Discount Factor** means, for purposes of determining the Discounted Value of any Municipal Bond which constitutes a Moody's Eligible Asset, the percentage determined by reference to the rating on such asset and the shortest Moody's Collateral Period set forth opposite such rating that is the same length as or is longer than the Moody's Exposure Period, in accordance with the table set forth below:

| Moody's<br>Collateral Period                 | Rating Category |      |      |      |         |
|--|-----------------|------|------|------|---------|
|  | Aaa*            | Aa*  | A*   | Baa* | Other** |
| 7 weeks or less                              | 151%            | 159% | 168% | 202% | 229%    |
| 8 weeks or less but<br>greater than 7 weeks  | 154             | 164  | 173  | 205  | 235     |
| 9 weeks or less but<br>greater than 8 weeks  | 158             | 169  | 179  | 209  | 242     |
| 10 weeks or less but<br>greater than 9 weeks | 161             | 175  | 186  | 213  | 250     |

\* Moody's rating.

\*\* Municipal Bonds not rated by Moody's but rated BBB by S&P.

Notwithstanding the foregoing, (i) the Moody's Discount Factor for short-term Municipal Securities will be 115%, so long as such Municipal Securities are rated at least MIG-1, VMIG-1 or P-1 by Moody's and mature or have a demand feature at par exercisable in 30 days or less, and (ii) no Moody's Discount Factor will be applied to cash.

Moody's Eligible Asset means cash or a Municipal Security that (i) pays interest in cash; (ii) is publicly rated Baa or higher by Moody's or, if not rated by Moody's but rated by S&P, is rated at least BBB by S&P (provided that, for purposes of determining the Moody's Discount Factor applicable to any such S&P-rated Municipal Security, such Municipal Security will be deemed to have a Moody's rating which is one full rating category lower than its S&P rating); (iii) does not have its Moody's rating suspended by Moody's; and (iv) is part of an issue of Municipal Securities of at least \$10,000,000.

Municipal Securities issued by any one issuer and rated BBB by S&P may comprise no more than 4% of total Moody's Eligible Assets; such BBB rated Municipal Securities, if any, together with any Municipal Securities issued by the same issuer and rated Baa by Moody's, may comprise no more than 6% of total Moody's Eligible Assets; such BBB and Baa rated Municipal Securities, if any, together with any Municipal Securities issued by the same issuer and rated A by Moody's, may comprise no more than 10% of total Moody's Eligible Assets; and such BBB, Baa and A rated Municipal Securities, if any, together with any Municipal Securities issued by the same issuer and rated Aa by Moody's, may comprise no more than 20% of total Moody's Eligible Assets. Municipal Securities issued by issuers located within a single state or territory and rated BBB by S&P may comprise no more than 12% of total Moody's Eligible Assets; such BBB rated Municipal Securities, if any, together with any Municipal Securities issued by issuers located within the same state or territory and rated Baa by Moody's, may comprise no more than 20% of total Moody's Eligible Assets; such BBB and Baa rated Municipal Securities, if any, together with any Municipal Securities issued by issuers located within the same state or territory and rated A by Moody's, may comprise no more than 40% of total Moody's Eligible Assets; and such BBB, Baa and A rated Municipal Securities, if any, together with any Municipal Securities issued by issuers located within the same state or territory and rated Aa by Moody's, may comprise no more than 60% of total Moody's Eligible Assets.

Municipal Securities that are used by the fund as collateral pursuant to a repurchase agreement that obligates the fund to repurchase such Municipal Securities will only constitute Moody's Eligible Assets if the long-term debt of the other party to the repurchase agreement is rated at least Aa by Moody's and such agreement has a term of 30 days or less; such Municipal Securities shall be valued at the Discounted Value of such Municipal Securities. Municipal Securities acquired as collateral by the fund pursuant to a repurchase agreement that obligates the other party thereto to repurchase such Municipal Securities will only constitute a Moody's Eligible Asset if the long-term debt of such other party is rated at least Aa by Moody's and such agreement has a term of 30 days or less; such Municipal Securities shall be valued at the amount of cash paid by the fund pursuant to such repurchase agreement.

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Notwithstanding the foregoing, an asset will not be considered a Moody's Eligible Asset if it is (i) irrevocably deposited by the fund for the payment, in whole or in part, of any of (i)(A) through (i)(F) as set forth in the definition of Preferred Shares Basic Maintenance Amount or (ii) subject to any material lien, mortgage, pledge, security interest or security agreement of any kind, except for (a) liens the validity of which is being contested in good faith by appropriate proceedings, (b) liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (c) liens to secure payment for services rendered or cash advanced to the fund by The Putnam Management Company, Inc., Putnam Investor Services, Inc., the Paying Agent or any Remarketing Agent and (d) any lien by virtue of a repurchase agreement.

Moody's Exposure Period means the period commencing on and including a given Valuation Date and ending 63 days thereafter.

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Municipal Securities means obligations issued by or on behalf of states, territories and possessions of the United States and the District of Columbia and their potential subdivisions, agencies and instrumentalities, the interest on which, in the opinion of bond counsel or other counsel to the issuer of such securities, is at the time of issuance not includable in gross income for federal income tax purposes.

1940 Act means the Investment Company Act of 1940, as amended from time to time.

1940 Act Cure Date has the meaning set forth on page C-17 of this Appendix C.

1940 Act Preferred Shares Asset Coverage has the meaning set forth on page C-17 of this Appendix C.

Non-Call Period has the meaning described under Specific Redemption Provisions below.

Non-Payment Period has the meaning set forth on page C-4 of this Appendix C.

Non-Payment Period Rate has the meaning set forth on page C-4 of this Appendix C.

Non-qualifying Distribution has the meaning set forth on page C-5 of this Appendix C.

Notice of Redemption has the meaning set forth on page C-13 of this Appendix C.

Optional Redemption has the meaning set forth on page C-12 of this Appendix C.

Paying Agent means (Bankers Trust Company), or any successor company or entity, which has entered into a paying agent agreement with the fund to act for the fund, among other things, as the transfer agent, registrar, dividend and redemption price disbursing agent, settlement agent and agent for certain notifications for the fund in connection with the Preferred Shares in accordance with such agreement.

Preferred Shares has the meaning set forth on page C-1 of this Appendix C.

Premium Call Period has the meaning set specified in Specific Redemption Provisions below.

Preferred Shares Basic Maintenance Amount, as of any Valuation Date, means the dollar amount equal to (i) the sum of (A) the product of the number of Preferred Shares outstanding on such Valuation Date multiplied by \$100,000; (B) the aggregate amount of dividends (whether or not earned or declared) that will have accumulated for Preferred Share outstanding, in each case, to (but not including) the next Dividend Payment Date that follows such Valuation Date; (C) the aggregate amount of dividends that would accumulate at the then current Maximum Dividend Rate on Preferred Shares outstanding from the Business Day following such respective Dividend Reset Date through the 63rd day after such Valuation Date, multiplied by the larger of factors determined from time to time by Moody's and S&P and designed to take into account potential increases in dividend rates over such period (except that if such Valuation Date occurs during a Non-Payment Period, the dividend for purposes of calculation would accumulate at the then current Non-Payment Period Rate); (D) the amount of anticipated expenses of the fund for the 90 days subsequent to such Valuation Date; (E) the premium, if any, resulting from the designation of a Premium Call Period; and (F) any current liabilities relating to futures and options and any Gross-Up Dividends which are payable and payables for Municipal Securities purchased as of such Valuation Date) less (ii) the sum of (A) the receivables for Municipal Securities sold as of such Valuation Date, provided that, for purposes of calculating Preferred Shares Basic Maintenance Amount in order to determine whether the fund has Moody's Eligible Assets with a Discounted Value that equals the Preferred Shares Basic Maintenance Amount, the party from which such receivable is due shall have long-term debt rated at least A2 by Moody's and such receivable is due in 30 days or less and (B) the value of any of the fund's assets irrevocably deposited by the fund for payment of any of (i)(A) through (i)(F).

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Preferred Shares Basic Maintenance Cure Date, with respect to the failure by the fund to satisfy the Preferred Shares Basic Maintenance Amount as of a given Valuation Date, means the ninth Business Day following such Valuation Date.

Preferred Shares Basic Maintenance Report means a report signed by the President, Treasurer or any Executive Vice President or Vice President of the fund which sets forth, as of the related Valuation Date, the assets of the fund, the Market Value and the Discounted Value thereof (seriatim and in the aggregate), and the Preferred Shares Basic Maintenance Amount.

Pricing Service means Mellon Investdata Corp., or any successor company or entity, or any other entity designated from time to time by the Trustees. Notwithstanding the foregoing, the Trustees will not

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designate a new Pricing Service unless the fund has received a written confirmation from Moody's and S&P that such action would not impair the ratings then assigned by Moody's and S&P to Preferred Shares.

Qualified Investor has the meaning set forth on page C-6 of this Appendix C.

Quarterly Valuation Date means the last Business Day of each fiscal quarter of the fund in each fiscal year of the fund.

Remarketing has the meaning set forth on page C-6 of this Appendix C.

Remarketing Agent has the meaning set forth on page C-8 of this Appendix C.

S&P means Standard & Poor's Ratings Group.

S&P Discount Factor means, for purposes of determining the Discounted Value of any S&P Eligible Asset, the percentage determined by reference to the rating on such asset and the shortest S&P Collateral Period set forth opposite such rating that is the same length as or is longer than the S&P Exposure Period, in accordance with the table set forth below:

| S&P Exposure Period | Rating Category |      |      |      |
|---------------------|-----------------|------|------|------|
|                     | AAA*            | AA*  | A*   | BBB* |
| 40 Business Days    | 190%            | 195% | 210% | 250% |
| 22 Business Days    | 170             | 175  | 190  | 230  |
| 10 Business Days    | 155             | 160  | 175  | 215  |
| 7 Business Days     | 150             | 155  | 170  | 210  |
| 3 Business Days     | 130             | 135  | 150  | 190  |

\* S&P rating.

Notwithstanding the foregoing, (i) the S&P Discount Factor for short-term Municipal Securities will be 115%, so long as such Municipal Securities are rated A-1+ or SP-1+ by S&P and mature or have a demand feature exercisable in 30 days or less, or 125% if such Municipal Securities are not rated by S&P but are rated VMIG-1, P-1 or MIG-1 by Moody's; provided, however, that if such Municipal Securities are backed by any letter of credit, liquidity facility or guarantee from a bank or other financial institution, such bank or institution must have a short-term rating of at least A-1+ from S&P; and further provided that such short-term Municipal Securities rated by Moody's but not rated by S&P may comprise no more than 50% of short-term Municipal Securities that qualify as S&P Eligible Assets and (ii) no S&P Discount Factor

will be applied to cash.

**S&P Eligible Asset** means cash or a Municipal Security that (i) is interest bearing and pays interest at least semi-annually; (ii) is payable with respect to principal and interest in U.S. Dollars; (iii) is publicly rated BBB or higher by S&P or, if not rated by S&P but rated by Moody's, is rated at least A by Moody's (provided that such Moody's-rated Municipal Securities will be included in S&P Eligible Assets only to the extent the Market Value of such Municipal Securities does not exceed 50% of the aggregate Market Value of the S&P Eligible Assets; and further provided that, for purposes of determining the S&P Discount Factor applicable to any such Moody's-rated Municipal Securities, such Municipal Securities will be deemed to have an S&P rating which is one full rating category lower than its Moody's rating); (iv) is not subject to a covered call or covered put option written by the fund; (v) is not part of a private placement of Municipal Securities; and (vi) is part of an issue of Municipal Securities with an original issue size of at least \$20 million or, if of an issue with an original issue size below \$20 million (but in no event below \$10 million), is issued by an issuer with a total of at least \$50 million of securities outstanding. Notwithstanding the foregoing, (i) Municipal Securities of any one issuer or guarantor (excluding bond insurers) will be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Securities does not exceed 10% of the aggregate Market Value of the S&P Eligible Assets, provided that 2% is added to the applicable S&P Discount Factor for every 1% by which the Market Value of such Municipal Securities exceeds 5% of the aggregate Market Value of the S&P Eligible Assets; (ii) Municipal Securities guaranteed or insured by any one bond insurer will be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Securities does not exceed 25% of the aggregate Market Value of the S&P Eligible Assets; and (iii) Municipal Securities issued by issuers in any one state or territory will be considered S&P Eligible Assets only to the extent the Market Value of such Municipal Securities does not exceed 20% of the aggregate Market Value of S&P Eligible Assets.

**S&P Exposure Period** means the maximum period of time following a Valuation Date that the fund has to cure any failure to maintain, as of such Valuation Date, a Discounted Value of its portfolio at least equal to the Preferred Shares Basic Maintenance Amount.

**Securities Depository** means The Depository Trust Company or any successor company or other entity selected by the fund as securities depository for Preferred Shares that agrees to follow the procedures

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required to be followed by such securities depository in connection with the Preferred Shares.

**Settlement Date** means the first Business Day after a Dividend Reset Date applicable to a Preferred Share.

**7-day Dividend Period** means a Dividend Period containing seven days.

**Special Dividend Period** means a Dividend Period established by the fund for Preferred Shares as described on page C-2 of this Appendix C.

**Specific Redemption Provisions** means, with respect to a Special Dividend Period of 365 or more days, either, or any combination of the designation of (i) a period (a **Non-Call Period**) determined by the Trustees, after consultation with the Remarketing Agent, during which the Preferred Shares subject to such Dividend Period shall not be subject to redemption at the option of the fund and (ii) a period (a **Premium Call Period**) consisting of a number of whole years and determined by the Trustees, after consultation with the Remarketing Agent, during each year of which the Preferred Shares subject to such Dividend Period shall be redeemable at the fund's option at a price per share equal to \$100,000 plus accumulated but unpaid dividends plus a premium expressed as a percentage of \$100,000, as determined by the Trustees after consultation with the Remarketing Agent.

**Substitute Commercial Paper Dealers** means such substitute commercial paper dealers as the fund may from time to time appoint or, in lieu of any thereof, their respective affiliates or successors.

**Substitute Rating Agency** shall mean a nationally recognized statistical rating organization selected by the fund to act as the substitute rating agency to determine the credit ratings of the Preferred Shares.

**Tender and Dividend Reset** means the process pursuant to which Preferred Shares may be tendered in a Remarketing or held and become subject to the new Applicable Dividend Rate determined by the Remarketing Agent in such Remarketing.

**Tender Date** means any date on which (i) each holder of Preferred Shares must provide to the Remarketing Agent irrevocable telephonic notice of intent to tender shares in a Remarketing and (ii) such Remarketing formally commences.

**Trustees** means the Trustees of the fund.

**28-day Dividend Period** means a Dividend Period containing 28 days.

Valuation Date means, for purposes of determining whether the fund is maintaining the Preferred Shares Basic Maintenance Amount, each Business Day.

Notwithstanding the foregoing, the Trustees may, without the vote or consent of the holders of Preferred Shares, from time to time amend, alter or repeal certain of the foregoing definitions (or definitions of other terms contained in the fund's Bylaws) and any such amendment, alteration or repeal will be deemed not to affect the preferences, rights or powers of Preferred Shares or the holders thereof, provided the Trustees receive written confirmation from both Moody's and S&P that any such amendment, alteration or repeal would not impair the ratings then assigned to Preferred Shares by the rating agency providing such confirmation.

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**EXHIBIT C-1**

**NORMAL SCHEDULE FOR**

**REMARKETING PREFERRED SHARES**

The normal schedule for remarketing Preferred Shares is described below. As described in this Appendix C, the events occurring on each day of a normal remarketing schedule are subject to change in the event that certain days are not Business Days. All references herein to a particular time of day shall be to New York City time.

**Tender Date**

|   |   |
|---|---|
| 12:00 noon  | Deadline for the Remarketing Agent to make available to holders of Preferred Shares non-binding indications of Applicable Dividend Rate for the next succeeding 28-day Dividend Period (in the case of Series A Preferred Shares and Series B Preferred Shares), 7-day Dividend Period (in the case of Series C Preferred Shares) or, if applicable, Special Dividend Period. |
| 1:00 p.m.   | Deadline for each holder of Preferred Shares to provide to the Remarketing Agent irrevocable telephonic notice of intent to tender Preferred Shares for sale in the current Remarketing. Remarketing of tendered shares of Preferred Shares formally commences.   |
| Between 1:00 p.m. on Tender Date and 4:00 p.m. on Dividend Reset Date | The Remarketing Agent determines the Applicable Dividend Rate for the Dividend Period.  |

**Dividend Reset Date**

|           |                                |
|-----------|--------------------------------|
| 4:30 p.m. | The Remarketing Agent notifies |
|-----------|--------------------------------|

holders, purchasers and tendering holders of Preferred Shares by telephone, telex or otherwise of the results of the Remarketing. Applicable Dividend Rate is announced.

**Settlement Date**

Dividend Period begins. In addition, Preferred Shares which have been tendered and sold in a Remarketing are delivered against payment through the Securities Depository.

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**EXHIBIT C-2**

**RATING AGENCY REQUIREMENTS**

This Exhibit sets out certain procedures from the Bylaws of the fund containing conditions determined by S&P and Moody's which the fund must meet in order to maintain its AAA/ Aaa rating. Generally, these requirements, among other things, impose limitations on the securities in which the fund may invest (and the amount of its portfolio which may be invested in various types of securities and securities of various issuers), limit the fund's use of futures, options and forward commitments and may require the fund to redeem Preferred Shares. Any capitalized terms used in this Exhibit but not defined herein are defined elsewhere in this Appendix C.

**Preferred Shares Basic Maintenance Amount**

*Basic Requirement.* The fund shall maintain, on each Valuation Date, and shall verify to its satisfaction that it is maintaining on such Valuation Date, S&P Eligible Assets having an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount and Moody's Eligible Assets having an aggregate Discounted Value equal to or greater than the Preferred Shares Basic Maintenance Amount. Upon any failure to maintain the required Discounted Value, the fund will use its best efforts to alter the composition of its portfolio to reattain the Preferred Shares Basic Maintenance Amount on or prior to the Preferred Shares Basic Maintenance Cure Date.

*Reporting Requirements.* The fund will deliver a Preferred Shares Basic Maintenance Report to the Remarketing Agent, the Paying Agent, Moody's and S&P as of (i) the fifteenth day of each month (or, if such day is not a Business Day, the next succeeding Business Day) and (ii) the last Business Day of each month, in each case on or before 5:00 p.m., New York City time, on the third Business Day after such day.

At or before 5:00 p.m., New York City time, on the third Business Day after a Valuation Date on which the fund fails to satisfy the Preferred Shares Basic Maintenance Amount, the fund shall complete and deliver to the Remarketing Agent, the Paying Agent, Moody's and S&P a Preferred Shares Basic Maintenance Report as of the date of such failure.

At or before 5:00 p.m., New York City time, on the third Business Day after a Valuation Date on which the fund cures any failure to satisfy the Preferred Shares Basic Maintenance Amount, the fund shall complete and deliver to the Remarketing Agent, the Paying Agent, Moody's and S&P a Preferred Shares Basic Maintenance Report as of the date of such cure.

A Preferred Shares Basic Maintenance Report or Accountant's Confirmation will be deemed to have been delivered to the Remarketing Agent, the Paying Agent, Moody's and S&P if the Remarketing Agent, the Paying Agent, Moody's and S&P receive a copy or telecopy, telex or other electronic transcription thereof and on the same day the fund mails to the Remarketing Agent, the Paying Agent, Moody's and S&P for delivery on the next Business Day the full Preferred Shares Basic Maintenance Report. A failure by the fund to deliver a Preferred Shares Basic Maintenance Report shall be deemed to be delivery of a Preferred Shares Basic Maintenance Report indicating that the Discounted Value for all assets of the fund is less than the Preferred Shares Basic Maintenance Amount, as of the relevant Valuation Date.



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Within ten Business Days after the date of delivery to the Remarketing Agent, the Paying Agent, S&P and Moody's of a Preferred Shares Basic Maintenance Report relating to a Quarterly Valuation Date, the Independent Accountant will confirm in writing to the Remarketing Agent, the Paying Agent, S&P and Moody's (i) the mathematical accuracy of the calculations reflected in such Report (and in any other Preferred Shares Basic Maintenance Report randomly selected by the Independent Accountant, that was delivered by the fund during the quarter ending on such Quarterly Valuation Date, if any); (ii) that, in such Report (and in such randomly selected Report, if any), (a) the fund determined in accordance with the Bylaws whether the fund had, at such Quarterly Valuation Date (and at the Valuation Date addressed in such randomly selected Report), S&P Eligible Assets with an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount and Moody's Eligible Assets with an aggregate Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount, and (b) the Market Value of portfolio securities as determined by the Pricing Service equals the mean between the quoted bid and asked prices or the

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yield equivalent (when quotations are readily available); and (iii) the accuracy of the description of Eligible Assets as stated in the Preferred Shares Basic Maintenance Report (such confirmation is herein called the Accountant's Confirmation).

Within ten Business Days after the date of delivery to the Remarketing Agent, the Paying Agent, S&P and Moody's of a Preferred Shares Basic Maintenance Report relating to any Valuation Date on which the fund failed to satisfy the Preferred Shares Basic Maintenance Amount, the Independent Accountant will provide to the Remarketing Agent, the Paying Agent, S&P and Moody's an Accountant's Confirmation as to such Preferred Shares Basic Maintenance Report.

Within ten Business Days after the date of delivery to the Remarketing Agent, the Paying Agent, S&P and Moody's of a Preferred Shares Basic Maintenance Report relating to any Valuation Date on which the fund cured any failure to satisfy the Preferred Shares Basic Maintenance Amount, the Independent Accountant will provide to the Remarketing Agent, the Paying Agent, S&P and Moody's an Accountant's Confirmation as to such Preferred Shares Basic Maintenance Report.

If any Accountant's Confirmation delivered as required above shows that an error was made in the Preferred Shares Basic Maintenance Report for a particular Valuation Date for which such Accountant's Confirmation was required to be delivered, or shows a lower aggregate Discounted Value for the aggregate of all S&P Eligible Assets or Moody's Eligible Assets, as the case may be, of the fund was determined by the Independent Accountant, the calculation or determination made by such Independent Accountant shall be final and conclusive and shall be binding on the fund, and the fund shall accordingly amend and deliver the Preferred Shares Basic Maintenance Report to the Remarketing Agent, the Paying Agent, S&P and Moody's promptly following receipt by the fund of such Accountant's Confirmation.

At or before 5:00 p.m., New York City time, on the first Business Day after the Date of Original Issue of the Preferred Shares, the fund will complete and deliver to Moody's and S&P a Preferred Shares Basic Maintenance Report as of the close of business on such Date of Original Issue. Within five Business Days of such Date of Original Issue, the Independent Accountant will provide to Moody's and S&P an Accountant's Confirmation as to such Preferred Shares Basic Maintenance Report.

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One Post Office Square  
Boston, Massachusetts 02109  
1-800-225-1581

Putnam Retail Management

**[www.putnam.com](http://www.putnam.com)**

247240 8/07

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The proxy ballot

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**To vote by mail**

Read the proxy statement.

Check the appropriate boxes on the reverse side.

Sign and date the proxy ballot.

Return the proxy ballot in the envelope provided.

**To vote by telephone**

Read the proxy statement and have the proxy ballot at hand.

Call 1-866-437-4672

Follow the automated telephone directions.

There is no need for you to return your proxy ballot.

**To vote on the web**

Read the proxy statement and have the proxy ballot at hand.

Go to [www.myproxyonline.com](http://www.myproxyonline.com)

Follow the instructions on the site.

There is no need for you to return your proxy ballot.

**PUTNAM MANAGED MUNICIPAL INCOME TRUST**

By signing below, you as a Putnam fund shareholder, appoint Trustees John A. Hill and Robert E. Patterson, and each of them separately, with power of substitution to each, to be your proxies. You are empowering them to vote your Putnam fund shares on your behalf at the meeting of the shareholders of Putnam Managed Municipal Income Trust. The meeting will take place on October 22, 2007 at 11:00 a.m., Boston time, and may be adjourned to later times or dates. **Your vote is being solicited on behalf of the Trustees.** When you complete and sign the proxy ballot, the Trustees will vote exactly as you have indicated. **If you simply sign the proxy ballot, or don't vote on a specific proposal, your shares will be automatically voted as the Trustees recommend.** The Trustees are also authorized to vote at their discretion on any other matter that arises at the meeting or any postponement or adjournment of the meeting.

Sign your name exactly as it appears on this card. If you own shares jointly, each owner should sign. When signing as executor, administrator, attorney, trustee, guardian, or as custodian for a minor, please give your full title as such. If you are signing for a corporation, please sign the full corporate name and indicate the signer's office. If you are a partner, sign in the partnership name.

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**Proposals**

**Please vote by filling in the appropriate boxes below.**

Please vote by filling in the appropriate box below. **If you do not mark one or more proposals, your Proxy will be voted as the Trustees recommend.**

PLEASE MARK VOTES AS IN THIS EXAMPLE:

To vote on the proposals **as the Trustees recommend**, mark this box. (No other vote is necessary.)

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THE TRUSTEES RECOMMEND A VOTE **FOR** PROPOSAL 1 AND BOTH PARTS OF PROPOSAL 2.

FOR      AGAINST      ABSTAIN

1a. Approval of an Agreement and Plan of Merger that provides that Putnam High Yield Municipal Trust will

merge with and into Putnam Managed Municipal Income Trust. (To be voted on by common and preferred shareholders separately.)

2a. Approval of the authorization, creation and issuance of additional preferred shares of Putnam Managed Municipal Income Trust with an aggregate liquidation preference of \$45 million. (To be voted on by preferred shareholders only.)

2b. Approval of a two-for-one stock split of the Series C preferred shares of Putnam Managed Municipal Income Trust and a corresponding reduction in liquidation preference from \$100,000 per share to \$50,000 per share. (To be voted on by preferred shareholders only.)

Please sign and date this card.

If you have any questions on the proposals, please call 1-800-301-3998

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## The proxy ballot

### To vote by mail

Read the proxy statement.

Check the appropriate boxes on the reverse side.

Sign and date the proxy ballot.

Return the proxy ballot in the envelope provided.

### To vote by telephone

Read the proxy statement and have the proxy ballot at hand.

Call 1-866-437-4672

Follow the automated telephone directions.

There is no need for you to return your proxy ballot.

### To vote on the web

Read the proxy statement and have the proxy ballot at hand.

Go to [www.myproxyonline.com](http://www.myproxyonline.com)

Follow the instructions on the site.

There is no need for you to return your proxy ballot.

## PUTNAM HIGH YIELD MUNICIPAL TRUST

By signing below, you as a Putnam fund shareholder, appoint Trustees John A. Hill and Robert E. Patterson, and each of them separately, with power of substitution to each, to be your proxies. You are empowering them to vote your Putnam fund shares on your behalf at the meeting of the shareholders of Putnam High Yield Municipal Trust. The meeting will take place on October 22, 2007 at 11:00 a.m., Boston time, and may be adjourned to later times or dates. **Your vote is being solicited on behalf of the Trustees.** When you complete and sign the proxy ballot, the Trustees will vote exactly as you have indicated. **If you simply sign the proxy ballot, or don't vote on a specific proposal, your shares will be automatically voted as the Trustees recommend.** The Trustees are also authorized to vote at their discretion on any other matter that arises at the meeting or any postponement or adjournment of the meeting.

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Sign your name exactly as it appears on this card. If you own shares jointly, each owner should sign. When signing as executor, administrator, attorney, trustee, guardian, or as custodian for a minor, please give your full title as such. If you are signing for a corporation, please sign the full corporate name and indicate the signer's office. If you are a partner, sign in the partnership name.

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**Proposals**

**Please vote by filling in the appropriate boxes below.**

Please vote by filling in the appropriate box below. **If you do not mark one or more proposals, your Proxy will be voted as the Trustees recommend.**

PLEASE MARK VOTES AS IN THIS EXAMPLE:

To vote on the proposal **as the Trustees recommend**, mark this box. (No other vote is necessary.)

THE TRUSTEES RECOMMEND A VOTE **FOR** BOTH PARTS OF PROPOSAL 1.

FOR                      AGAINST                      ABSTAIN

1a. Approval of a Plan of Entity Conversion providing for the conversion of Putnam High Yield Municipal Trust from a Massachusetts business trust to a Massachusetts limited liability company. (To be voted on by common and preferred shareholders separately.)

1b. Approval of an Agreement and Plan of Merger that provides that Putnam High Yield Municipal Trust will merge with and into Putnam Managed Municipal Income Trust. (To be voted on by common and preferred shareholders separately.)

Please sign and date this card.

If you have any questions on the proposals, please call 1-800-301-3998

**PUTNAM MANAGED MUNICIPAL INCOME TRUST**

**FORM N-14**

**PART B**

**STATEMENT OF ADDITIONAL INFORMATION**

**September 17, 2007**

This Statement of Additional Information (the SAI ) contains material that may be of interest to investors but that is not included in the Prospectus/Proxy Statement (the Prospectus ) of Putnam Managed Municipal Income Trust (the Managed Municipal Income Trust ), dated September 17, 2007, relating to the merger of Putnam High Yield Municipal Trust (the High Yield Municipal Trust ) with and into the Managed Municipal Income Trust (together with High Yield Municipal Trust, the "funds"). This SAI is not a Prospectus and is authorized for distribution only when it accompanies or follows delivery of the Prospectus. This SAI should be read in conjunction with the Prospectus, into which this SAI is incorporated by reference. Investors may obtain a free copy of the Prospectus by writing Putnam Investor Services, P.O. Box 41203, Providence, RI 02940-1203 or by calling 1-800-225-1581. The Prospectus and this SAI are also available on the Securities and Exchange Commission's Internet website (<http://www.sec.gov>).

The information in this SAI is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This SAI is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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## CHARGES AND EXPENSES

### Management fees

Putnam Management is paid a management and investment advisory fee for services it provides to Managed Municipal Income Trust and High Yield Municipal Trust. For each fund, the management fee is paid quarterly and based on the lesser of (i) an annual rate of 0.55% of the fund's average net assets attributable to common shares and preferred shares outstanding or (ii) the following annual rates expressed as a percentage of the fund's average net assets attributable to common shares and preferred shares outstanding: 0.65% of the first \$500 million, 0.55% of the next \$500 million, 0.50% of the next \$500 million, 0.45% of the next \$5 billion, 0.425% of the next \$5 billion, 0.405% of the next \$5 billion, 0.39% of the next \$5 billion, and 0.38% thereafter.

For the past three fiscal years, pursuant to the management contracts with Managed Municipal Income Trust and High Yield Municipal Trust, the funds incurred the following fees:

### Managed Municipal Income Trust

| <u>Fiscal year</u> | <u>Management Fees Paid</u> |
|--------------------|-----------------------------|
| 2006               | \$3,167,820                 |
| 2005               | \$3,900,018                 |
| 2004               | \$3,840,217                 |

**High Yield Municipal Trust**

|                    | <b>Management</b> |
|--------------------|-------------------|
| <u>Fiscal year</u> | <u>Fees Paid</u>  |
| 2007               | \$1,182,045       |
| 2006               | \$1,448,462       |
| 2005               | \$1,510,039       |

**Brokerage commissions**

The following table shows brokerage commissions paid during the fiscal periods indicated:

**Managed Municipal Income Trust**

|                    | <b>Brokerage</b>   |
|--------------------|--------------------|
| <u>Fiscal year</u> | <u>Commissions</u> |
| 2006               | \$78,520           |
| 2005               | \$7,010            |
| 2004               | \$1,867            |

The following table shows transactions placed with brokers and dealers during Managed Municipal Income Trust's most recent fiscal year to recognize research services received by Putnam Management and its affiliates:

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| <u>Dollar Value</u> | <u>Percentage of Total</u> | <u>Amount of Commissions</u> |
|---------------------|----------------------------|------------------------------|
| \$1,865,061         | 9.99%                      | \$7,844                      |

**High Yield Municipal Trust**

|                    | <b>Brokerage</b>   |
|--------------------|--------------------|
| <u>Fiscal year</u> | <u>Commissions</u> |
| 2007               | \$21,170           |
| 2006               | \$16,147           |
| 2005               | \$825              |

There were no transactions placed with brokers and dealers during High Yield Municipal Trust's most recent fiscal year to recognize research services received by Putnam Management and its affiliates.

**Administrative expense reimbursement**

The funds reimbursed Putnam Management for administrative services during each fund's most recently completed fiscal year, including compensation of certain fund officers and contributions to the Putnam Investments Profit Sharing Retirement Plan for their benefit, as follows:

**Portion of Total**

|                                      | <b>Total Reimbursement</b> | <b>Reimbursement for<br/>Compensation and<br/>Contributions</b> |
|--------------------------------------|----------------------------|---|
| Managed<br>Municipal Income<br>Trust | \$22,387                   | \$18,474  |
| High Yield<br>Municipal Trust        | \$19,527                   | \$16,427  |

### Trustee responsibilities and fees

The Trustees are responsible for generally overseeing the conduct of fund business. Subject to such policies as the Trustees may determine, Putnam Management furnishes a continuing investment program for each fund and makes investment decisions on its behalf. Subject to the control of the Trustees, Putnam Management also manages each fund's other affairs and business.

The table below shows the value of each Trustee's holdings in each fund and in all of the Putnam funds as of December 31, 2006:

- 5 -

| <b>Name of Trustee</b>     | <b>Dollar range of shares<br/>of Managed Municipal<br/>Income Trust</b> | <b>Dollar range of shares<br/>of High Yield<br/>Municipal Trust</b> | <b>Aggregate dollar range<br/>of shares held in all of<br/>the Putnam funds<br/>overseen by Trustee</b> |
|----------------------------|---|---|---|
| Jameson A. Baxter          | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Charles B. Curtis          | \$1-10,000  | \$1-10,000  | over \$100,000  |
| *Robert J. Darretta        | -   | -   | -   |
| Myra R. Drucker            | \$1-10,000  | \$1-10,000  | over \$100,000  |
| John A. Hill               | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Paul L. Joskow             | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Elizabeth T. Kennan        | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Kenneth R. Leibler         | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Robert E. Patterson        | \$1-10,000  | \$1-10,000  | over \$100,000  |
| W. Thomas Stephens         | \$1-10,000  | \$1-10,000  | over \$100,000  |
| Richard B. Worley          | \$1-10,000  | \$1-10,000  | over \$100,000  |
| George Putnam, III         | \$10,001-<br>50,000   | \$10,001-<br>50,000   | over \$100,000  |
| **Charles E. Haldeman, Jr. | \$1-10,000  | \$1-10,000  | over \$100,000  |

\* Mr. Darretta was elected to the Board of Trustees of the Putnam funds on July 12, 2007.

\*\*Trustees who are or may be deemed to be "interested persons" (as defined in the Investment Company Act of 1940) of each fund, Putnam Management or Putnam Retail Management Limited Partnership ("Putnam Retail Management"). Mr. Haldeman is deemed an "interested person" by virtue of his position as officer of the funds or Putnam Management or Putnam Retail Management. Charles E. Haldeman, Jr. is the President and Chief Executive Officer of Putnam Investments and the President of the funds and each of the other Putnam funds. The balance of the Trustees are not "interested persons".



Each independent Trustee of the funds receives an annual retainer fee and additional fees for each Trustees meeting attended, for attendance at industry seminars and for certain compliance-related services. Independent Trustees who serve on board committees receive additional fees for attendance at certain committee meetings and for special services rendered in that connection. Independent Trustees also are reimbursed for costs incurred in connection with their services, including costs of travel, seminars and educational materials. All of the current independent Trustees of the funds are Trustees of all the Putnam funds and receive fees for their services. Mr. Putnam also receives the foregoing fees for his services as Trustee.

The Trustees periodically review their fees to ensure that such fees continue to be appropriate in light of their responsibilities as well as in relation to fees paid to trustees of other mutual fund complexes. The Board Policy and Nominating Committee, which consists solely of independent Trustees of the funds, estimates that committee and Trustee meeting time, together with the appropriate preparation, requires the equivalent of at least three business days per Trustee meeting. The standing committees of each Board of Trustees, and the number of times each committee met during such fund's last fiscal year, are show in the table below:

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|   | <b>Managed Municipal<br/>Income Trust (fiscal<br/>year ended 10/31/06)</b> | <b>High Yield Municipal<br/>Trust (fiscal year ended<br/>3/31/07)</b> |
|---|--|---|
| Audit and Compliance Committee                      | 13   | 13  |
| Board Policy and Nominating<br>Committee            | 10   | 10  |
| Brokerage Committee                                 | 6  | 7   |
| Contract Committee                                  | 15   | 21  |
| Distributions Committee                             | 11   | 11  |
| Executive Committee                                 | 2  | 2   |
| Investment Oversight Committees                     | 35   | 35  |
| Pricing Committee                                   | 13   | 10  |
| Communications, Service and<br>Marketing Committee* | 16   | 10  |
| Investment Oversight<br>Coordinating Committee**    | -  | -   |

\* Effective July, 2007, certain responsibilities of the Marketing Committee and the Shareholder Communications and Relations Committee were assigned to a new committee, the Communications, Service and Marketing Committee. The number of meetings shows the number of meetings held by the Marketing Committee and the Shareholder Communications and Relations Committee held during each fund's last fiscal year.

\*\* The Investment Oversight Coordinating Committee was established in July 2007.

The following table shows the year each Trustee was first elected a Trustee of Putnam funds, the fees paid to each Trustee by each fund during such fund's last fiscal year, and the fees paid to each Trustee by all of the Putnam funds during the calendar year 2006.

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**COMPENSATION TABLE**

Pension or

Pension or

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| <b>Trustees/Year</b>           | <b>Aggregate compensation from Managed Municipal Income Trust</b> | <b>retirement benefits accrued as part of Managed Municipal Trust expenses</b> | <b>Aggregate compensation from High Yield Municipal Trust</b> | <b>retirement benefits accrued as part of High Yield Municipal Trust expenses</b> | <b>Estimated annual benefits from all Putnam funds upon retirement (1)</b> | <b>Total compensation from all Putnam funds (2)</b> |
|--------------------------------|---|--|---|---|--|---|
| Jameson A. Baxter/1994         | \$1,895   | \$670  | \$1,683   | \$532   | \$110,500  | \$290,000   |
| Charles B. Curtis/2001         | 1,846   | 979  | 1,742   | 691   | 113,900  | 300,000   |
| Robert J. Darretta/2007(4)     | N/A   | N/A  | N/A   | N/A   | N/A  | N/A   |
| Myra A. Drucker/2004(3)        | 1,800   | 0  | 1,684   | 0   | N/A  | 290,000   |
| Charles E. Haldeman, Jr./2004  | 0   | 0  | 0   | 0   | N/A  | 0   |
| John A. Hill/1985(3)(5)        | 2,598   | 922  | 2,302   | 758   | 161,700  | 421,419   |
| Paul L. Joskow/1997(3)         | 1,857   | 591  | 1,713   | 438   | 113,400  | 295,000   |
| Elizabeth T. Kennan/1992(3)    | 1,913   | 849  | 1,742   | 680   | 108,000  | 300,000   |
| Kenneth R. Leibler/2006(6)     | 316   | 0  | 729   | 0   | N/A  | 77,500  |
| John H. Mullin, III/1997(3)(7) | 1,074   | 744  | 621   | 595   | 107,400  | 155,000   |
| Robert E. Patterson/1984       | 1,880   | 512  | 1,742   | 424   | 106,500  | 300,000   |
| George Putnam, III/1984(5)     | 2,003   | 466  | 1,858   | 384   | 130,300  | 320,000   |
| W. Thomas Stephens/1997(3)     | 1,794   | 711  | 1,684   | 541   | 107,100  | 290,000   |

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|                           |       |   |       |   |     |         |
|---------------------------|-------|---|-------|---|-----|---------|
| Richard B.<br>Worley/2004 | 1,849 | 0 | 1,742 | 0 | N/A | 300,000 |
|---------------------------|-------|---|-------|---|-----|---------|

(1) Estimated benefits for each Trustee are based on Trustee fee rates for calendar years 2003, 2004 and 2005. For Mr. Mullin, the annual benefits equal the actual benefits he is currently receiving under the Retirement Plan for Trustees of the Putnam funds.

(2) As of December 31, 2006, there were 107 funds in the Putnam family. For Mr. Hill, amounts shown also include compensation for service as Chairman of TH Lee, Putnam Emerging Opportunities Portfolio, a closed-end fund advised by an affiliate of Putnam Management.

(3) Certain Trustees are also owed compensation deferred pursuant to a Trustee Compensation Deferral Plan. As of the end of each fund's last fiscal year, the total amounts of deferred compensation payable, including income earned on such amounts, to these Trustees by Managed Municipal Income Trust and High Yield Municipal Trust were: Ms.

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Drucker - \$315 and \$276, respectively; Mr. Hill - \$1,983 and \$1,663, respectively; Dr. Kennan - \$315 and \$276, respectively; Mr. Mullin - \$0 and -\$363, respectively; and Mr. Stephens - \$387 and -\$154, respectively.

(4) Mr. Darretta was elected to the Board of Trustees of the Putnam Funds on July 12, 2007.

(5) Includes additional compensation to Messrs. Hill and Putnam for service as Chairman of the Trustees and President of the Funds (through May 31, 2007), respectively. Mr. Putnam retired as President of the Funds on May 31, 2007.

(6) Mr. Leibler was elected to the Board of Trustees of the Putnam funds on October 12, 2006.

(7) Mr. Mullin retired from the Board of Trustees of the Putnam funds on June 30, 2006.

Under a Retirement Plan for Trustees of the Putnam funds (the "Plan"), each Trustee who retires with at least five years of service as a Trustee of the funds is entitled to receive an annual retirement benefit equal to one-half of the average annual attendance and retainer fees paid to such Trustee for calendar years 2003, 2004 and 2005. This retirement benefit is payable during a Trustee's lifetime, beginning the year following retirement, for the number of years of service through December 31, 2006. A death benefit, also available under the Plan, ensures that the Trustee and his or her beneficiaries will receive benefit payments for the lesser of an aggregate period of (i) ten years or (ii) such Trustee's total years of service.

The Plan Administrator (currently the Board Policy and Nominating Committee) may terminate or amend the Plan at any time, but no termination or amendment will result in a reduction in the amount of benefits (i) currently being paid to a Trustee at the time of such termination or amendment, or (ii) to which a current Trustee would have been entitled had he or she retired immediately prior to such termination or amendment. The Trustees have terminated the Plan with respect to any Trustee first elected to the board after 2003.

For additional information concerning the Trustees, see "Management".

### Share ownership

As of July 31, 2007, the officers and Trustees of each fund as a group beneficially owned less than 1% of the outstanding shares of such fund, and no person owned of record or, to the knowledge of a fund, beneficially 5% or more of the outstanding shares of each fund, except as follows:

Managed Municipal Income Trust

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| Shareholder Name and Address                               | Holdings                 | Percentage Owned |
|--|--------------------------|------------------|
| Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408 | 36,181,006 Common Shares | 90.00%           |

\* Believed to hold shares only as a nominee.

High Yield Municipal Trust

| Shareholder Name and Address                               | Holdings                 | Percentage Owned |
|--|--------------------------|------------------|
| Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408 | 17,146,272 Common Shares | 90.10%           |

\* Believed to hold shares only as a nominee.

The following tables sets forth those persons who are expected to own of record or beneficially 5% or more of the outstanding shares of Managed Municipal Income Trust, based on the share ownership record discussed above, after the consummation of the proposed merger:

Managed Municipal Income Trust (*pro forma* combined with High Yield Municipal Trust)

| Shareholder Name and Address   | Percentage Owned |
|--|------------------|
| <u>High Yield Muni</u><br>Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408 | 28.16%           |
| <u>Managed Muni</u><br>Cede & Co.*<br>20 Bowling Green<br>New York, NY 10004-1408    | 61.92%           |

\* Believed to hold shares only as a nominee.

**Investor Servicing and Custody Fees and Expenses**

During each fund's last fiscal year, such fund incurred the following fees and out-of-pocket expenses for investor servicing and custody services provided by Putnam Fiduciary Trust Company:

|                                | <b>Investor Servicing</b> | <b>Custody</b> |
|--------------------------------|---------------------------|----------------|
| Managed Municipal Income Trust | \$188,595                 | \$145,207      |
| High Yield Municipal Trust     | \$84,702                  | \$89,587       |

## **MISCELLANEOUS INVESTMENTS, INVESTMENT PRACTICES AND RISKS**

In addition to the investment strategies and risks described in the Prospectus/Proxy Statement, each fund may employ other investment practices and may be subject to other risks, which are described below. Certain investment strategies and risks that are described briefly in the Prospectus/Proxy Statement are described in greater detail below.

Managed Municipal Income Trust pursues its objective by investing primarily in a diversified portfolio of municipal securities and may invest up to 50% of its total assets in high yield, lower quality municipal securities rated BB or lower by Standard & Poor's ("S&P") or Ba or lower by Moody's Investors Service, Inc. ("Moody's") or are unrated investments Putnam Management believes are of comparable quality. High Yield Municipal Trust pursues its investment objective by investing in high yielding tax-exempt municipal securities constituting a portfolio which Putnam Management believes to be consistent with prudent investment management and will normally invest a substantial portion of its assets in municipal securities rated BB or lower by S&P or Ba or lower by Moody's or are unrated investments Putnam Management believes are of comparable quality. While offering opportunities for higher yields, such lower-rated securities are considered below "investment grade" and involve higher risk. Such lower-rated securities are regarded by S&P and Moody's, on balance, as predominantly speculative with respect to

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capacity to pay interest and repay principal in accordance with the terms of the obligation. The lowest rating category in which Managed Municipal Income Trust will invest is C. Securities rated C can be regarded as having extremely poor prospects of even attaining any real investment standing. The lowest rating category in which High Yield Municipal Trust will invest is B- by S&P or B by Moody's. Each fund will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase, although Putnam Management will monitor the investment to determine whether continued investment in the security will assist in meeting each fund's investment objective.

### **Tax-exempt securities**

**General.** As used in this SAI, the term "Tax-exempt securities" includes debt obligations issued by a state, its political subdivisions (for example, counties, cities, towns, villages, districts and authorities) and their agencies, instrumentalities or other governmental units, the interest from which is, in the opinion of bond counsel, exempt from federal income tax and (if applicable) the corresponding state's personal income tax. Such obligations are issued to obtain funds for various public purposes, including the construction of a wide range of public facilities, such as airports, bridges, highways, housing, hospitals, mass transportation, schools, streets and water and sewer works. Other public purposes for which Tax-exempt securities may be issued include the refunding of outstanding obligations or the payment of general operating expenses. Under normal market conditions, at least 80% of each fund's assets will be invested in Tax-exempt securities. The foregoing is a fundamental policy and cannot be changed without shareholder approval. However, the fund may invest an unlimited portion of its assets in Tax-exempt securities that pay interest that is subject to the AMT for individuals. Such investments are treated as Tax-exempt securities for the purpose of the 80% test. Investors should thus consider the possible effect of the AMT on an investment in a fund. The suitability of a fund for investors who may be (or may become as a result of investment in a fund) subject to the AMT will depend upon a comparison of the yield likely to be provided from each fund with the yield from comparable tax-exempt investments not subject to the AMT with the yield from comparable fully taxable investments, in light of

each such investor's tax position. Subject to certain limitations, each fund may engage in certain hedging transactions involving the use of futures contracts, options on futures contracts, and options on indices of fixed income securities and on U.S. government securities. Such hedging transactions may give rise to taxable gains.

Short-term Tax-exempt securities are generally issued by state and local governments and public authorities as interim financing in anticipation of tax collections, revenue receipts or bond sales to finance such public purposes.

The two principal classifications of Tax-exempt securities are "general obligation" bonds and "revenue" or "special obligation" bonds, which include "industrial revenue bonds" and "private activity bonds." General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of interest and the repayment of principal and, accordingly, the capacity of the issuer of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer's maintenance of its tax base. Revenue or special obligation bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special tax or other specific revenue source such as from the users of the facility being financed; accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue

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or special obligation bond is a function of the economic viability of such facility or such revenue source. Certain types of "private activity" bonds may be issued by public authorities to finance projects such as privately operated housing facilities; certain local facilities for supplying water, gas or electricity; sewage or solid waste disposal facilities; student loans; or public or private institutions for the construction of educational, hospital or housing and other facilities. Such obligations are included within the term Tax-exempt securities if the interest paid thereon is, in the opinion of bond counsel, exempt from federal income tax and state personal income tax (such interest may, however, be subject to federal AMT). Other types of private activity bonds, the proceeds of which are used for the construction, repair or improvement of, or to obtain equipment for, privately operated industrial or commercial facilities, may also constitute Tax-exempt securities, although the current federal tax laws place substantial limitation on the size of issues.

In addition, certain types of "private activity" bonds may be issued by public authorities to finance projects such as privately operated housing facilities; certain local facilities for supplying water, gas or electricity; sewage or solid waste disposal facilities; student loans; or public or private institutions for the construction of educational, hospital, housing and other facilities. Such obligations are included within the term Tax-exempt securities if the interest paid thereon is, in the opinion of bond counsel, exempt from federal income tax and (if applicable) state personal income tax (such interest may, however, be subject to federal alternative minimum tax). Other types of private activity bonds, the proceeds of which are used for the construction, repair or improvement of, or to obtain equipment for, privately operated industrial or commercial facilities, may also constitute Tax-exempt securities, although the current federal tax laws place substantial limitations on the size of such issues.

Tax-exempt securities share many of the structural features and risks of other bonds, as described elsewhere in this SAI. For example, the fund may purchase callable Tax-exempt securities, zero-coupon Tax-exempt securities, or stripped Tax-exempt securities, which entail additional risks. The fund may also purchase structured or asset-backed Tax-exempt securities, such as the securities (including preferred stock) of special purpose entities that hold interests in the Tax-exempt securities of one or more issuers and issue tranch securities that are entitled to receive payments based on the cash flows from those underlying securities. See Redeemable securities, Zero-coupon and payment-in-kind bonds, Structured investments, and Mortgage-backed and Asset-backed Securities in this SAI. Structured Tax-exempt securities may involve increased risk that the interest received by the fund may not be exempt from federal or state income tax, or that such interest may result in liability for the alternative minimum tax for shareholders of the fund. For example, in certain cases, the issuers of certain securities held by a special purpose entity

may not have received an unqualified opinion of bond counsel that the interest from the securities will be exempt from federal income tax and (if applicable) the corresponding state's personal income tax.

The amount of information about the financial condition of an issuer of tax-exempt securities may not be as extensive as that which is made available by corporations whose securities are publicly traded. As a result, the achievement of each fund's goals is more dependent on Putnam Management's investment analysis than would be the case if each fund were investing in securities of better-known issuers.

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**Escrow-secured or pre-refunded bonds.** These securities are created when an issuer uses the proceeds from a new bond issue to buy high grade, interest-bearing debt securities, generally direct obligations of the U.S. government, in order to redeem (or pre-refund), before maturity, an outstanding bond issue that is not immediately callable. These securities are then deposited in an irrevocable escrow account held by a trustee bank to secure all future payments of principal and interest on the pre-refunded bond until that bond's call date. Pre-refunded bonds often receive an AAA or equivalent rating. Because pre-refunded bonds still bear the same interest rate, and have a very high credit quality, their price may increase. However, as the original bond approaches its call date, the bond's price will fall to its call price.

**Residual interest bonds.** The fund may invest in residual interest bonds, which are created by depositing municipal securities in a trust and dividing the income stream of an underlying municipal bond in two parts, one, a variable rate security and the other, a residual interest bond. The interest rate for the variable rate security is determined by an index or a periodic auction process, while the residual interest bond holder receives the balance of the income from the underlying municipal bond less an auction fee. The market prices of residual interest bonds may be highly sensitive to changes in market rates and may decrease significantly when market rates increase.

**Tobacco Settlement Revenue Bonds.** The fund may invest in tobacco settlement revenue bonds, which are secured by an issuing state's proportionate share of payments under the Master Settlement Agreement (MSA). The MSA is an agreement that was reached out of court in November 1998 between 46 states and six U.S. jurisdictions and tobacco manufacturers representing an overwhelming majority of U.S. market share. The MSA provides for annual payments by the manufacturers to the states and jurisdictions in perpetuity in exchange for releasing all claims against the manufacturers and a pledge of no further litigation. The MSA established a base payment schedule and a formula for adjusting payments each year. Tobacco manufacturers pay into a master escrow trust based on their market share, and each state receives a fixed percentage of the payment as set forth in the MSA. Within some states, certain localities may in turn be allocated a specific portion of the state's MSA payment pursuant to an arrangement with the state.

A number of state and local governments have securitized the future flow of payments under the MSA by selling bonds pursuant to indentures, some through distinct governmental entities created for such purpose. The bonds are backed by the future revenue flow that is used for principal and interest payments on the bonds. Annual payments on the bonds, and thus risk to the fund, are dependent on the receipt of future settlement payments by the state or its instrumentality. The actual amount of future settlement payments may vary based on, among other things, annual domestic cigarette shipments, inflation, the financial capability of participating tobacco companies, and certain offsets for disputed payments. Payments made by tobacco manufacturers could be reduced if cigarette shipments continue to decline below the base levels used in establishing manufacturers' payment obligations under the MSA. Demand for cigarettes in the U.S. could continue to decline based on many factors, including, without limitation, anti-smoking campaigns, tax increases, price increases implemented to recoup the cost of payments by tobacco companies under the MSA, reduced ability to advertise, enforcement of laws prohibiting sales to minors, elimination of certain sales venues such as vending machines, and the spread of local ordinances restricting smoking in public places.

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Because tobacco settlement bonds are backed by payments from the tobacco manufacturers, and generally not by the credit of the state or local government issuing the bonds, their creditworthiness depends on the ability of tobacco manufacturers to meet their obligations. The bankruptcy of an MSA-participating manufacturer could cause delays or reductions in bond payments, which would affect the fund's net asset value. Under the MSA, a market share loss by MSA-participating tobacco manufacturers to non-MSA participating manufacturers would also cause a downward adjustment in the payment amounts under some circumstances.

The MSA and tobacco manufacturers have been and continue to be subject to various legal claims, including, among others, claims that the MSA violates federal antitrust law. In addition, the United States Department of Justice has alleged in a civil lawsuit that the major tobacco companies defrauded and misled the American public about the health risks associated with smoking cigarettes. An adverse outcome to this lawsuit or to any other litigation matters or regulatory actions relating to the MSA or affecting tobacco manufacturers could adversely affect the payment streams associated with the MSA or cause delays or reductions in bond payments by tobacco manufacturers.

In addition to the risks described above, tobacco settlement revenue bonds are subject to other risks described in this SAI, including the risks of asset-backed securities discussed under "Mortgage Related and Asset-backed Securities."

**Stand-by commitments.** When the fund purchases Tax-exempt securities, it has the authority to acquire stand-by commitments from banks and broker-dealers with respect to those Tax-exempt securities. A stand-by commitment may be considered a security independent of the Tax-exempt security to which it relates. The amount payable by a bank or dealer during the time a stand-by commitment is exercisable, absent unusual circumstances, would be substantially the same as the market value of the underlying Tax-exempt security to a third party at any time. The fund expects that stand-by commitments generally will be available without the payment of direct or indirect consideration. The fund does not expect to assign any value to stand-by commitments.

**Yields.** The yields on Tax-exempt securities depend on a variety of factors, including general money market conditions, effective marginal tax rates, the financial condition of the issuer, general conditions of the Tax-exempt security market, the size of a particular offering, the maturity of the obligation and the rating of the issue. The ratings of nationally recognized securities rating agencies represent their opinions as to the credit quality of the Tax-exempt securities which they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, Tax-exempt securities with the same maturity and interest rate but with different ratings may have the same yield. Yield disparities may occur for reasons not directly related to the investment quality of particular issues or the general movement of interest rates and may be due to such factors as changes in the overall demand or supply of various types of Tax-exempt securities or changes in the investment objectives of investors. Subsequent to purchase by a fund, an issue of Tax-exempt securities or other investments may cease to be rated, or its rating may be reduced below the minimum rating required for purchase by the fund. Neither event will require the elimination of an investment from a fund's portfolio, but Putnam Management will consider such an event in its determination of whether the fund should continue to hold an investment in its portfolio.

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**"Moral obligation" bonds.** The fund may invest in so-called "moral obligation" bonds, where repayment is backed by a moral (but not legally binding) commitment of an entity other than the issuer, such as a state legislature, to pay. Such a commitment may be in addition to the legal commitment of the issuer to repay the bond or may represent the only payment obligation with respect to the bond (where, for example, no amount has yet been specifically appropriated to pay the bond. See "Municipal leases" below.)



**Municipal leases.** Each fund may acquire participations in lease obligations or installment purchase contract obligations (collectively, lease obligations) of municipal authorities or entities. Lease obligations do not constitute general obligations of the municipality for which the municipality's taxing power is pledged. Certain of these lease obligations contain non-appropriation clauses, which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In the case of a non-appropriation lease, the fund's ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, and in any event, foreclosure of that property might prove difficult.

**Additional risks.** Securities in which the fund may invest, including Tax-exempt securities, are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the federal Bankruptcy Code (including special provisions related to municipalities and other public entities), and laws, if any, that may be enacted by Congress or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations. There is also the possibility that, as a result of litigation or other conditions, the power, ability or willingness of issuers to meet their obligations for the payment of interest and principal on their Tax-exempt securities may be materially affected.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on debt obligations issued by states and their political subdivisions. Federal tax laws limit the types and amounts of tax-exempt bonds issuable for certain purposes, especially industrial development bonds and private activity bonds. Such limits may affect the future supply and yields of these types of Tax-exempt securities. Further proposals limiting the issuance of Tax-exempt securities may well be introduced in the future. If it appeared that the availability of Tax-exempt securities for investment by a fund and the value of a fund's portfolio could be materially affected by such changes in law, the Trustees of the fund would reevaluate its investment objective and policies and consider changes in the structure of the fund or its dissolution.

In addition, the Supreme Court has agreed to hear an appeal of a state-court decision that might significantly affect how states tax in-state and out-of-state municipal bonds. A Kentucky state court held that a Kentucky law violates the U.S. Constitution by treating, for Kentucky state tax purposes, the interest income on in-state municipal bonds differently from the income on out-of-state municipal bonds. If the Supreme Court affirms this holding, most states likely will revisit the way in which they treat the interest on municipal bonds, and this has the potential to increase significantly the amount of state tax paid by shareholders on exempt-interest dividends. The Supreme Court likely will hold oral arguments on this case in the fall of 2007 and issue a decision sometime thereafter. You should consult your tax advisor to discuss the tax consequences of your investment in the Fund.

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## Selection of investments

Putnam Management will buy and sell securities for each fund's portfolio with a view to seeking as high a level of current income as is believed to be consistent with the preservation of capital, considered in relation to the particular investment policies of each fund. As a result, the funds will not necessarily invest in the highest yielding Tax-exempt securities permitted by its investment policies if Putnam Management determines that market risks or credit risks associated with such investments would subject the fund's portfolio to excessive risk. The potential for realization of capital gains resulting from possible changes in interest rates will not be a major consideration. Putnam Management will be free to take full advantage of the entire range of maturities offered by Tax-exempt securities and may adjust the average maturity of the fund's portfolio from time to time, depending on its assessment of the relative yields available on securities of different maturities and its expectations for future changes in interest rates.

Each fund does not generally invest more than 25% of its total assets in any one industry. Governmental issuers of municipal securities are not considered part of any "industry." However, municipal securities backed only by the assets and revenues of non-governmental users may, for this purpose, be deemed to be related to the industry in which such non-government users engage, and the 25% limitation would apply to such obligations. It is nonetheless possible that each fund may invest more than 25% of its assets in a broader segment of the municipal securities market, such as revenue obligations of hospitals and other health care facilities, housing agency revenue obligations, or airport revenue obligations. This would be the case only if Putnam Management determines that the yields available from obligations in a particular segment of the market justified the additional risks associated with a large investment in such segment. Although such obligations could be supported by the credit of governmental users or by the credit of non-governmental users engaged in a number of industries, economic, business, political and other developments generally affecting the revenues of such users (for example, proposed legislation or pending court decisions affecting the financing of such projects and market factors affecting the demand for their services or products) may have a general adverse effect on all municipal securities in such a market segment. Each fund reserves the right to invest more than 25% of its assets in industrial development bonds or private activity bonds (subject to the limitation that under normal market conditions not more than 20% of each fund's assets will be invested in private activity bonds the interest on which may be subject to federal AMT for individuals) or in securities of issuers located in the same state, although it has no present intention to invest more than 25% of its assets in issuers located in the same state and rating agency requirements applicable to each fund based upon the rating of the preferred shares may limit such investment. If the fund were to invest more than 25% of its assets in issuers located in the same state, it would be more susceptible to adverse economic, business or regulatory conditions in that state.

### **Defensive strategies**

At times Putnam Management may judge that conditions in the markets for Tax-exempt securities make pursuing each fund's basic investment strategy inconsistent with the best interests of its shareholders. At such times, Putnam Management may use alternative strategies primarily designed to reduce fluctuations in the value of the fund's assets. In implementing these "defensive strategies", each fund may invest substantially all of its assets in high-quality tax-exempt obligations. If these high-quality tax-exempt obligations are not available or, in Putnam

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Management's judgment, do not afford sufficient protection against adverse market conditions, each fund may invest in taxable obligations. Such taxable obligations may include: obligations of the U.S. government, its agencies or instrumentalities; other debt securities rated within the four highest grades by either S&P or Moody's; commercial paper rated in the highest grade by either rating service; certificates of deposit or bankers' acceptances; repurchase agreements with respect to any of the foregoing investments; or any other fixed-income securities that Putnam Management considers consistent with such strategy. To the extent that the use of certain of these strategies produces taxable income, this taxable income will be distributed to common and preferred shareholders based on each class's proportionate share of such income as determined according to the percentage of total dividend paid by each fund during a particular year that are paid to such class. Such strategies may, under certain circumstances, require each fund to pay Additional Dividends on Preferred Shares, thus reducing the amount of income available for distributions on common shares. It is impossible to predict when, or for how long, each fund will use these alternative strategies.

### **Other investment practices**

Each fund may also engage in the following investment practices, each of which may involve certain special risks and may result in the realization of taxable income or gains.

**Bank Loans.** The fund may invest in bank loans. By purchasing a loan, the fund acquires some or all of the interest of a bank or other lending institution in a loan to a particular borrower. The fund may act as part of a lending syndicate,

and in such cases would be purchasing a participation in the loan. The fund may also purchase loans by assignment from another lender. Many loans are secured by the assets of the borrower, and most impose restrictive covenants which must be met by the borrower. These loans are typically made by a syndicate of banks, represented by an agent bank which has negotiated and structured the loan and which is responsible generally for collecting interest, principal, and other amounts from the borrower on its own behalf and on behalf of the other lending institutions in the syndicate, and for enforcing its and their other rights against the borrower. Each of the lending institutions, including the agent bank, lends to the borrower a portion of the total amount of the loan, and retains the corresponding interest in the loan.

The fund's ability to receive payments of principal and interest and other amounts in connection with loan participations held by it will depend primarily on the financial condition of the borrower (and, in some cases, the lending institution from which it purchases the loan). The value of collateral, if any, securing a loan can decline, or may be insufficient to meet the borrower's obligations or difficult to liquidate. In addition, the fund's access to collateral may be limited by bankruptcy or other insolvency laws. The failure by the fund to receive scheduled interest or principal payments on a loan would adversely affect the income of the fund and would likely reduce the value of its assets, which would be reflected in a reduction in the fund's net asset value. Banks and other lending institutions generally perform a credit analysis of the borrower before originating a loan or participating in a lending syndicate. In selecting the loans in which the fund will invest, however, Putnam Management will not rely solely on that credit analysis, but will perform its own investment analysis of the borrowers. Putnam Management's analysis may include consideration of the borrower's financial strength and managerial experience, debt coverage, additional borrowing requirements or debt maturity schedules, changing financial conditions, and responsiveness to changes in business conditions and interest

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rates. Putnam Management will generally not have access to non-public information to which other investors in syndicated loans may have access. Because loans in which the fund may invest are not generally rated by independent credit rating agencies, a decision by the fund to invest in a particular loan will depend almost exclusively on Putnam Management's, and the original lending institution's, credit analysis of the borrower. Investments in loans may be of any quality, including distressed loans, and will be subject to the fund's credit quality policy. The loans in which the fund may invest include those that pay fixed rates of interest and those that pay floating rates *i.e.*, rates that adjust periodically based on a known lending rate, such as a bank's prime rate.

Loans may be structured in different forms, including novations, assignments and participating interests. In a novation, the fund assumes all of the rights of a lending institution in a loan, including the right to receive payments of principal and interest and other amounts directly from the borrower and to enforce its rights as a lender directly against the borrower. The fund assumes the position of a co-lender with other syndicate members. As an alternative, the fund may purchase an assignment of a portion of a lender's interest in a loan. In this case, the fund may be required generally to rely upon the assigning bank to demand payment and enforce its rights against the borrower, but would otherwise be entitled to all of such bank's rights in the loan. The fund may also purchase a participating interest in a portion of the rights of a lending institution in a loan. In such case, it will be entitled to receive payments of principal, interest and premium, if any, but will not generally be entitled to enforce its rights directly against the agent bank or the borrower, and must rely for that purpose on the lending institution. The fund may also acquire a loan interest directly by acting as a member of the original lending syndicate.

The fund will in many cases be required to rely upon the lending institution from which it purchases the loan to collect and pass on to the fund such payments and to enforce the fund's rights under the loan. As a result, an insolvency, bankruptcy or reorganization of the lending institution may delay or prevent the fund from receiving principal, interest and other amounts with respect to the underlying loan. When the fund is required to rely upon a lending institution to pay to the fund principal, interest and other amounts received by it, Putnam Management will also evaluate the creditworthiness of the lending institution.

The borrower of a loan in which the fund holds an interest may, either at its own election or pursuant to terms of the loan documentation, prepay amounts of the loan from time to time. There is no assurance that the fund will be able to reinvest the proceeds of any loan prepayment at the same interest rate or on the same terms as those of the original loan.

Corporate loans in which the fund may invest are generally made to finance internal growth, mergers, acquisitions, stock repurchases, leveraged buy-outs and other corporate activities. A significant portion of the corporate loans purchased by the fund may represent interests in loans made to finance highly leveraged corporate acquisitions, known as "leveraged buy-out" transactions, leveraged recapitalization loans and other types of acquisition financing. The highly leveraged capital structure of the borrowers in such transactions may make such loans especially vulnerable to adverse changes in economic or market conditions. In addition, loans generally are subject to restrictions on transfer, and only limited opportunities may exist to sell such participations in secondary markets. As a result, the fund may be unable to sell loans at a time when it may otherwise be desirable to do so or may be able to sell them only at a price that is less than their fair market value. The fund may hold investments in loans for a very short

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period of time when opportunities to resell the investments that Putnam Management believes are attractive arise.

Certain of the loans acquired by the fund may involve revolving credit facilities under which a borrower may from time to time borrow and repay amounts up to the maximum amount of the facility. In such cases, the fund would have an obligation to advance its portion of such additional borrowings upon the terms specified in the loan participation. To the extent that the fund is committed to make additional loans under such a participation, it will at all times set aside on its books liquid assets in an amount sufficient to meet such commitments. Certain of the loan participations acquired by the fund may also involve loans made in foreign currencies. The fund's investment in such participations would involve the risks of currency fluctuations described above with respect to investments in the foreign securities.

With respect to its management of investments in bank loans, Putnam Management will normally seek to avoid receiving material, non-public information ( Confidential Information ) about the issuers of bank loans being considered for acquisition by the fund or held in the fund's portfolio. In many instances, borrowers may offer to furnish Confidential Information to prospective investors, and to holders, of the issuer's loans. Putnam Management's decision not to receive Confidential Information may place Putnam Management at a disadvantage relative to other investors in loans (which could have an adverse effect on the price the fund pays or receives when buying or selling loans). Also, in instances where holders of loans are asked to grant amendments, waivers or consent, Putnam Management's ability to assess their significance or desirability may be adversely affected. For these and other reasons, it is possible that Putnam Management's decision not to receive Confidential Information under normal circumstances could adversely affect the fund's investment performance.

Notwithstanding its intention generally not to receive material, non-public information with respect to its management of investments in loans, Putnam Management may from time to time come into possession of material, non-public information about the issuers of loans that may be held in the fund's portfolio. Possession of such information may in some instances occur despite Putnam Management's efforts to avoid such possession, but in other instances Putnam Management may choose to receive such information (for example, in connection with participation in a creditors committee with respect to a financially distressed issuer). As, and to the extent, required by applicable law, Putnam Management's ability to trade in these loans for the account of the fund could potentially be limited by its possession of such information. Such limitations on Putnam Management's ability to trade could have an adverse effect on the fund by, for example, preventing the fund from selling a loan that is experiencing a material decline in value. In some instances, these trading restrictions could continue in effect for a substantial period of time.

In some instances, other accounts managed by Putnam Management or an affiliate may hold other securities issued by borrowers whose loans may be held in the fund's portfolio. These other securities may include, for example, debt securities that are subordinate to the loans held in the fund's portfolio, convertible debt or common or preferred equity securities. In certain circumstances, such as if the credit quality of the issuer deteriorates, the interests of holders of these other securities may conflict with the interests of the holders of the issuer's loans. In such cases, Putnam Management may owe conflicting fiduciary duties to the fund and other client accounts. Putnam Management will endeavor to carry out its obligations to all of its clients to

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the fullest extent possible, recognizing that in some cases certain clients may achieve a lower economic return, as a result of these conflicting client interests, than if Putnam Management's client accounts collectively held only a single category of the issuer's securities.

**Borrowing.** The fund may borrow money to the extent permitted by its investment policies and restrictions and applicable law. When the fund borrows money or otherwise leverages its portfolio, the value of an investment in the fund will be more volatile and other investment risks will tend to be compounded. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the fund's holdings. In addition to borrowing money from banks, the fund may engage in certain other investment transactions that may be viewed as forms of financial leverage—for example, using dollar rolls, investing collateral from loans of portfolio securities, entering into when-issued, delayed-delivery or forward commitment transactions or using derivatives such as swaps, futures, forwards, and options. Because the fund either (1) sets aside cash (or other assets determined to be liquid by Putnam Management in accordance with procedures established by the Trustees) on its books in respect of such transactions during the period in which the transactions are open or (2) otherwise "covers" its obligations under the transactions, such as by holdings offsetting investments, the fund does not consider these transactions to be borrowings for purposes of its investment restrictions or "senior securities" for purposes of the 1940 Act. In some cases (e.g., with respect to futures and forwards that are contractually required to "cash-settle"), the fund is permitted under relevant guidance from the SEC or SEC staff to set aside assets with respect to an investment transaction in the amount of its net (marked-to-market) obligations thereunder, rather than the full notional amount of the transaction. By setting aside assets equal only to its net obligations, the fund will have the ability to employ leverage to a greater extent than if it set aside assets equal to the notional amount of the transaction, which may increase the risk associated with such investments.

**Derivatives.** Certain of the instruments in which the fund may invest, such as futures contracts, options, and forward commitments, are considered to be "derivatives." Derivatives are financial instruments whose value depends upon, or is derived from, the value or other attributes of an underlying asset, such as a security or an index. Further information about these instruments and the risks involved in their use is included elsewhere in the Prospectus and in this SAI. The fund's use of derivatives may cause the fund to recognize higher amounts of short-term capital gains, which are generally taxed to shareholders at ordinary income tax rates. Investments in derivatives may be applied toward meeting a requirement to invest in a particular kind of investment if the derivatives have economic characteristics similar to that investment. The fund's use of certain derivatives may in some cases involve forms of financial leverage, which involves risk and may increase the volatility of the fund's net asset value. In its use of derivatives, the fund may take both long positions (the values of which move in the same direction as the prices of the underlying investments, pools of investments, indexes or currencies), and short positions (the values of which move in the opposite direction from the prices of the underlying investments, pools of investments indexes or currencies). Short positions may involve greater risks than long positions, as the risk of loss is theoretically unlimited (unlike a long position, in which the risk of loss may be limited to the amount invested). The fund may use derivatives that combine long and short positions in order to capture the difference between underlying investments, pools of investments, indices or currencies.

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**Floating Rate and Variable Rate Demand Notes.** Floating rate and variable rate demand notes and bonds may have a stated maturity in excess of one year, but may have features that permit a holder to demand payment of principal plus accrued interest upon a specified number of days notice. Frequently, such obligations are secured by letters of credit or other credit support arrangements provided by banks. The issuer has a corresponding right, after a given period, to prepay in its discretion the outstanding principal of the obligation plus accrued interest upon a specific number of days notice to the holders. The interest rate of a floating rate instrument may be based on a known lending rate, such as a bank's prime rate, and is reset whenever such rate is adjusted. The interest rate on a variable rate demand note is reset at specified intervals at a market rate.

**Foreign Currency Transactions.** To manage its exposure to foreign currencies, the fund may engage in foreign currency exchange transactions, including purchasing and selling foreign currency, foreign currency options, foreign currency forward contracts and foreign currency futures contracts and related options. In addition, the fund may engage in these transactions for the purpose of increasing its return. Foreign currency transactions involve costs, and, if unsuccessful, may reduce the fund's return.

Generally, the fund may engage in both "transaction hedging" and "position hedging." The fund may also engage in foreign currency transactions for non-hedging purposes, subject to applicable law. When it engages in transaction hedging, the fund enters into foreign currency transactions with respect to specific receivables or payables, generally arising in connection with the purchase or sale of portfolio securities. The fund will engage in transaction hedging when it desires to "lock in" the U.S. dollar price of a security it has agreed to purchase or sell, or the U.S. dollar equivalent of a dividend or interest payment in a foreign currency. By transaction hedging the fund will attempt to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the applicable foreign currency during the period between the date on which the security is purchased or sold, or on which the dividend or interest payment is earned, and the date on which such payments are made or received. The fund may also engage in position hedging to protect against a decline in the 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 the currency in which securities the fund intends to buy are denominated or quoted).

The fund may purchase or sell a foreign currency on a spot (or cash) basis at the prevailing spot rate in connection with the settlement of transactions in portfolio securities denominated in that foreign currency or for other hedging or non-hedging purposes. If conditions warrant, for hedging or non-hedging purposes, the fund may also enter into contracts to purchase or sell foreign currencies at a future date ("forward contracts") and purchase and sell foreign currency futures contracts. The fund may also purchase or sell exchange-listed and over-the-counter call and put options on foreign currency futures contracts and on foreign currencies.

A foreign currency futures contract is a standardized exchange-traded contract for the future delivery of a specified amount of a foreign currency at a price set at the time of the contract. Foreign currency futures contracts traded in the United States are designed by and traded on exchanges regulated by the Commodity Futures Trading Commission (the "CFTC"), such as the New York Mercantile Exchange, and have margin requirements.

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A foreign currency forward contract is a negotiated agreement to exchange currency at a future time, which may be any fixed number of days from the date of the contract as agreed by the parties, at a price set at the time of the contract. The contract price may be higher or lower than the current spot rate. In the case of a cancelable forward contract, the holder has the unilateral right to cancel the contract at maturity by paying a specified fee. Forward foreign currency exchange contracts differ from foreign currency futures contracts in certain respects. For example,

the maturity date of a forward contract may be any fixed number of days from the date of the contract agreed upon by the parties, rather than a predetermined date in a given month. Forward contracts may be in any amount agreed upon by the parties rather than predetermined amounts. In addition, forward contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers, so that no intermediary is required. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades.

At the maturity of a forward or futures contract, the fund either may accept or make delivery of the currency specified in the contract, or at or prior to maturity enter into a closing transaction involving the purchase or sale of an offsetting contract. Closing transactions with respect to forward contracts are usually effected with the currency trader who is a party to the original forward contract. Closing transactions with respect to futures contracts may be effected only on a commodities exchange or board of trade which provides a secondary market in such contracts; a clearing corporation associated with the exchange assumes responsibility for closing out such contracts.

Although the fund intends to purchase or sell foreign currency futures contracts only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a secondary market on an exchange or board of trade will exist for any particular contract or at any particular time. In such event, it may not be possible to close a futures position and, in the event of adverse price movements, the fund would continue to be required to make daily cash payments of variation margin.

It is impossible to forecast with precision the market value of portfolio securities at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary for the fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security or securities being hedged is less than the amount of foreign currency the fund is obligated to deliver and a decision is made to sell the security or securities and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security or securities if the market value of such security or securities exceeds the amount of foreign currency the fund is obligated to deliver.

As noted above, the fund may purchase or sell exchange-listed and over-the-counter call and put options on foreign currency futures contracts and on foreign currencies. A put option on a futures contract gives the fund the right to assume a short position in the futures contract until the expiration of the option. A put option on a currency gives the fund the right to sell the currency at an exercise price until the expiration of the option. A call option on a futures contract gives the fund the right to assume a long position in the futures contract until the expiration of the option. A call option on a currency gives the fund the right to purchase the currency at the exercise price until the expiration of the option.

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Foreign currency options are traded primarily in the over-the-counter market, although options on foreign currencies are also listed on several exchanges. Options are traded not only on the currencies of individual nations, but also on the euro, the joint currency of most countries in the European Union.

The fund will only purchase or write foreign currency options when Putnam Management believes that a liquid secondary market exists for such options. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. Options on foreign currencies may be affected by all of those factors which influence foreign exchange rates and investments generally.

The fund's currency hedging transactions may call for the delivery of one foreign currency in exchange for another foreign currency and may at times not involve currencies in which its portfolio securities are then denominated. Putnam Management will engage in such "cross hedging" activities when it believes that such transactions provide

significant hedging opportunities for the fund. Cross hedging transactions by the fund involve the risk of imperfect correlation between changes in the values of the currencies to which such transactions relate and changes in the value of the currency or other asset or liability which is the subject of the hedge.

Transaction and position hedging do not eliminate fluctuations in the underlying prices of the securities that the fund owns or intends to purchase or sell. They simply establish a rate of exchange which one can achieve at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they involve costs to the fund and tend to limit any potential gain which might result from the increase in value of such currency.

The fund may also engage in non-hedging currency transactions. For example, Putnam Management may believe that exposure to a currency is in the fund's best interest but that securities denominated in that currency are unattractive. In that case the fund may purchase a currency forward contract or option in order to increase its exposure to the currency. In accordance with SEC regulations, the fund will set aside liquid assets on its books to cover forward contracts used for non-hedging purposes.

In addition, the fund may seek to increase its current return or to offset some of the costs of hedging against fluctuations in current exchange rates by writing covered call options and covered put options on foreign currencies. The fund receives a premium from writing a call or put option, which increases the fund's current return if the option expires unexercised or is closed out at a net profit. The fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction in which it purchases an option having the same terms as the option written.

The value of any currency, including U.S. dollars and foreign currencies, may be affected by complex political and economic factors applicable to the issuing country. In addition, the exchange rates of foreign currencies (and therefore the values of foreign currency options, forward contracts and futures contracts) may be affected significantly, fixed, or supported directly or indirectly by U.S. and foreign government actions. Government intervention may increase risks involved in purchasing or selling foreign currency options, forward contracts and

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futures contracts, since exchange rates may not be free to fluctuate in response to other market forces.

The value of a foreign currency option, forward contract or futures contract reflects the value of an exchange rate, which in turn reflects relative values of two currencies -- the U.S. dollar and the foreign currency in question. Although foreign exchange dealers do not charge a fee for currency conversion, they do realize a profit based on the difference (the "spread") between prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the fund at one rate, while offering a lesser rate of exchange should the fund desire to resell that currency to the dealer. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the exercise of foreign currency options, forward contracts and futures contracts, investors may be disadvantaged by having to deal in an odd-lot market for the underlying foreign currencies in connection with options at prices that are less favorable than for round lots. Foreign governmental restrictions or taxes could result in adverse changes in the cost of acquiring or disposing of foreign currencies.

There is no systematic reporting of last sale information for foreign currencies and there is no regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Available quotation information is generally representative of very large round-lot transactions in the interbank market and thus may not reflect exchange rates for smaller odd-lot transactions (less than \$1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that options



markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets.

The decision as to whether and to what extent the fund will engage in foreign currency exchange transactions will depend on a number of factors, including prevailing market conditions, the composition of the fund's portfolio and the availability of suitable transactions. Accordingly, there can be no assurance that the fund will engage in foreign currency exchange transactions at any given time or from time to time.

**Foreign Investments and Related Risks.** Foreign securities are normally denominated and traded in foreign currencies. As a result, the value of the fund's foreign investments and the value of its shares may be affected favorably or unfavorably by changes in currency exchange rates relative to the U.S. dollar. In addition, the fund is required to compute and distribute its income in U.S. dollars. Therefore, if the exchange rate for a foreign currency declines after a fund's income has been earned and translated into U.S. dollars (but before payment), the fund could be required to liquidate portfolio securities to make such distributions. Similarly, if an exchange rate declines between the time a fund incurs expenses in U.S. dollars and the time such expenses are paid, the amount of such currency required to be converted into U.S. dollars in order to pay such expenses in U.S. dollars will be greater than the equivalent amount in any such currency of such expenses at the time they were incurred.

There may be less information publicly available about a foreign issuer than about a U.S. issuer, and foreign issuers may not be subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. In addition, there may be less (or less

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effective) regulation of exchanges, brokers and listed companies in some foreign countries. The securities of some foreign issuers are less liquid and at times more volatile than securities of comparable U.S. issuers. Foreign brokerage commissions, custodial expenses and other fees are also generally higher than in the United States.

Foreign settlement procedures and trade regulations may be more complex and involve certain risks (such as delay in payment or delivery of securities or in the recovery of the fund's assets held abroad) and expenses not present in the settlement of investments in U.S. markets. For example, settlement of transactions involving foreign securities or foreign currencies (see below) may occur within a foreign country, and the fund may accept or make delivery of the underlying securities or currency in conformity with any applicable U.S. or foreign restrictions or regulations, and may pay fees, taxes or charges associated with such delivery. Such investments may also involve the risk that an entity involved in the settlement may not meet its obligations.

In addition, foreign securities may be subject to the risk of nationalization or expropriation of assets, imposition of currency exchange controls, foreign withholding taxes or restrictions on the repatriation of foreign currency, confiscatory taxation, political, social or financial instability and diplomatic developments which could affect the value of the fund's investments in certain foreign countries. Dividends or interest on, or proceeds from the sale of, foreign securities may be subject to foreign withholding taxes, and special U.S. tax considerations may apply.

Legal remedies available to investors in certain foreign countries may be more limited than those available with respect to investments in the United States or in other foreign countries. The laws of some foreign countries may limit the fund's ability to invest in securities of certain issuers organized under the laws of those foreign countries.

The risks described above, including the risks of nationalization or expropriation of assets, typically are increased in connection with investments in "emerging markets." For example, political and economic structures in these countries may be in their infancy and developing rapidly, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of these countries have in the past failed to recognize

private property rights and have at times nationalized and expropriated the assets of private companies. High rates of inflation or currency devaluations may adversely affect the economies and securities markets of such countries. Investments in emerging markets may be considered speculative.

The currencies of certain emerging market countries have experienced devaluations relative to the U.S. dollar, and future devaluations may adversely affect the value of assets denominated in such currencies. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation or deflation for many years, and future inflation may adversely affect the economies and securities markets of such countries.

In addition, unanticipated political or social developments may affect the value of investments in emerging markets and the availability of additional investments in these markets. The small size, limited trading volume and relative inexperience of the securities markets in these countries may make investments in securities traded in emerging markets illiquid and more volatile than investments in securities traded in more developed countries, and the fund may be required to establish special custodial or other arrangements before making investments in securities traded

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in emerging markets. There may be little financial or accounting information available with respect to issuers of emerging market securities, and it may be difficult as a result to assess the value or prospects of an investment in such securities.

American Depositary Receipts (ADRs) as well as other hybrid forms of ADRs, including European Depositary Receipts (EDRs) and Global Depositary Receipts (GDRs), are certificates evidencing ownership of shares of a foreign issuer. These certificates are issued by depository banks and generally trade on an established market in the United States or elsewhere. The underlying shares are held in trust by a custodian bank or similar financial institution in the issuer's home country. The depository bank may not have physical custody of the underlying securities at all times and may charge fees for various services, including forwarding dividends and interest and corporate actions. ADRs are alternatives to directly purchasing the underlying foreign securities in their national markets and currencies. However, ADRs continue to be subject to many of the risks associated with investing in foreign securities.

Certain of the foregoing risks may also apply to some extent to securities of U.S. issuers that are denominated in foreign currencies or that are traded in foreign markets, or securities of U.S. issuers having significant foreign operations.

**Forward Commitments and Dollar Rolls.** The fund may enter into contracts to purchase securities for a fixed price at a future date beyond customary settlement time ("forward commitments") if the fund sets aside on its books liquid assets in an amount sufficient to meet the purchase price, or if the fund enters into offsetting contracts for the forward sale of other securities it owns. In the case of to-be-announced ("TBA") purchase commitments, the unit price and the estimated principal amount are established when a fund enters into a contract, with the actual principal amount being within a specified range of the estimate. Forward commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the fund's other assets. Where such purchases are made through dealers, the fund relies on the dealer to consummate the sale. The dealer's failure to do so may result in the loss to the fund of an advantageous yield or price. Although the fund will generally enter into forward commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the fund may dispose of a commitment prior to settlement if Putnam Management deems it appropriate to do so. The fund may realize short-term profits or losses upon the sale of forward commitments.

The fund may enter into TBA sale commitments to hedge its portfolio positions or to sell securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement

date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover" for the transaction. Unsettled TBA sale commitments are valued at current market value of the underlying securities. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the fund realizes a gain or loss on the commitment without regard to any unrealized gain or loss on the underlying security. If the fund delivers securities under the commitment, the fund realizes a gain or loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

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The fund may enter into dollar roll transactions (generally using TBAs) in which it sells a fixed income security for delivery in the current month and simultaneously contracts to purchase similar securities (for example, same type, coupon and maturity) at an agreed upon future time. By engaging in a dollar roll transaction, the fund foregoes principal and interest paid on the security that is sold, but receives the difference between the current sales price and the forward price for the future purchase. The fund would also be able to earn interest on the proceeds of the sale before they are reinvested. The fund accounts for dollar rolls as purchases and sales. Because cash (or other assets determined to be liquid by Putnam Management in accordance with procedures established by the Trustees) in the amount of the fund's commitment under a dollar roll is set aside on the fund's books, the fund does not consider these transactions to be borrowings for purposes of its investment restrictions.

The obligation to purchase securities on a specified future date involves the risk that the market value of the securities that the fund is obligated to purchase may decline below the purchase price. In addition, in the event the other party to the transaction files for bankruptcy, becomes insolvent or defaults on its obligation, the fund may be adversely affected.

**Futures Contracts and Related Options.** Subject to applicable law, the fund may invest without limit in futures contracts and related options for hedging and non-hedging purposes, such as to manage the effective duration of the fund's portfolio or as a substitute for direct investment. A financial futures contract sale creates an obligation by the seller to deliver the type of financial instrument called for in the contract in a specified delivery month for a stated price. A financial futures contract purchase creates an obligation by the purchaser to take delivery of the type of financial instrument called for in the contract in a specified delivery month at a stated price. The specific instruments delivered or taken, respectively, at settlement date are not determined until on or near that date. The determination is made in accordance with the rules of the exchange on which the futures contract sale or purchase was made. Futures contracts are traded in the United States only on commodity exchanges or boards of trade -- known as "contract markets" -- approved for such trading by the Commodity Futures Trading Commission (the "CFTC"), and must be executed through a futures commission merchant or brokerage firm which is a member of the relevant contract market.

Although futures contracts (other than index futures and futures based on the volatility or variance experienced by an index) by their terms call for actual delivery or acceptance of commodities or securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Index futures and futures based on the volatility or variance experienced by an index do not call for actual delivery or acceptance of commodities or securities, but instead require cash settlement of the futures contract on the settlement date specified in the contract. Such contracts may also be closed out before the settlement date. Closing out a futures contract sale is effected by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity with the same delivery date. If the price of the initial sale of the futures contract exceeds the price of the offsetting purchase, the seller is paid the difference and realizes a gain. Conversely, if the price of the offsetting purchase exceeds the price of the initial sale, the seller realizes a loss. If the fund is unable to enter into a closing transaction, the amount of the fund's potential loss is unlimited. The closing out of a futures contract purchase is effected by the purchaser's entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the purchaser

realizes a gain, and if the purchase price exceeds the offsetting sale price, he realizes a loss.

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Unlike when the fund purchases or sells a security, no price is paid or received by the fund upon the purchase or sale of a futures contract. Instead, upon entering into a contract, the fund is required to deliver to the futures broker an amount of liquid assets. This amount is known as "initial margin." The nature of initial margin in futures transactions is different from that of margin in security transactions in that futures contract margin does not involve the borrowing of funds to finance the transactions. Rather, initial margin is similar to a performance bond or good faith deposit which is returned to the fund upon termination of the futures contract, assuming all contractual obligations have been satisfied. Futures contracts also involve brokerage costs.

Subsequent payments, called "variation margin" or "maintenance margin," to and from the broker are made on a daily basis as the price of the underlying security or commodity fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." For example, when the fund has purchased a futures contract on a security and the price of the underlying security has risen, that position will have increased in value and the fund will receive from the broker a variation margin payment based on that increase in value. Conversely, when the fund has purchased a security futures contract and the price of the underlying security has declined, the position would be less valuable and the fund would be required to make a variation margin payment to the broker.

The fund may elect to close some or all of its futures positions at any time prior to their expiration in order to reduce or eliminate a position then currently held by the fund. The fund may close its positions by taking opposite positions which will operate to terminate the fund's position in the futures contracts. Final determinations of variation margin are then made, additional cash is required to be paid by or released to the fund, and the fund realizes a loss or a gain. Such closing transactions involve additional commission costs.

The fund does not intend to purchase or sell futures or related options for other than hedging purposes, if, as a result, the sum of the initial margin deposits on the fund's existing futures and related options positions and premiums paid for outstanding options on futures contracts would exceed 5% of the fund's net assets.

The fund has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act (the "CEA"), and therefore, is not subject to registration or regulation as a pool operator under the CEA.

**Index futures.** An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. Entering into a contract to buy units of an index is commonly referred to as buying or purchasing a contract or holding a long position in the index. Entering into a contract to sell units of an index is commonly referred to as selling a contract or holding a short position. A unit is the current value of the index. The fund may enter into stock index futures contracts, debt index futures contracts, or other index futures contracts appropriate to its objective(s). The fund may also purchase and sell options on index futures contracts.

**Options on futures contracts.** The fund may purchase and write call and put options on futures contracts (including index futures contracts) and it may buy or sell and enter into closing transactions with respect to such options to terminate existing positions. In return for the premium paid, options on futures contracts give the purchaser the right to assume a position in a

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futures contract at the specified option exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the future. If an option is exercised on the last trading day prior to its expiration date, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the underlying asset on which the future is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

The fund may use options on futures contracts in lieu of writing or buying options directly on the underlying securities or indices or purchasing and selling the underlying futures contracts. For example, to hedge against a possible decrease in the value of its portfolio securities, the fund may purchase put options or write call options on futures contracts rather than selling futures contracts. Similarly, the fund may purchase call options or write put options on futures contracts as a substitute for the purchase of futures contracts to hedge against a possible increase in the price of securities which the fund expects to purchase. Such options generally operate in the same manner, and involve the same risks, as options purchased or written directly on the underlying investments. In addition, the fund will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those described above in connection with the discussion of futures contracts. The writing of an option on a futures contract involves risks similar to those relating to the sale of futures contracts.

Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts generally involves less potential risk to the fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to the fund when the purchase or sale of a futures contract would not, such as when there is no movement in the prices of the hedged investments.

As an alternative to purchasing call and put options on index futures, the fund may purchase and sell call and put options on the underlying indices themselves. Such options would be used in a manner identical to the use of options on index futures.

**Risks of transactions in futures contracts and related options.** Successful use of futures contracts by the fund is subject to Putnam Management's ability to predict movements in various factors affecting securities markets, including interest rates and market movements, and, in the case of index futures and futures based on the volatility or variance experienced by an index, Putnam Management's ability to predict the future level of the index or the future volatility or variance experienced by an index. For example, it is possible that, where the fund has sold futures to hedge its portfolio against a decline in the market, the index on which the futures are written may advance and the value of securities held in the fund's portfolio may decline. If this occurred, the fund would lose money on the futures and also experience a decline in value in its portfolio securities. It is also possible that, if the fund has hedged against the possibility of a decline in the market adversely affecting securities held in its portfolio and securities prices increase instead, the fund will lose part or all of the benefit of the increased value of those

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securities it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements at a time when it is disadvantageous to do so.

The use of options and futures strategies also involves the risk of imperfect correlation among movements in the prices of the securities or other assets underlying the futures and options purchased and sold by the fund, of the

options and futures contracts themselves, and, in the case of hedging transactions, of the securities which are the subject of a hedge. In addition to the possibility that there may be an imperfect correlation, or no correlation at all, between movements in the futures used by the fund and the portion of the portfolio being hedged, the prices of futures may not correlate perfectly with movements in the underlying asset due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the underlying asset and futures markets. Second, margin requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the securities market does. Increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortions in the futures market and also because of the imperfect correlation between movements in the underlying asset and movements in the prices of related futures, even a correct forecast of general market trends by Putnam Management may still not result in a profitable position.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain market clearing facilities inadequate, and thereby result in the institution by exchanges of special procedures which may interfere with the timely execution of customer orders.

To reduce or eliminate a position held by the fund, the fund may seek to close out such position. The ability to establish and close out positions will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or continue to exist for a particular futures contract or option. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain contracts or options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of contracts or options, or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of contracts or options (or a particular class or series of contracts or options), in which event the secondary market on that exchange for such contracts or options (or in the class or series of contracts or options) would cease to exist, although outstanding contracts or options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

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**Hybrid Instruments.** These instruments are generally considered derivatives and include indexed or structured securities, and combine the elements of futures contracts or options with those of debt, preferred equity or a depository instrument. A hybrid instrument may be a debt security, preferred stock, warrant, convertible security, certificate of deposit or other evidence of indebtedness on which a portion of or all interest payments, and/or the principal or stated amount payable at maturity, redemption or retirement, is determined by reference to prices, changes in prices, or differences between prices, of securities, currencies, intangibles, goods, articles or commodities (collectively, underlying assets ), or by another objective index, economic factor or other measure, including interest rates, currency exchange rates, or commodities or securities indices (collectively, benchmarks ). Hybrid instruments may take a number of forms, including, but not limited to, debt instruments with interest or principal payments or redemption terms determined by reference to the value of an index at a future time, preferred stock with dividend rates determined by reference to the value of a currency, or convertible securities with the conversion terms related to a particular commodity.

The risks of investing in hybrid instruments reflect a combination of the risks of investing in securities, options, futures and currencies. An investment in a hybrid instrument may entail significant risks that are not associated with a

similar investment in a traditional debt instrument that has a fixed principal amount, is denominated in U.S. dollars or bears interest either at a fixed rate or a floating rate determined by reference to a common, nationally published benchmark. The risks of a particular hybrid instrument will depend upon the terms of the instrument, but may include the possibility of significant changes in the benchmark(s) or the prices of the underlying assets to which the instrument is linked. Such risks generally depend upon factors unrelated to the operations or credit quality of the issuer of the hybrid instrument, which may not be foreseen by the purchaser, such as economic and political events, the supply and demand of the underlying assets and interest rate movements. Hybrid instruments may be highly volatile and their use by the fund may not be successful.

Hybrid instruments may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. Alternatively, hybrid instruments may bear interest at above market rates but bear an increased risk of principal loss (or gain). The latter scenario may result if leverage is used to structure the hybrid instrument. Leverage risk occurs when the hybrid instrument is structured so that a given change in a benchmark or underlying asset is multiplied to produce a greater value change in the hybrid instrument, thereby magnifying the risk of loss as well as the potential for gain.

Hybrid instruments can be an efficient means of creating exposure to a particular market, or segment of a market, with the objective of enhancing total return. For example, a fund may wish to take advantage of expected declines in interest rates in several European countries, but avoid the transaction costs associated with buying and currency-hedging the foreign bond positions. One solution would be to purchase a U.S. dollar-denominated hybrid instrument whose redemption price is linked to the average three year interest rate in a designated group of countries. The redemption price formula would provide for payoffs of less than par if rates were above the specified level. Furthermore, a fund could limit the downside risk of the security by establishing a minimum redemption price so that the principal paid at maturity could not be below a predetermined minimum level if interest rates were to rise significantly. The purpose of this arrangement, known as a structured security with an embedded put option, would be to give the fund the desired European bond exposure while avoiding currency risk, limiting downside

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market risk, and lowering transaction costs. Of course, there is no guarantee that the strategy will be successful and the fund could lose money if, for example, interest rates do not move as anticipated or credit problems develop with the issuer of the hybrid instrument.

Hybrid instruments are potentially more volatile and carry greater market risks than traditional debt instruments. Depending on the structure of the particular hybrid instrument, changes in a benchmark may be magnified by the terms of the hybrid instrument and have an even more dramatic and substantial effect upon the value of the hybrid instrument. Also, the prices of the hybrid instrument and the benchmark or underlying asset may not move in the same direction or at the same time.

Hybrid instruments may also carry liquidity risk since the instruments are often customized to meet the portfolio needs of a particular investor, and therefore, the number of investors that are willing and able to buy such instruments in the secondary market may be smaller than that for more traditional debt securities. Under certain conditions, the redemption value of such an investment could be zero. In addition, because the purchase and sale of hybrid investments could take place in an over-the-counter market without the guarantee of a central clearing organization, or in a transaction between the fund and the issuer of the hybrid instrument, the creditworthiness of the counterparty of the issuer of the hybrid instrument would be an additional risk factor the fund would have to consider and monitor. In addition, uncertainty regarding the tax treatment of hybrid instruments may reduce demand for such instruments. Hybrid instruments also may not be subject to regulation by the CFTC, which generally regulates the trading of commodity futures by U.S. persons, the Securities and Exchange Commission (the "SEC"), which regulates the offer and sale of securities by and to U.S. persons, or any other governmental regulatory authority.

**Industry and Sector Groups.** Putnam Management uses a customized set of industry and sector groups for classifying securities ("Putnam Industry Codes"). The Putnam Industry Codes are based on an expanded Standard & Poor's industry classification model, modified to be more representative of global investing and more applicable to both large and small capitalization securities. For presentation purposes, the fund may apply the Putnam Industry Codes differently in reporting industry groups in the fund's shareholder reports and other communications.

**Inflation Protected Securities.** The fund may invest in U.S. Treasury Inflation Protected Securities ("U.S. TIPS"), which are fixed income securities issued by the U.S. Department of Treasury, the principal amounts of which are adjusted daily based upon changes in the rate of inflation. The fund may also invest in other inflation-protected securities issued by non-U.S. governments or by private issuers. U.S. TIPS pay interest on a semi-annual basis, equal to a fixed percentage of the inflation-adjusted principal amount. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest may be paid on an increasing or decreasing principal value that has been adjusted for inflation.

Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed for U.S. TIPS, even during a period of deflation. However, because the principal amount of U.S. TIPS would be adjusted downward during a period of deflation, the fund will be subject to deflation risk with respect to its investments in these securities. In addition, the current market value of the bonds is not guaranteed, and will fluctuate. If the fund purchases U.S. TIPS in the secondary market whose principal values have been adjusted upward due to inflation since

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issuance, the fund may experience a loss if there is a subsequent period of deflation. The fund may also invest in other inflation-related bonds which may or may not provide a guarantee of principal. If a guarantee of principal is not provided, the adjusted principal value of the bond repaid at maturity may be less than the original principal amount.

The periodic adjustment of U.S. TIPS is currently tied to the CPI-U, which is calculated by the U.S. Department of Treasury. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation and energy. Inflation-protected bonds issued by a non-U.S. government are generally adjusted to reflect a comparable inflation index, calculated by that government. There can be no assurance that the CPI-U or any non-U.S. inflation index will accurately measure the real rate of inflation in the prices of goods and services. If interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates), investors in these securities may not be protected to the extent that the increase is not reflected in the bond's inflation measure. In addition, there can be no assurance that the rate of inflation in a non-U.S. country will be correlated to the rate of inflation in the United States.

In general, the value of inflation-protected bonds is expected to fluctuate in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of inflation-protected bonds. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of inflation-protected bonds. If inflation is lower than expected during the period the fund holds the security, the fund may earn less on the security than on a conventional bond. Any increase in principal value is taxable in the year the increase occurs, even though holders do not receive cash representing the increase at that time. As a result, when the fund invests in inflation-protected securities, it could be required at times to liquidate other investments, including when it is not advantageous to do so, in order to satisfy its distribution requirements as a regulated investment company and to eliminate any fund-level income tax liability under the Internal Revenue Code.

The U.S. Treasury began issuing inflation-protected bonds in 1997. Certain non-U.S. governments, such as the United Kingdom, Canada and Australia, have a longer history of issuing inflation-protected bonds, and there may be a more



liquid market in certain of these countries for these securities.

**Initial Public Offerings.** The fund may purchase debt or equity securities in initial public offerings. These securities, which are often issued by unseasoned companies, may be subject to many of the same risks of investing in companies with smaller market capitalizations. Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. Securities issued in an IPO frequently are very volatile in price, and the fund may hold securities purchased in an IPO for a very short period of time. As a result, the fund's investments in IPOs may increase portfolio turnover, which increases brokerage and administrative costs and may result in taxable distributions to shareholders.

At any particular time or from time to time the fund may not be able to invest in securities issued in IPOs, or invest to the extent desired because, for example, only a small portion (if any) of the securities being offered in an IPO may be made available to the fund. In addition, under certain

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market conditions a relatively small number of companies may issue securities in IPOs. Similarly, as the number of Putnam funds to which IPO securities are allocated increases, the number of securities issued to any one fund may decrease. The investment performance of the fund during periods when it is unable to invest significantly or at all in IPOs may be lower than during periods when the fund is able to do so. In addition, as the fund increases in size, the impact of IPOs on the fund's performance will generally decrease.

**Inverse Floaters.** The fund may invest in securities representing interests in Tax-exempt securities, known as "inverse floaters." These securities have variable interest rates that typically move in the opposite direction from movements in prevailing short-term interest rate levels—rising when prevailing short-term interest rate fall, and vice versa. The prices of inverse floaters can be considerably more volatile than the prices of bonds with comparable maturities and credit quality. The fund currently does not intend to invest more than 15% of its assets in inverse floating obligations.

**Lower-rated Securities.** Managed Municipal Income Trust may invest up to 50% of its total assets and High Yield Municipal Trust may invest a substantial portion of its assets in lower rated fixed income securities (commonly known as "junk bonds"). The lower ratings reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions, or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of interest and principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of securities held by the fund more volatile and could limit the fund's ability to sell its securities at prices approximating the values the fund had placed on such securities. In the absence of a liquid trading market for securities held by it, the fund at times may be unable to establish the fair value of such securities.

Securities ratings are based largely on the issuer's historical financial condition and the rating agencies' analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition, which may be better or worse than the rating would indicate. In addition, the rating assigned to a security by Moody's or S&P (or by any other nationally recognized securities rating agency) does not reflect an assessment of the volatility of the security's market value or the liquidity of an investment in the security. See "Securities ratings."

Like those of other fixed-income securities, the values of lower-rated securities fluctuate in response to changes in interest rates. A decrease in interest rates will generally result in an increase in the value of the fund's fixed-income assets. Conversely, during periods of rising interest rates, the value of the fund's fixed-income assets will generally decline. The values of lower-rated securities may often be affected to a greater extent by changes in general economic conditions and business conditions affecting the issuers of such securities and their industries. Negative publicity or

investor perceptions may also adversely affect the values of lower-rated securities. Changes by nationally recognized securities rating agencies in their ratings of any fixed-income security and changes in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities generally will not affect income derived from these securities, but will affect the fund's net asset value. The fund will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase. However, Putnam Management will monitor the

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investment to determine whether its retention will assist in meeting the fund's investment objective(s).

Issuers of lower-rated securities are often highly leveraged, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. Such issuers may not have more traditional methods of financing available to them and may be unable to repay outstanding obligations at maturity by refinancing. The risk of loss due to default in payment of interest or repayment of principal by such issuers is significantly greater because such securities frequently are unsecured and subordinated to the prior payment of senior indebtedness.

At times, a substantial portion of the fund's assets may be invested in an issue of which the fund, by itself or together with other funds and accounts managed by Putnam Management or its affiliates, holds all or a major portion. Although Putnam Management generally considers such securities to be liquid because of the availability of an institutional market for such securities, it is possible that, under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, a fund could find it more difficult to sell these securities when Putnam Management believes it advisable to do so or may be able to sell the securities only at prices lower than if they were more widely held. Under these circumstances, it may also be more difficult to determine the fair value of such securities for purposes of computing the fund's net asset value. In order to enforce its rights in the event of a default, the fund may be required to participate in various legal proceedings or take possession of and manage assets securing the issuer's obligations on such securities. This could increase the fund's operating expenses and adversely affect the fund's net asset value. In the case of tax-exempt funds, any income derived from the fund's ownership or operation of such assets would not be tax-exempt. The ability of a holder of a tax-exempt security to enforce the terms of that security in a bankruptcy proceeding may be more limited than would be the case with respect to securities of private issuers. In addition, the fund's intention to qualify as a "regulated investment company" under the Internal Revenue Code may limit the extent to which the fund may exercise its rights by taking possession of such assets.

To the extent the fund invests in securities in the lower rating categories, the achievement of the fund's goals is more dependent on Putnam Management's investment analysis than would be the case if the fund were investing in securities in the higher rating categories.

**Money Market Instruments.** Money market instruments, or short-term debt instruments, consist of obligations such as commercial paper, bank obligations (*i.e.*, certificates of deposit and bankers' acceptances), repurchase agreements and various government obligations, such as Treasury bills. These instruments have a remaining maturity of one year or less and are generally of high credit quality. Money market instruments may be structured to be, or may employ a trust or other form so that they are, eligible investments for money market funds. For example, put features can be used to modify the maturity of a security or interest rate adjustment features can be used to enhance price stability. If a structure fails to function as intended, adverse tax or investment consequences may result. Neither the Internal Revenue Service (IRS) nor any other regulatory authority has ruled definitively on certain legal issues presented by certain structured securities. Future tax or other regulatory determinations could adversely affect the value, liquidity, or tax treatment of the income received from these securities or the nature and timing of distributions made by the funds.

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Commercial paper is a money market instrument issued by banks or companies to raise money for short-term purposes. Unlike some other debt obligations, commercial paper is typically unsecured. Commercial paper may be issued as an asset-backed security (that is, backed by a pool of assets representing the obligations of a number of different issuers), in which case certain of the risks discussed in *Mortgage-backed and Asset-backed securities* would apply. Commercial paper is traded primarily among institutions.

Pursuant to an exemptive order issued by the Securities and Exchange Commission, the fund may from time to time invest all or a portion of its cash balances in Putnam Prime Money Market Fund or other money market and/or short-term bond funds advised by Putnam Management. In connection with such investments, Putnam Management may waive a portion of the advisory fees otherwise payable by the fund.

**Mortgage-backed and Asset-backed Securities.** Mortgage-backed securities, including collateralized mortgage obligations ("CMOs") and certain stripped mortgage-backed securities, represent a participation in, or are secured by, mortgage loans. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include such items as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property and receivables from credit card agreements.

Mortgage-backed securities have yield and maturity characteristics corresponding to the underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity, when the entire principal amount comes due, payments on certain mortgage-backed securities include both interest and a partial repayment of principal. Besides the scheduled repayment of principal, repayments of principal may result from the voluntary prepayment, refinancing or foreclosure of the underlying mortgage loans. If property owners make unscheduled prepayments of their mortgage loans, these prepayments will result in early payment of the applicable mortgage-backed securities. In that event the fund may be unable to invest the proceeds from the early payment of the mortgage-backed securities in an investment that provides as high a yield as the mortgage-backed securities. Consequently, early payment associated with mortgage-backed securities may cause these securities to experience significantly greater price and yield volatility than that experienced by traditional fixed-income securities. The occurrence of mortgage prepayments is affected by factors including the level of interest rates, general economic conditions, the location and age of the mortgage and other social and demographic conditions. During periods of falling interest rates, the rate of mortgage prepayments tends to increase, thereby tending to decrease the life of mortgage-backed securities. During periods of rising interest rates, the rate of mortgage prepayments usually decreases, thereby tending to increase the life of mortgage-backed securities. If the life of a mortgage-backed security is inaccurately predicted, the fund may not be able to realize the rate of return it expected.

Adjustable rate mortgage securities ( *ARMs* ), like traditional mortgage-backed securities, are interests in pools of mortgage loans that provide investors with payments consisting of both principal and interest as mortgage loans in the underlying mortgage pool are paid off by the borrowers. Unlike fixed-rate mortgage-backed securities, *ARMs* are collateralized by or represent interests in mortgage loans with variable rates of interest. These interest rates are reset at periodic intervals, usually by reference to an interest rate index or market interest rate.

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Although the rate adjustment feature may act as a buffer to reduce sharp changes in the value of adjustable rate securities, these securities are still subject to changes in value based on, among other things, changes in market interest rates or changes in the issuer's creditworthiness. Because the interest rates are reset only periodically, changes in the interest rate on *ARMs* may lag changes in prevailing market interest rates. Also, some *ARMs* (or the underlying

mortgages) are subject to caps or floors that limit the maximum change in the interest rate during a specified period or over the life of the security. As a result, changes in the interest rate on an ARM may not fully reflect changes in prevailing market interest rates during certain periods. The fund may also invest in hybrid ARMs, whose underlying mortgages combine fixed-rate and adjustable rate features.

Mortgage-backed and asset-backed securities are less effective than other types of securities as a means of "locking in" attractive long-term interest rates. One reason is the need to reinvest prepayments of principal; another is the possibility of significant unscheduled prepayments resulting from declines in interest rates. These prepayments would have to be reinvested at lower rates. The automatic interest rate adjustment feature of mortgages underlying ARMs likewise reduces the ability to lock-in attractive rates. As a result, mortgage-backed and asset-backed securities may have less potential for capital appreciation during periods of declining interest rates than other securities of comparable maturities, although they may have a similar risk of decline in market value during periods of rising interest rates. Prepayments may also significantly shorten the effective maturities of these securities, especially during periods of declining interest rates. Conversely, during periods of rising interest rates, a reduction in prepayments may increase the effective maturities of these securities, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities, and, therefore, potentially increasing the volatility of the fund.

At times, some mortgage-backed and asset-backed securities will have higher than market interest rates and therefore will be purchased at a premium above their par value. Prepayments may cause losses on securities purchased at a premium.

CMOs may be issued by a U.S. government agency or instrumentality or by a private issuer. Although payment of the principal of, and interest on, the underlying collateral securing privately issued CMOs may be guaranteed by the U.S. government or its agencies or instrumentalities, these CMOs represent obligations solely of the private issuer and are not insured or guaranteed by the U.S. government, its agencies or instrumentalities or any other person or entity.

Prepayments could cause early retirement of CMOs. CMOs are designed to reduce the risk of prepayment for investors by issuing multiple classes of securities, each having different maturities, interest rates and payment schedules, and with the principal and interest on the underlying mortgages allocated among the several classes in various ways. Payment of interest or principal on some classes or series of CMOs may be subject to contingencies or some classes or series may bear some or all of the risk of default on the underlying mortgages. CMOs of different classes or series are generally retired in sequence as the underlying mortgage loans in the mortgage pool are repaid. If enough mortgages are repaid ahead of schedule, the classes or series of a CMO with the earliest maturities generally will be retired prior to their maturities. Thus, the early retirement of particular classes or series of a CMO would have the same effect as the prepayment of mortgages underlying other mortgage-backed securities. Conversely, slower

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than anticipated prepayments can extend the effective maturities of CMOs, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities, and, therefore, potentially increasing their volatility.

Prepayments could result in losses on stripped mortgage-backed securities. Stripped mortgage-backed securities are usually structured with two classes that receive different portions of the interest and principal distributions on a pool of mortgage loans. The yield to maturity on an interest only or IO class of stripped mortgage-backed securities is extremely sensitive not only to changes in prevailing interest rates but also to the rate of principal payments (including prepayments) on the underlying assets. A rapid rate of principal prepayments may have a measurable adverse effect on the fund's yield to maturity to the extent it invests in IOs. If the assets underlying the IO experience greater than anticipated prepayments of principal, the fund may fail to recoup fully its initial investment in these securities.

Conversely, principal only or POs tend to increase in value if prepayments are greater than anticipated and decline if prepayments are slower than anticipated. The secondary market for stripped mortgage-backed securities may be more volatile and less liquid than that for other mortgage-backed securities, potentially limiting the fund's ability to buy or sell those securities at any particular time. The fund currently does not intend to invest more than 35% of its assets in IOs and POs under normal market conditions.

The risks associated with other asset-backed securities (including in particular the risks of issuer default and of early prepayment) are generally similar to those described above for CMOs. In addition, because asset-backed securities generally do not have the benefit of a security interest in the underlying assets that is comparable to a mortgage, asset-backed securities present certain additional risks that are not present with mortgage-backed securities. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. For example, revolving credit receivables are generally unsecured and the debtors on such receivables are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set-off certain amounts owed, thereby reducing the balance due. Automobile receivables generally are secured, but by automobiles, rather than by real property.

Asset-backed securities may be collateralized by the fees earned by service providers. The value of asset-backed securities may be substantially dependent on the servicing of the underlying asset and are therefore subject to risks associated with negligence by, or defalcation of, their servicers. In certain circumstances, the mishandling of related documentation may also affect the rights of the security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in added costs and delays in addition to losses associated with a decline in the value of the underlying assets.

**Options on Securities.** The fund may write covered call options and covered put options on optionable securities held in its portfolio or that it has an absolute and immediate right to acquire without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by Putnam Management in accordance with procedures established by the Trustees, in such amount are set aside on the fund's books), when in the opinion of Putnam Management such transactions are consistent with the fund's investment objective(s) and policies. Call options written by the fund give the purchaser the right to buy the

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underlying securities from the fund at a stated exercise price; put options give the purchaser the right to sell the underlying securities to the fund at a stated price.

The fund may write only covered options, which means that, so long as the fund is obligated as the writer of a call option, it will own the underlying securities subject to the option (or comparable securities satisfying the cover requirements of securities exchanges) or have an absolute and immediate right to acquire without additional cash consideration (or, if additional cash consideration is required, cash or other assets determined to be liquid by Putnam Management in accordance with procedures established by the Trustees, in such amount are set aside on the fund's books). In the case of put options, the fund will set aside on its books assets determined to be liquid by Putnam Management in accordance with procedures established by the Trustees and equal in value to the price to be paid if the option is exercised. In addition, the fund will be considered to have covered a put or call option if and to the extent that it holds an option that offsets some or all of the risk of the option it has written. The fund may write combinations of covered puts and calls on the same underlying security.

The fund will receive a premium from writing a put or call option, which increases the fund's return in the event the option expires unexercised or is closed out at a profit. The amount of the premium reflects, among other things, the relationship between the exercise price and the current market value of the underlying security, the volatility of the underlying security, the amount of time remaining until expiration, current interest rates, and the effect of supply and

demand in the options market and in the market for the underlying security. By writing a call option, if the fund holds the security, the fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option but continues to bear the risk of a decline in the value of the underlying security. If the fund does not hold the underlying security, the fund bears the risk that, if the market price exceeds the option strike price, the fund will suffer a loss equal to the difference at the time of exercise. By writing a put option, the fund assumes the risk that it may be required to purchase the underlying security for an exercise price higher than its then-current market value, resulting in a potential capital loss unless the security subsequently appreciates in value.

The fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction, in which it purchases an offsetting option. The fund realizes a profit or loss from a closing transaction if the cost of the transaction (option premium plus transaction costs) is less or more than the premium received from writing the option. If the fund writes a call option but does not own the underlying security, and when it writes a put option, the fund may be required to deposit cash or securities with its broker as "margin," or collateral, for its obligation to buy or sell the underlying security. As the value of the underlying security varies, the fund may have to deposit additional margin with the broker. Margin requirements are complex and are fixed by individual brokers, subject to minimum requirements currently imposed by the Federal Reserve Board and by stock exchanges and other self-regulatory organizations.

**Purchasing put options.** The fund may purchase put options to protect its portfolio holdings in an underlying security against a decline in market value. Such protection is provided during the life of the put option since the fund, as holder of the option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. In order for a put option to be profitable, the market price of the underlying security must decline

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sufficiently below the exercise price to cover the premium and transaction costs. By using put options in this manner, the fund will reduce any profit it might otherwise have realized from appreciation of the underlying security by the premium paid for the put option and by transaction costs. The fund may also purchase put options for other investment purposes.

**Purchasing call options.** The fund may purchase call options to hedge against an increase in the price of securities that the fund wants ultimately to buy. Such hedge protection is provided during the life of the call option since the fund, as holder of the call option, is able to buy the underlying security at the exercise price regardless of any increase in the underlying security's market price. In order for a call option to be profitable, the market price of the underlying security must rise sufficiently above the exercise price to cover the premium and transaction costs. The fund may also purchase call options for other investment purposes.

**Risk factors in options transactions.** The successful use of the fund's options strategies depends on the ability of Putnam Management to forecast correctly interest rate and market movements. For example, if the fund were to write a call option based on Putnam Management's expectation that the price of the underlying security would fall, but the price were to rise instead, the fund could be required to sell the security upon exercise at a price below the current market price. Similarly, if the fund were to write a put option based on Putnam Management's expectation that the price of the underlying security would rise, but the price were to fall instead, the fund could be required to purchase the security upon exercise at a price higher than the current market price.

When the fund purchases an option, it runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the fund exercises the option or enters into a closing sale transaction before the option's expiration. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the fund will lose part or all of its investment in

the option. This contrasts with an investment by the fund in the underlying security, since the fund will not realize a loss if the security's price does not change.

The effective use of options also depends on the fund's ability to terminate option positions at times when Putnam Management deems it desirable to do so. There is no assurance that the fund will be able to effect closing transactions at any particular time or at an acceptable price. If a secondary market in options were to become unavailable, the fund could no longer engage in closing transactions. Lack of investor interest might adversely affect the liquidity of the market for particular options or series of options. A market may discontinue trading of a particular option or options generally. In addition, a market could become temporarily unavailable if unusual events -- such as volume in excess of trading or clearing capability -- were to interrupt its normal operations.

A market may at times find it necessary to impose restrictions on particular types of options transactions, such as opening transactions. For example, if an underlying security ceases to meet qualifications imposed by the market or the Options Clearing Corporation, new series of options on that security will no longer be opened to replace expiring series, and opening transactions in existing series may be prohibited. If an options market were to become unavailable, the fund as a holder of an option would be able to realize profits or limit losses only by exercising the

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option, and the fund, as option writer, would remain obligated under the option until expiration or exercise.

Disruptions in the markets for the securities underlying options purchased or sold by the fund could result in losses on the options. If trading is interrupted in an underlying security, the trading of options on that security is normally halted as well. As a result, the fund as purchaser or writer of an option will be unable to close out its positions until options trading resumes, and it may be faced with considerable losses if trading in the security reopens at a substantially different price. In addition, the Options Clearing Corporation or other options markets may impose exercise restrictions. If a prohibition on exercise is imposed at the time when trading in the option has also been halted, the fund as purchaser or writer of an option will be locked into its position until one of the two restrictions has been lifted. If the Options Clearing Corporation were to determine that the available supply of an underlying security appears insufficient to permit delivery by the writers of all outstanding calls in the event of exercise, it may prohibit indefinitely the exercise of put options. The fund, as holder of such a put option, could lose its entire investment if the prohibition remained in effect until the put option's expiration.

Foreign-traded options are subject to many of the same risks presented by internationally-traded securities. In addition, because of time differences between the United States and various foreign countries, and because different holidays are observed in different countries, foreign options markets may be open for trading during hours or on days when U.S. markets are closed. As a result, option premiums may not reflect the current prices of the underlying interest in the United States.

Over-the-counter ("OTC") options purchased by the fund and assets held to cover OTC options written by the fund may, under certain circumstances, be considered illiquid securities for purposes of any limitation on the fund's ability to invest in illiquid securities. The fund may use both European-style options, which are only exercisable immediately prior to their expiration, and American-style options, which are exercisable at any time prior to the expiration date.

In addition to options on securities and futures, the fund may also enter into options on futures, swaps or other instruments as described elsewhere in this SAI.

**Preferred Stocks and Convertible Securities.** A preferred stock generally pays dividends at a specified rate and has preference over common stock in the payment of dividends and the liquidation of an issuer's assets but is junior to the debt securities of the issuer in those same respects. The market prices of preferred stocks are subject to changes in

interest rates and are more sensitive to changes in an issuer's creditworthiness than are the prices of debt securities. Shareholders of preferred stock may suffer a loss of value if dividends are not paid. Under ordinary circumstances, preferred stock does not carry voting rights. In addition, many preferred stocks may be called or redeemed prior to their maturity by the issuer under certain conditions.

Convertible securities include bonds, debentures, notes, preferred stocks and other securities that may be converted into or exchanged for, at a specific price or formula within a particular period of time, a prescribed amount of common stock or other equity securities of the same or a different issuer. Convertible securities entitle the holder to receive interest paid or accrued on debt or dividends paid or accrued on preferred stock until the security matures or is redeemed, converted or exchanged.

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The market value of a convertible security is a function of its "investment value" and its "conversion value." A security's "investment value" represents the value of the security without its conversion feature (*i.e.*, a nonconvertible fixed income security). The investment value may be determined by reference to its credit quality and the current value of its yield to maturity or probable call date. At any given time, investment value is dependent upon such factors as the general level of interest rates, the yield of similar nonconvertible securities, the financial strength of the issuer and the seniority of the security in the issuer's capital structure. A security's "conversion value" is determined by multiplying the number of shares the holder is entitled to receive upon conversion or exchange by the current price of the underlying security.

If the conversion value of a convertible security is significantly below its investment value, the convertible security will trade like nonconvertible debt or preferred stock and its market value will not be influenced greatly by fluctuations in the market price of the underlying security. Conversely, if the conversion value of a convertible security is near or above its investment value, the market value of the convertible security will be more heavily influenced by fluctuations in the market price of the underlying security. Convertible securities generally have less potential for gain than common stocks.

The fund's investments in convertible securities may at times include securities that have a mandatory conversion feature, pursuant to which the securities convert automatically into common stock or other equity securities at a specified date and a specified conversion ratio, or that are convertible at the option of the issuer. Because conversion of the security is not at the option of the holder, the fund may be required to convert the security into the underlying common stock even at times when the value of the underlying common stock or other equity security has declined substantially.

The fund's investments in preferred stocks and convertible securities, particularly securities that are convertible into securities of an issuer other than the issuer of the convertible security, may be illiquid. The fund may not be able to dispose of such securities in a timely fashion or for a fair price, which could result in losses to the fund.

**Private Placements and Restricted Securities.** The fund may invest in securities that are purchased in private placements and, accordingly, are subject to restrictions on resale as a matter of contract or under federal securities laws. Because there may be relatively few potential purchasers for such investments, especially under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the fund could find it more difficult to sell such securities when Putnam Management believes it advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. At times, it may also be more difficult to determine the fair value of such securities for purposes of computing the fund's net asset value.

While such private placements may often offer attractive opportunities for investment not otherwise available on the open market, the securities so purchased are often "restricted securities," *i.e.*, securities which cannot be sold to the



public without registration under the Securities Act of 1933 or the availability of an exemption from registration (such as Rules 144 or 144A), or which are "not readily marketable" because they are subject to other legal or contractual delays in or restrictions on resale.

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The absence of a trading market can make it difficult to ascertain a market value for illiquid investments. Disposing of illiquid investments may involve time-consuming negotiation and legal expenses, and it may be difficult or impossible for the fund to sell them promptly at an acceptable price. The fund may have to bear the extra expense of registering such securities for resale and the risk of substantial delay in effecting such registration. In addition, market quotations are less readily available. The judgment of Putnam Management may at times play a greater role in valuing these securities than in the case of publicly traded securities.

Generally speaking, restricted securities may be sold only to qualified institutional buyers, or in a privately negotiated transaction to a limited number of purchasers, or in limited quantities after they have been held for a specified period of time and other conditions are met pursuant to an exemption from registration, or in a public offering for which a registration statement is in effect under the Securities Act of 1933. The fund may be deemed to be an "underwriter" for purposes of the Securities Act of 1933 when selling restricted securities to the public, and in such event the fund may be liable to purchasers of such securities if the registration statement prepared by the issuer, or the prospectus forming a part of it, is materially inaccurate or misleading. The SEC Staff currently takes the view that any delegation by the Trustees of the authority to determine that a restricted security is readily marketable (as described in the investment restrictions of the funds) must be pursuant to written procedures established by the Trustees and the Trustees have delegated such authority to Putnam Management.

**Real Estate Investment Trusts (REITs).** The fund may invest in REITs. REITs are pooled investment vehicles that invest primarily in either real estate or real estate related loans. Like regulated investment companies such as the fund, REITs are not taxed on income distributed to shareholders provided that they comply with certain requirements under the Internal Revenue Code. The fund will indirectly bear its proportionate share of any expenses paid by REITs in which it invests in addition to the fund's own expenses.

REITs involve certain unique risks in addition to those risks associated with investing in the real estate industry in general (such as possible declines in the value of real estate, lack of availability of mortgage funds, or extended vacancies of property). REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the risk of borrower default. REITs, and mortgage REITs in particular, are also subject to interest rate risk. REITs are dependent upon their operators management skills, are generally not diversified (except to the extent the Internal Revenue Code requires), and are subject to heavy cash flow dependency and the risk of default by borrowers. REITs are also subject to the possibility of failing to qualify for tax-free pass-through of income under the Code or failing to maintain their exemptions from registration under the Investment Company Act of 1940. REITs may have limited financial resources, may trade less frequently and in a limited volume, and may be subject to more abrupt or erratic price movements than more widely held securities.

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The fund's investment in a REIT may require the fund to accrue and distribute income not yet received or may result in the fund making distributions that constitute a return of capital to fund shareholders for federal income tax purposes. In addition, distributions by a fund from REITs will not qualify for the corporate dividends-received deduction, or, generally, for treatment as qualified dividend income.

**Redeemable Securities.** Certain securities held by the fund may permit the issuer at its option to "call," or redeem, its securities. If an issuer were to redeem securities held by the fund during a time of declining interest rates, the fund may not be able to reinvest the proceeds in securities providing the same investment return as the securities redeemed.

**Repurchase Agreements.** The fund may enter into repurchase agreements, amounting to not more than 25% of its total assets. A repurchase agreement is a contract under which the fund acquires a security for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the fund to resell such security at a fixed time and price (representing the fund's cost plus interest). It is the fund's present intention to enter into repurchase agreements only with commercial banks and registered broker-dealers and only with respect to obligations of the U.S. government or its agencies or instrumentalities or certain other investment-grade, fixed-income securities (including, without limitation, certain corporate bonds and notes, commercial paper, mortgage-backed securities and short-term securities). Repurchase agreements may also be viewed as loans made by the fund which are collateralized by the securities subject to repurchase. Putnam Management will monitor such transactions to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. If the seller defaults, the fund could realize a loss on the sale of the underlying security to the extent that the proceeds of the sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the fund is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

Pursuant to an exemptive order issued by the SEC, the fund may transfer uninvested cash balances into a joint account, along with cash of other Putnam funds and certain other accounts. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

**Securities Loans.** The fund may make secured loans of its portfolio securities, on either a short-term or long-term basis, amounting to not more than 25% of its total assets, thereby realizing additional income. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. If a borrower defaults, the value of the collateral may decline before the fund can dispose of it. As a matter of policy, securities loans are made to broker-dealers pursuant to agreements requiring that the loans be continuously secured by collateral consisting of cash or short-term debt obligations at least equal at all times to the value of the securities on loan, "marked-to-market" daily. The borrower pays to the fund an amount equal to any dividends or interest received on securities lent. The fund retains all or a portion of the interest received on investment of the cash collateral or receives a fee from the borrower. Although voting rights, or rights to consent, with respect to the loaned securities may pass to the

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borrower, the fund retains the right to call the loans at any time on reasonable notice, and it will do so to enable the fund to exercise voting rights on any matters materially affecting the investment. The fund may also call such loans in order to sell the securities. The fund may pay fees in connection with arranging loans of its portfolio securities.

**Securities of Other Investment Companies.** Securities of other investment companies, including shares of open- and closed-end investment companies and unit investment trusts (which may include exchange-traded funds ( ETFs )), represent interests in collective investment portfolios that, in turn, invest directly in underlying instruments. The fund may invest in other investment companies when it has more uninvested cash than Putnam Management believes is

advisable, when it receives cash collateral from securities lending arrangements, when there is a shortage of direct investments available, or when Putnam Management believes that investment companies offer attractive values.

Investment companies may be structured to perform in a similar fashion to a broad-based securities index or may focus on a particular strategy or class of assets. ETFs typically seek to track the performance or dividend yield of specific indexes or companies in related industries. These indexes may be broad-based, sector-based or international. Investing in investment companies involves substantially the same risks as investing directly in the underlying instruments, but also involves expenses at the investment company-level, such as portfolio management fees and operating expenses. These expenses are in addition to the fees and expenses of the fund itself, which may lead to duplication of expenses while the fund owns another investment company's shares. In addition, investing in investment companies involves the risk that they will not perform in exactly the same fashion, or in response to the same factors, as the underlying instruments or index. To the extent the fund invests in other investment companies that are professionally managed, its performance will also depend on the investment and research abilities of investment managers other than Putnam Management.

Open-end investment companies typically offer their shares continuously at net asset value plus any applicable sales charge and stand ready to redeem shares upon shareholder request. The shares of certain other types of investment companies, such as ETFs and closed-end investment companies, typically trade on a stock exchange or over-the-counter at a premium or a discount to their net asset value. In the case of closed-end investment companies, the number of shares is typically fixed. The securities of closed-end investment companies and ETFs carry the risk that the price the fund pays or receives may be higher or lower than the investment company's net asset value. ETFs and closed-end investment companies are also subject to certain additional risks, including the risks of illiquidity and of possible trading halts due to market conditions or other reasons, based on the policies of the relevant exchange. The shares of investment companies, particularly closed-end investment companies, may also be leveraged, which would increase the volatility of the fund's net asset value.

The extent to which the fund can invest in securities of other investment companies, including ETFs, is generally limited by federal securities laws.

**Short-term Trading.** In seeking the fund's objective(s), Putnam Management will buy or sell portfolio securities whenever Putnam Management believes it appropriate to do so. From time to time the fund will buy securities intending to seek short-term trading profits. A change in the securities held by the fund is known as "portfolio turnover" and generally involves some expense

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to the fund. This expense may include brokerage commissions or dealer markups and other transaction costs on both the sale of securities and the reinvestment of the proceeds in other securities. If sales of portfolio securities cause the fund to realize net short-term capital gains, such gains will be taxable as ordinary income. As a result of the fund's investment policies, under certain market conditions the fund's portfolio turnover rate may be higher than that of other mutual funds. Portfolio turnover rate for a fiscal year is the ratio of the lesser of purchases or sales of portfolio securities to the monthly average of the value of portfolio securities --excluding securities whose maturities at acquisition were one year or less. The fund's portfolio turnover rate is not a limiting factor when Putnam Management considers a change in the fund's portfolio.

**Special Purpose Acquisition Companies.** The fund may invest in stock, warrants, and other securities of special purpose acquisition companies ( SPACs ) or similar special purpose entities that pool funds to seek potential acquisition opportunities. Unless and until an acquisition is completed, a SPAC generally invests its assets (less a portion retained to cover expenses) in U.S. Government securities, money market securities and cash; if an acquisition that meets the requirements for the SPAC is not completed within a pre-established period of time, the invested funds are returned to

the entity's shareholders. Because SPACs and similar entities are in essence blank check companies without an operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which are typically traded in the over-the-counter market, may be considered illiquid and/or be subject to restrictions on resale.

**Structured investments.** A structured investment is a security having a return tied to an underlying index or other security or asset class. Structured investments generally are individually negotiated agreements and may be traded over-the-counter. Structured investments are organized and operated to restructure the investment characteristics of the underlying security. This restructuring involves the deposit with or purchase by an entity, such as a corporation or trust, or specified instruments (such as commercial bank loans) and the issuance by that entity or one or more classes of securities (structured securities) backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued structured securities to create securities with different investment characteristics, such as varying maturities, payment priorities and interest rate provisions, and the extent of such payments made with respect to structured securities is dependent on the extent of the cash flow on the underlying instruments. Because structured securities typically involve no credit enhancement, their credit risk generally will be equivalent to that of the underlying instruments. Investments in structured securities are generally of a class of structured securities that is either subordinated or unsubordinated to the right of payment of another class. Subordinated structured securities typically have higher yields and present greater risks than unsubordinated structured securities. Structured securities are typically sold in private placement transactions, and there currently is no active trading market for structured securities. Investments in government and government-related and restructured debt instruments are subject to special risks, including the inability or unwillingness to repay principal and interest, requests to reschedule or restructure outstanding debt and requests to extend additional loan amounts.

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**Swap Agreements.** The fund may enter into swap agreements and other types of over-the-counter transactions such as caps, floors and collars with broker-dealers or other financial institutions for hedging or investment purposes. A swap involves the exchange by the fund with another party of their respective commitments to pay or receive cash flows, *e.g.*, an exchange of floating rate payments for fixed-rate payments. The purchase of a cap entitles the purchaser, to the extent that a specified index or other underlying financial measure exceeds a predetermined value, to receive payments on a notional principal amount from the party selling the cap. The purchase of a floor entitles the purchaser, to the extent that a specified index or other underlying financial measure falls or other underlying measure below a predetermined value, to receive payments on a notional principal amount from the party selling the floor. A collar combines elements of a cap and a floor.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the fund's exposure to long-or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices, inflation rates or the volatility of an index or one or more securities. For example, if the fund agrees to exchange payments in U.S. dollars for payments in a non-U.S. currency, the swap agreement would tend to decrease the fund's exposure to U.S. interest rates and increase its exposure to that non-U.S. currency and interest rates. The fund may also engage in total return swaps, in which payments made by the fund or the counterparty are based on the total return of a particular reference asset or assets (such as an equity or fixed-income security, a combination of such securities, or an index). The value of the fund's swap positions would increase or decrease depending on the changes in value of the underlying rates, currency values, volatility or other indices or measures. Caps and floors have an effect similar to buying or writing options. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a fund's investments and its share price. The fund's ability to engage in certain swap transactions may be

limited by tax considerations.

The fund's ability to realize a profit from such transactions will depend on the ability of the financial institutions with which it enters into the transactions to meet their obligations to the fund. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the fund will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of a counterparty's insolvency. Under certain circumstances, suitable transactions may not be available to the fund, or the fund may be unable to close out its position under such transactions at the same time, or at the same price, as if it had purchased comparable publicly traded securities.

The fund may also enter into options on swap agreements ("swaptions"). A swaption is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement, at some designated future time on specified terms. The fund may write (sell) and purchase put and call swaptions to the same extent it may make use of standard options on securities or other instruments. Swaptions are generally subject to the same risks involved in the fund's use of options. See Options on Securities.

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The fund may enter into credit default swap contracts for investment purposes. As the seller in a credit default swap contract, the fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party, such as a U.S. or non-U.S. corporate issuer, on the debt obligation. Credit default swaps may also be structured based on the debt of a basket of issuers, rather than a single issuer, and may be customized with respect to the default event that triggers purchase or other factors (for example, the N<sup>th</sup> default within a basket, or defaults by a particular combination of issuers within the basket, may trigger a payment obligation). In return for its obligation, the fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the fund would keep the stream of payments and would have no payment obligations. As the seller, the fund would be subject to investment exposure on the notional amount of the swap.

The fund may also purchase credit default swap contracts in order to hedge against the risk of default of the debt of a particular issuer or basket of issuers, in which case the fund would function as the counterparty referenced in the preceding paragraph. This would involve the risk that the investment may expire worthless and would only generate income in the event of an actual default by the issuer(s) of the underlying obligation(s) (or, as applicable, a credit downgrade or other indication of financial instability). It would also involve the risk that the seller may fail to satisfy its payment obligations to the fund in the event of a default. The purchase of credit default swaps involves costs, which will reduce the fund's return.

**Warrants.** The fund may invest in warrants, which are instruments that give the fund the right to purchase certain securities from an issuer at a specific price (the "strike price") for a limited period of time. The strike price of warrants typically is much lower than the current market price of the underlying securities, yet they are subject to similar price fluctuations. As a result, warrants may be more volatile investments than the underlying securities and may offer greater potential for capital appreciation as well as capital loss. Warrants do not entitle a holder to dividends or voting rights with respect to the underlying securities and do not represent any rights in the assets of the issuing company. Also, the value of the warrant does not necessarily change with the value of the underlying securities and a warrant ceases to have value if it is not exercised prior to the expiration date. These factors can make warrants more speculative than other types of investments.

In addition to warrants on securities, the fund may purchase put warrants and call warrants whose values vary depending on the change in the value of one or more specified securities indices ("index warrants"). Index warrants

are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at any time when, in the case of a call warrant, the exercise price is greater than the value of the underlying index, or, in the case of a put warrant, the exercise price is less than the value of the underlying index. If the fund were

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not to exercise an index warrant prior to its expiration, then the fund would lose the amount of the purchase price paid by it for the warrant.

The fund will normally use index warrants in a manner similar to its use of options on securities indices. The risks of the fund's use of index warrants are generally similar to those relating to its use of index options. Unlike most index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit the fund's ability to exercise the warrants at such time, or in such quantities, as the fund would otherwise wish to do.

**Zero-coupon and Payment-in-kind Bonds.** The fund may invest without limit in so-called "zero-coupon" bonds and "payment-in-kind" bonds. Zero-coupon bonds are issued at a significant discount from their principal amount in lieu of paying interest periodically. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Because zero-coupon and payment-in-kind bonds do not pay current interest in cash, their value is subject to greater fluctuation in response to changes in market interest rates than bonds that pay interest currently. Both zero-coupon and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently in cash. The fund is required to accrue interest income on such investments and to distribute such amounts at least annually to shareholders even though such bonds do not pay current interest in cash. Thus, it may be necessary at times for the fund to liquidate other investments in order to satisfy its distribution requirements under the Internal Revenue Code.

## TAXES

The following discussion of U.S. federal income tax consequences is based on the Internal Revenue Code of 1986, as amended (the Code), existing U.S. Treasury regulations, and other applicable authority, as of the date of this SAI. These authorities are subject to change by legislative or administrative action, possibly with retroactive effect. The following discussion is only a summary of some of the important U.S. federal tax considerations generally applicable to investments in each fund. There may be other tax considerations applicable to particular shareholders. Shareholders should consult their own tax advisers regarding their particular situation and the possible application of foreign, state and local tax laws.

**Taxation of the fund.** The fund intends to qualify each year as a regulated investment company under Subchapter M of the Code. In order to qualify for the special tax treatment accorded regulated investment companies and their shareholders, each fund must, among other things:

(a) derive at least 90% of its gross income for each taxable year from (i) dividends, interest, payments with respect to certain securities loans, and gains from the sale of stock, securities and foreign currencies, or other income (including but not limited to gains from options, futures, or forward contracts) derived with respect to its business of investing in such stock, securities, or currencies, and (ii) net income from interests in qualified publicly traded partnerships (as defined below);

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(b) diversify its holdings so that, at the end of each quarter of the fund's taxable year, (i) at least 50% of the market value of the fund's total assets is represented by cash and cash items, U.S. Government securities, securities of other regulated investment companies, and other securities limited in respect of any one issuer to a value not greater than 5% of the value of the fund's total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the fund's total assets is invested (x) in the securities (other than those of the U.S. Government or other regulated investment companies) of any one issuer or of two or more issuers which the fund controls and which are engaged in the same, similar, or related trades or businesses, or (y) in the securities of one or more qualified publicly traded partnerships (as defined below). In the case of the fund's investments in loan participations, the fund shall treat a financial intermediary as an issuer for the purposes of meeting this diversification requirement; and

(c) distribute with respect to each taxable year at least 90% of the sum of its investment company taxable income (as that term is defined in the Code without regard to the deduction for dividends paid generally, taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and net tax-exempt interest income, for such year.

In general, for purposes of the 90% gross income requirement described in (i) (a) above, income derived from a partnership will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership which would be qualifying income if realized by the regulated investment company. However, 100% of the net income of a regulated investment company derived from an interest in a qualified publicly traded partnership (defined as a partnership (i) interests in which are traded on an established securities market or readily tradable on a secondary market or the substantial equivalent thereof and (ii) that derives less than 90% of its income from the qualifying income described in paragraph (a) above) will be treated as qualifying income. In addition, although in general the passive loss rules of the Code do not apply to regulated investment companies, such rules do apply to a regulated investment company with respect to items attributable to an interest in a qualified publicly traded partnership. Finally, for purposes of paragraph (b) above, the term outstanding voting securities of such issuer will include the equity securities of a qualified publicly traded partnership.

If the fund qualifies as a regulated investment company that is accorded special tax treatment, the fund will not be subject to federal income tax on income distributed in a timely manner to its shareholders in the form of dividends (including Capital Gain Dividends, as defined below).

If the fund were to fail to qualify as a regulated investment company accorded special tax treatment in any taxable year, the fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to shareholders as ordinary income. In addition, the fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a regulated investment company that is accorded special tax treatment.

If the fund fails to distribute in a calendar year substantially all of its ordinary income for such year and substantially all of its capital gain net income for the one-year period ending October 31 (or later if the fund is permitted so to elect and so elects), plus any retained amount from the prior year, the fund will be subject to a 4% excise tax on the

undistributed amounts. A dividend

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paid to shareholders by the fund in January of a year generally is deemed to have been paid by the fund on December 31 of the preceding year, if the dividend was declared and payable to shareholders of record on a date in October, November or December of that preceding year. The fund intends generally to make distributions sufficient to avoid imposition of the 4% excise tax.

**Fund distributions.** Distributions from the fund (other than exempt-interest dividends, as discussed below) will be taxable to shareholders as ordinary income to the extent derived from the fund's investment income and net short-term capital gains. Properly designated distributions of net capital gains (that is, the excess of net gains from the sale of capital assets held by the fund for more than one year over net losses from the sale of capital assets held for not more than one year) ( Capital Gain Dividends ) will be taxable to shareholders as such, regardless of how long a shareholder has held the shares in the fund.

Distributions of investment income designated by the fund as derived from "qualified dividend income" are taxed at rates applicable to long-term capital gain in taxable years beginning before January 1, 2011; however, the fund does not expect a significant portion of fund distributions to be derived from qualified dividend income.

Long-term capital gain rates applicable to individuals have been temporarily reduced in general, to 15% with lower rates applying to taxpayers in the 10% and 15% rate brackets for taxable years beginning before January 1, 2011.

**Exempt-interest dividends.** The fund will be qualified to pay exempt-interest dividends to its shareholders only if, at the close of each quarter of the fund's taxable year, at least 50% of the total value of the fund's assets consists of obligations the interest on which is exempt from federal income tax. Distributions that the fund properly designates as exempt-interest dividends are treated as interest excludable from shareholders' gross income for federal income tax purposes but may be taxable for federal AMT purposes and for state and local purposes. If the fund intends to qualify to pay exempt-interest dividends, the fund may be limited in its ability to enter into taxable transactions involving forward commitments, repurchase agreements, financial futures and options contracts on financial futures, tax-exempt bond indices and other assets.

Part or all of the interest on indebtedness, if any, incurred or continued by a shareholder to purchase or carry shares of the fund paying exempt-interest dividends is not deductible. The portion of interest that is not deductible is equal to the total interest paid or accrued on the indebtedness, multiplied by the percentage of the fund's total distributions (not including distributions from net long-term capital gains) paid to the shareholder that are exempt-interest dividends. Under rules used by the Internal Revenue Service to determine when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of shares may be considered to have been made with borrowed funds even though such funds are not directly traceable to the purchase of shares.

In general, exempt-interest dividends, if any, attributable to interest received on certain private activity obligations and certain industrial development bonds will not be tax-exempt to any shareholders who are substantial users of the facilities financed by such obligations or bonds or who are related persons of such substantial users.

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If, as expected, the fund is qualified to pay exempt-interest dividends will inform investors within 60 days of the fund's fiscal year-end of the percentage of its income distributions designated as tax-exempt. The percentage is applied uniformly to all distributions made during the year. The percentage of income designated as tax-exempt for any



particular distribution may be substantially different from the percentage of the fund's income that was tax-exempt during the period covered by the distribution.

A fund that has two or more classes of stock is required to allocate to each such class proportionate amounts of each type of its income (such as tax-exempt income) based upon the percentage of total dividends distributed to each class for the tax year. Accordingly, the fund intends each year to designate dividends paid as exempt-interest dividends in a manner that allocates such dividends between or among its common shares and any series of its preferred shares in proportion to the total dividends paid to each class with respect to such tax year. Long-term capital gain distributions and other income subject to regular federal income tax will similarly be allocated between or among the two (or more) classes.

Exempt-interest dividends may be taxable for purposes of the federal AMT. For individual shareholders, exempt-interest dividends that are derived from interest on private activity bonds that are issued after August 7, 1986 (other than a qualified 501(c)(3) bond, as such term is defined in the Code) generally must be included in an individual's tax base for purposes of calculating the shareholder's liability for federal AMT. Corporate shareholders will be required to include all exempt-interest dividends in determining their federal AMT. The AMT calculation for corporations is based, in part, on a corporation's earnings and profits for the year. A corporation must include all exempt-interest dividends in calculating its earnings and profits for the year.

**Derivative transactions.** If the fund engages in derivative transactions, including transactions in options, futures contracts, straddles, and other similar transactions, including for hedging purposes, it will be subject to special tax rules (including constructive sale, mark-to-market, straddle, wash sale, and short sale rules), the effect of which may be to accelerate income to the fund, defer losses to the fund, cause adjustments in the holding periods of the fund's securities, convert long-term capital gains into short-term capital gains or convert short-term capital losses into long-term capital losses. These rules could therefore affect the amount, timing and character of distributions to shareholders. The fund may make any applicable elections pertaining to such transactions consistent with the interests of the fund.

Certain of the fund's derivative activities (including its transactions, if any, in foreign currencies or foreign currency-denominated instruments) are likely to produce a difference between its book income and its taxable income. If the fund's book income exceeds its taxable income, the distribution (if any) of such excess will be treated as (i) a dividend to the extent of the fund's remaining earnings and profits (including earnings and profits arising from tax-exempt income), (ii) thereafter as a return of capital to the extent of the recipient's basis in the shares, and (iii) thereafter as gain from the sale or exchange of a capital asset. If the fund's book income is less than its taxable income (or, for tax-exempt funds, the sum of its net tax-exempt and taxable income), the fund could be required to make distributions exceeding book income to qualify as a regulated investment company that is accorded special tax treatment and to eliminate fund-level income tax.

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In general, 40% of the gain or loss arising from the closing out of a futures contract traded on an exchange approved by the CFTC is treated as short-term gain or loss, and 60% is treated as long-term gain or loss.

The fund's expenses attributable to earning tax-exempt income (including the interest on any indebtedness incurred or continued to purchase or carry tax-exempt bonds) do not reduce its current earnings and profits; therefore, distributions in excess of the sum of the fund's net tax-exempt and taxable income may be treated as taxable dividends to the extent of the fund's remaining earnings and profits (which provides the measure of the fund's dividend-paying capacity for tax purposes). Distributions in excess of the sum of the fund's net tax-exempt and taxable income could occur, for example, if the fund's book income exceeded the sum of its net tax-exempt and taxable income. Differences in the fund's book income and its net tax-exempt and taxable income may arise from certain of the fund's hedging and

investment activities.

**Return of capital distributions.** If the fund makes a distribution to you in excess of its current and accumulated earnings and profits in any taxable year, the excess distribution will be treated as a return of capital to the extent of your tax basis in your shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces your tax basis in your shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by you of your shares.

Dividends and distributions on the fund's shares are generally subject to federal income tax as described herein to the extent they do not exceed the fund's realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder's investment. Such distributions are likely to occur in respect of shares purchased at a time when the fund's net asset value reflects gains that are either unrealized, or realized but not distributed. Distributions are taxable to a shareholder even if they are paid from income or gains earned by the fund prior to the shareholder's investment (and thus included in the price paid by the shareholder).

**Securities issued or purchased at a discount.** The fund's investment in securities issued at a discount and certain other obligations will (and investments in securities purchased at a discount may) require the fund to accrue and distribute income not yet received. In order to generate sufficient cash to make the requisite distributions, the fund may be required to sell securities in its portfolio that it otherwise would have continued to hold.

**Capital loss carryover.** Distributions from capital gains are generally made after applying any available capital loss carryovers. The amounts and expiration dates of any capital loss carryovers available to the fund are shown in Note 1 (Federal income taxes) to the financial statements included in this SAI or incorporated by reference into this SAI.

**Sale or redemption of shares.** The sale, exchange or redemption of fund shares may give rise to a gain or loss. In general, any gain or loss realized upon a taxable disposition of shares will be treated as long-term capital gain or loss if the shares have been held for more than 12 months. Otherwise the gain or loss on the sale, exchange or redemption of fund shares will be treated as short-term capital gain or loss. However, if a shareholder sells shares at a loss within six months of purchase, any loss will be disallowed for federal income tax purposes to the extent of any exempt-interest dividends received on such shares. In addition, any loss (not already disallowed

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as provided in the preceding sentence) realized upon a taxable disposition of shares held for six months or less will be treated as long-term, rather than short-term, to the extent of any Capital Gain Dividends received by the shareholder with respect to the shares. All or a portion of any loss realized upon a taxable disposition of fund shares will be disallowed if other shares of the same fund are purchased within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

From time to time a fund may make a tender offer for its common shares. It is expected that the terms of any such offer will require a tendering shareholder to tender all common shares and dispose of all preferred shares held, or considered under certain attribution rules of the Code to be held, by such shareholder. Shareholders who tender all common shares and dispose of all preferred shares held, or considered to be held, by them will be treated as having sold their shares and generally will realize a capital gain or loss. If a shareholder tenders fewer than all of its common shares, or retains a substantial portion of its preferred shares, such shareholder may be treated as having received a taxable dividend upon the tender of its common shares. In such a case, there is a remote risk that non-tendering shareholders will be treated as having received taxable distributions from the fund. Likewise, if a fund redeems some but not all of the preferred shares held by a preferred shareholder and such shareholder is treated as having received a taxable dividend upon such redemption, there is a remote risk that common shareholders and non-redeeming preferred shareholders will be treated as having received taxable distributions from the fund. To the extent that a fund

recognizes net gains on the liquidation of portfolio securities to meet such tenders of common shares, such fund will be required to make additional distributions to its common shareholders.

**Certain investments in REITs.** The Fund may invest in REITs that hold residual interests in real estate mortgage conduits ( REMICs ). Under Treasury regulations that have not yet been issued, but may apply retroactively, a portion of the Fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Code as an excess inclusion ) will be subject to federal income tax in all events. These regulations are also expected to provide that excess inclusion income of a regulated investment company, such as the Fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest directly. Dividends paid by REITs generally will not be eligible to be treated as qualified dividend income.

In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income ( UBTI ) to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a disqualified organization (as defined in the Code) is a record holder of a share in the Fund, then the Fund will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. To the extent permitted under the 1940 Act, the Fund may elect to specially allocate any such tax to the applicable disqualified organization, and thus reduce such shareholder's distributions for the year by the amount of the tax that relates to such shareholder's interest in the Fund. The Funds have not yet determined whether such an election will be made.

Under current law, the Funds serve to "block" (that is, prevent the attribution to shareholders of) UBTI from being realized by tax-exempt shareholders. Notwithstanding this "blocking" effect, a tax-exempt shareholder could realize UBTI by virtue of its investment in the Fund if shares in the Fund constitute debt-financed property in the hands of the tax-exempt shareholder within the meaning of Code Section 514(b).

In addition, special tax consequences apply to charitable remainder trusts ( CRTs ) that invest in regulated investment companies that invest directly or indirectly in residual interests in REMICs or in taxable mortgage pools. Under legislation enacted in December 2006, a charitable remainder trust, as defined in section 664 of the Code, that realizes UBTI for a taxable year must pay an excise tax annually of an amount equal to such UBTI. Under IRS guidance issued in November 2006, a CRT will not recognize UBTI solely as a result of investing in the Fund that

recognizes excess inclusion income (which is described earlier). Rather, as described above, if at any time during any taxable year a CRT (or one of certain other tax-exempt shareholders, such as the United States, a state or political subdivision, or an agency or instrumentality thereof, and certain energy cooperatives) is a record holder of a share in the Fund that recognizes excess inclusion income, then the Fund will be subject to a tax on that portion of its excess inclusion income for the taxable year that is allocable to such shareholders at the highest federal corporate income tax rate. The extent to which the IRS guidance in respect of CRTs remains applicable in light of the December 2006 CRT legislation is unclear. To the extent permitted under the 1940 Act, each Fund may elect to specially allocate any such tax to the applicable CRT, or other shareholder, and thus reduce such shareholder's distributions for the year by the amount of the tax that relates to such shareholder's interest in the Fund. CRTs are urged to consult their tax advisors concerning the consequences of investing in the Fund.

**Shares purchased through tax-qualified plans.** Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Shareholders should consult their tax advisers to determine the suitability of shares of a fund as an investment through such plans and the precise effect of an investment on their particular tax situation.

**Backup withholding.** The fund generally is required to withhold and remit to the U.S. Treasury a percentage of the taxable dividends and other distributions paid to any individual shareholder who fails to furnish the fund with a correct taxpayer identification number (TIN), who has under-reported dividends or interest income, or who fails to certify to the fund that he or she is not subject to such withholding. Pursuant to recently enacted tax legislation, the backup withholding rules may also apply to distributions that are properly designated as exempt-interest dividends. The back-up withholding tax rate is 28% for amounts paid through 2010. This legislation will expire and the back-up withholding rate will be 31% for amounts paid after December 31, 2010, unless Congress enacts tax legislation providing otherwise.

In order for a foreign investor to qualify for exemption from the back-up withholding tax rates and for reduced withholding tax rates under income tax treaties, the foreign investor must comply with special certification and filing requirements. Foreign investors in a fund should consult their tax advisers in this regard.

**Tax shelter reporting regulations.** Under U.S. Treasury regulations, if a shareholder realizes a loss on disposition of fund shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder must file with the Internal Revenue Service a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in

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many cases excepted from this reporting requirement, but under current guidance, shareholders of a regulated investment company are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all regulated investment companies.

**Non-U.S. Shareholders.** In general, dividends (other than Capital Gain Dividends or exempt-interest dividends) paid by the fund to a shareholder that is not a U.S. person within the meaning of the Code (a foreign person) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a foreign person directly, would not be subject to withholding. However, for taxable years of the fund beginning before January 1, 2008, the fund will not be required to withhold any amounts (i) with respect to distributions (other than distributions to a foreign person (w) that has not provided a satisfactory statement that the beneficial owner is not a U.S. person, (x) to the extent that the dividend is attributable to certain interest on an obligation if the foreign person is the issuer or is a 10% shareholder of the issuer, (y) that is within certain foreign countries that have inadequate information exchange with the United States, or (z) to the extent the dividend is attributable to interest paid by a person that is a related person of the foreign person and the foreign person is a controlled foreign corporation) from U.S.-source interest income that would not be subject to U.S. federal income tax if earned directly by an individual foreign person, to the extent such distributions are properly designated by the fund (an interest-related dividend), and (ii) with respect to distributions (other than distributions to an individual foreign person who is present in the United States for a period or periods aggregating 183 days or more during the year of the distribution) of net short-term capital gains in excess of net long-term capital losses, to the extent such distributions are properly designated by the fund (a short-term capital gain dividend). A fund may opt not to designate dividends as interest-related dividends or short-term capital gain dividends to the full extent permitted by the Code. In addition, as indicated above, Capital Gain Dividends will not be subject to withholding of U.S. federal income tax.

If a beneficial holder who is a foreign person has a trade or business in the United States, and the dividends are effectively connected with the conduct by the beneficial holder of a trade or business in the United States, the dividend will be subject to U.S. federal net income taxation at regular income tax rates.

Under U.S. federal tax law, a beneficial holder of shares who is a foreign person is not, in general, subject to U.S. federal income tax on gains (and is not allowed a deduction for losses) realized on the sale of shares of the fund or on

Capital Gain Dividends unless (i) such gain or Capital Gain Dividend is effectively connected with the conduct of a trade or business carried on by such holder within the United States or (ii) in the case of an individual holder, the holder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or Capital Gain Dividend and certain other conditions are met.

## MANAGEMENT

### Trustees

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| Name, Address <sup>1</sup> , Year of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee <sup>2</sup> | Principal Occupation(s) During Past 5 Years | Other Directorships Held by Trustee |
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#### Independent Trustees

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| <b>Jameson A. Baxter</b> (Born 1943), Trustee since 1994 and Vice Chairman since 2005 | President of Baxter Associates, Inc., a private investment firm. | Director of ASHTA Chemicals, Inc., Ryerson Inc. (a metals service corporation), the Mutual Fund Directors Forum and Advocate Health Care. She is Chairman Emeritus of the Board of Trustees, Mount Holyoke College, having served as Chairman for five years. Until 2007, Ms. Baxter was a Director of Banta Corporation (a printing and supply chain management company); until 2004, she was a Director of BoardSource (formerly the National Center for Nonprofit Boards); and until 2002, she was a Director of Intermatic Corporation (a manufacturer of energy control products). |
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| <b>Charles B. Curtis</b> (Born 1940), Trustee since 2001 | President and Chief Operating Officer, Nuclear Threat Initiative (a private foundation dealing with national security issues) and serves as Senior Advisor to the United Nations Foundation. | Member of the Council on Foreign Relations and serves as a Director of Edison International and Southern California Edison. Until 2006, Mr. Curtis served as a member of 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 |
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development support company).

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| Name, Address <sup>1</sup> , Year of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee <sup>2</sup> | Principal Occupation(s) During Past 5 Years   | Other Directorships Held by Trustee   |
|--|---|---|
| <b>Robert J. Darretta</b> (Born 1946), Trustee since 2007  | Mr. Darretta serves as Director of UnitedHealth Group (a diversified healthcare conglomerate). Until April 2007, he was Vice Chairman of the Board of Directors of Johnson & Johnson (a diversified healthcare conglomerate). Prior to 2007, Mr. Darretta held several accounting and finance positions with Johnson & Johnson, including Treasurer, Executive Vice President and Chief Financial Officer. Mr. Darretta received a B.S. in Economics from Villanova University. | Director of UnitedHealth Group (a diversified healthcare conglomerate). Until April 2007, Mr. Darretta was Vice Chairman of the Board of Directors of Johnson & Johnson (a diversified healthcare conglomerate).  |
| <b>Myra R. Drucker</b> (Born 1948), Trustee since 2004   | Ms. Drucker is Chair of the Board of Trustees of Commonfund (a not-for-profit firm specializing in asset management for educational endowments and foundations), Vice Chair of the Board of Trustees of Sarah Lawrence College, and a member of the Investment Committee of the Kresge Foundation (a charitable trust). She is also a director of New York  | 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. 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 |

Stock Exchange LLC, a wholly-owned subsidiary of the publicly-traded NYSE Group, Inc., a director of Interactive Data Corporation (a provider of financial market data, analytics and related services to financial institutions and individual investors), and an advisor to RCM Capital Management. 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 products, paper distribution, packaging and forest products company) and previously served as Manager of Trust Investments for Xerox Corporation.

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| Name, Address <sup>1</sup> , Year of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee <sup>2</sup> | Principal Occupation(s) During Past 5 Years  | Other Directorships Held by Trustee   |
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| <b>John A. Hill</b> (Born 1942), Trustee since 1985 and Chairman since 2000  | Vice Chairman, First Reserve Corporation (a private equity buyout firm that specializes in energy investments in the diversified world-wide energy industry).                            | Director of Devon Energy Corporation 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.  |
| <b>Paul L. Joskow</b> (Born 1947), Trustee since 1997  | 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. | 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), and a member of the Board of Overseers of the Boston Symphony Orchestra. Prior to June 30, 2006, he served as President of the Yale University Council and continues to serve as a member of the Council. Prior to February 2005, he served on the board of the Whitehead Institute for Biomedical Research (a non-profit research institution). 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). |

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| <b>Elizabeth T. Kennan</b> (Born 1938), Trustee since 1992 | Partner in Cambus-Kenneth Farm (thoroughbred horse and cattle breeding). She is President Emeritus of Mount Holyoke College. | Lead Director of Northeast Utilities. She is a Trustee of 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. Prior to June 2005, she was a Director of Talbots, Inc. (a distributor of women's apparel). Prior to 2001, Dr. Kennan served on the oversight committee of the Folger Shakespeare Library. Prior to September 2000, she was a Director of Chastain Real Estate; and prior to June 2000, she was a Director of Bell Atlantic Corp. |
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| <b>Kenneth R. Leibler</b> (Born 1949), Trustee since 2006 | Founding partner of and advisor to the Boston Options Exchange, an electronic marketplace for the trading of listed derivative securities, and lead director of Ruder Finn Group, a global communications and advertising firm. He currently serves as a Trustee of Beth Israel Deaconess Hospital in Boston and as a board member of Northeast Utilities. | Prior to December 2006, Mr. Leibler served as a director of the Optimum Funds Group. Prior to October, 2006 he served as a director of ISO New England, the organization responsible for the operation of the electric generation system in the New England states. Prior to 2000, he was a director of the Investment Company Institute in Washington, D.C. Prior to January, 2005, Mr. Leibler served as Chairman and Chief Executive Officer of the Boston Stock Exchange. Prior to January 2000, he served as President and Chief Executive Officer of Liberty Financial Companies, a publicly traded diversified asset management organization. Prior to June 1990, he served as President and Chief Operating Officer of the American Stock Exchange. Prior to serving as Amex President, he held the position of Chief Financial Officer, and headed its management and marketing |
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| Name, Address <sup>1</sup> , Year of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee <sup>2</sup> | Principal Occupation(s) During Past 5 Years | Other Directorships Held by Trustee |
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| <b>Robert E. Patterson</b> (Born 1945), Trustee since 1984 | Senior Partner of Cabot Properties, L.P. and Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate). | Chairman Emeritus and Trustee of the Joslin Diabetes Center. Prior to December 2001 and June 2003, Mr. Patterson served as a Trustee of Cabot Industrial Trust and Sea Education Association, respectively. |
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Prior to December 2001, he was President of Cabot Industrial Trust (a publicly traded real estate investment trust).

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| <b>W. Thomas Stephens</b> (Born 1942), Trustee since 1997 | Chairman and Chief Executive Officer of Boise Cascade, L.L.C. (a paper, forest product and timberland assets company). | Director of TransCanada Pipelines Limited. 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). Prior to July 2001, Mr. Stephens was Chairman of Mail-Well. |
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| <b>Richard B. Worley</b> (Born 1945), Trustee since 2004 | Managing Partner of Permit Capital LLC (an investment management firm). Prior to 2002, he 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). | Serves as a Trustee of the University of Pennsylvania Medical Center, the Robert Wood Johnson Foundation (a philanthropic organization devoted to healthcare issues) and the National Constitution Center. Mr. Worley also serves as a Director of the Colonial Williamsburg Foundation (a historical preservation organization) and the Philadelphia Orchestra Association. He serves on the investment committees of Mount Holyoke College and World Wildlife Fund (a wildlife conservation organization). |
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| <b>George Putnam III</b> (Born 1951), Trustee since 1984 | Chairman of New Generation Research, Inc. (a publisher of financial advisory and other research services) and President of New Generation Advisers, Inc. (a registered investment adviser to private funds). Both firms he founded in 1986. Prior to June 2007, Mr. Putnam was President of the Putnam Funds. | Director of The Boston Family Office, L.L.C. (a registered investment advisor), and a Trustee of St. Mark's School. Until 2006, Mr. Putnam was a Trustee of Shore Country Day School. Until 2002, he was a Trustee of the Sea Education Association. |
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**Interested Trustees**

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| <p><b>*Charles E. Haldeman, Jr.</b><br/>(Born 1948), Trustee since 2004 and President since June 2007</p> | <p>President and Chief Executive Officer of Putnam, LLC ( Putnam Investments ). Member of Putnam Investments Executive Board of Directors and Advisory Council. Prior to November 2003, Mr. Haldeman served as Co-</p> | <p>Serves on the Board of Governors of the Investment Company Institute and as Chair of the Board of Trustees of Dartmouth College. Mr. Haldeman serves on the Partners HealthCare Investment Committee, the Tuck School of Business at Dartmouth College Board of Overseers, and the Harvard Business School Board of Dean's Advisors.</p> |
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| Name, Address <sup>1</sup> , Year of Birth, Position(s) Held with Fund and Length of Service as a Putnam Fund Trustee <sup>2</sup> | Principal Occupation(s) During Past 5 Years | Other Directorships Held by Trustee |
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Head of Putnam Investments Investment Division. Prior to joining Putnam Investments in 2002, he served as Chief Executive Officer of Delaware Investments and President and Chief Operating Officer of United Asset Management.

<sup>1</sup>The address of each Trustee is One Post Office Square, Boston, MA 02109. As of December 31, 2006, there were 107 Putnam Funds.

<sup>2</sup>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 or Putnam Retail Management Limited Partnership ( Putnam Retail Management ). Mr. Haldeman is deemed an interested person by virtue of his position as officer of the fund or Putnam Management or Putnam Retail Management. Charles E. Haldeman, Jr. is President and Chief Executive Officer of Putnam Investments and the President of the funds and each of the other Putnam funds.

**Officers**

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In addition to Charles E. Haldeman, Jr., each fund's President, the other officers of the funds are shown below. All of the officers of the funds are employees of Putnam Management or its affiliates or are members of the Trustees' independent administrative staff.

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| Name, Address <sup>1</sup> ,<br>Year of Birth and<br>Position(s) Held with<br>Fund | Length of<br>Service with the<br>Putnam Funds <sup>2</sup> | Principal Occupation(s) During Past 5 Years and Position(s) with<br>Fund's Investment Adviser and Distributor <sup>3</sup> |
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| <b>Charles E. Porter<sup>4</sup></b><br>(Born 1938),<br>Executive Vice<br>President, Principal<br>Executive Officer,<br>Associate Treasurer<br>and Compliance<br>Liaison | Since 1989 | Executive Vice President, Associate Treasurer and Principal<br>Executive Officer, The Putnam Funds. |
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| <b>Jonathan S. Horwitz<sup>4</sup></b><br>(Born 1955), Senior<br>Vice President and<br>Treasurer | Since 2004 | Senior Vice President and Treasurer, The Putnam Funds. Prior to<br>2004, Managing Director, Putnam Investments. |
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| <b>Steven D. Krichmar</b><br>(Born 1958), Vice<br>President and<br>Principal Financial<br>Officer | Since 2002 | Senior Managing Director, Putnam Investments. Prior to 2001,<br>Partner, PricewaterhouseCoopers LLP. |
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| <b>Janet C. Smith</b> (Born<br>1965), Vice President,<br>Assistant Treasurer<br>and Principal<br>Accounting Officer | Since 2007 | Managing Director, Putnam Investments, Putnam Management. |
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| <b>Beth S. Mazor</b> (Born<br>1958), Vice President | Since 2002 | Managing Director, Putnam Investments. |
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| <b>Robert R. Leveille</b><br>(Born 1969), Vice | Since 2007 | Managing Director, Putnam Investments, Putnam Management and<br>Putnam Retail Management. Prior to 2005, Mr. Leveille was a |
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President and Chief Compliance Officer member of Bell Boyd & Lloyd LLC, and prior to 2003, he was Vice President and Senior Counsel of Liberty Funds Group LLC.

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**Mark C. Trenchard** Since 2002 Managing Director, Putnam Investments.  
(Born 1962), Vice President and BSA Compliance Officer

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**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, Mr. McNamara was General Counsel of State Street Research & Management Company.

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**James P. Pappas** (Born 1953), Vice President Since 2004 Managing Director, Putnam Investments. During 2002, Mr. Pappas was Chief Operating Officer of Atalanta/Sosnoff Management Corporation. Prior to 2001, he was President and Chief Executive Officer of UAM Investment Services, Inc.

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| Name, Address <sup>1</sup> , Year of Birth and Position(s) Held with Fund | Length of Service with the Putnam Funds <sup>2</sup> | Principal Occupation(s) During Past 5 Years and Position(s) with Fund's Investment Adviser and Distributor <sup>3</sup> |
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| <b>Richard S. Robie, III</b> (Born 1960), Vice President | Since 2004 | Senior Managing Director, Putnam Investments. Prior to 2003, Mr. Robie was Senior Vice President of United Asset Management Corporation. |
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| <b>Judith Cohen<sup>4</sup></b> (Born 1945), Vice President, Clerk and Assistant Treasurer | Since 1993 | Vice President, Clerk and Assistant Treasurer, The Putnam Funds. |
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| <b>Wanda M. McManus<sup>4</sup></b> (Born 1947), Vice President, | Since 1993 | Vice President, Senior Associate Treasurer and Assistant Clerk, The Putnam Funds. |
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Senior Associate  
Treasurer and  
Assistant Clerk

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| <b>Nancy E. Florek</b> <sup>4</sup><br>(Born 1957), Vice<br>President, Assistant<br>Clerk, Assistant<br>Treasurer and Proxy<br>Manager | Since 2000 | Vice President, Assistant Clerk, Assistant Treasurer and Proxy<br>Manager, The Putnam Funds. |
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| <b>Susan G. Malloy</b><br>(Born 1957), Vice<br>President and<br>Assistant Treasurer | Since 2007 | Managing Director, Putnam Investments. |
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<sup>1</sup>The address of each Officer is One Post Office Square, Boston, MA 02109.

<sup>2</sup>Each officer serves for an indefinite term, until his or her resignation, retirement, death or removal.

<sup>3</sup>Prior positions and/or officer appointments with the fund or the fund's investment adviser and distributor have been omitted.

<sup>4</sup>Officers of each fund who are members of the Trustees' independent administrative staff. Compensation for these individuals is fixed by the Trustees and reimbursed to Putnam Management.

Except as stated above, the principal occupations of the officers and Trustees for the last five years have been with the employers as shown above, although in some cases they have held different positions with such employers.

### **Standing Committees of the Board of Trustees**

**Audit and Compliance Committee.** The Audit and Compliance Committee provides oversight on matters relating to the preparation of the funds' financial statements, compliance matters and Codes of Ethics issues. This oversight is discharged by regularly meeting with management and the funds' independent auditors and keeping current on industry developments. Duties of this Committee also include the review and evaluation of all matters and relationships pertaining to the funds' independent auditors, including their independence. The members of the Committee include only Trustees who are not interested persons of the funds or Putnam Management. Each member of the Committee also is independent, as such term is interpreted for purposes of

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Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, and the listing standards of the New York Stock Exchange. The Board of Trustees has adopted a written charter for the Committee. The Committee currently consists of Messrs. Patterson (Chairperson), Darretta, Hill, Leibler and Stephens and Ms. Drucker.

**Board Policy and Nominating Committee.** The Board Policy and Nominating Committee reviews matters pertaining to the operations of the Board of Trustees and its Committees, the compensation of the Trustees and their staff and the

conduct of legal affairs for the funds. The Committee evaluates and recommends all candidates for election as Trustees and recommends the appointment of members and chairs of each board committee. The Committee will consider nominees for Trustee recommended by shareholders of a fund provided that such recommendations are submitted by the date disclosed in the fund's proxy statement and otherwise comply with applicable securities laws, including Rule 14a-8 under the Securities Exchange Act of 1934, as amended. The Committee also reviews policy matters affecting the operation of the Board and its independent staff. In addition, the Committee oversees the voting of proxies associated with portfolio investments of the funds with the goal of ensuring that these proxies are voted in the best interest of the funds' shareholders. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee is composed exclusively of Trustees who are not interested persons of the funds or Putnam Management. The Committee currently consists of Dr. Kennan (Chairperson), Ms. Baxter and Messrs. Hill and Patterson.

**Brokerage Committee.** The Brokerage Committee reviews the funds' policies regarding the execution of portfolio trades and Putnam Management's practices and procedures relating to the implementation of those policies. The Committee reviews periodic reports on the cost and quality of execution of portfolio transactions and the extent to which brokerage commissions have been used (i) by Putnam Management to obtain brokerage and research services generally useful to it in managing the portfolios of the funds and of its other clients, and (ii) by the funds to pay for certain fund expenses. The Committee currently consists of Drs. Joskow (Chairperson) and Kennan, Ms. Baxter and Messrs. Curtis, Putnam and Worley.

**Contract Committee.** The Contract Committee reviews and evaluates at least annually all arrangements pertaining to (i) the engagement of Putnam Management and its affiliates to provide services to the funds, (ii) the expenditure of the funds' assets for distribution purposes pursuant to Distribution Plans of the funds, and (iii) the engagement of other persons to provide material services to the funds, including in particular those instances where the cost of services is shared between the funds and Putnam Management and its affiliates or where Putnam Management or its affiliates have a material interest. After review and evaluation, the Committee recommends to the Trustees the proposed organization of new fund products and proposed structural changes to existing funds. The Committee is composed exclusively of Trustees who are not interested persons of the funds or Putnam Management. The Committee currently consists of Ms. Baxter (Chairperson), Drs. Joskow and Kennan and Messrs. Curtis, Putnam and Worley.

**Distributions Committee.** The Distributions Committee oversees all fund distributions. The Committee makes recommendations to the Trustees of the funds regarding the amount and timing of distributions paid by the funds, and determines such matters when the Trustees are not in session. The Committee also oversees the policies and procedures pursuant to which Putnam

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Management prepares recommendations for distributions, and meets regularly with representatives of Putnam Management to review the implementation of such policies and procedures. The Committee currently consists of Ms. Drucker (Chairperson) and Messrs. Darretta, Hill, Leibler, Patterson and Stephens.

**Executive Committee.** The functions of the Executive Committee are twofold. The first is to ensure that the funds business may be conducted at times when it is not feasible to convene a meeting of the Trustees or for the Trustees to act by written consent. The Committee may exercise any or all of the power and authority of the Trustees when the Trustees are not in session. The second is to establish annual and ongoing goals, objectives and priorities for the Board of Trustees and to ensure coordination of all efforts between the Trustees and Putnam Management on behalf of the shareholders of the funds. The Committee currently consists of Messrs. Hill (Chairperson), Curtis, Patterson and Putnam (*ex officio*), Dr. Joskow and Ms. Baxter.

**Investment Oversight Committees.** These Committees regularly meet with investment personnel of Putnam Management to review the investment performance and strategies of the funds in light of their stated investment objectives and policies. The Committees seek to identify any compliance issues that are unique to the applicable categories of funds and work with the appropriate Board committees to ensure that any such issues are properly addressed. Investment Oversight Committee A currently consists of Messrs. Leibler (Chairperson) and Stephens and Dr. Joskow. Investment Oversight Committee B currently consists of Messrs. Darretta (Chairperson) Curtis and Hill. Investment Oversight Committee C currently consists of Messrs. Worley (Chairperson) and Patterson and Ms. Baxter. Investment Oversight Committee D currently consists of Ms. Drucker (Chairperson), Messrs. Haldeman and Putnam and Dr. Kennan.

**Investment Oversight Coordinating Committee.** The Investment Oversight Coordinating Committee coordinates the work of the Investment Oversight Committees and works with representatives of Putnam Management to coordinate the Board's general oversight of the investment performance of the funds. From time to time, as determined by the Chairman of the Board, the Committee may also review particular matters relating to fund investments and Putnam Management's investment process. The Committee currently consists of Ms. Drucker (Chairperson) and Messrs. Darretta, Leibler and Worley.

**Pricing Committee.** The Pricing Committee oversees the valuation of assets of the Putnam funds and reviews the funds' policies and procedures for achieving accurate and timely pricing of the funds' shares. The Committee oversees implementation of these policies, including fair value determinations of individual securities made by Putnam Management or other designated agents of the funds. The Committee also oversees compliance by money market funds with Rule 2a-7, interfund transactions pursuant to Rule 17a-7 and the correction of occasional pricing errors. The Committee also receives reports on various other matters, including reports on the liquidity of portfolio securities. The Committee currently consists of Messrs. Leibler (Chairperson) Darretta, Hill, Patterson and Stephens and Ms. Drucker.

**Communications, Service and Marketing Committee.** The Communications, Service and Marketing Committee reviews the quality of services provided to shareholders and oversees the marketing and sale of fund shares by Putnam Retail Management. The Committee also exercises

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general oversight of marketing and sales communications used by Putnam Retail Management, as well as other communications sent to fund shareholders, including shareholder reports, prospectuses, proxy statements and other materials. The Committee reviews periodic summaries of any correspondence to the Trustees from shareholders. The Committee currently consists of Messrs. Putnam (Chairperson), Curtis, Patterson and Stephens and Drs. Joskow and Kennan.

The Agreement and Declaration of Trust of each fund provides that the fund will indemnify its Trustees and officers against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the fund, except if it is determined in the manner specified in the Agreement and Declaration of Trust that they have not acted in good faith in the reasonable belief that their actions were in the best interests of the fund or that such indemnification would relieve any officer or Trustee of any liability to the fund or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his or her duties. Each fund, at its expense, provides liability insurance for the benefit of its Trustees and officers.

**For details of Trustees' fees paid by each fund and information concerning retirement guidelines for the Trustees, see Charges and expenses .**

**Putnam Management and its affiliates**

Putnam Management is one of America's oldest and largest money management firms. Putnam Management's staff of experienced portfolio managers and research analysts selects securities and constantly supervises the fund's portfolio. By pooling an investor's money with that of other investors, a greater variety of securities can be purchased than would be the case individually; the resulting diversification helps reduce investment risk. Putnam Management has been managing mutual funds since 1937.

Putnam Management is a subsidiary of Putnam, LLC, which is also the parent company of Putnam Retail Management, The Putnam Advisory Company, LLC (a wholly-owned subsidiary of Putnam Advisory Company, Limited Partnership), PIL (a wholly-owned subsidiary of The Putnam Advisory Company, LLC) and Putnam Fiduciary Trust Company. Putnam, LLC, which generally conducts business under the name Putnam Investments, is a wholly-owned subsidiary of Putnam Investments Trust, a holding company that, except for a minority stake owned by employees, is owned by Great-West Lifeco Inc., a subsidiary of Power Financial Corporation. Power Financial Corporation is a diversified management and holding company that has interests, directly or indirectly, in companies that are active in the financial services sector in Canada, the United States and Europe. It also has substantial holdings in a group of energy, water, waste services, specialty minerals and cement and building materials companies based in Europe. Great-West Lifeco Inc. purchased its majority interest in Putnam Investments Trust on August 3, 2007 from Marsh & McLennan Companies, Inc., a publicly-owned holding company whose principal businesses are international insurance and reinsurance brokerage and employee benefit consulting.

Trustees and officers of each fund who are also officers of Putnam Management or its affiliates will benefit from the advisory fees, sales commissions, distribution fees, custodian fees and transfer agency fees paid or allowed by the fund.

### **The management contract**

Under management contracts between each fund and Putnam Management, subject to such policies as the Trustees may determine, Putnam Management, at its expense, furnishes continuously an investment program for each fund and makes investment decisions on behalf of

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each fund. Subject to the control of the Trustees, Putnam Management also manages, supervises and conducts the other affairs and business of each fund, furnishes office space and equipment, provides bookkeeping and clerical services (including determination of the fund's net asset value, but excluding shareholder accounting services) and places all orders for the purchase and sale of the fund's portfolio securities. Putnam Management may place fund portfolio transactions with broker-dealers that furnish Putnam Management, without cost to it, certain research, statistical and quotation services of value to Putnam Management and its affiliates in advising each fund and other clients. In so doing, Putnam Management may cause each fund to pay greater brokerage commissions than it might otherwise pay.

**For details of Putnam Management's compensation under the management contracts, see Charges and expenses** . Under the management contracts, if dividends payable on preferred shares during any dividend period plus any expenses attributable to preferred shares for that period exceed the fund's gross income attributable to the proceeds of the preferred shares during that period, then the fees payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than the effective management fee rate under the contract multiplied by the liquidation preference of the preferred shares outstanding during the period).

In addition to the fee paid to Putnam Management, each fund reimburses Putnam Management for the compensation and related expenses of certain officers of the fund and their assistants who provide certain administrative services for the fund and the other Putnam funds, each of which bears an allocated share of the foregoing costs. The aggregate



amount of all such payments and reimbursements is determined annually by the Trustees. **The amount of this reimbursement for each fund's most recent fiscal year is included in Charges and Expenses .**

Putnam Management pays all other salaries of officers of each fund. Each fund pays all expenses not assumed by Putnam Management including, without limitation, auditing, legal, custodial, investor servicing and shareholder reporting expenses. Each fund pays the cost of typesetting for its prospectuses and the cost of printing and mailing any prospectuses sent to its shareholders. Putnam Retail Management pays the cost of printing and distributing all other prospectuses.

The management contracts provide that Putnam Management shall not be subject to any liability to the funds or to any shareholder of the funds for any act or omission in the course of or connected with rendering services to the funds in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its duties on the part of Putnam Management.

Each management contract may be terminated without penalty by vote of the Trustees or the shareholders of the applicable fund, or by Putnam Management, on 30 days' written notice. It may be amended only by a vote of the shareholders of the applicable fund. Each management contract also terminates without payment of any penalty in the event of its assignment. Each management contract provides that it will continue in effect only so long as such continuance is approved at least annually by vote of either the Trustees or the shareholders, and, in either case, by a majority of the Trustees who are not interested persons of Putnam Management or the fund. In each of the foregoing cases, the vote of the shareholders is the affirmative vote of a majority of the outstanding voting securities as defined in the Investment Company Act of 1940.

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Effective January 1, 2007, Putnam Management has entered into a Master Sub-Accounting Services Agreement with State Street Bank and Trust Company ("State Street"), under which Putnam Management has delegated to State Street responsibility for providing certain administrative, pricing, and bookkeeping services for each fund. Putnam Management pays State Street a fee, monthly, based on a combination of fixed annual charges and charges based on each fund's assets and the number and types of securities held by each fund, and reimburses State Street for certain out-of-pocket expenses.

**Other accounts managed by the funds' portfolio managers**

The following tables show the number and approximate assets of other investment accounts (or portions of investment accounts) that the funds' Portfolio Leader and Portfolio Members managed as of each 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 otherwise noted, none of the accounts pays a fee based on the account's performance.

**Managed Municipal Income Trust  
(10/31/07)**

| 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) |
|----------------------------|--|---|---|
|----------------------------|--|---|---|

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|                 | Number of<br>accounts | Assets          | Number of<br>accounts | Assets    | Number of<br>accounts | Assets        |
|-----------------|-----------------------|-----------------|-----------------------|-----------|-----------------------|---------------|
| Paul Drury      | 20                    | \$9,249,500,000 | 3                     | \$900,000 | 3                     | \$481,500,000 |
| Thalia Meehan   | 20                    | \$9,249,500,000 | 3                     | \$900,000 | 3                     | \$482,400,000 |
| Brad Libby      | 20                    | \$9,249,500,000 | 3                     | \$900,000 | 3                     | \$418,600,000 |
| Susan McCormack | 20                    | \$9,249,500,000 | 3                     | \$900,000 | 3                     | \$418,600,000 |

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**High Yield Municipal Trust  
(3/31/07)**

| Portfolio Leader or<br>Member | Other SEC-registered open-<br>end and closed-end funds | Other accounts that pool<br>assets from more than<br>one client | Other accounts (including<br>separate accounts, managed<br>account programs and<br>single-sponsor defined<br>contribution plan offerings) |           |                       |               |
|-------------------------------|--|---|---|-----------|-----------------------|---------------|
|                               | Number of<br>accounts                                  | Assets  | Number of<br>accounts   | Assets    | Number of<br>accounts | Assets        |
| Paul Drury                    | 18   | \$9,202,800,000   | 3   | \$900,000 | 2                     | \$482,700,000 |
| Thalia Meehan                 | 18   | \$9,202,800,000   | 3   | \$900,000 | 3                     | \$483,800,000 |
| Brad Libby                    | 18   | \$9,202,800,000   | 3   | \$900,000 | 3                     | \$482,900,000 |
| Susan McCormack               | 18   | \$9,202,800,000   | 3   | \$900,000 | 2                     | \$482,700,000 |

See "Management - Portfolio Transactions - Potential conflicts of interest in managing multiple accounts" for information on how Putnam Management addresses potential conflicts of interest resulting from an individual's management of more than one account.

The table below shows the value of each funds' Portfolio Leader's and Portfolio Members' holdings in Managed Municipal Income Trust as of October 31, 2006 and in High Yield Municipal Trust as of March 31, 2007.

| Name of Portfolio Manager | Dollar range of Managed Municipal Income Trust shares owned | Dollar range of High Yield Municipal Trust shares owned |
|---------------------------|---|---|
| Paul Drury                | \$0   | \$0   |
| Thalia Meehan             | \$0   | \$0   |
| Brad Libby                | \$0   | \$0   |
| Susan McCormack           | \$0   | \$0   |

### Portfolio transactions

**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 Funds' 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 ),

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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

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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, or if such trades result in more attractive investments being allocated to higher-fee accounts. 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

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product of many factors in addition to basic suitability for the particular account involved. Thus, a particular security may be bought or sold for certain accounts even though it could have been bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by the Portfolio Leader(s) or Portfolio Member(s) when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. As noted above, Putnam Management has implemented trade oversight and review procedures to monitor whether any account is systematically favored over time.

The fund's Portfolio Leader(s) and Portfolio Member(s) may also face other potential conflicts of interest in managing the fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the fund and other accounts. For information on restrictions imposed on personal securities transactions of the fund's Portfolio Leader(s) and Portfolio Member(s), please see [Personal Investments by Employees of Putnam Management and Putnam Retail Management and Officers and Trustees of the Fund](#).

For information about other funds and accounts managed by the fund's Portfolio Leader(s) and Portfolio Member(s), please refer to [Other Accounts Managed By The Funds' Portfolio Managers](#).

### **Compensation of investment professionals.**

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

Consistent performance means being above median over one year.

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

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

In determining an investment management team's portion of the incentive compensation pool and allocating that portion to individual team members, Putnam Management retains discretion to award or penalize teams or individuals, including the fund's Portfolio Leader(s) and Portfolio Member(s), as it deems appropriate, based on other factors. The size of the overall incentive

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compensation pool each year depends in large part on Putnam's profitability for the year, which is influenced by assets under management. Incentive compensation is generally paid as cash bonuses, but a portion of incentive compensation may instead be paid as grants of restricted stock, options or other forms of compensation, based on the factors described above. In addition to incentive compensation, investment team members receive annual salaries that are typically based on seniority and experience. Incentive compensation generally represents at least 70% of the total compensation paid to investment team members.

### **Brokerage and research services**

Transactions on stock exchanges, commodities markets and futures markets and other agency transactions involve the payment by the fund of negotiated brokerage commissions. Such commissions may vary among different brokers. A particular broker may charge different commissions according to such factors as execution venue and exchange. Although the fund does not typically pay commissions for principal transactions in the over-the-counter markets, such as most fixed income securities and certain derivatives, an undisclosed amount of profit or mark-up is included in the price the fund pays. In underwritten offerings, the price paid by the fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. **See "Charges and expenses" for information concerning commissions paid by the fund.**

It has for many years been a common practice in the investment advisory business for broker-dealers that execute portfolio transactions for the clients of advisers of investment companies and other institutional investors to provide those advisers with brokerage and research services, as defined in Section 28(e) of the Securities Exchange Act of 1934, as amended (the 1934 Act). Consistent with this practice, Putnam Management receives brokerage and research services from broker-dealers with which Putnam Management places the fund's portfolio transactions. The services that broker-dealers may provide to Putnam Management's managers and analysts include, among others, economic analysis, investment research, industry and company reviews, statistical information, evaluations of investments, recommendations as to the purchase and sale of investments and performance measurement services. Some of these services are of value to Putnam Management and its affiliates in advising various of their clients (including the fund), although not all of these services are necessarily useful and of value in managing the fund. Research services provided by broker-dealers are supplemental to Putnam Management's own research efforts and relieve Putnam Management of expenses it might otherwise have borne in generating such research. The management fee paid by the fund is not reduced because Putnam Management and its affiliates receive brokerage and research services even though Putnam Management might otherwise be required to purchase some of these services for cash. Putnam Management is not permitted to use portfolio transactions to generate soft dollar credits to pay for mixed-use services (i.e., products that may be used both for investment- and non-investment-related purposes).

In general, Putnam Management does not allow the funds' portfolio transactions to be used to generate soft dollar credits to pay for brokerage and research services generated by third parties, except that Putnam Management may allocate fund trades to generate soft dollar credits for third party investment research reports and related fundamental

investment research (i) when trading through the firm generating the research would not be feasible or consistent with seeking most favorable price and execution, (ii) the research is not generally available for purchase other than

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through soft dollars or direct execution and (iii) where the total amount allocated to these third party services does not exceed 8% of the total commissions of all clients of Putnam Management and certain of its affiliates in the aggregate for any calendar year (although more than 8% of the fund's commissions or a particular fund's commissions in a year may be used to pay for such third-party research services). In addition to generating soft-dollar credits to pay for these permitted third-party services, Putnam Management may instruct executing brokers to step out a portion of the trades placed with them to the providers of such services, subject to the aggregate 8% limit mentioned above.

Putnam Management places all orders for the purchase and sale of portfolio investments for the funds, and buys and sells investments for the funds through a substantial number of brokers and dealers. In selecting broker-dealers to execute the funds' portfolio transactions, Putnam Management uses its best efforts to obtain for each fund the most favorable price and execution reasonably available, except to the extent it may be permitted to pay higher brokerage commissions as described below. In seeking the most favorable price and execution and in considering the overall reasonableness of the brokerage commissions paid, Putnam Management, having in mind the fund's best interests, considers all factors it deems relevant, including, in no particular order of importance, and by way of illustration, price, the size and type of the transaction, the nature of the market for the security or other investment, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in other transactions.

Putnam Management may cause the fund to pay a broker-dealer that provides "brokerage and research services" (as defined in the 1934 Act and as described above) to Putnam Management an amount of disclosed commission for effecting securities transactions on stock exchanges and other transactions for the fund on an agency basis in excess of the commission another broker-dealer would have charged for effecting that transaction. Putnam Management's authority to cause the fund to pay any such greater commissions is subject to the requirements of applicable law and such policies as the Trustees may adopt from time to time. It is the position of the staff of the Securities and Exchange Commission that Section 28(e) of the 1934 Act does not apply to the payment of such greater commissions in "principal" transactions. Accordingly, Putnam Management will use its best effort to obtain the most favorable price and execution available with respect to such transactions, as described above.

The Trustees of the funds have directed Putnam, subject to seeking most favorable pricing and execution, to use its best efforts to allocate a portion of overall fund trades to trading programs which generate commission credits to pay fund expenses such as shareholder servicing and custody charges. The extent of any commission credits generated for this purpose may vary significantly from time to time and from fund to fund depending on, among other things, the nature of each fund's trading activities and market conditions.

The Management Contract provides that commissions, fees, brokerage or similar payments received by Putnam Management or an affiliate in connection with the purchase and sale of portfolio investments of the fund, less any direct expenses approved by the Trustees, shall be recaptured by the fund through a reduction of the fee payable by the fund under the Management Contract. Putnam Management seeks to recapture for the fund soliciting dealer fees on the

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tender of the fund's portfolio securities in tender or exchange offers. Any such fees which may be recaptured are likely to be minor in amount.

### **Personal investments by employees of Putnam Management and Officers and Trustees of the funds**

Employees of Putnam Management and officers and Trustees of the fund are subject to significant restrictions on engaging in personal securities transactions. These restrictions are set forth in the Code of Ethics adopted by Putnam Management (the Putnam Investments Code of Ethics) and by the fund (the Putnam Funds Code of Ethics). The Putnam Investments Code of Ethics and the Putnam Funds Code of Ethics, in accordance with Rule 17j-1 of the Investment Company Act of 1940, as amended, contain provisions and requirements designed to identify and address certain conflicts of interest between personal investment activities and the interests of the fund.

The Putnam Investments Code of Ethics does not prohibit personnel from investing in securities that may be purchased or held by the fund. However, the Putnam Investments Code of Ethics, consistent with standards recommended by the Investment Company Institute's Advisory Group on Personal Investing and requirements established by Rule 17j-1 and rules adopted under the Investment Advisers Act of 1940, among other things, prohibits personal securities investments without pre-clearance, imposes time periods during which personal transactions may not be made in certain securities by employees with access to investment information, and requires the timely submission of broker confirmations and quarterly reporting of personal securities transactions. Additional restrictions apply to portfolio managers, traders, research analysts and others involved in the investment advisory process.

The Putnam Funds Code of Ethics incorporates and applies the restrictions of the Putnam Investments Code of Ethics to officers and Trustees of the fund who are affiliated with Putnam Investments. The Putnam Funds Code of Ethics does not prohibit unaffiliated officers and Trustees from investing in securities that may be held by the fund; however, the Putnam Funds Code of Ethics regulates the personal securities transactions of unaffiliated Trustees of the fund, including limiting the time periods during which they may personally buy and sell certain securities and requiring them to submit reports of personal securities transactions under certain circumstances.

The fund's Trustees, in compliance with Rule 17j-1, approved the Putnam Investments and the Putnam Funds Codes of Ethics and are required to approve any material changes to these Codes. The Trustees also provide continued oversight of personal investment policies and annually evaluate the implementation and effectiveness of the Codes of Ethics. The Putnam Investments and Putnam Funds Codes of Ethics can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (for information call 1-202-551-8090) and are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies may also be obtained, after paying a duplicating fee, by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102 or by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov).

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### **Investor Servicing Agent**

Putnam Investor Services, a division of Putnam Fiduciary Trust Company ( PFTC ), is each fund's investor servicing agent (transfer, plan and dividend disbursing agent), for which it receives fees that are paid monthly by the fund as an expense of all its shareholders. The fee paid to Putnam Investor Services is determined on the basis of the number of shareholder accounts and the assets of the fund.

### **Custodian**

Effective January 1, 2007, each fund retained State Street Bank and Trust Company, 2 Avenue de Lafayette, Boston, Massachusetts 02111, as its custodian. State Street is responsible for safeguarding and controlling the fund's cash and



securities, handling the receipt and delivery of securities, collecting interest and dividends on the fund's investments, serving as the fund's foreign custody manager, providing reports on foreign securities depositaries, making payments covering the expenses of the fund and performing other administrative duties. State Street does not determine the investment policies of the fund or decide which securities the fund will buy or sell. State Street has a lien on the fund's assets to secure charges and advances made by it.

Each fund pays State Street an annual fee based on the fund's assets held with State Street and on securities transactions processed by State Street and reimburses State Street for certain out-of-pocket expenses. The funds will make payments to PFTC in 2007 for managing the transition of custody services from PFTC to State Street and for providing oversight services. Each fund may from time to time enter into brokerage arrangements that reduce or recapture fund expenses, including custody expenses. Each fund also has an offset arrangement that may reduce the fund's custody fee based on the amount of cash maintained by its custodian. **See Charges and expenses for information on fees and reimbursements for investor servicing and custody received by PFTC.**

#### **Counsel to the funds and the independent Trustees**

Ropes & Gray LLP serves as counsel to each fund and the independent Trustees, and is located at One International Place, Boston, Massachusetts 02110.

#### **SHAREHOLDER LIABILITY**

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of Managed Municipal Income Trust. However, Managed Municipal Income Trust's Agreement and Declaration of Trust disclaims shareholder liability for acts or obligations of the fund and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by the fund or the Trustees. Managed Municipal Income Trust's Agreement and Declaration of Trust provides for indemnification out of fund property for all loss and expense of any shareholder held personally liable for the obligations of the fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the fund would be unable to meet its obligations. The likelihood of such circumstances is remote.

#### **DISCLOSURE OF PORTFOLIO INFORMATION**

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The Trustees of the Putnam funds have adopted policies with respect to the disclosure of the fund's portfolio holdings by each fund, Putnam Management, or their affiliates. These policies provide that information about the fund's portfolio generally may not be released to any party prior to (i) the posting of such information on the Putnam Investments website, (ii) the filing of the information with the SEC in a required filing, or (iii) the dissemination of such information to all shareholders simultaneously. Certain limited exceptions pursuant to the fund's policies are described below. The Trustees will periodically receive reports from the fund's Chief Compliance Officer regarding the operation of these policies and procedures, including any arrangements to make non-public disclosures of the fund's portfolio information to third parties. Putnam Management and its affiliates are not permitted to receive compensation or other consideration in connection with disclosing information about the fund's portfolio holdings to third parties.

#### **Public disclosures**

Each fund's portfolio holdings are currently disclosed to the public through required filings with the SEC and on the Putnam Investments website. Each fund files its portfolio holdings with the SEC for each fiscal quarter on Form N-CSR (with respect to each annual period and semi-annual period) and Form N-Q (with respect to the first and third

quarters of each fund's fiscal year). Shareholders may obtain each fund's Form N-CSR and N-Q filings on the SEC's website at <http://www.sec.gov>. In addition, each fund's Form N-CSR and N-Q filings may be reviewed and copied at the SEC's public reference room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's website or the operation of the public reference room.

Putnam Management also currently makes each fund's portfolio information publicly available on the Putnam Investments website, [www.putnam.com](http://www.putnam.com), as disclosed in the following table:

| <b>Information</b>                                       | <b>Frequency of Disclosure</b> | <b>Date of Web Posting</b>  |
|--|--------------------------------|---|
| Full Portfolio Holdings                                  | Quarterly                      | Last business day of the month following the end of each calendar quarter |
| Top 10 Portfolio Holdings and other portfolio statistics | Monthly                        | Approximately 15 days after the end of each month                         |

The scope of the information relating to each fund's portfolio that is made available on the website may change from time to time without notice. In addition, the posting of fund holdings may be delayed in some instances for technical reasons.

Putnam Management or its affiliates may include fund portfolio information that has already been made public through a Web posting or SEC filing in marketing literature and other communications to shareholders, advisors or other parties, provided that, in the case of information made public through the Web, the information is disclosed no earlier than the day after the date of posting to the website.

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## **Other disclosures**

Each fund's policies require that non-public disclosures of information regarding the fund's portfolio may be made only if there is a legitimate business purpose consistent with fiduciary duties to all shareholders of the fund. In addition, the party receiving the non-public information must sign a non-disclosure agreement unless otherwise approved by Putnam Management's Compliance Department. Arrangements to make non-public disclosures of a fund's portfolio information must be approved by the Chief Compliance Officer of the fund. The Chief Compliance Officer will report on an ongoing basis to a committee of each fund's Board of Trustees consisting only of Trustees who are not interested persons of the fund or Putnam Management regarding any such arrangement that the fund may enter into with third parties other than service providers to the fund.

Each fund periodically discloses its portfolio information on a confidential basis to various service providers that require such information in order to assist the fund with its day-to-day business affairs. In addition to Putnam Management and its affiliates, including PFTC and Putnam Retail Management, these service providers include each fund's custodian and sub-custodians, which currently include State Street Bank and Trust Company, Mellon Bank N.A., Brown Brothers Harriman & Co., UMB Bank, N.A., JP Morgan Chase Bank, and Citibank N.A., each fund's independent registered public accounting firm, legal counsel, and financial printer (McMunn Associates, Inc.), and each fund's proxy voting services, currently Glass, Lewis & Co. These service providers are required to keep such

information confidential, and are prohibited from trading based on the information or otherwise using the information except as necessary in providing services to the fund.

Each fund may also periodically provide non-public information about its portfolio holdings to rating and ranking organizations, such as Lipper Inc. and Morningstar Inc., in connection with those firms' research on and classification of the fund and in order to gather information about how the fund's attributes (such as volatility, turnover, and expenses) compare with those of peer funds. Any such firm would be required to keep each fund's portfolio information confidential and would be prohibited from trading based on the information or otherwise using the information except as necessary in providing services to the fund.

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## **PROXY VOTING GUIDELINES AND PROCEDURES**

The Trustees of the Putnam funds have established proxy voting guidelines and procedures that govern the voting of proxies for the securities held in the funds' portfolios. The proxy voting guidelines summarize the funds' positions on various issues of concern to investors, and provide direction to the proxy voting service used by the funds as to how fund portfolio securities should be voted on proposals dealing with particular issues. The proxy voting procedures explain the role of the Trustees, Putnam Management, the proxy voting service and the funds' proxy coordinator in the proxy voting process, describe the procedures for referring matters involving investment considerations to the investment personnel of Putnam Management and describe the procedures for handling potential conflicts of interest. The Putnam funds' proxy voting guidelines and procedures are included in this SAI as Appendix A. Information regarding how the funds voted proxies relating to portfolio securities during the 12-month period ended June 30, 2006 is available on the Putnam Individual Investor website, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's website at [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's website, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures by calling Putnam's Shareholder Services at 1-800-225-1581.

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## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

KPMG LLP, 99 High Street, Boston, Massachusetts 02110, is the independent registered public accounting firm for each of Managed Municipal Income Trust and High Yield Municipal Trust providing audit services, tax return review and other tax consulting services and assistance and consultation in connection with the review of various Securities and Exchange Commission filings for each fund. The following documents are incorporated by reference into this SAI: Report of Independent Registered Public Accounting Firm, financial highlights and financial statements included in Managed Municipal Income Trust's Annual Report to shareholders for the fiscal year ended October 31, 2006 and Report of Independent Registered Public Accounting Firm, financial highlights and financial statements included in High Yield Municipal Trust's Annual Report to shareholders for the fiscal year ended March 31, 2007. The financial highlights for each fund incorporated by reference into the Prospectus/Proxy Statement and the audited financial statements for each fund incorporated by reference into this SAI have been so included and incorporated in reliance upon the reports of KPMG LLP, given on their authority as experts in auditing and accounting.

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and

**Putnam Managed Municipal Income Trust**

**Proforma Combining Financial Statements  
(Unaudited)**

The accompanying unaudited proforma combining investment portfolio and statement of assets and liabilities assumes that the exchange described in the next paragraph occurred as of April 30, 2007 and the unaudited proforma combining statement of operations for the twelve months ended April 30, 2007 presents the results of operations of Putnam Managed Municipal Income Trust as if the combination with Putnam High Yield Municipal Trust had been consummated at May 1, 2006. The proforma results of operations are not necessarily indicative of future operations or the actual results that would have occurred had the combination been consummated at May 1, 2006. These historical statements have been derived from Putnam Managed Municipal Income Trust's and Putnam High Yield Municipal Trust's books and records utilized in calculating daily net asset value at April 30, 2007, and for the twelve month period then ended. 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.

The proforma statements give effect to the proposed merger of Putnam High Yield Municipal Trust with and into Putnam Managed Municipal Income Trust, which is expected to be a tax-free reorganization. Under generally accepted accounting principles, the historical cost of investment securities will be carried forward to the surviving entity and the results of operations of Putnam Managed Municipal Income Trust for pre-combination periods will not be restated. The proforma statement of operations does not reflect the expenses of either fund in carrying out its obligations under the Agreement and Plan of Merger.

The unaudited proforma combining statements should be read in conjunction with the separate financial statements of Putnam Managed Municipal Income Trust and Putnam High Yield Municipal Trust incorporated by reference in this statement of additional information.

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**Putnam Managed Municipal Income Trust**

**Notes to Proforma Combining Statements**

**(Unaudited)**

**April 30, 2007**

**Security valuation**

Tax-exempt bonds and notes are generally valued on the basis of valuations provided by an independent pricing service approved by the Trustees. Such services use information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. Certain investments are also valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees. The fair value of securities is generally determined as the amount that the fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. By its nature, a fair value price is a good faith estimate of the value of a

security at a given point in time and does not reflect an actual market price, which may be different by a material amount.

### Federal taxes

It is the policy of each 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

### Proforma Adjustments

(A) Elimination and reduction of duplicative expenses as a result of the merger.

(B) \$49,798 relates to proxy costs for Putnam High Yield Municipal Trust, \$95,260 relates to proxy costs for Putnam Managed Municipal Income Trust and \$6,550 relates to SEC filing fees for Putnam Managed Municipal Income Trust. The remaining \$221,200 consists of \$200,000 of legal costs and \$21,200 of accounting costs. These are related merger costs which will be allocated ratably between the two funds upon consummation of the merger.

(C) Issuance of 20,240,513 common shares of Putnam Managed Municipal Income Trust to the holders of common shares of Putnam High Yield Municipal Trust.

(D) Reflects two-for-one stock split of Series C preferred shares of Putnam Managed Municipal Income Trust.

(E) It is anticipated that Series A preferred shareholders of Putnam High Yield Municipal Trust will receive Series C preferred shares of Putnam Managed Municipal Income Trust in the merger.

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### The Proforma Combining Investment Portfolio of Putnam High Yield Municipal Trust and Putnam Managed Municipal Income Trust April 30, 2007 (unaudited)

#### Key to abbreviations

|                  |   |
|------------------|---|
| AMBAC            | AMBAC Indemnity Corporation                             |
| CIFG             | CIFG Assurance North America, Inc.                      |
| COP              | Certificate of Participation                            |
| FGIC             | Financial Guaranty Insurance Company                    |
| FHA Insd.        | Federal Housing Administration Insured                  |
| FHLMC Coll.      | Federal Home Loan Mortgage Corporation Collateralized   |
| FNMA Coll.       | Federal National Mortgage Association Collateralized    |
| FRB              | Floating Rate Bonds                                     |
| FRN              | Floating Rate Notes                                     |
| FSA              | Financial Security Assurance                            |
| GNMA Coll.       | Government National Mortgage Association Collateralized |
| G.O. Bonds       | General Obligation Bonds                                |
| MBIA             | MBIA Insurance Company                                  |
| PSFG             | Permanent School Fund Guaranteed                        |
| Radian Insd.     | Radian Group Insured                                    |
| U.S. Govt. Coll. | U.S. Government Collateralized                          |
| VRDN             | Variable Rate Demand Notes                              |

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|  |             |                     |                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined   |                  |
|--|-------------|---------------------|------------------|---|---|---------------------|------------------|
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |                     |                  | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>       |                  |
|  | Rating(RAT) | Principal<br>amount | Value            | Principal<br>amount                         | Value                                   | Principal<br>amount | Value            |
| <b>Alabama</b>   |             |                     |                  | <b>0.4%</b>                                 | <b>0.5%</b>                             |                     | <b>0.5%</b>      |
| Butler, Indl. Dev. Board Solid Waste Disp. Rev.<br>Bonds (GA. Pacific Corp.), 5 3/4s, 9/1/28 |             |                     |                  |   |   |                     |                  |
|  | B           | \$950,000           | \$984,941        | \$550,000                                   | \$570,229                               | \$1,500,000         | \$1,555,170      |
| Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa<br>Valley Med. Ctr.), Ser. A, 6s, 8/1/35       |             |                     |                  |   |   |                     |                  |
|  | B/P         | -                   | -                | 250,000                                     | 259,480                                 | 250,000             | 259,480          |
| Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa<br>Valley Med. Ctr.), Ser. A, 6s, 8/1/25       |             |                     |                  |   |   |                     |                  |
|  | B/P         | 650,000             | 679,127          | -   | -                                       | 650,000             | 679,127          |
|  |             |                     | <b>1,664,068</b> |   | <b>829,709</b>                          |                     | <b>2,493,777</b> |

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|   |             |                     |       | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined   |             |
|---|-------------|---------------------|-------|---|---|---------------------|-------------|
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |                     |       | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>       |             |
|   | Rating(RAT) | Principal<br>amount | Value | Principal<br>amount                         | Value                                   | Principal<br>amount | Value       |
| <b>Arizona</b>  |             |                     |       | <b>3.3%</b>                                 | <b>2.5%</b>                             |                     | <b>3.1%</b> |
| Apache Cnty., Indl. Dev. Auth. Poll. Control<br>Rev. Bonds (Tucson Elec. Pwr. Co.), Ser. A, |             |                     |       |   |   |                     |             |

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|   |       |           |           |           |           |           |           |
|---|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| 5.85s, 3/1/28   | Baa3  | -         | -         | 250,000   | 251,235   | 250,000   | 251,235   |
| <hr/>   |       |           |           |           |           |           |           |
| Apache Cnty., Incl. Dev. Auth. Poll. Control<br>Rev. Bonds (Tucson Elec. Pwr. Co.), Ser. B, 5<br>7/8s, 3/1/33   | Baa3  | 1,000,000 | 1,004,850 | -         | -         | 1,000,000 | 1,004,850 |
| <hr/>   |       |           |           |           |           |           |           |
| AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds<br>(John C. Lincoln Hlth. Network), 6 3/8s, 12/1/37<br>(Prerefunded) | BBB   | 1,000,000 | 1,136,400 | 500,000   | 568,200   | 1,500,000 | 1,704,600 |
| <hr/>   |       |           |           |           |           |           |           |
| Casa Grande, Incl. Dev. Auth. Rev. Bonds (Casa<br>Grande Regl. Med. Ctr.), Ser. A, 7 1/4s, 12/1/19              | BB-/P | -         | -         | 1,000,000 | 1,089,060 | 1,000,000 | 1,089,060 |
| <hr/>   |       |           |           |           |           |           |           |
| Casa Grande, Incl. Dev. Auth. Rev. Bonds (Casa<br>Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29              | B+/P  | 1,800,000 | 1,991,556 | -         | -         | 1,800,000 | 1,991,556 |
| <hr/>   |       |           |           |           |           |           |           |
| Cochise Cnty., Incl. Dev. Auth. Rev. Bonds<br>(Sierra Vista Regl. Hlth. Ctr.), Ser. A, 6.2s,<br>12/1/21         | BB+/P | 480,000   | 513,576   | -         | -         | 480,000   | 513,576   |
| <hr/>   |       |           |           |           |           |           |           |
| Coconino Cnty., Poll. Control Rev. Bonds<br>(Tuscon/Navajo Elec. Pwr.), Ser. A, 7 1/8s,<br>10/1/32              | Baa3  | 3,000,000 | 3,093,630 | 750,000   | 773,408   | 3,750,000 | 3,867,038 |
| <hr/>   |       |           |           |           |           |           |           |
| Glendale, Incl. Dev. Auth. Rev. Bonds (John C.<br>Lincoln Hlth.), Ser. B, 5 1/4s, 12/1/19                       | BBB   | -         | -         | 500,000   | 529,710   | 500,000   | 529,710   |
| <hr/>   |       |           |           |           |           |           |           |
| Glendale, Wtr. & Swr. Rev. Bonds, AMBAC, 5s,<br>7/1/28  | Aaa   | 2,000,000 | 2,101,460 | -         | -         | 2,000,000 | 2,101,460 |
| <hr/>   |       |           |           |           |           |           |           |
| Pima Cnty., Incl. Dev. Auth. Rev. Bonds<br>(Horizon Cmnty. Learning Ctr.), 5.05s, 6/1/25                        | BBB-  | 815,000   | 806,394   | 325,000   | 321,568   | 1,140,000 | 1,127,962 |
| <hr/>   |       |           |           |           |           |           |           |
| Queen Creek, Special Assmt. Bonds (Impt. Dist.<br>No. 001), 5s, 1/1/18  | Baa2  | -         | -         | 200,000   | 206,634   | 200,000   | 206,634   |
| <hr/>   |       |           |           |           |           |           |           |
| Queen Creek, Special Assmt. Bonds (Dist. No.<br>001), 5s, 1/1/26  | Baa2  | 600,000   | 614,412   | -         | -         | 600,000   | 614,412   |
| <hr/>   |       |           |           |           |           |           |           |
| Scottsdale, Incl. Dev. Auth. Hosp. Rev. Bonds<br>(Scottsdale Hlth. Care), 5.8s, 12/1/31<br>(Prerefunded)        | A3    | 1,000,000 | 1,089,930 | -         | -         | 1,000,000 | 1,089,930 |
| <hr/>   |       |           |           |           |           |           |           |
| Tempe, Incl. Dev. Auth. Sr. Living Rev. Bonds<br>(Friendship Village), Ser. A, 5 3/8s, 12/1/13                  | BB-   | -         | -         | 500,000   | 513,315   | 500,000   | 513,315   |
| <hr/>   |       |           |           |           |           |           |           |

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12,352,208

4,253,130

16,605,338

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|  |             | Putnam Managed<br>Municipal<br>Income Trust |               | Putnam High Yield<br>Municipal<br>Trust |               | Proforma Combined   |               |
|--|-------------|---|---------------|---|---------------|---------------------|---------------|
|  |             |   |               |   |               |                     |               |
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |   | <b>143.6%</b> |   | <b>124.9%</b> |                     | <b>137.8%</b> |
|  | Rating(RAT) | Principal<br>amount                         | Value         | Principal<br>amount                     | Value         | Principal<br>amount | Value         |
| <b>Arkansas</b>  |             |   | <b>3.4%</b>   |   | <b>1.7%</b>   |                     | <b>2.9%</b>   |
| AR State Hosp. Dev. Fin. Auth. Rev. Bonds<br>(Washington Regl. Med. Ctr.), 7 3/8s, 2/1/29<br>(Prerefunded) |             |   |               |   |               |                     |               |
|  | Baa2        | 4,600,000                                   | 5,034,424     | -                                       | -             | 4,600,000           | 5,034,424     |
| Baxter Cnty., Hosp. Rev. Bonds, 5s, 9/1/22   |             |   |               |   |               |                     |               |
|  | Baa2        | 750,000                                     | 773,648       | 250,000                                 | 257,883       | 1,000,000           | 1,031,531     |
| Independence Cnty., Poll. Control Rev. Bonds<br>(Entergy AR, Inc.), 5s, 1/1/21                             |             |   |               |   |               |                     |               |
|  | A-          | 1,000,000                                   | 1,021,020     | 400,000                                 | 408,408       | 1,400,000           | 1,429,428     |
| Jefferson Cnty., Poll. Control Rev. Bonds<br>(Entergy AR, Inc.), 4.6s, 10/1/17                             |             |   |               |   |               |                     |               |
|  | A-          |   |               | 260,000                                 | 262,608       | 260,000             | 262,608       |
| Little Rock G.O. Bonds (Cap. Impt.), FSA,<br>3.95s, 4/1/19   |             |   |               |   |               |                     |               |
|  | Aaa         | 565,000                                     | 558,531       | -                                       | -             | 565,000             | 558,531       |
| Northwest Regl. Arpt. Auth. Rev. Bonds, 7 5/8s,<br>2/1/27 (Prerefunded)                                    |             |   |               |   |               |                     |               |
|  | BB/P        | 2,750,000                                   | 2,880,158     | 1,000,000                               | 1,047,330     | 3,750,000           | 3,927,488     |
| Washington Cnty., Hosp. Rev. Bonds (Regl.<br>Med. Ctr.), Ser. B  |             |   |               |   |               |                     |               |
|  | Baa2        | -   | -             | 500,000                                 | 516,845       | 500,000             | 516,845       |
| Springdale, Sales & Use Tax Rev. Bonds, FSA  |             |   |               |   |               |                     |               |
|  | Aaa         | 1,000,000                                   | 993,360       | -                                       | -             | 1,000,000           | 993,360       |



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|  |      |           |                   |         |                  |           |                   |
|--|------|-----------|-------------------|---------|------------------|-----------|-------------------|
| 4s, 7/1/27   | Aaa  | 1,000,000 | 993,110           | -       | -                | 1,000,000 | 993,110           |
| Washington Cnty., Hosp. Rev. Bonds (Regl. Med. Ctr.), Ser. B, 5s, 2/1/25 | Baa2 | 500,000   | 514,515           | 285,000 | 293,274          | 785,000   | 807,789           |
|  |      |           | <b>12,768,766</b> |         | <b>2,786,348</b> |           | <b>15,555,114</b> |

**California** **16.9%** **12.3%** **15.5%**

|   |      |         |         |         |         |         |         |
|---|------|---------|---------|---------|---------|---------|---------|
| ABAG Fin. Auth. COP (American Baptist Homes), Ser. A, 6.2s, 10/1/27 | BBB- | 345,000 | 354,864 | 155,000 | 159,431 | 500,000 | 514,295 |
|---|------|---------|---------|---------|---------|---------|---------|

CA Hlth. Fac. Fin. Auth. Rev. Bonds

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|   | Rating(RAT) | Principal amount | Value     | Principal amount | Value     | Principal amount | Value     |
|---|-------------|------------------|-----------|------------------|-----------|------------------|-----------|
| AMBAC, 5.293s, 7/1/17   | Aaa         | 3,400,000        | 3,402,686 | -                | -         | 3,400,000        | 3,402,686 |
| (CA-NV Methodist), 5s, 7/1/26   | A+          | 500,000          | 524,310   | 240,000          | 251,669   | 740,000          | 775,979   |
| (Stanford Hosp. & Clinics), Ser. A, 5s, 11/15/23  | A2          | 1,000,000        | 1,047,030 | 1,000,000        | 1,047,030 | 2,000,000        | 2,094,060 |
| CA Poll. Control Fin. Auth. Solid Waste Disp. Rev. Bonds (Waste Management, Inc.), Ser. A-2, 5.4s, 4/1/25 | BBB         | 1,200,000        | 1,265,892 | 560,000          | 590,750   | 1,760,000        | 1,856,642 |
| CA State Dept. of Wtr. Resources Rev. Bonds, Ser. A   |             |                  |           |                  |           |                  |           |

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|  |       |            |            |         |         |            |            |
|--|-------|------------|------------|---------|---------|------------|------------|
| AMBAC, 5 1/2s, 5/1/13  | Aaa   | 16,500,000 | 18,000,180 | -       | -       | 16,500,000 | 18,000,180 |
| <hr/>  |       |            |            |         |         |            |            |
| 5 1/2s, 5/1/11   | A1    | 3,000,000  | 3,199,950  | -       | -       | 3,000,000  | 3,199,950  |
| <hr/>  |       |            |            |         |         |            |            |
| CA Statewide Cmnty., Dev. Auth. COP (The Internext Group), 5 3/8s, 4/1/30                                    | BBB   | 3,950,000  | 4,004,629  | -       | -       | 3,950,000  | 4,004,629  |
| <hr/>  |       |            |            |         |         |            |            |
| CA Statewide Cmnty., Dev. Auth. Rev. Bonds (Thomas Jefferson School of Law), Ser. B, 4 7/8s, 10/1/31         | BBB-  | 1,500,000  | 1,528,440  | -       | -       | 1,500,000  | 1,528,440  |
| <hr/>  |       |            |            |         |         |            |            |
| CA Statewide Cmnty., Dev. Auth. Apt. Mandatory Put Bonds (Irvine Apt. Cmnty.), Ser. A-3, 5.1s, 5/17/10       | BBB+  | 2,250,000  | 2,309,918  | 875,000 | 898,301 | 3,125,000  | 3,208,219  |
| <hr/>  |       |            |            |         |         |            |            |
| Capistrano, Unified School Dist. Cmnty. Fac. Special Tax Bonds (No. 98-2 Ladera), 5.7s, 9/1/20 (Prerefunded) | BBB/P | 1,000,000  | 1,064,610  | -       | -       | 1,000,000  | 1,064,610  |
| <hr/>  |       |            |            |         |         |            |            |
| Cathedral City, Impt. Board Act of 1915 Special Assmt. Bonds (Cove Impt. Dist.), Ser. 04-02                  |       |            |            |         |         |            |            |
| <hr/>  |       |            |            |         |         |            |            |
| 5.05s, 9/2/35  | BB+/P | 395,000    | 398,788    | 645,000 | 651,186 | 1,040,000  | 1,049,974  |
| <hr/>  |       |            |            |         |         |            |            |
| 5s, 9/2/30   | BB+/P | 250,000    | 252,078    | -       | -       | 250,000    | 252,078    |
| <hr/>  |       |            |            |         |         |            |            |
| Chula Vista, Cmnty. Fac. Dist. Special Tax Rev. Bonds  |       |            |            |         |         |            |            |
| <hr/>  |       |            |            |         |         |            |            |
| (No. 08-1 Otay Ranch Village Six), 6s, 9/1/33  | BB/P  | 1,250,000  | 1,300,463  | 500,000 | 520,185 | 1,750,000  | 1,820,648  |
| <hr/>  |       |            |            |         |         |            |            |
| (No. 07-1 Otay Ranch Village Eleven) 5 7/8s, 9/1/34  | BB/P  | 300,000    | 316,857    | 250,000 | 264,048 | 550,000    | 580,905    |
| <hr/>  |       |            |            |         |         |            |            |
| (No. 07-1 Otay Ranch Village Eleven) 5.8s, 9/1/28  | BB/P  | 300,000    | 317,568    | -       | -       | 300,000    | 317,568    |
| <hr/>  |       |            |            |         |         |            |            |
| Chula Vista, Indl. Dev. Rev. Bonds (San Diego  | A1    |            |            |         |         |            |            |
| <hr/>  |       |            |            |         |         |            |            |

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|  |             | Putnam Managed<br>Municipal<br>Income Trust |           | Putnam High Yield<br>Municipal<br>Trust |         | Proforma Combined   |           |
|--|-------------|---|-----------|---|---------|---------------------|-----------|
|  |             | 143.6%                                      |           | 124.9%                                  |         | 137.8%              |           |
| MUNICIPAL BONDS AND NOTES  |             |   |           |   |         |                     |           |
|  | Rating(RAT) | Principal<br>amount                         | Value     | Principal<br>amount                     | Value   | Principal<br>amount | Value     |
| Gas), Ser. B, 5s, 12/1/27  |             | 1,065,000                                   | 1,107,568 | 425,000                                 | 441,987 | 1,490,000           | 1,549,555 |
| Corona, COP (Vista Hosp. Syst.), zero %, 7/1/29<br>(In default) (F)(NON)                                     | D/P         | 10,775,000                                  | 118,525   | -                                       | -       | 10,775,000          | 118,525   |
| Folsom, Special Tax Rev. Bonds (Cmnty. Facs.<br>Dist. No. 10), 5 7/8s, 9/1/28                                | BB/P        | 750,000                                     | 780,518   | 350,000                                 | 364,242 | 1,100,000           | 1,144,760 |
| Gilroy, Rev. Bonds (Bonfante Gardens Park), 8s,<br>11/1/25   | B-/P        | 770,000                                     | 727,588   | 385,000                                 | 363,794 | 1,155,000           | 1,091,382 |
| Golden State Tobacco Securitization Corp. Rev.<br>Bonds  |             |   |           |   |         |                     |           |
| Ser. 03-A1, 6 3/4s, 6/1/39 (Prerefunded)   | AAA         | 850,000                                     | 987,913   | -                                       | -       | 850,000             | 987,913   |
| Ser. B, FHLMC Coll., 5 5/8s, 6/1/38<br>(Prerefunded)   | Aaa         | 2,500,000                                   | 2,754,000 | -                                       | -       | 2,500,000           | 2,754,000 |
| Ser. 03 A-1, 5s, 6/1/21 (Prerefunded)  | AAA         | 615,000                                     | 616,384   | 410,000                                 | 410,923 | 1,025,000           | 1,027,307 |
| Ser. A-1, 4 1/2s, 6/1/27   | BBB         | 2,160,000                                   | 2,129,026 | -                                       | -       | 2,160,000           | 2,129,026 |
| Jurupa, Cmnty. Svcs. Dist. Special Tax (Dist.<br>No. 19 Eastvale), 5s, 9/1/27                                | BB/P        | 500,000                                     | 503,710   | -                                       | -       | 500,000             | 503,710   |
| Murrieta, Cmnty. Fac. Dist. Special Tax (No. 2<br>The Oaks Impt. Area A), 6s, 9/1/34                         | BB-/P       | 1,100,000                                   | 1,154,329 | 250,000                                 | 262,348 | 1,350,000           | 1,416,677 |
| Orange Cnty., Cmnty. Fac. Dist. Special Tax<br>Rev. Bonds (Ladera Ranch No. 02-1), Ser. A,<br>5.55s, 8/15/33 | BBB/P       | 650,000                                     | 669,104   | 250,000                                 | 257,348 | 900,000             | 926,452   |
| Poway, Unified School Dist. Cmnty. Facs.<br>Special Tax Bonds (Dist. No. 14- Area A), 5                      |             |   |           |   |         |                     |           |

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|   |       |           |           |           |           |           |           |
|---|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1/8s, 9/1/26  | BB-/P | 850,000   | 869,873   | -         | -         | 850,000   | 869,873   |
| Roseville, Cmnty. Fac. Special Tax Bonds  |       |           |           |           |           |           |           |
| (Cmnty. Fac. Dist. No. 1 -Fiddymment Ranch),<br>5s, 9/1/18                                  | BB/P  | 675,000   | 686,030   | -         | -         | 675,000   | 686,030   |
| (Dist. No. 1 -Westpark) 5 1/4s, 9/1/25  | BB/P  | 315,000   | 323,527   | -         | -         | 315,000   | 323,527   |
| (Dist. No. 1 -Westpark) 5 1/4s, 9/1/17  | BB/P  | 985,000   | 1,015,909 | -         | -         | 985,000   | 1,015,909 |
| (Dist. No. 1), 5s, 9/1/14   | BB/P  | 400,000   | 409,832   | 1,045,000 | 1,070,686 | 1,445,000 | 1,480,518 |
| Sacramento, Special Tax (North Natomas<br>Cmnty. Fac.), Ser. 4-C, 6s, 9/1/33                | BBB/P | 1,250,000 | 1,340,938 | -         | -         | 1,250,000 | 1,340,938 |
| San Diego, Assn. of Bay Area Governments Fin.<br>Auth. For Nonprofit Corps. Rev. Bonds (San | Baa1  | 500,000   | 537,215   | -         | -         | 500,000   | 537,215   |

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|  |             | Putnam Managed<br>Municipal<br>Income Trust |               | Putnam High Yield<br>Municipal<br>Trust |               | Proforma Combined   |               |
|--|-------------|---|---------------|---|---------------|---------------------|---------------|
|  |             |   |               |   |               |                     |               |
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |   | <b>143.6%</b> |   | <b>124.9%</b> |                     | <b>137.8%</b> |
|  | Rating(RAT) | Principal<br>amount                         | Value         | Principal<br>amount                     | Value         | Principal<br>amount | Value         |
| Diego Hosp.), Ser. A, 6 1/8s, 8/15/20  |             |   |               |   |               |                     |               |
| Santaluz, Cmnty. Facs. Dist. No. 2 Special Tax<br>Rev. Bonds (Impt. Area No. 1), Ser. B, 6 3/8s,<br>9/1/30 | BBB/P       | 2,455,000                                   | 2,467,471     | 725,000                                 | 728,683       | 3,180,000           | 3,196,154     |
| Thousand Oaks, Cmnty. Fac. Dist. Special Tax<br>Rev. Bonds (Marketplace 94-1), zero %, 9/1/14              | B/P         | 2,960,000                                   | 1,777,006     | 1,115,000                               | 669,379       | 4,075,000           | 2,446,385     |
| CA State G.O. Bonds, 5s, 5/1/24  | A1          | -   | -             | 1,000,000                               | 1,051,080     | 1,000,000           | 1,051,080     |
| CA Statewide Cmnty., Dev. Auth. Rev. Bonds   |             |   |               |   |               |                     |               |

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|  |        |           |           |                   |                   |           |                   |
|--|--------|-----------|-----------|-------------------|-------------------|-----------|-------------------|
| (Huntington Memorial Hosp.), 5s, 7/1/21  | A+     | -         | -         | 1,500,000         | 1,576,815         | 1,500,000 | 1,576,815         |
| (Thomas Jefferson School of Law), Ser. A, 4<br>7/8s, 10/1/35                                       | BBB-   | -         | -         | 200,000           | 203,374           | 200,000   | 203,374           |
| Central CA Joint Pwr. Hlth. Fin. Auth. COP<br>(Cmnty. Hosp. of Central CA), 6s, 2/1/20             | Baa2   | -         | -         | 500,000           | 523,810           | 500,000   | 523,810           |
| Chula Vista, Cmnty. Fac. Dist. Special Tax Rev.<br>Bonds   |        |           |           |                   |                   |           |                   |
| (No. 06-1 Eastlake Woods Area), 6.1s, 9/1/21   | BB+/P  | -         | -         | 1,000,000         | 1,066,060         | 1,000,000 | 1,066,060         |
| Foothill/Eastern Corridor Agcy. Rev. Bonds (CA<br>Toll Roads), 5 3/4s, 1/15/40                     | Baa3   | -         | -         | 2,000,000         | 2,095,940         | 2,000,000 | 2,095,940         |
| Irvine, Impt. Board Act of 1915 Special Assmt.<br>Bonds (No. 00-18 Group 3), 5.55s, 9/2/26         | BBB-/P | -         | -         | 500,000           | 515,895           | 500,000   | 515,895           |
| Orange Cnty., Cmnty. Fac. Dist. Rev. Bonds<br>(Ladera Ranch - No. 1), 6s, 8/15/25<br>(Prerefunded) | AAA    | -         | -         | 1,000,000         | 1,084,150         | 1,000,000 | 1,084,150         |
| Roseville, Cmnty. Fac. Special Tax Bonds   |        |           |           |                   |                   |           |                   |
| (Dist. No. 1-Westpark), 5 1/4s, 9/1/19   | BB/P   | -         | -         | 100,000           | 103,108           | 100,000   | 103,108           |
| (Dist. No. 1-Westpark), 5s, 9/1/20   | BB/P   | -         | -         | 500,000           | 507,450           | 500,000   | 507,450           |
| Sunnyvale, Special Tax Rev. Bonds (Cmnty. Fac.<br>Dist. No. 1), 7 3/4s, 8/1/32                     | BB-/P  | -         | -         | 835,000           | 904,530           | 835,000   | 904,530           |
| Vallejo, COP (Marine World Foundation), 7.2s,<br>2/1/26  | BBB-/P | 2,500,000 | 2,571,725 | 2,000,000         | 2,057,380         | 4,500,000 | 4,629,105         |
|  |        |           |           | <b>62,836,454</b> | <b>20,641,582</b> |           | <b>83,478,036</b> |

|   |             | Putnam Managed<br>Municipal<br>Income Trust |           | Putnam High Yield<br>Municipal<br>Trust |         | Proforma Combined   |           |
|---|-------------|---|-----------|---|---------|---------------------|-----------|
| <b>MUNICIPAL BONDS AND NOTES</b>  |             | <b>143.6%</b>                               |           | <b>124.9%</b>                           |         | <b>137.8%</b>       |           |
|   | Rating(RAT) | Principal<br>amount                         | Value     | Principal<br>amount                     | Value   | Principal<br>amount | Value     |
| <b>Colorado</b>   |             | <b>2.2%</b>                                 |           | <b>0.8%</b>                             |         | <b>1.8%</b>         |           |
| CO Hlth. Fac. Auth. Rev. Bonds  |             |   |           |   |         |                     |           |
| (Christian Living Cmnty.), Ser. A, 5 3/4s,<br>1/1/26                      |             |   |           |   |         |                     |           |
|   | BB-/P       | 200,000                                     | 210,976   | 100,000                                 | 105,488 | 300,000             | 316,464   |
| (Evangelical Lutheran), 5 1/4s, 6/1/23                                    |             |   |           |   |         |                     |           |
|   | A-          | 1,000,000                                   | 1,059,940 | -                                       | -       | 1,000,000           | 1,059,940 |
| (Evangelical Lutheran), 5 1/4s, 6/1/21                                    |             |   |           |   |         |                     |           |
|   | A3          | 660,000                                     | 702,095   | 165,000                                 | 175,524 | 825,000             | 877,619   |
| (Evangelical Lutheran), 5 1/4s, 6/1/19                                    |             |   |           |   |         |                     |           |
|   | A3          | 420,000                                     | 448,736   | 105,000                                 | 112,184 | 525,000             | 560,920   |
| (Evangelical Lutheran), Ser. B, 3 3/4s,<br>6/1/34                         |             |   |           |   |         |                     |           |
|   | A3          |   |           | 1,000,000                               | 992,290 | 1,000,000           | 992,290   |
| CO Pub. Hwy. Auth. Rev. Bonds (E-470 Pub.<br>Hwy.), Ser. B                |             |   |           |   |         |                     |           |
| zero %, 9/1/35 (Prerefunded)  |             |   |           |   |         |                     |           |
|   | Aaa         | 15,500,000                                  | 2,074,830 | -                                       | -       | 15,500,000          | 2,074,830 |
| zero %, 9/1/34 (Prerefunded)  |             |   |           |   |         |                     |           |
|   | Aaa         | 16,500,000                                  | 2,383,095 | -                                       | -       | 16,500,000          | 2,383,095 |
| Denver, City & Cnty. Arpt. Rev. Bonds, Ser. D,<br>AMBAC, 7 3/4s, 11/15/13 |             |   |           |   |         |                     |           |
|   | Aaa         | 1,050,000                                   | 1,175,328 | -                                       | -       | 1,050,000           | 1,175,328 |
|   |             | <b>8,055,000</b>                            |           | <b>1,385,486</b>                        |         | <b>9,440,486</b>    |           |
| <b>Connecticut</b>  |             | <b>0.7%</b>                                 |           | <b>0.5%</b>                             |         | <b>0.6%</b>         |           |

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|  |      |   |   |         |         |         |         |
|--|------|---|---|---------|---------|---------|---------|
| CT State Dev. Auth. 1st. Mtg. Gross Rev. Hlth. Care Rev. Bonds (Elim Street Park Baptist, Inc.), 5.85s, 12/1/33 (** PER FUND MANAGER, IS ELIM, NOT ELM **) | BBB+ | - | - | 750,000 | 795,653 | 750,000 | 795,653 |
|--|------|---|---|---------|---------|---------|---------|

|  |     |           |           |   |   |           |           |
|--|-----|-----------|-----------|---|---|-----------|-----------|
| CT State Dev. Auth. Rev. Bonds (Mystic Marine Life Aquarium), Ser. A, 4 5/8s, 5/1/37 | Aa3 | 2,500,000 | 2,442,475 | - | - | 2,500,000 | 2,442,475 |
|--|-----|-----------|-----------|---|---|-----------|-----------|

2,442,475                      795,653                      3,238,128

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|  |             | Putnam Managed<br>Municipal<br>Income Trust |             | Putnam High Yield<br>Municipal<br>Trust |             | Proforma Combined |             |
|--|-------------|---|-------------|---|-------------|-------------------|-------------|
| <b>MUNICIPAL BONDS AND NOTES</b>   |             | <b>143.6%</b>                               |             | <b>124.9%</b>                           |             | <b>137.8%</b>     |             |
|  | Rating(RAT) | Principal amount                            | Value       | Principal amount                        | Value       | Principal amount  | Value       |
| <b>Delaware</b>  |             |   | <b>1.0%</b> |   | <b>0.8%</b> |                   | <b>0.9%</b> |
| GMAC Muni. Mtge. Trust 144A sub. notes, Ser. A1-3, 5.3s, 10/31/39            | A3          | 2,500,000                                   | 2,638,100   |   |             | 2,500,000         | 2,638,100   |
| GMAC Muni. Mtge. Trust 144A sub. notes, Ser. A1-2, 4.9s, 10/31/39            | A3          |   |             | 1,000,000                               | 1,030,980   | 1,000,000         | 1,030,980   |
| New Castle Cnty., Rev. Bonds (Newark Charter School, Inc.)                   |             |   |             |   |             |                   |             |
| 5s, 9/1/36   | BBB-        | 300,000                                     | 306,486     | 100,000                                 | 102,162     | 400,000           | 408,648     |
| 5s, 9/1/30   | BBB-        | 300,000                                     | 307,626     | -                                       | -           | 300,000           | 307,626     |
| Sussex Cnty., Rev. Bonds (First Mtge. - Cadbury Lewes), Ser. A, 5.9s, 1/1/26 | B/P         | 350,000                                     | 367,409     | 150,000                                 | 157,461     | 500,000           | 524,870     |

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3,619,621 1,290,603 4,910,224

**District of Columbia 0.5% 0.6% 0.6%**

DC Tobacco Settlement Fin. Corp. Rev. Bonds, 6  
1/4s, 5/15/24 Baa2 1,900,000 **2,024,222** 950,000 **1,012,111** 2,850,000 **3,036,333**

**Florida 9.8% 10.0% 9.9%**

CFM Cmnty. Dev. Dist. Rev. Bonds, Ser. A, 6  
1/4s, 5/1/35 BB-/P 1,470,000 1,571,592 - - 1,470,000 1,571,592

Clearwater Cay, Cmnty. Dev. Dist. Special  
Assmt. Bonds, Ser. A, 5 1/2s, 5/1/37 BB-/P 1,600,000 1,626,656 - - 1,600,000 1,626,656

Fishhawk, Cmnty. Dev. Dist. II Rev. Bonds  
Ser. A, 6 1/8s, 5/1/34 BB/P 475,000 503,628 475,000 503,628

Ser. B, 5s, 11/1/07 BB/P 20,000 20,005 10,000 10,003 30,000 30,008

FL Hsg. Fin. Corp. Rev. Bonds, Ser. G, 5 3/4s, AA1

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|  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|--|---|---|-------------------|
|--|---|---|-------------------|

**MUNICIPAL BONDS AND NOTES 143.6% 124.9% 137.8%**

|  | Rating(RAT) | Principal<br>amount | Value | Principal<br>amount | Value | Principal<br>amount | Value |
|--|-------------|---------------------|-------|---------------------|-------|---------------------|-------|
|--|-------------|---------------------|-------|---------------------|-------|---------------------|-------|

1/1/37 1,500,000 1,602,300 - - 1,500,000 1,602,300

FL State Mid-Bay Bridge Auth. Rev. Bonds, Ser.  
A, 6.05s, 10/1/22 BBB/P 770,000 798,151 770,000 798,151 1,540,000 1,596,302



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|   |       |           |           |           |           |           |           |
|---|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| Fleming Island, Plantation Cmnty. Dev. Dist.      |       |           |           |           |           |           |           |
| Special Assmt. Bonds, Ser. B, 7 3/8s, 5/1/31      |       |           |           |           |           |           |           |
| (Prerefunded)                                     | BB/P  | 750,000   | 833,715   | 350,000   | 389,067   | 1,100,000 | 1,222,782 |
| Gateway Svcs. Cmnty., Dev. Dist. Special          |       |           |           |           |           |           |           |
| Assmt. Bonds (Stoneybrook), 5 1/2s, 7/1/08        |       |           |           |           |           |           |           |
|   | BB/P  | 50,000    | 50,191    | -         | -         | 50,000    | 50,191    |
| Halifax, Hosp. Med. Ctr. Rev. Bonds, Ser. A, 5    |       |           |           |           |           |           |           |
| 1/4s, 6/1/21                                      | BBB+  | 3,200,000 | 3,364,928 | 525,000   | 552,059   | 3,725,000 | 3,916,987 |
| Heritage Harbor, South Cmnty. Dev. Distr. Rev.    |       |           |           |           |           |           |           |
| Bonds, Ser. A, 6 1/2s, 5/1/34                     |       |           |           |           |           |           |           |
|   | BB/P  | 475,000   | 521,507   | -         | -         | 475,000   | 521,507   |
| Heritage Isle at Viera, Cmnty. Dev. Dist. Special |       |           |           |           |           |           |           |
| Assmt., Ser. B, 5s, 11/1/09                       |       |           |           |           |           |           |           |
|   | BB/P  | 125,000   | 124,710   | 155,000   | 154,640   | 280,000   | 279,350   |
| Highlands Cnty., Hlth. Fac. Auth. Rev. Bonds      |       |           |           |           |           |           |           |
| (Adventist Hlth.), Ser. A, 5s, 11/15/21           |       |           |           |           |           |           |           |
|   | A+    | 1,000,000 | 1,047,360 | -         | -         | 1,000,000 | 1,047,360 |
| (Hosp. Adventist Hlth.), Ser. A, 5s, 11/15/20     |       |           |           |           |           |           |           |
|   | A+    | 1,000,000 | 1,047,360 | -         | -         | 1,000,000 | 1,047,360 |
| Islands at Doral III, Cmnty. Dev. Dist. Special   |       |           |           |           |           |           |           |
| Assmt. Bonds, Ser. 04-A, 5.9s, 5/1/35             |       |           |           |           |           |           |           |
|   | BB/P  | 1,215,000 | 1,262,118 | 490,000   | 509,002   | 1,705,000 | 1,771,120 |
| Halifax, Hosp. Med. Ctr. Rev. Bonds, Ser. A       |       |           |           |           |           |           |           |
| U.S. Govt. Coll., 7 1/4s, 10/1/29 (Prerefunded)   |       |           |           |           |           |           |           |
|   | NR/P  | -         | -         | 500,000   | 564,850   | 500,000   | 564,850   |
| 5 1/4s, 6/1/19                                    |       |           |           |           |           |           |           |
|   | BBB+  | -         | -         | 655,000   | 691,254   | 655,000   | 691,254   |
| Heritage Harbour Marketplace Cmnty., Dev.         |       |           |           |           |           |           |           |
| Dist. Special Assmt., 5.6s, 5/1/36                |       |           |           |           |           |           |           |
|   | BB-/P | -         | -         | 395,000   | 404,966   | 395,000   | 404,966   |
| Lee Cnty., Indl. Dev. Auth. Hlth. Care Fac. Rev.  |       |           |           |           |           |           |           |
| Bonds (Cypress Cove Hlth. Pk.), Ser. A, 6 3/8s,   |       |           |           |           |           |           |           |
| 10/1/25   | BB-/P | -         | -         | 1,100,000 | 1,126,290 | 1,100,000 | 1,126,290 |
| Miami Beach, Hlth. Fac. Auth. Hosp. Rev.          |       |           |           |           |           |           |           |
| Bonds (Mount Sinai Med. Ctr.), Ser. A, 6.8s,      |       |           |           |           |           |           |           |
| 11/15/31  | Ba1   | -         | -         | 500,000   | 550,545   | 500,000   | 550,545   |

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CFM Cmnty. Dev. Dist. Rev. Bonds, Ser. B, 5  
7/8s, 5/1/14 BB-/P - - 750,000 766,673 750,000 766,673

Double Branch Cmnty. Dev. Dist. Rev. Bonds,  
Ser. A, 6.7s, 5/1/34 BB/P - - 970,000 1,079,814 970,000 1,079,814

Fishhawk, Cmnty. Dev. Dist. II Rev. Bonds, Ser.  
B

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|  | Rating(RAT) | Principal<br>amount | Value     | Principal<br>amount | Value     | Principal<br>amount | Value     |
|--|-------------|---------------------|-----------|---------------------|-----------|---------------------|-----------|
| 5 1/8s, 11/1/09  | BB-/P       | -                   | -         | 85,000              | 85,035    | 85,000              | 85,035    |
| Lee Cnty., Indl. Dev. Auth. Hlth. Care Fac. Rev.<br>Bonds  |             |                     |           |                     |           |                     |           |
| (Alliance Cmnty.), Ser. C, 5 1/2s, 11/15/29<br>(Prerefunded)   | BBB-        | 1,000,000           | 1,049,520 | 1,075,000           | 1,128,234 | 2,075,000           | 2,177,754 |
| (Shell Pt./Alliance Oblig. Group), 5 1/8s,<br>11/15/36   | BBB-        | 475,000             | 485,232   | 100,000             | 102,154   | 575,000             | 587,386   |
| (Shell Pt./Alliance Cmnty.), 5s, 11/15/22  | BBB-        | 1,000,000           | 1,026,180 | 500,000             | 513,090   | 1,500,000           | 1,539,270 |
| Miami Beach, Hlth. Fac. Auth. Hosp. Rev.<br>Bonds (Mount Sinai Med. Ctr.), Ser. A, 6.7s,<br>11/15/19             | Ba1         | 1,335,000           | 1,467,419 | -                   | -         | 1,335,000           | 1,467,419 |
| North Springs, Impt. Dist. Special Assmt. Rev.<br>Bonds (Parkland Golf Country Club), Ser. A-1,<br>5.45s, 5/1/26 | BB-/P       | 245,000             | 249,285   | 735,000             | 747,855   | 980,000             | 997,140   |
| Old Palm, Cmnty. Dev. Dist. Special Assmt.<br>Bonds (Palm Beach Gardens), Ser. A, 5.9s,<br>5/1/35                | BB/P        | 975,000             | 1,020,679 | 490,000             | 512,957   | 1,465,000           | 1,533,636 |

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|   |       |           |           |         |         |           |           |
|---|-------|-----------|-----------|---------|---------|-----------|-----------|
| Palm Coast Pk. Cmnty. Dev. Dist. Special Assmt. Bonds, 5.7s, 5/1/37                       |       |           |           |         |         |           |           |
|   | BB-/P | 1,000,000 | 1,022,460 | -       | -       | 1,000,000 | 1,022,460 |
| Reunion West, Cmnty. Dev. Dist. Special Assmt. Bonds, 6 1/4s, 5/1/36                      |       |           |           |         |         |           |           |
|   | BB-/P | 1,485,000 | 1,566,304 | 740,000 | 780,515 | 2,225,000 | 2,346,819 |
| South Bay, Cmnty. Dev. Dist. Rev. Bonds, Ser. B-2, 5 3/8s, 5/1/13                         |       |           |           |         |         |           |           |
|   | BB-/P | 2,500,000 | 2,522,800 | 750,000 | 756,840 | 3,250,000 | 3,279,640 |
| South Miami, Hlth. Fac. Auth. Rev. Bonds (Baptist Hlth.), 5 1/4s, 11/15/33                |       |           |           |         |         |           |           |
|   | Aa3   | 1,500,000 | 1,560,900 | -       | -       | 1,500,000 | 1,560,900 |
| South Village, Cmnty. Dev. Dist. Rev. Bonds, Ser. A, 5.7s, 5/1/35                         |       |           |           |         |         |           |           |
|   | BB-/P | 485,000   | 496,097   | 485,000 | 496,097 | 970,000   | 992,194   |
| Tampa Bay, Cmnty. Dev. Dist. Special Assmt. Bonds (New Port), Ser. A, 5 7/8s, 5/1/38      |       |           |           |         |         |           |           |
|   | BB-/P | 1,975,000 | 2,041,143 | 600,000 | 620,094 | 2,575,000 | 2,661,237 |
| Tern Bay, Cmnty. Dev. Dist. Special Assmt. Bonds  |       |           |           |         |         |           |           |
| Ser. A, 5 3/8s, 5/1/37  |       |           |           |         |         |           |           |
|   | BB-/P | 1,150,000 | 1,163,685 | 200,000 | 202,380 | 1,350,000 | 1,366,065 |
| Ser. B, 5s, 5/1/15  |       |           |           |         |         |           |           |
|   | BB-/P | 495,000   | 493,099   | 595,000 | 592,715 | 1,090,000 | 1,085,814 |
| Tolomato, Cmnty. Dev. Dist. Special Assmt. Bonds, 5.4s, 5/1/37                            |       |           |           |         |         |           |           |
|   | BB-/P | 325,000   | 327,516   | 125,000 | 125,968 | 450,000   | 453,484   |
| Orange Cnty., Hlth. Fac. Auth. Rev. Bonds (Orlando Regl. Hlth. Care), U.S. Govt. Coll., 5 |       |           |           |         |         |           |           |
|   | A2    | -         | -         | 500,000 | 551,215 | 500,000   | 551,215   |

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined<br>Trust |
|----------------------------------|---|---|----------------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>              |
|                                  | Rating(RAT)                                 | Principal amount                        | Value                      |
|                                  |   | Principal amount                        | Value                      |
|                                  |   | Principal amount                        | Value                      |

3/4s, 12/1/32 (Prerefunded)

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|   |           |             |             |                   |                   |                   |           |
|---|-----------|-------------|-------------|-------------------|-------------------|-------------------|-----------|
| Verandah, West Cmnty. Dev. Dist. Rev. Bonds     |           |             |             |                   |                   |                   |           |
| (Cap. Impt.), Ser. A, 6 5/8s, 5/1/33            | BB/P      | -           | -           | 475,000           | 510,359           | 475,000           | 510,359   |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Verano Ctr. Cmnty. Dev. Dist. Special Assmt.    |           |             |             |                   |                   |                   |           |
| Bonds (Cmnty. Infrastructure)                   |           |             |             |                   |                   |                   |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Ser. A, 5 3/8s, 5/1/37                          | BB-/P     | 750,000     | 756,150     | 300,000           | 302,460           | 1,050,000         | 1,058,610 |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Ser. B, 5s, 11/1/13                             | BB-/P     | 475,000     | 475,261     | 200,000           | 200,110           | 675,000           | 675,371   |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Wentworth Estates, Cmnty. Dev. Dist. Special    |           |             |             |                   |                   |                   |           |
| Assmt. Bonds                                    |           |             |             |                   |                   |                   |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Ser. A, 5 5/8s, 5/1/37                          | BB-/P     | 725,000     | 745,423     | 275,000           | 282,747           | 1,000,000         | 1,028,170 |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Ser. B, 5 1/8s, 11/1/12                         | BB-/P     | 795,000     | 796,320     | 125,000           | 125,208           | 920,000           | 921,528   |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Westchester Cmnty. Dev. Dist. No. 1 Special     |           |             |             |                   |                   |                   |           |
| Assmt. (Cmnty. Infrastructure), 6 1/8s, 5/1/35  |           |             |             |                   |                   |                   |           |
| BB-/P   | 1,250,000 | 1,322,325   | -           | -                 | 1,250,000         | 1,322,325         |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| World Commerce Cmnty. Dev. Dist. Special        |           |             |             |                   |                   |                   |           |
| Assmt., Ser. A-1                                |           |             |             |                   |                   |                   |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| 6 1/2s, 5/1/36                                  | BB-/P     | 950,000     | 1,017,317   | 300,000           | 321,258           | 1,250,000         | 1,338,575 |
| <hr/>   |           |             |             |                   |                   |                   |           |
| 6 1/4s, 5/1/22                                  | BB-/P     | 530,000     | 564,238     | 195,000           | 207,597           | 725,000           | 771,835   |
| <hr/>   |           |             |             |                   |                   |                   |           |
|   |           |             |             | <b>36,543,574</b> | <b>16,762,202</b> | <b>53,305,776</b> |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| <b>Georgia</b>                                  |           | <b>2.5%</b> | <b>3.4%</b> | <b>2.8%</b>       |                   |                   |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Burke Cnty., Poll. Control Dev. Auth. Mandatory |           |             |             |                   |                   |                   |           |
| Put Bonds (GA Power Co.), 4.45s, 12/1/08        |           |             |             |                   |                   |                   |           |
| A2  | 4,000,000 | 4,002,280   | -           | -                 | 4,000,000         | 4,002,280         |           |
| <hr/>   |           |             |             |                   |                   |                   |           |
| Forsyth Cnty., Hosp. Auth. Rev. Bonds (Baptist  |           |             |             |                   |                   |                   |           |
| Hlth. Care Syst.), U.S. Govt. Coll., 6 1/4s,    |           |             |             |                   |                   |                   |           |
| 10/1/18 (Prerefunded)                           |           |             |             |                   |                   |                   |           |
| AAA   | -         | -           | 2,000,000   | 2,283,120         | 2,000,000         | 2,283,120         |           |
| <hr/>   |           |             |             |                   |                   |                   |           |

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Fulton Cnty., Res. Care Fac. Rev. Bonds

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|  |      |         |         |         |         |         |         |
|--|------|---------|---------|---------|---------|---------|---------|
| (Canterbury Court), Class A, 6 1/8s, 2/15/34 | B+/P | 425,000 | 448,749 | 175,000 | 184,779 | 600,000 | 633,528 |
|--|------|---------|---------|---------|---------|---------|---------|

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|  |     |  |  |  |  |  |  |
|--|-----|--|--|--|--|--|--|
| (First Mtge. - Lenbrook), Ser. A, 5s, 7/1/17 | B/P |  |  |  |  |  |  |
|--|-----|--|--|--|--|--|--|

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

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|  | Rating(RAT) | Principal<br>amount | Value            | Principal<br>amount | Value            | Principal<br>amount | Value             |
|--|-------------|---------------------|------------------|---------------------|------------------|---------------------|-------------------|
|  |             | 1,370,000           | 1,391,742        | -                   | -                | 1,370,000           | 1,391,742         |
| GA Med. Ctr. Hosp. Auth. Rev. Bonds, MBIA,<br>6.367s, 8/1/10                                 | Aaa         | 1,400,000           | 1,403,136        | 2,400,000           | 2,405,376        | 3,800,000           | 3,808,512         |
| Med. Ctr. Hosp. Auth. Rev. Bonds (Spring<br>Harbor Green Island), 5 1/4s, 7/1/27             | B+/P        | 375,000             | 383,873          | 200,000             | 204,732          | 575,000             | 588,605           |
| Rockdale Cnty., Dev. Auth. Solid Waste Disp.<br>Rev. Bonds (Visay Paper, Inc.), 7.4s, 1/1/16 | B+/P        | 1,820,000           | 1,823,185        | 705,000             | 706,234          | 2,525,000           | 2,529,419         |
|  |             |                     | <b>9,452,965</b> |                     | <b>5,784,241</b> |                     | <b>15,237,206</b> |

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|               |  |  |             |  |             |  |             |
|---------------|--|--|-------------|--|-------------|--|-------------|
| <b>Hawaii</b> |  |  | <b>0.5%</b> |  | <b>0.0%</b> |  | <b>0.3%</b> |
|---------------|--|--|-------------|--|-------------|--|-------------|

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|  |   |           |                  |   |   |           |           |
|--|---|-----------|------------------|---|---|-----------|-----------|
| HI Dept. of Trans. Special Fac. Rev. Bonds<br>(Continental Airlines, Inc.), 7s, 6/1/20 | B | 1,635,000 | <b>1,742,910</b> | - | - | 1,635,000 | 1,742,910 |
|--|---|-----------|------------------|---|---|-----------|-----------|

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|              |  |  |             |  |             |  |             |
|--------------|--|--|-------------|--|-------------|--|-------------|
| <b>Idaho</b> |  |  | <b>0.6%</b> |  | <b>0.8%</b> |  | <b>0.7%</b> |
|--------------|--|--|-------------|--|-------------|--|-------------|

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|   |      |           |                  |                  |             |                  |             |
|---|------|-----------|------------------|------------------|-------------|------------------|-------------|
| ID Hsg. & Fin. Assn. Rev. Bonds (Single Fam. Mtge.), Ser. C-2, FHA Insd., 5.15s, 7/1/29 | Aaa  | 740,000   | 745,069          | 555,000          | 558,802     | 1,295,000        | 1,303,871   |
| <hr/>   |      |           |                  |                  |             |                  |             |
| Madison Cnty., Hosp. COP  |      |           |                  |                  |             |                  |             |
| <hr/>   |      |           |                  |                  |             |                  |             |
| 5 1/8s, 9/1/14  | BBB- | -         | -                | 500,000          | 525,665     | 500,000          | 525,665     |
| <hr/>   |      |           |                  |                  |             |                  |             |
| 5 1/8s, 9/1/13  | BBB- | -         | -                | 250,000          | 261,870     | 250,000          | 261,870     |
| <hr/>   |      |           |                  |                  |             |                  |             |
| Madison Cnty., Hosp. COP, 5 1/4s, 9/1/20  | BBB- | 1,480,000 | 1,546,482        | -                | -           | 1,480,000        | 1,546,482   |
| <hr/>   |      |           |                  |                  |             |                  |             |
| <hr/>   |      |           |                  |                  |             |                  |             |
|   |      |           | <b>2,291,551</b> | <b>1,346,337</b> |             | <b>3,637,888</b> |             |
| <hr/>   |      |           |                  |                  |             |                  |             |
| <b>Illinois</b>   |      |           |                  | <b>4.0%</b>      | <b>2.3%</b> |                  | <b>3.4%</b> |
| <hr/>   |      |           |                  |                  |             |                  |             |
| <hr/>   |      |           |                  |                  |             |                  |             |
| Bedford Pk., Village Rev. Bonds (Hotel/Motel Tax), Ser. A, 4.9s, 12/1/23                | Baa1 | 600,000   | 609,216          | -                | -           | 600,000          | 609,216     |
| <hr/>   |      |           |                  |                  |             |                  |             |

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|   |             |                  | <b>Putnam Managed<br/>Municipal<br/>Income Trust</b> | <b>Putnam High Yield<br/>Municipal<br/>Trust</b> | <b>Proforma Combined</b> |                  |           |
|---|-------------|------------------|--|--|--------------------------|------------------|-----------|
|   |             |                  |  |  |                          |                  |           |
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |                  | <b>143.6%</b>  | <b>124.9%</b>                                    | <b>137.8%</b>            |                  |           |
|   | Rating(RAT) | Principal amount | Value  | Principal amount                                 | Value                    | Principal amount | Value     |
| <hr/>   |             |                  |  |  |                          |                  |           |
| Chicago, G.O. Bonds, Ser. A, AMBAC  |             |                  |  |  |                          |                  |           |
| <hr/>   |             |                  |  |  |                          |                  |           |
| 5 5/8s, 1/1/39 (Prerefunded)  | Aaa         | 3,395,000        | 3,697,630  | -  | -                        | 3,395,000        | 3,697,630 |
| <hr/>   |             |                  |  |  |                          |                  |           |
| 5 5/8s, 1/1/39  | Aaa         | 105,000          | 113,031  | -  | -                        | 105,000          | 113,031   |
| <hr/>   |             |                  |  |  |                          |                  |           |
| Du Page Cnty., Special Svc. Area No. 31 Special Tax Bonds (Monarch Landing) |             |                  |  |  |                          |                  |           |
| <hr/>   |             |                  |  |  |                          |                  |           |
| 5 5/8s, 3/1/36  | BB-/P       | 100,000          | 105,065  | 250,000  | 262,663                  | 350,000          | 367,728   |

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|   |       |           |           |                   |                  |                   |           |
|---|-------|-----------|-----------|-------------------|------------------|-------------------|-----------|
| 5.4s, 3/1/16  | BB-/P | 260,000   | 269,875   | -                 | -                | 260,000           | 269,875   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Dev. Fin. Auth. Hosp. Rev. Bonds (Adventist<br>Hlth. Syst./Sunbelt Obligation), 5.65s, 11/15/24<br>(Prerefunded) | A2    | 3,250,000 | 3,428,263 | 750,000           | 791,138          | 4,000,000         | 4,219,401 |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Fin. Auth. Rev. Bonds (Landing At Plymouth<br>Place), Ser. A, 6s, 5/15/25  | B+/P  | -         | -         | 200,000           | 212,450          | 200,000           | 212,450   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Hlth. Fac. Auth. Rev. Bonds  |       |           |           |                   |                  |                   |           |
| <hr/>   |       |           |           |                   |                  |                   |           |
| (Cmnty. Rehab. Providers Fac.), Ser. A, 7 7/8s,<br>7/1/20   | D/P   | -         | -         | 212,271           | 195,249          | 212,271           | 195,249   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| (Elmhurst Memorial Hlth. Care), 5 5/8s, 1/1/28  | A2    | -         | -         | 500,000           | 530,365          | 500,000           | 530,365   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL State Toll Hwy. Auth. Rev. Bonds, Ser. A-1,<br>FSA, 5s, 1/1/22   | Aaa   | -         | -         | 1,500,000         | 1,604,520        | 1,500,000         | 1,604,520 |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Fin. Auth. Rev. Bonds  |       |           |           |                   |                  |                   |           |
| <hr/>   |       |           |           |                   |                  |                   |           |
| (Three Crowns Pk. Plaza), Ser. A, 5 7/8s,<br>2/15/26  | B+/P  | 1,000,000 | 1,047,740 | -                 | -                | 1,000,000         | 1,047,740 |
| <hr/>   |       |           |           |                   |                  |                   |           |
| (Landing At Plymouth Place), Ser. A, 5.35s,<br>5/15/15  | B+/P  | 600,000   | 611,358   | -                 | -                | 600,000           | 611,358   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Fin. Auth. Solid Waste Disposal (Waste<br>Mgmt., Inc.), Ser. A, 5.05s, 8/1/29                                    | BBB   | 250,000   | 254,790   | 250,000           | 254,790          | 500,000           | 509,580   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL Hlth. Fac. Auth. Rev. Bonds (St. Benedict),<br>Ser. 03A-1, 6.9s, 11/15/33  | B+    | 500,000   | 542,625   | -                 | -                | 500,000           | 542,625   |
| <hr/>   |       |           |           |                   |                  |                   |           |
| IL State Toll Hwy. Auth. Rev. Bonds, Ser. A-1,<br>FSA, 5s, 1/1/23   | Aaa   | 3,750,000 | 4,002,450 | -                 | -                | 3,750,000         | 4,002,450 |
| <hr/>   |       |           |           |                   |                  |                   |           |
| <hr/>   |       |           |           |                   |                  |                   |           |
|   |       |           |           | <b>14,682,043</b> | <b>3,851,175</b> | <b>18,533,218</b> |           |
| <hr/>   |       |           |           |                   |                  |                   |           |

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|  |             | Putnam Managed<br>Municipal<br>Income Trust |                  | Putnam High Yield<br>Municipal<br>Trust |                  | Proforma Combined |                  |
|--|-------------|---|------------------|---|------------------|-------------------|------------------|
|  |             |   |                  |   |                  |                   |                  |
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |   | <b>143.6%</b>    |   | <b>124.9%</b>    |                   | <b>137.8%</b>    |
|  | Rating(RAT) | Principal amount                            | Value            | Principal amount                        | Value            | Principal amount  | Value            |
| <b>Indiana</b>   |             |   | <b>0.9%</b>      |   | <b>3.0%</b>      |                   | <b>1.6%</b>      |
| Anderson, Econ. Dev. Rev. Bonds (Anderson U.), 5s, 10/1/28                                       | BBB-/F      | 375,000                                     | 382,031          | 180,000                                 | 183,375          | 555,000           | 565,406          |
| IN Hlth. Fac. Fin. Auth. VRDN (Fayette Memorial Hosp. Assn.), Ser. A, 3.98s, 10/1/32             |             | -   | -                | 1,335,000                               | 1,335,000        | 1,335,000         | 1,335,000        |
| IN State Dev. Fin. Auth. Env. Impt. Rev. Bonds (USX Corp.), 5.6s, 12/1/32                        | Baa1        | 2,500,000                                   | 2,588,250        | -                                       | -                | 2,500,000         | 2,588,250        |
| Indianapolis, Arpt. Auth. Rev. Bonds (Federal Express Corp.), 5.1s, 1/15/17                      | Baa2        | -   | -                | 1,000,000                               | 1,054,720        | 1,000,000         | 1,054,720        |
| Jasper Hosp. Auth. Rev. Bonds (Memorial Hosp.), 5 1/2s, 11/1/32                                  | AA          | -   | -                | 500,000                                 | 527,585          | 500,000           | 527,585          |
| Rockport, Poll. Control Rev. Bonds (Indiana-Michigan Pwr.), Ser. A, 4.9s, 6/1/25                 | Baa2        | -   | -                | 2,000,000                               | 2,000,880        | 2,000,000         | 2,000,880        |
| St. Joseph Cnty., Econ. Dev. Rev. Bonds (Holy Cross Village Notre Dame), Ser. A, 5 3/4s, 5/15/15 | B/P         | 455,000                                     | 481,194          | -                                       | -                | 455,000           | 481,194          |
|  |             |   | <b>3,451,475</b> |   | <b>5,101,560</b> |                   | <b>8,553,035</b> |
| <b>Iowa</b>  |             |   | <b>2.6%</b>      |   | <b>3.8%</b>      |                   | <b>3.0%</b>      |
| IA Fin. Auth. Hlth. Care Fac. Rev. Bonds (Care Initiatives)                                      |             |   |                  |   |                  |                   |                  |
| 9 1/4s, 7/1/25 (Prerefunded)   | AAA         | 2,565,000                                   | 3,123,683        | 2,125,000                               | 2,587,846        | 4,690,000         | 5,711,529        |



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|  |        |           |           |         |         |           |           |
|--|--------|-----------|-----------|---------|---------|-----------|-----------|
| Ser. A, 5 1/4s, 7/1/17   | BBB-   | 1,040,000 | 1,097,169 | -       | -       | 1,040,000 | 1,097,169 |
| Ser. A, 5s, 7/1/19   | BBB-   | 1,840,000 | 1,891,630 | 910,000 | 935,535 | 2,750,000 | 2,827,165 |
| IA State Higher Ed. Loan Auth. 5s, 10/1/22                               | BBB-/F | -         | -         | 800,000 | 825,176 | 800,000   | 825,176   |
| IA Fin. Auth. Retirement Cmnty. Rev. Bonds<br>(Friendship Haven), Ser. A |        |           |           |         |         |           |           |
| 6 1/8s, 11/15/32   | BB/P   | 200,000   | 207,546   | 550,000 | 570,752 | 750,000   | 778,298   |
| 6s, 11/15/24   | BB/P   |           |           |         |         |           |           |

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|   |             | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined   |
|---|-------------|---|---|---------------------|
| <b>MUNICIPAL BONDS AND NOTES</b>              |             | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>       |
|   | Rating(RAT) | Principal<br>amount                         | Value                                   | Principal<br>amount |
|   |             | 200,000                                     | 204,414                                 | -                   |
| Tobacco Settlement Auth. of IA Rev. Bonds     |             |   |   |                     |
| Ser. C, 5 3/8s, 6/1/38                        | BBB         | 750,000                                     | 774,510                                 | 500,000             |
| Ser. B, zero %, 6/1/34                        | BBB         | 2,250,000                                   | 2,306,835                               | 1,025,260           |
|   |             |   | <b>9,605,787</b>                        | <b>6,460,909</b>    |
|   |             |   |   | <b>16,066,696</b>   |
| <b>Kansas</b>                                 |             |   | <b>0.4%</b>                             | <b>0.0%</b>         |
|   |             |   |   | <b>0.3%</b>         |
| Salina, Hosp. Rev. Bonds (Salina Regl. Hlth.) |             |   |   |                     |

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|             |    |         |                  |   |   |         |                  |
|-------------|----|---------|------------------|---|---|---------|------------------|
| 5s, 10/1/17 | A1 | 500,000 | 531,370          | - | - | 500,000 | 531,370          |
| 5s, 10/1/16 | A1 | 605,000 | 643,889          | - | - | 605,000 | 643,889          |
| 5s, 10/1/15 | A1 | 250,000 | 266,595          | - | - | 250,000 | 266,595          |
|             |    |         | <b>1,441,854</b> | - | - |         | <b>1,441,854</b> |

**Kentucky** **0.5%** **0.2%** **0.4%**

|   |     |   |   |         |         |         |         |
|---|-----|---|---|---------|---------|---------|---------|
| KY Econ. Dev. Fin. Auth. Rev. Bonds (First Mtg.), Ser. IA, 6 1/2s, 1/1/29 | CCC | - | - | 305,000 | 318,695 | 305,000 | 318,695 |
|---|-----|---|---|---------|---------|---------|---------|

KY Econ. Dev. Fin. Auth. Hlth. Syst. Rev. Bonds (Norton Hlth. Care), Ser. A

|                               |      |           |                  |   |                |           |                  |
|-------------------------------|------|-----------|------------------|---|----------------|-----------|------------------|
| 6 1/2s, 10/1/20               | A-/F | 1,040,000 | 1,122,534        | - | -              | 1,040,000 | 1,122,534        |
| 6 1/2s, 10/1/20 (Prerefunded) | A-/F | 675,000   | 742,115          | - | -              | 675,000   | 742,115          |
|                               |      |           | <b>1,864,649</b> |   | <b>318,695</b> |           | <b>2,183,344</b> |

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|                  | Rating(RAT) | Principal<br>amount | Value       | Principal<br>amount | Value       | Principal<br>amount | Value       |
|------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| <b>Louisiana</b> |             |                     | <b>1.4%</b> |                     | <b>1.1%</b> |                     | <b>1.3%</b> |

|  |     |   |   |         |         |         |         |
|--|-----|---|---|---------|---------|---------|---------|
| Desoto Parish, Rev. Bonds (Intl. Paper Co. Project), Ser. A, 5s, 10/1/12 | BBB | - | - | 250,000 | 259,093 | 250,000 | 259,093 |
|--|-----|---|---|---------|---------|---------|---------|

LA Local Govt. Env. Fac. Cmnty. Dev. Auth.

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|   |      |           |                  |           |                  |           |                  |
|---|------|-----------|------------------|-----------|------------------|-----------|------------------|
| Rev. Bonds  |      |           |                  | -         | -                |           |                  |
| <hr/>   |      |           |                  |           |                  |           |                  |
| (Hlth. Care - St. James Place), Ser. A, 7s,<br>11/1/26  | B-/P | 400,000   | 409,088          | 1,320,000 | 1,349,990        | 1,720,000 | 1,759,078        |
| <hr/>   |      |           |                  |           |                  |           |                  |
| (St. James Place), Ser. A, 7s, 11/1/20  | B-/P | 1,000,000 | 1,028,210        | -         | -                | 1,000,000 | 1,028,210        |
| <hr/>   |      |           |                  |           |                  |           |                  |
| LA Pub. Fac. Auth. Rev. Bonds (Pennington<br>Med. Foundation), 5s, 7/1/16                     | A3   | 600,000   | 627,054          | 250,000   | 261,273          | 850,000   | 888,327          |
| <hr/>   |      |           |                  |           |                  |           |                  |
| Tangipahoa Parish Hosp. Svcs. Rev. Bonds<br>(North Oaks Med. Ctr.), Ser. A, 5s, 2/1/25        | A    | 500,000   | 514,515          | -         | -                | 500,000   | 514,515          |
| <hr/>   |      |           |                  |           |                  |           |                  |
| W. Feliciana Parish, Poll. Control Rev. Bonds<br>(Gulf States Util. Co.), Ser. C, 7s, 11/1/15 | BBB- | 2,750,000 | 2,770,763        | -         | -                | 2,750,000 | 2,770,763        |
| <hr/>   |      |           |                  |           |                  |           |                  |
|   |      |           | <b>5,349,630</b> |           | <b>1,870,356</b> |           | <b>7,219,986</b> |
| <hr/>   |      |           |                  |           |                  |           |                  |
| <b>Maine</b>  |      |           | <b>1.0%</b>      |           | <b>1.1%</b>      |           | <b>1.0%</b>      |
| <hr/>   |      |           |                  |           |                  |           |                  |
| ME State Hsg. Auth. Rev. Bonds, Ser. D-2-<br>AMT, 5s, 11/15/27                                | Aa1  | 1,455,000 | 1,471,136        | 735,000   | 743,151          | 2,190,000 | 2,214,287        |
| <hr/>   |      |           |                  |           |                  |           |                  |
| Rumford, Solid Waste Disp. Rev. Bonds (Boise<br>Cascade Corp.), 6 7/8s, 10/1/26               | Ba3  | 2,000,000 | 2,198,560        | 1,000,000 | 1,099,280        | 3,000,000 | 3,297,840        |
| <hr/>   |      |           |                  |           |                  |           |                  |
|   |      |           | <b>3,669,696</b> |           | <b>1,842,431</b> |           | <b>5,512,127</b> |
| <hr/>   |      |           |                  |           |                  |           |                  |
| <b>Maryland</b>   |      |           | <b>1.4%</b>      |           | <b>2.6%</b>      |           | <b>1.8%</b>      |
| <hr/>   |      |           |                  |           |                  |           |                  |
| MD State Hlth. & Higher Edl. Fac. Auth. Rev.<br>Bonds   |      |           |                  |           |                  |           |                  |
| <hr/>   |      |           |                  |           |                  |           |                  |
| (Medstar Hlth.), 5 3/4s, 8/15/15  | A3   |           |                  |           |                  |           |                  |
| <hr/>   |      |           |                  |           |                  |           |                  |

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|   |             | Municipal<br>Income Trust |                  | Municipal<br>Trust  |                  |                     |                  |
|---|-------------|---------------------------|------------------|---------------------|------------------|---------------------|------------------|
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |                           | <b>143.6%</b>    | <b>124.9%</b>       |                  | <b>137.8%</b>       |                  |
|   | Rating(RAT) | Principal<br>amount       | Value            | Principal<br>amount | Value            | Principal<br>amount | Value            |
|   |             | 1,000,000                 | 1,092,390        | 500,000             | 546,195          | 1,500,000           | 1,638,585        |
| (King Farm Presbyterian Cmnty.), Ser. A, 5<br>1/4s, 1/1/27  | B/P         | 710,000                   | 731,101          | -                   | -                | 710,000             | 731,101          |
| (Edenwald), Ser. A, 5.2s, 1/1/24  | BB/P        | 300,000                   | 311,043          | 150,000             | 155,522          | 450,000             | 466,565          |
| (King Farm Presbyterian Cmnty.), Ser. B, 4<br>3/4s, 1/1/13  | B/P         | 1,000,000                 | 1,002,790        | 700,000             | 701,953          | 1,700,000           | 1,704,743        |
| MD State In dl. Dev. Fin. Auth. Econ. Dev. Rev.<br>Bonds (Our Lady of Good Counsel School), Ser.<br>A, 6s, 5/1/35 | B/P         | 200,000                   | 214,544          | 200,000             | 214,544          | 400,000             | 429,088          |
| MuniMae Tax Exempt Bond Subsidiary, LLC<br>144A Ser. A-3, 4.95s, 12/31/49   | A3          | -                         | -                | 2,000,000           | 2,021,640        | 2,000,000           | 2,021,640        |
| Westminster, Econ. Dev. Rev. Bonds (Carroll<br>Lutheran Village), Ser. A  |             |                           |                  |                     |                  |                     |                  |
| 6 1/4s, 5/1/34  | BB/P        | -                         | -                | 600,000             | 635,322          | 600,000             | 635,322          |
| Westminster, Econ. Dev. Rev. Bonds (Carroll<br>Lutheran Village), Ser. A, 5 7/8s, 5/1/21                          | BB/P        | 1,850,000                 | 1,923,538        | 150,000             | 155,963          | 2,000,000           | 2,079,501        |
|   |             |                           | <b>5,275,406</b> |                     | <b>4,431,139</b> |                     | <b>9,706,545</b> |
| <b>Massachusetts</b>  |             |                           | <b>9.1%</b>      | <b>5.9%</b>         |                  | <b>8.1%</b>         |                  |
| Boston, In dl. Dev. Fin. Auth. Rev. Bonds<br>(Springhouse, Inc.), 6s, 7/1/28                                      | BB-/P       | 600,000                   | 614,652          | 1,000,000           | 1,024,420        | 1,600,000           | 1,639,072        |
| MA State Dev. Fin. Agcy. Rev. Bonds (Lasell<br>Village), Ser. A, 6 3/8s, 12/1/25                                  | BB-/P       | 570,000                   | 591,911          | -                   | -                | 570,000             | 591,911          |

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|   |      |         |         |           |           |           |           |
|---|------|---------|---------|-----------|-----------|-----------|-----------|
| MA State Dev. Fin. Agcy. Rev. Bonds (Boston Biomedical Research), 5 3/4s, 2/1/29                  | Baa3 | -       | -       | 1,000,000 | 1,039,520 | 1,000,000 | 1,039,520 |
| MA State Dev. Fin. Agcy. Higher Ed. Rev. Bonds (Emerson College), Ser. A, 5s, 1/1/19              | A-   | -       | -       | 110,000   | 117,103   | 110,000   | 117,103   |
| MA State Dev. Fin. Agcy. Higher Ed. Rev. Bonds (Emerson College), Ser. A, 5s, 1/1/18              | A-   | 420,000 | 448,497 | -         | -         | 420,000   | 448,497   |
| MA State Hlth. & Edl. Fac. Auth. Rev. Bonds (Hlth. Care Syst. Covenant Hlth.), Ser. E, 6s, 7/1/31 | A    | -       | -       | 1,350,000 | 1,459,958 | 1,350,000 | 1,459,958 |

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|   | Rating(RAT) | Principal<br>amount | Value     | Principal<br>amount | Value     | Principal<br>amount | Value     |
|---|-------------|---------------------|-----------|---------------------|-----------|---------------------|-----------|
| (Baystate Med. Ctr.), Ser. F, 5.7s, 7/1/27                      | A1          | -                   | -         | 1,000,000           | 1,055,120 | 1,000,000           | 1,055,120 |
| (Milford Regl. Med.), Ser. E, 5s, 7/15/22                       | Baa3        | -                   | -         | 450,000             | 461,174   | 450,000             | 461,174   |
| (Civic Investments/HPHC), Ser. A, 9s, 12/15/15<br>(Prerefunded) | BBB-/P      | 1,845,000           | 2,252,708 | 730,000             | 891,315   | 2,575,000           | 3,144,023 |
| (Norwood Hosp.), Ser. C, 7s, 7/1/14<br>(Prerefunded)            | Ba2         | 1,185,000           | 1,395,930 | -                   | -         | 1,185,000           | 1,395,930 |
| (Jordan Hosp.), Ser. E, 6 3/4s, 10/1/33                         | BBB-        | 1,200,000           | 1,316,592 | 350,000             | 384,006   | 1,550,000           | 1,700,598 |
| (UMass Memorial), Ser. C, 6 5/8s, 7/1/32                        | Baa2        | 2,225,000           | 2,417,374 | -                   | -         | 2,225,000           | 2,417,374 |

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|   |       |            |  |           |  |            |                          |
|---|-------|------------|--|-----------|--|------------|--------------------------|
| (UMass Memorial), Ser. C, 6 1/2s, 7/1/21                              | Baa2  | 1,875,000  | 2,029,763  | 1,575,000 | 1,705,001  | 3,450,000  | 3,734,764                |
| (Caritas Christi Oblig. Group), Ser. A, 5 1/4s, 7/1/08                | BBB   | 1,500,000  | 1,518,255  | 500,000   | 506,085  | 2,000,000  | 2,024,340                |
| (Partners Hlth. Care Syst.), Ser. F, 5s, 7/1/21                       | Aa2   | 1,000,000  | 1,058,990  | -         | -  | 1,000,000  | 1,058,990                |
| MA State Hsg. Fin. Agcy. Rev. Bonds (Rental Mtge.)                    |       |            |  |           |  |            |                          |
| Ser. C, AMBAC, 5 5/8s, 7/1/40   | Aaa   | 2,000,000  | 2,025,660  | -         | -  | 2,000,000  | 2,025,660                |
| Ser. A, AMBAC, 5 1/2s, 7/1/40   | Aaa   | 15,290,000 | 15,573,935   | -         | -  | 15,290,000 | 15,573,935               |
| MA State Inhl. Fin. Agcy. Rev. Bonds                                  |       |            |  |           |  |            |                          |
| (1st Mtge. Stone Institution & Newton), 7.9s, 1/1/24                  | BB-/P | 500,000    | 501,305  | 250,000   | 250,653  | 750,000    | 751,958                  |
| (TNG Marina Bay LLC), U.S. Govt. Coll., 7 1/2s, 12/1/27 (Prerefunded) | AAA   | 580,000    | 608,890  | 390,000   | 409,426  | 970,000    | 1,018,316                |
| (1st Mtge. Berkshire Retirement), Ser. A, 6 5/8s, 7/1/16              | BBB-  | 1,550,000  | 1,555,069  | 600,000   | 601,962  | 2,150,000  | 2,157,031                |
|   |       |            | <b>33,909,531</b>                                    |           | <b>9,905,743</b>                                 |            | <b>43,815,274</b>        |
| <b>Michigan</b>   |       |            | <b>4.9%</b>  |           | <b>5.2%</b>                                      |            | <b>5.0%</b>              |
| Detroit, Swr. Disp. FRN, Ser. D, FSA, 4.184s, 7/1/32                  | Aaa   | 2,500,000  | 2,500,075  | 500,000   | 500,015  | 3,000,000  | 3,000,090                |
| - 99 -  |       |            |  |           |  |            |                          |
|   |       |            | <b>Putnam Managed<br/>Municipal<br/>Income Trust</b> |           | <b>Putnam High Yield<br/>Municipal<br/>Trust</b> |            | <b>Proforma Combined</b> |
| <b>MUNICIPAL BONDS AND NOTES</b>                                      |       |            | <b>143.6%</b>  |           | <b>124.9%</b>                                    |            | <b>137.8%</b>            |

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|   | Rating(RAT) | Principal amount | Value     | Principal amount | Value     | Principal amount | Value     |
|---|-------------|------------------|-----------|------------------|-----------|------------------|-----------|
| <hr/>   |             |                  |           |                  |           |                  |           |
| Dickinson Cnty., Econ. Dev. Corp. Poll. Control Rev. Bonds (Intl. Paper Co.), Ser. A, 4.8s, 11/1/18                       | BBB         | -                | -         | 900,000          | 913,005   | 900,000          | 913,005   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| Flint, Hosp. Bldg. Auth. Rev. Bonds (Hurley Med. Ctr.), 6s, 7/1/20  | Ba1         | 275,000          | 289,556   | -                | -         | 275,000          | 289,556   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| Garden City, Hosp. Fin. Auth. Rev. Bonds (Garden City Hosp. OB Group), Ser. A, 5 3/4s, 9/1/17                             | Ba1         | 350,000          | 357,623   | 500,000          | 510,890   | 850,000          | 868,513   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| Kentwood, Economic Dev. Rev. Bonds (Holland Home), Ser. A, 5s, 11/15/22   | BB-/P       | 300,000          | 304,011   | 200,000          | 202,674   | 500,000          | 506,685   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| MI State Hosp. Fin. Auth. Rev. Bonds  |             |                  |           |                  |           |                  |           |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Oakwood Hosp.), Ser. A, 5 3/4s, 4/1/32   | A2          | -                | -         | 1,000,000        | 1,059,950 | 1,000,000        | 1,059,950 |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Chelsea Cmnty. Hosp. Oblig.), 5s, 5/15/30  | BBB         | -                | -         | 500,000          | 508,595   | 500,000          | 508,595   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Oakwood Hosp.), Ser. A, 6s, 4/1/22 (Prerefunded)   | A2          | 1,500,000        | 1,625,280 | -                | -         | 1,500,000        | 1,625,280 |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Midmichigan Health Oblig. Group), Ser. A, 5s, 4/15/26  | A1          | 2,665,000        | 2,766,190 | 1,050,000        | 1,089,869 | 3,715,000        | 3,856,059 |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Chelsea Cmnty. Hosp. Oblig.), 5s, 5/15/25  | BBB         | 755,000          | 770,500   | -                | -         | 755,000          | 770,500   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| (Hosp. Sparrow), 5s, 11/15/23   | A1          | 2,270,000        | 2,360,482 | -                | -         | 2,270,000        | 2,360,482 |
| <hr/>   |             |                  |           |                  |           |                  |           |
| MI State Hsg. Dev. Auth. Rev. Bonds, Ser. A, 3.9s, 6/1/30   | AA+         | 1,500,000        | 1,494,420 | 1,000,000        | 996,280   | 2,500,000        | 2,490,700 |
| <hr/>   |             |                  |           |                  |           |                  |           |
| MI State Strategic Fund Solid Waste Disp. Rev. Bonds (Genesee Pwr. Station), 7 1/2s, 1/1/21                               | B/P         | -                | -         | 455,000          | 465,724   | 455,000          | 465,724   |
| <hr/>   |             |                  |           |                  |           |                  |           |
| MI State Strategic Fund, Ltd. Rev. Bonds (Worthington Armstrong Venture), U.S. Govt. Coll., 5 3/4s, 10/1/22 (Prerefunded) | AAA/P       | -                | -         | 1,350,000        | 1,550,705 | 1,350,000        | 1,550,705 |
| <hr/>   |             |                  |           |                  |           |                  |           |

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Midland Cnty., Econ. Dev. Corp. Rev. Bonds

|                 |  |           |           |         |         |           |           |
|-----------------|--|-----------|-----------|---------|---------|-----------|-----------|
| 6 7/8s, 7/23/09 |  | 1,500,000 | 1,526,085 | 250,000 | 254,348 | 1,750,000 | 1,780,433 |
|-----------------|--|-----------|-----------|---------|---------|-----------|-----------|

|                 |     |   |   |         |         |         |         |
|-----------------|-----|---|---|---------|---------|---------|---------|
| 6 3/4s, 7/23/09 | Ba3 | - | - | 250,000 | 254,348 | 250,000 | 254,348 |
|-----------------|-----|---|---|---------|---------|---------|---------|

Monroe Cnty., Hosp. Fin. Auth. Rev. Bonds

|  |      |           |           |         |         |           |           |
|--|------|-----------|-----------|---------|---------|-----------|-----------|
| (Mercy Memorial Hosp.), 5 1/2s, 6/1/20 | Baa3 | 1,000,000 | 1,061,560 | 480,000 | 509,549 | 1,480,000 | 1,571,109 |
|--|------|-----------|-----------|---------|---------|-----------|-----------|

Warren Cons. School Dist. G.O. Bonds, FSA, 5

|                            |     |           |           |   |   |           |           |
|----------------------------|-----|-----------|-----------|---|---|-----------|-----------|
| 3/8s, 5/1/18 (Prerefunded) | Aaa | 2,975,000 | 3,179,591 | - | - | 2,975,000 | 3,179,591 |
|----------------------------|-----|-----------|-----------|---|---|-----------|-----------|

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

| Rating(RAT) | Principal<br>amount | Value             | Principal<br>amount | Value            | Principal<br>amount | Value             |
|-------------|---------------------|-------------------|---------------------|------------------|---------------------|-------------------|
|             |                     |                   | -                   | -                |                     |                   |
|             |                     | <b>18,235,373</b> |                     | <b>8,815,952</b> |                     | <b>27,051,325</b> |

|                  |  |             |  |             |  |             |
|------------------|--|-------------|--|-------------|--|-------------|
| <b>Minnesota</b> |  | <b>2.5%</b> |  | <b>2.2%</b> |  | <b>2.4%</b> |
|------------------|--|-------------|--|-------------|--|-------------|

Cohasset, Poll. Control Rev. Bonds (Allete, Inc.),

|               |    |           |           |           |           |           |           |
|---------------|----|-----------|-----------|-----------|-----------|-----------|-----------|
| 4.95s, 7/1/22 | A- | 2,000,000 | 2,048,300 | 1,500,000 | 1,536,225 | 3,500,000 | 3,584,525 |
|---------------|----|-----------|-----------|-----------|-----------|-----------|-----------|

Duluth, Econ. Dev. Auth. Hlth. Care Fac. Rev.

|  |      |   |   |         |         |         |         |
|--|------|---|---|---------|---------|---------|---------|
| Bonds (BSM Properties, Inc.), Ser. A, 5 7/8s,<br>12/1/28 | BB/P | - | - | 115,000 | 115,064 | 115,000 | 115,064 |
|--|------|---|---|---------|---------|---------|---------|

Inver Grove Heights, Nursing Home Rev. Bonds

|  |     |         |         |         |         |         |         |
|--|-----|---------|---------|---------|---------|---------|---------|
| (Presbyterian Homes Care), 5 3/8s, 10/1/26 | B/P | 500,000 | 507,755 | 200,000 | 203,102 | 700,000 | 710,857 |
|--|-----|---------|---------|---------|---------|---------|---------|



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|  |           |                  |                  |           |                   |           |  |
|--|-----------|------------------|------------------|-----------|-------------------|-----------|--|
| MN Agricultural & Econ. Dev. Board Rev.<br>Bonds (Hlth. Care Syst.), Ser. A, MBIA, 5 1/2s,<br>11/15/17 (Prerefunded) |           |                  |                  |           |                   |           |  |
| Aaa  | 2,390,000 | 2,460,648        | -                | -         | 2,390,000         | 2,460,648 |  |
| MN State Hsg. Fin. Agcy. Rev. Bonds<br>(Residential Hsg.), Ser. H, 4.15s, 1/1/12                                     |           |                  |                  |           |                   |           |  |
| Aa1  | 760,000   | 761,239          | -                | -         | 760,000           | 761,239   |  |
| MN State Higher Ed. Fac. Auth. Rev. Bonds<br>(The College of St. Catherine), Ser. 5-N1, 5s,<br>10/1/18               |           |                  |                  |           |                   |           |  |
| Baa1   | -         | -                | 1,000,000        | 1,040,290 | 1,000,000         | 1,040,290 |  |
| Northfield, Hosp. Rev. Bonds, 5 1/2s, 11/1/18  |           |                  |                  |           |                   |           |  |
| BBB-   | 1,140,000 | 1,216,403        | -                | -         | 1,140,000         | 1,216,403 |  |
| Sauk Rapids Hlth. Care & Hsg. Fac. Rev. Bonds<br>(Good Shepherd Lutheran Home), 6s, 1/1/34                           |           |                  |                  |           |                   |           |  |
| B+/P   | 400,000   | 412,528          | -                | -         | 400,000           | 412,528   |  |
| St. Paul, Hsg. & Redev. Auth. Hosp. Rev. Bonds<br>(Healtheast)   |           |                  |                  |           |                   |           |  |
| Ser. B, 5.85s, 11/1/17   |           |                  |                  |           |                   |           |  |
| Baa3   | -         | -                | 250,000          | 256,795   | 250,000           | 256,795   |  |
| St. Paul, Hsg. & Redev. Auth. Hosp. Rev. Bonds<br>(Healtheast), 6s, 11/15/25   |           |                  |                  |           |                   |           |  |
| Baa3   | 1,000,000 | 1,110,540        | 350,000          | 388,689   | 1,350,000         | 1,499,229 |  |
| St. Paul, Port Auth. Lease Rev. Bonds (Regions<br>Hosp. Pkg. Ramp), Ser. 1, 5s, 8/1/36                               |           |                  |                  |           |                   |           |  |
| BBB-/P   | 625,000   | 631,869          | 225,000          | 227,473   | 850,000           | 859,342   |  |
|  |           | <b>9,149,282</b> | <b>3,767,638</b> |           | <b>12,916,920</b> |           |  |
| <b>Mississippi</b>   |           | <b>1.2%</b>      | <b>1.0%</b>      |           | <b>1.1%</b>       |           |  |

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

Rating(RAT) Principal Value Principal Value Principal Value

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|  |       | amount    | amount           | amount    | amount           | amount    | amount           |
|--|-------|-----------|------------------|-----------|------------------|-----------|------------------|
| Lowndes Cnty., Solid Waste Disp. & Poll.<br>Control Rev. Bonds (Weyerhaeuser Co.), Ser. B,<br>6.7s, 4/1/22                       | Baa2  | 1,500,000 | 1,809,915        | 1,000,000 | 1,206,610        | 2,500,000 | 3,016,525        |
| MS Bus. Fin. Corp. Poll. Control Rev. Bonds<br>(Syst. Energy Resources, Inc.), 5.9s, 5/1/22                                      | BBB-  | 1,250,000 | 1,256,075        | -         | -                | 1,250,000 | 1,256,075        |
| MS Home Corp. Rev. Bonds (Single Fam.<br>Mtge.), Ser. B-2, GNMA Coll., FNMA Coll.,<br>6.45s, 12/1/33                             | Aaa   | 915,000   | 942,404          | 425,000   | 437,729          | 1,340,000 | 1,380,133        |
| MS Hosp. Equip. & Fac. Auth. Rev. Bonds<br>(Hosp. South Central), 5 1/4s, 12/1/21  | BBB+  | 250,000   | 264,250          | -         | -                | 250,000   | 264,250          |
|  |       |           | <b>4,272,644</b> |           | <b>1,644,339</b> |           | <b>5,916,983</b> |
| <b>Missouri</b>  |       |           | <b>2.6%</b>      |           | <b>2.7%</b>      |           | <b>2.6%</b>      |
| Cape Girardeau Cnty., Incl. Dev. Auth. Hlth.<br>Care Fac. Rev. Bonds (St. Francis Med. Ctr.),<br>Ser. A, 5 1/2s, 6/1/32          | A+    | 1,750,000 | 1,857,363        | -         | -                | 1,750,000 | 1,857,363        |
| Cape Girardeau Cnty., Incl. Dev. Auth. Hlth.<br>Care Fac. Rev. Bonds (St. Francis Med. Ctr.),<br>Ser. A, 5 1/2s, 6/1/16          | A+    | -         | -                | 1,000,000 | 1,070,170        | 1,000,000 | 1,070,170        |
| Kansas City, Incl. Dev. Auth. Hlth. Fac. Rev.<br>Bonds (First Mtge. Bishop Spencer), Ser. A, 6<br>1/2s, 1/1/35                   | BB-/P | 1,500,000 | 1,607,760        | 500,000   | 535,920          | 2,000,000 | 2,143,680        |
| MO State Hlth. & Edl. Fac. Auth. Rev. Bonds<br>(BJC Hlth. Syst.), 5 1/4s, 5/15/32  | Aa2   | 1,450,000 | 1,515,439        | -         | -                | 1,450,000 | 1,515,439        |
| MO State Hsg. Dev. Comm. Mtge. Rev. Bonds<br><br>(Single Fam. Homeowner Loan), Ser. A-1,<br>GNMA Coll, FNMA Coll, 7 1/2s, 3/1/31 | AAA   | -         | -                | 365,000   | 378,782          | 365,000   | 378,782          |
| (Single Fam. Homeowner Loan), Ser. B-1,<br>GNMA Coll., FNMA Coll., 7.45s, 9/1/31   | AAA   | -         | -                | 380,000   | 392,164          | 380,000   | 392,164          |
| (Single Fam. Home Ownership Loan), Ser. A-1,   |       |           |                  |           |                  |           |                  |

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|   |     |   |   |         |         |         |         |
|---|-----|---|---|---------|---------|---------|---------|
| GNMA Coll., FNMA Coll., 6 3/4s, 3/1/34                              | AAA | - | - | 560,000 | 584,478 | 560,000 | 584,478 |
| <hr/>   |     |   |   |         |         |         |         |
| (Single Fam. Homeowner Loan), Ser. A-2,<br>GNMA Coll., 6.3s, 3/1/30 | AAA | - | - | 350,000 | 357,462 | 350,000 | 357,462 |
| <hr/>   |     |   |   |         |         |         |         |
| MO State Hsg. Dev. Comm. Mtge. Rev. Bonds                           |     |   |   |         |         |         |         |
| <hr/>   |     |   |   |         |         |         |         |

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|  |             |                     |                | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined   |           |
|--|-------------|---------------------|----------------|---|---|---------------------|-----------|
|  |             |                     |                |   |   |                     |           |
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |                     |                | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>       |           |
|  | Rating(RAT) | Principal<br>amount | Value          | Principal<br>amount                         | Value                                   | Principal<br>amount | Value     |
| <hr/>  |             |                     |                |   |   |                     |           |
| (Single Fam. Home Ownership Loan)  |             |                     |                |   |   |                     |           |
| <hr/>  |             |                     |                |   |   |                     |           |
| Ser. B, GNMA Coll., FNMA Coll., 4.4s, 9/1/14   | AAA         | 405,000             | 409,026        | -   | -                                       | 405,000             | 409,026   |
| <hr/>  |             |                     |                |   |   |                     |           |
| Ser. B, GNMA Coll., FNMA Coll., 4.3s, 9/1/13   | AAA         | 395,000             | 398,685        | -   | -                                       | 395,000             | 398,685   |
| <hr/>  |             |                     |                |   |   |                     |           |
| Ser. B, GNMA Coll., FNMA Coll., 5.8s, 9/1/35   | AAA         | 2,395,000           | 2,546,005      | -   | -                                       | 2,395,000           | 2,546,005 |
| <hr/>  |             |                     |                |   |   |                     |           |
| Ser. D, GNMA Coll., FNMA Coll., 5.55s, 9/1/34  | Aaa         | 1,290,000           | 1,314,962      | 1,280,000                                   | 1,304,768                               | 2,570,000           | 2,619,730 |
| <hr/>  |             |                     |                |   |   |                     |           |
|  |             |                     |                | <b>9,649,240</b>                            | <b>4,623,744</b>                        | <b>14,272,984</b>   |           |
| <hr/>  |             |                     |                |   |   |                     |           |
| <b>Montana</b>   |             |                     |                | <b>0.1%</b>                                 | <b>0.3%</b>                             | <b>0.1%</b>         |           |
| <hr/>  |             |                     |                |   |   |                     |           |
| MT State Board Inv. Exempt Fac. Rev. Bonds<br>(Still Water Mining Project), 8s, 7/1/20 |             |                     |                |   |   |                     |           |
|  | B3          | -                   | -              | 250,000                                     | 263,300                                 | 250,000             | 263,300   |
| <hr/>  |             |                     |                |   |   |                     |           |
| MT Fac. Fin. Auth. Rev. Bonds (Sr. Living St.<br>Johns Lutheran), Ser. A, 6s, 5/15/25  |             |                     |                |   |   |                     |           |
|  | B+/P        | 350,000             | <b>368,428</b> | 150,000                                     | 157,898                                 | 500,000             | 526,326   |
| <hr/>  |             |                     |                |   |   |                     |           |
|  |             |                     |                | <b>368,428</b>                              | <b>421,198</b>                          | <b>789,626</b>      |           |
| <hr/>  |             |                     |                |   |   |                     |           |
| <b>Nebraska</b>  |             |                     |                | <b>0.0%</b>                                 | <b>0.0%</b>                             | <b>0.0%</b>         |           |
| <hr/>  |             |                     |                |   |   |                     |           |

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Kearney, Incl. Dev. Rev. Bonds

|                                  |     |         |               |   |   |         |               |
|----------------------------------|-----|---------|---------------|---|---|---------|---------------|
| (Great Platte River), 8s, 9/1/12 | D/P | 61,716  | 16,808        | - | - | 61,716  | 16,808        |
| (Brookhaven), zero %, 9/1/12     | D/P | 791,466 | 9,893         | - | - | 791,466 | 9,893         |
|                                  |     |         | <b>26,701</b> |   |   |         | <b>26,701</b> |

**Nevada** **3.5%** **4.6%** **3.9%**

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|   | Rating(RAT) | Principal<br>amount | Value     | Principal<br>amount | Value     | Principal<br>amount | Value     |
|---|-------------|---------------------|-----------|---------------------|-----------|---------------------|-----------|
| Clark Cnty., Impt. Dist. Special Assmt.   |             |                     |           |                     |           |                     |           |
| (Dist. No. 142), 6 3/8s, 8/1/23   | BB-/P       | 995,000             | 1,027,646 | -                   | -         | 995,000             | 1,027,646 |
| (Summerlin No. 151), 5s, 8/1/16   | BB/P        | 1,010,000           | 1,040,997 | -                   | -         | 1,010,000           | 1,040,997 |
| Clark Cnty., Incl. Dev. Rev. Bonds (Southwest Gas Corp.), Ser. C, AMBAC, 5.95s, 12/1/38 | Aaa         | 5,000,000           | 5,400,850 | -                   | -         | 5,000,000           | 5,400,850 |
| Clark Cnty., G.O. Bonds (Pk. & Regl. Justice Ctr.), FGIC, 5 5/8s, 11/1/19 (Prerefunded) | Aaa         | -                   | -         | 3,500,000           | 3,661,639 | 3,500,000           | 3,661,639 |
| Clark Cnty., Impt. Dist. Special Assmt.   |             |                     |           |                     |           |                     |           |
| (Summerlin No. 151), 5s, 8/1/20   | BB/P        | -                   | -         | 425,000             | 433,997   | 425,000             | 433,997   |
| Clark Cnty., Local Impt. Dist. Special Assmt.   |             |                     |           |                     |           |                     |           |
| Bonds (No. 142), 6.1s, 8/1/18   | BB-/P       | -                   | -         | 250,000             | 258,135   | 250,000             | 258,135   |

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Henderson, Local Impt. Dist. Special Assmt.

|                          |      |         |         |         |         |         |         |
|--------------------------|------|---------|---------|---------|---------|---------|---------|
| (No. T-14), 5.8s, 3/1/23 | BB/P | 430,000 | 444,194 | 210,000 | 216,932 | 640,000 | 661,126 |
|--------------------------|------|---------|---------|---------|---------|---------|---------|

|                           |       |   |   |         |         |         |         |
|---------------------------|-------|---|---|---------|---------|---------|---------|
| (No. T-14), 5.55s, 3/1/17 | BB-/P | - | - | 725,000 | 748,425 | 725,000 | 748,425 |
|---------------------------|-------|---|---|---------|---------|---------|---------|

|                            |       |         |         |         |         |         |         |
|----------------------------|-------|---------|---------|---------|---------|---------|---------|
| (No. T-16), 5 1/8s, 3/1/25 | BB-/P | 500,000 | 506,165 | 200,000 | 202,466 | 700,000 | 708,631 |
|----------------------------|-------|---------|---------|---------|---------|---------|---------|

|                        |      |         |         |         |         |         |         |
|------------------------|------|---------|---------|---------|---------|---------|---------|
| (No. T-17), 5s, 9/1/18 | BB/P | 275,000 | 282,156 | 100,000 | 102,602 | 375,000 | 384,758 |
|------------------------|------|---------|---------|---------|---------|---------|---------|

|                        |       |           |           |         |         |           |           |
|------------------------|-------|-----------|-----------|---------|---------|-----------|-----------|
| (No. T-18), 5s, 9/1/16 | BB-/P | 1,425,000 | 1,469,161 | 500,000 | 515,495 | 1,925,000 | 1,984,656 |
|------------------------|-------|-----------|-----------|---------|---------|-----------|-----------|

Las Vegas, Local Impt. Board Special Assmt.

|                               |       |         |         |         |         |           |           |
|-------------------------------|-------|---------|---------|---------|---------|-----------|-----------|
| (Dist. No. 607), 5.9s, 6/1/18 | BB-/P | 875,000 | 901,530 | 325,000 | 334,854 | 1,200,000 | 1,236,384 |
|-------------------------------|-------|---------|---------|---------|---------|-----------|-----------|

Las Vegas, Special Impt. Dist. Rev. Bonds (No.

|                                      |      |   |   |         |         |         |         |
|--------------------------------------|------|---|---|---------|---------|---------|---------|
| 809 - Summerlin Area), 5.65s, 6/1/23 | BB/P | - | - | 250,000 | 260,503 | 250,000 | 260,503 |
|--------------------------------------|------|---|---|---------|---------|---------|---------|

Washoe Cnty., Wtr. Fac. Mandatory Put Bonds

|                                       |     |           |           |           |           |           |           |
|---------------------------------------|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| (Sierra Pacific Pwr. Co.), 5s, 7/1/09 | Bal | 2,000,000 | 2,016,240 | 1,000,000 | 1,008,120 | 3,000,000 | 3,024,360 |
|---------------------------------------|-----|-----------|-----------|-----------|-----------|-----------|-----------|

|  |  |  |                   |  |                  |  |                   |
|--|--|--|-------------------|--|------------------|--|-------------------|
|  |  |  | <b>13,088,939</b> |  | <b>7,743,168</b> |  | <b>20,832,107</b> |
|--|--|--|-------------------|--|------------------|--|-------------------|

|                      |  |  |             |  |             |  |             |
|----------------------|--|--|-------------|--|-------------|--|-------------|
| <b>New Hampshire</b> |  |  | <b>1.5%</b> |  | <b>0.8%</b> |  | <b>1.3%</b> |
|----------------------|--|--|-------------|--|-------------|--|-------------|

NH Hlth. & Ed. Fac. Auth. Rev. Bonds (Kendal

|                                  |      |           |           |         |         |           |           |
|----------------------------------|------|-----------|-----------|---------|---------|-----------|-----------|
| at Hanover), Ser. A, 5s, 10/1/18 | BBB+ | 1,275,000 | 1,317,993 | 600,000 | 620,232 | 1,875,000 | 1,938,225 |
|----------------------------------|------|-----------|-----------|---------|---------|-----------|-----------|

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|             |           |       |           |       |           |       |
|-------------|-----------|-------|-----------|-------|-----------|-------|
| Rating(RAT) | Principal | Value | Principal | Value | Principal | Value |
|-------------|-----------|-------|-----------|-------|-----------|-------|

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|  |        | amount    |                  | amount    |                  | amount    |                  |
|--|--------|-----------|------------------|-----------|------------------|-----------|------------------|
| <b>NH Hlth. &amp; Ed. Fac. Auth. Rev. Bonds</b>  |        |           |                  |           |                  |           |                  |
| (Huntington at Nashua), Ser. A, 6 7/8s, 5/1/33   | BB-/P  | -         | -                | 600,000   | 650,868          | 600,000   | 650,868          |
| <b>NH State Bus. Fin. Auth. Rev. Bonds (Alice Peck Day Hlth. Syst.), Ser. A, 7s, 10/1/29</b>                           |        |           |                  |           |                  |           |                  |
|  | BBB-/P | 2,565,000 | 2,693,224        | -         | -                | 2,565,000 | 2,693,224        |
| <b>NH State Bus. Fin. Auth. Poll. Control Rev. Bonds, 3 1/2s, 7/1/27</b>   |        |           |                  |           |                  |           |                  |
|  | Baa2   | 1,750,000 | 1,732,395        | -         | -                | 1,750,000 | 1,732,395        |
| <b>NH State Bus. Fin. Auth. Swr. &amp; Solid Waste Rev. Bonds (Crown Paper Co.), 7 7/8s, 7/1/26 (In default) (NON)</b> |        |           |                  |           |                  |           |                  |
|  | D/P    | -         | -                | 1,394,189 | 14               | 1,394,189 | 14               |
|  |        |           | <b>5,743,612</b> |           | <b>1,271,114</b> |           | <b>7,014,726</b> |
| <b>New Jersey</b>  |        |           | <b>3.8%</b>      |           | <b>7.7%</b>      |           | <b>5.0%</b>      |
| <b>NJ Econ. Dev. Auth. Rev. Bonds</b>  |        |           |                  |           |                  |           |                  |
| (United Methodist Homes), Ser. A-1, 6 1/4s, 7/1/33   | BB+    | -         | -                | 1,000,000 | 1,071,750        | 1,000,000 | 1,071,750        |
| (Cigarette Tax), 5 3/4s, 6/15/29   | Baa2   | -         | -                | 1,000,000 | 1,086,760        | 1,000,000 | 1,086,760        |
| (Cedar Crest Village, Inc.), Ser. A, 7 1/4s, 11/15/31 (Prerefunded)  | AAA/P  | 1,250,000 | 1,435,175        | -         | -                | 1,250,000 | 1,435,175        |
| (Newark Arpt. Marriot Hotel), 7s, 10/1/14  | Ba1    | 1,900,000 | 1,928,405        | 1,500,000 | 1,522,425        | 3,400,000 | 3,450,830        |
| (First Mtge. Presbyterian Home), Ser. A, 6 3/8s, 11/1/31   | BB/P   | 500,000   | 528,255          | -         | -                | 500,000   | 528,255          |
| (First Mtge. Lions Gate), Ser. A, 5 7/8s, 1/1/37   | B/P    | 230,000   | 239,497          | 200,000   | 208,258          | 430,000   | 447,755          |
| (Cigarette Tax), 5 1/2s, 6/15/24   | Baa2   | 2,500,000 | 2,611,825        | -         | -                | 2,500,000 | 2,611,825        |

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|   |       |           |           |           |           |           |           |
|---|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| (Seabrook Village), 5 1/4s, 11/15/26        | BB-/P | 400,000   | 410,584   | 160,000   | 164,234   | 560,000   | 574,818   |
| <hr/>                                       |       |           |           |           |           |           |           |
| NJ Econ. Dev. Auth. Solid Waste Rev. Bonds  |       |           |           |           |           |           |           |
| (Disp. Waste Mgt.), 5.3s, 6/1/15            | BBB   | 1,750,000 | 1,837,238 | -         | -         | 1,750,000 | 1,837,238 |
| <hr/>                                       |       |           |           |           |           |           |           |
| NJ State Rev. Bonds (Trans. Syst.), Ser. C, |       |           |           |           |           |           |           |
| AMBAC, zero %, 12/15/24                     | Aaa   | -         | -         | 2,400,000 | 1,122,576 | 2,400,000 | 1,122,576 |
| <hr/>                                       |       |           |           |           |           |           |           |
| NJ Hlth. Care Fac. Fin. Auth. Rev. Bonds    |       |           |           |           |           |           |           |
| <hr/>                                       |       |           |           |           |           |           |           |

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|   |             | Putnam Managed<br>Municipal<br>Income Trust |                   | Putnam High Yield<br>Municipal<br>Trust |                   | Proforma Combined   |                   |
|---|-------------|---|-------------------|---|-------------------|---------------------|-------------------|
|   |             |   |                   |   |                   |                     |                   |
| <b>MUNICIPAL BONDS AND NOTES</b>                    |             |   | <b>143.6%</b>     |   | <b>124.9%</b>     |                     | <b>137.8%</b>     |
|   | Rating(RAT) | Principal<br>amount                         | Value             | Principal<br>amount                     | Value             | Principal<br>amount | Value             |
| (Trinitas Hosp. Oblig. Group), 7 1/2s, 7/1/30       | Baa3        | 1,300,000                                   | 1,421,290         | 500,000                                 | 546,650           | 1,800,000           | 1,967,940         |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| (United Methodist Homes), Ser. A, 5 3/4s,<br>7/1/29 | BB+         | 2,250,000                                   | 2,300,580         | -                                       | -                 | 2,250,000           | 2,300,580         |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| (Atlantic City Med. Ctr.), 5 3/4s, 7/1/25           | A+          | 1,250,000                                   | 1,334,200         | -                                       | -                 | 1,250,000           | 1,334,200         |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| Tobacco Settlement Fin. Corp. Rev. Bonds            |             |   |                   |   |                   |                     |                   |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| 6 3/8s, 6/1/32 (Prerefunded)                        | AAA         | -   | -                 | 3,410,000                               | 3,874,340         | 3,410,000           | 3,874,340         |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| Ser. 1A, 4 1/2s, 6/1/23                             | BBB         | -   | -                 | 3,400,000                               | 3,353,964         | 3,400,000           | 3,353,964         |
| <hr/>   |             |   |                   |   |                   |                     |                   |
|   |             |   | <b>14,047,049</b> |   | <b>12,950,957</b> |                     | <b>26,998,006</b> |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| <b>New Mexico</b>                                   |             |   | <b>0.6%</b>       |   | <b>0.6%</b>       |                     | <b>0.6%</b>       |
| <hr/>   |             |   |                   |   |                   |                     |                   |
| <hr/>   |             |   |                   |   |                   |                     |                   |

Farmington, Poll. Control Rev. Bonds (San

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|   |      |           |                  |                |         |                  |           |
|---|------|-----------|------------------|----------------|---------|------------------|-----------|
| Juan), Ser. B, 4 7/8s, 4/1/33                                       | Baa2 | 1,200,000 | 1,215,492        | 600,000        | 607,746 | 1,800,000        | 1,823,238 |
| NM Mtge. Fin. Auth. Rev. Bonds (Single Fam. Mtge.)                  |      |           |                  |                |         |                  |           |
| Ser. D-2, GNMA Coll., FNMA Coll., FHLMC Coll., 5.64s, 9/1/33        | AAA  | 390,000   | 399,419          | 325,000        | 332,849 | 715,000          | 732,268   |
| Ser. F2, Class I, GNMA Coll., FNMA Coll., FHLMC Coll., 5.6s, 7/1/38 | AAA  | 500,000   | 535,465          | -              | -       | 500,000          | 535,465   |
|   |      |           | <b>2,150,376</b> | <b>940,595</b> |         | <b>3,090,971</b> |           |

**New York** **15.1%** **10.6%** **13.7%**

|   |      |         |         |         |         |         |         |
|---|------|---------|---------|---------|---------|---------|---------|
| Huntington, Hsg. Auth. Rev. Bonds (Gurwin Jewish Sr. Residence), Ser. A, 6s, 5/1/39               | B+   | 500,000 | 515,530 | -       | -       | 500,000 | 515,530 |
| Huntington, Hsg. Auth. Sr. Hsg. Fac. Rev. Bonds (Gurwin Jewish Sr. Residence), Ser. A, 6s, 5/1/29 | B+/P | -       | -       | 750,000 | 777,398 | 750,000 | 777,398 |
| Livingston Cnty., Indl. Dev. Agcy. Civic Fac.   | BB   |         |         |         |         |         |         |

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|                                  | <b>Putnam Managed<br/>Municipal<br/>Income Trust</b> | <b>Putnam High Yield<br/>Municipal<br/>Trust</b> | <b>Proforma Combined</b> |
|----------------------------------|--|--|--------------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>  | <b>124.9%</b>                                    | <b>137.8%</b>            |

|   | Rating(RAT) | Principal amount | Value     | Principal amount | Value   | Principal amount | Value     |
|---|-------------|------------------|-----------|------------------|---------|------------------|-----------|
| Rev. Bonds (Nicholas H. Noyes Memorial Hosp.), 5 3/4s, 7/1/15                               |             | 1,330,000        | 1,368,118 | 325,000          | 334,315 | 1,655,000        | 1,702,433 |
| Livingston Cnty., Indl. Dev. Agcy. Civic Fac. Rev. Bonds (Nicholas H. Noyes Memorial Hosp.) |             |                  |           |                  |         |                  |           |



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|  |      |            |            |           |           |            |            |
|--|------|------------|------------|-----------|-----------|------------|------------|
| 5s, 7/1/10   | BB   | -          | -          | 155,000   | 156,614   | 155,000    | 156,614    |
| <hr/>  |      |            |            |           |           |            |            |
| Long Island, Pwr. Auth. NY Elec. Syst. Rev.<br>Bonds, Ser. A, U.S. Govt. Coll., 5 3/4s, 12/1/24<br>(Prerefunded) |      |            |            |           |           |            |            |
|  | Aaa  | 2,000,000  | 2,064,660  | -         | -         | 2,000,000  | 2,064,660  |
| <hr/>  |      |            |            |           |           |            |            |
| Nassau Cnty., Indl. Dev. Agcy. Rev. Bonds<br>(Keyspan-Glenwood), 5 1/4s, 6/1/27                                  |      |            |            |           |           |            |            |
|  | A    | 2,000,000  | 2,084,320  | 775,000   | 807,674   | 2,775,000  | 2,891,994  |
| <hr/>  |      |            |            |           |           |            |            |
| NY City, G.O. Bonds, Ser. B, 5 1/4s, 12/1/09   |      |            |            |           |           |            |            |
|  | AA-  | 10,000,000 | 10,367,500 | -         | -         | 10,000,000 | 10,367,500 |
| <hr/>  |      |            |            |           |           |            |            |
| NY City, Indl. Dev. Agcy. Rev. Bonds   |      |            |            |           |           |            |            |
| <hr/>  |      |            |            |           |           |            |            |
| (Staten Island U. Hosp. Project), 6.45s, 7/1/32  |      |            |            |           |           |            |            |
|  | B2   | 1,480,000  | 1,558,854  | -         | -         | 1,480,000  | 1,558,854  |
| <hr/>  |      |            |            |           |           |            |            |
| (Liberty-7 World Trade Ctr.), Ser. A, 6 1/4s,<br>3/1/15  |      |            |            |           |           |            |            |
|  | B-/P | 1,275,000  | 1,354,012  | 500,000   | 530,985   | 1,775,000  | 1,884,997  |
| <hr/>  |      |            |            |           |           |            |            |
| (Queens Baseball Stadium - Pilot), AMBAC, 5s,<br>1/1/21  |      |            |            |           |           |            |            |
|  | Aaa  | 900,000    | 966,258    | -         | -         | 900,000    | 966,258    |
| <hr/>  |      |            |            |           |           |            |            |
| NY City, Indl. Dev. Agcy. Special Fac. Rev.<br>Bonds   |      |            |            |           |           |            |            |
| <hr/>  |      |            |            |           |           |            |            |
| (JFK Intl. Arpt.), Ser. A, 8s, 8/1/12  |      |            |            |           |           |            |            |
|  | B    | 380,000    | 436,886    | 170,000   | 195,449   | 550,000    | 632,335    |
| <hr/>  |      |            |            |           |           |            |            |
| FRB (American Airlines - JFK Intl. Arpt.), 7<br>5/8s, 8/1/25   |      |            |            |           |           |            |            |
|  | B    | 1,250,000  | 1,512,813  | 250,000   | 302,563   | 1,500,000  | 1,815,376  |
| <hr/>  |      |            |            |           |           |            |            |
| (American Airlines - JFK Intl. Arpt.), 7 1/2s,<br>8/1/16   |      |            |            |           |           |            |            |
|  | B    | 3,400,000  | 3,959,028  | 1,750,000 | 2,037,735 | 5,150,000  | 5,996,763  |
| <hr/>  |      |            |            |           |           |            |            |
| (British Airways PLC), 5 1/4s, 12/1/32   |      |            |            |           |           |            |            |
|  | Ba2  | 2,425,000  | 2,411,372  | 1,000,000 | 994,380   | 3,425,000  | 3,405,752  |
| <hr/>  |      |            |            |           |           |            |            |
| (Jetblue Airways Corp.), 5s, 5/15/20   |      |            |            |           |           |            |            |
|  | B    | 225,000    | 223,931    | 100,000   | 99,525    | 325,000    | 323,456    |
| <hr/>  |      |            |            |           |           |            |            |
| NY Cntys., Tobacco Trust IV Rev. Bonds, Ser.<br>A, 5s, 6/1/38  |      |            |            |           |           |            |            |
|  | BBB  | 1,000,000  | 1,015,900  | -         | -         | 1,000,000  | 1,015,900  |
| <hr/>  |      |            |            |           |           |            |            |
| NY State Dorm. Auth. Rev. Bonds  |      |            |            |           |           |            |            |
| <hr/>  |      |            |            |           |           |            |            |
| (Winthrop-U. Hosp. Assn.), Ser. A, 5 1/2s,   |      |            |            |           |           |            |            |

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|   |      |           |           |   |   |           |           |
|---|------|-----------|-----------|---|---|-----------|-----------|
| 7/1/32  | Baa1 | 900,000   | 948,393   | - | - | 900,000   | 948,393   |
| <hr/>   |      |           |           |   |   |           |           |
| (Lenox Hill Hosp. Oblig. Group), 5 1/4s, 7/1/09 | Ba2  | 1,000,000 | 1,022,040 | - | - | 1,000,000 | 1,022,040 |

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|  |             |                     |           | <b>Putnam Managed<br/>Municipal<br/>Income Trust</b> | <b>Putnam High Yield<br/>Municipal<br/>Trust</b> | <b>Proforma Combined</b> |           |
|--|-------------|---------------------|-----------|--|--|--------------------------|-----------|
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |                     |           | <b>143.6%</b>  | <b>124.9%</b>                                    | <b>137.8%</b>            |           |
|  | Rating(RAT) | Principal<br>amount | Value     | Principal<br>amount                                  | Value  | Principal<br>amount      | Value     |
| (NY U. Hosp. Ctr.), Ser. A, 5s, 7/1/20   | Ba2         | 500,000             | 521,625   | 250,000  | 260,813  | 750,000                  | 782,438   |
| <hr/>  |             |                     |           |  |  |                          |           |
| (Mt. Sinai NYU Hlth.), Ser. C, 5s, 7/1/11  | Baa2        | -                   | -         | 425,000  | 430,092  | 425,000                  | 430,092   |
| <hr/>  |             |                     |           |  |  |                          |           |
| NY State Energy Research & Dev. Auth. Gas<br>Fac. Rev. Bonds (Brooklyn Union Gas), 6.952s,<br>7/1/26     | A+          | 2,400,000           | 2,435,016 | 1,400,000  | 1,420,426  | 3,800,000                | 3,855,442 |
| <hr/>  |             |                     |           |  |  |                          |           |
| NY City, G.O. Bonds, Ser. C, 5 1/4s, 8/1/11  | AA-         | -                   | -         | 1,000,000  | 1,056,280  | 1,000,000                | 1,056,280 |
| <hr/>  |             |                     |           |  |  |                          |           |
| NY City, Incl. Dev. Agcy. Rev. Bonds (Liberty-7<br>World Trade Ctr.)                                     |             |                     |           |  |  |                          |           |
| <hr/>  |             |                     |           |  |  |                          |           |
| Ser. B, 6 3/4s, 3/1/15   | B-/P        | -                   | -         | 200,000  | 214,318  | 200,000                  | 214,318   |
| <hr/>  |             |                     |           |  |  |                          |           |
| NY City, Incl. Dev. Agcy. Civic Fac. Rev. Bonds  |             |                     |           | -  | -  |                          |           |
| <hr/>  |             |                     |           |  |  |                          |           |
| (Staten Island U. Hosp.), Ser. A, 6 3/8s, 7/1/31   | B2          | -                   | -         | 820,000  | 855,522  | 820,000                  | 855,522   |
| <hr/>  |             |                     |           |  |  |                          |           |
| (Brooklyn Polytech. U. Project J), 6 1/8s, 11/1/30   | BB+         | -                   | -         | 200,000  | 208,880  | 200,000                  | 208,880   |
| <hr/>  |             |                     |           |  |  |                          |           |
| NY City, Incl. Dev. Agcy. Special Arpt. Fac.<br>Rev. Bonds (Airis JFK I, LLC), Ser. A, 5 1/2s,<br>7/1/28 | Baa3        | -                   | -         | 1,300,000  | 1,346,254  | 1,300,000                | 1,346,254 |

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|   |       |            |            |           |           |            |            |
|---|-------|------------|------------|-----------|-----------|------------|------------|
| Niagara Cnty., In dl. Dev. Agcy. Rev. Bonds, Ser. |       |            |            |           |           |            |            |
| C, 5 5/8s, 11/15/24                               | Baa2  | -          | -          | 400,000   | 422,036   | 400,000    | 422,036    |
| Onondaga Cnty., In dl. Dev. Agcy. Rev. Bonds      |       |            |            |           |           |            |            |
| (Solvay Paperboard, LLC), 7s, 11/1/30 (RES)       | BB/P  | 2,000,000  | 2,082,000  | 1,200,000 | 1,249,200 | 3,200,000  | 3,331,200  |
| Port. Auth. NY & NJ Special Oblig. Rev. Bonds     |       |            |            |           |           |            |            |
| (Kennedy Intl. Arpt. - 5th Installment), 6 3/4s,  |       |            |            |           |           |            |            |
| 10/1/19   | BB+/P | 200,000    | 202,444    | -         | -         | 200,000    | 202,444    |
| (JFK Intl. Air Term. - 6), MBIA, 5.9s, 12/1/17    |       |            |            |           |           |            |            |
|   | Aaa   | 15,000,000 | 15,464,400 | -         | -         | 15,000,000 | 15,464,400 |
| Port Auth. NY & NJ Rev. Bonds                     |       |            |            |           |           |            |            |
| (Kennedy Intl. Arpt. - 3rd Installment), 7s,      |       |            |            |           |           |            |            |
| 10/1/07   | BB+/P | -          | -          | 100,000   | 100,496   | 100,000    | 100,496    |
| (Kennedy Intl. Arpt. - 4th Installment), 6 3/4s,  |       |            |            |           |           |            |            |
| 10/1/11   | BB+/P | -          | -          | 500,000   | 505,640   | 500,000    | 505,640    |
| Syracuse, In dl. Dev. Agcy. Rev. Bonds (1st       |       |            |            |           |           |            |            |
| Mtge. - Jewish Home), Ser. A, 7 3/8s, 3/1/21      | B+/P  | -          | -          | 800,000   | 847,536   | 800,000    | 847,536    |
| Suffolk Cnty., In dl. Dev. Agcy. Cont. Care       |       |            |            |           |           |            |            |
| Retirement Rev. Bonds                             |       |            |            |           |           |            |            |

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|   |             | Putnam Managed<br>Municipal<br>Income Trust |               | Putnam High Yield<br>Municipal<br>Trust |               | Proforma Combined   |               |
|---|-------------|---|---------------|---|---------------|---------------------|---------------|
|   |             |   |               |   |               |                     |               |
| <b>MUNICIPAL BONDS AND NOTES</b>                              |             |   | <b>143.6%</b> |   | <b>124.9%</b> |                     | <b>137.8%</b> |
|   | Rating(RAT) | Principal<br>amount                         | Value         | Principal<br>amount                     | Value         | Principal<br>amount | Value         |
| (Peconic Landing), Ser. A, 8s, 10/1/30                        | B+/P        | 1,700,000                                   | 1,858,678     | 1,000,000                               | 1,093,340     | 2,700,000           | 2,952,018     |
| (Jefferson's Ferry), Ser. A, 7 1/4s, 11/1/28<br>(Prerefunded) | AAA         | -   | -             | 1,000,000                               | 1,103,110     | 1,000,000           | 1,103,110     |

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|   |      |                   |             |                   |             |                   |             |
|---|------|-------------------|-------------|-------------------|-------------|-------------------|-------------|
| (Jefferson's Ferry), 5s, 11/1/15  | BBB- | 450,000           | 472,545     | 525,000           | 551,303     | 975,000           | 1,023,848   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (Jefferson's Ferry), 4 5/8s, 11/1/16  | BBB- | 1,000,000         | 1,022,760   | -                 | -           | 1,000,000         | 1,022,760   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| <hr/>   |      |                   |             |                   |             |                   |             |
|   |      | <b>55,869,083</b> |             | <b>17,901,884</b> |             | <b>73,770,967</b> |             |
| <hr/>   |      |                   |             |                   |             |                   |             |
| <b>North Carolina</b>   |      |                   | <b>6.5%</b> |                   | <b>3.7%</b> |                   | <b>5.6%</b> |
| <hr/>   |      |                   |             |                   |             |                   |             |
| <hr/>   |      |                   |             |                   |             |                   |             |
| NC Eastern Muni. Pwr. Agcy. Syst. Rev. Bonds  |      |                   |             |                   |             |                   |             |
| <hr/>   |      |                   |             |                   |             |                   |             |
| Ser. D, 6 3/4s, 1/1/26  | Baa2 | 1,500,000         | 1,618,920   | -                 | -           | 1,500,000         | 1,618,920   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| Ser. A, 5 3/4s, 1/1/26  | Baa2 | 3,000,000         | 3,132,630   | -                 | -           | 3,000,000         | 3,132,630   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| NC Eastern Muni. Pwr. Agcy. Syst. Rev. Bonds,<br>Ser. C, 5.3s, 1/1/15                 |      |                   |             |                   |             |                   |             |
|   | Baa2 | -                 | -           | 1,500,000         | 1,596,270   | 1,500,000         | 1,596,270   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| NC Hsg. Fin. Agcy. Rev. Bonds<br>(Homeownership), Ser. 26, Class A, 5 1/2s,<br>1/1/38 |      |                   |             |                   |             |                   |             |
|   | Aa2  | 1,000,000         | 1,058,720   | -                 | -           | 1,000,000         | 1,058,720   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| NC Med. Care Cmnty. Hlth. Care Fac. Rev.<br>Bonds                                     |      |                   |             |                   |             |                   |             |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (First Mtge. - Presbyterian Homes), 5 3/8s,<br>10/1/22                                | BB/P | -                 | -           | 610,000           | 636,285     | 610,000           | 636,285     |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (First Mtge. - Pines at Davidson), Ser. A, 5s,<br>1/1/18                              | ***P | -                 | -           | 835,000           | 876,232     | 835,000           | 876,232     |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (Presbyterian Homes), 5.4s, 10/1/27   | BB/P | 2,000,000         | 2,080,700   | -                 | -           | 2,000,000         | 2,080,700   |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (Pines at Davidson), Ser. A, 5s, 1/1/16   | A-/F | 545,000           | 573,117     | -                 | -           | 545,000           | 573,117     |
| <hr/>   |      |                   |             |                   |             |                   |             |
| (Deerfield), Ser. A, 5s, 11/1/23  | A-/F | 750,000           | 779,918     | 250,000           | 259,973     | 1,000,000         | 1,039,891   |
| <hr/>   |      |                   |             |                   |             |                   |             |

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(Novant Hlth. Oblig. Group), Ser. A, 5s, 11/1/14 Aa3 10,000,000 10,619,800 - - 10,000,000 10,619,800

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|   |             | Putnam Managed<br>Municipal<br>Income Trust |                   | Putnam High Yield<br>Municipal<br>Trust |                  | Proforma Combined   |                   |
|---|-------------|---|-------------------|---|------------------|---------------------|-------------------|
|   |             |   |                   |   |                  |                     |                   |
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |   | <b>143.6%</b>     |   | <b>124.9%</b>    |                     | <b>137.8%</b>     |
|   | Rating(RAT) | Principal<br>amount                         | Value             | Principal<br>amount                     | Value            | Principal<br>amount | Value             |
| (Pines at Davidson), Ser. A, 4.85s, 1/1/26  | A-/F        | 1,270,000                                   | 1,307,948         | -                                       | -                | 1,270,000           | 1,307,948         |
| NC Med. Care Comm. Retirement Fac. Rev.<br>Bonds  |             |   |                   |   |                  |                     |                   |
| (First Mtge. Givens Estates), Ser. A, 6 1/2s,<br>7/1/32                                       | BB-/P       | -   | -                 | 750,000                                 | 867,548          | 750,000             | 867,548           |
| (First Mtge.), Ser. A-05, 5 1/2s, 10/1/35   | BB+/P       | 1,040,000                                   | 1,066,645         | 690,000                                 | 707,678          | 1,730,000           | 1,774,323         |
| (First Mtge.), Ser. A-05, 5 1/4s, 10/1/25   | BB+/P       | 600,000                                     | 612,894           | 100,000                                 | 102,149          | 700,000             | 715,043           |
| (First Mtge. United Methodist), Ser. C, 5 1/4s,<br>10/1/24                                    | BB+/P       | 150,000                                     | 153,576           | 150,000                                 | 153,576          | 300,000             | 307,152           |
| NC State Muni. Pwr. Agcy. Rev. Bonds (No. 1,<br>Catawba Elec.), Ser. B, 6 1/2s, 1/1/20        | A3          | 1,000,000                                   | 1,075,390         | 1,000,000                               | 1,075,390        | 2,000,000           | 2,150,780         |
|   |             |   | <b>24,080,258</b> |   | <b>6,275,101</b> |                     | <b>30,355,359</b> |
| <b>North Dakota</b>   |             |   | <b>0.0%</b>       |   | <b>0.6%</b>      |                     | <b>0.2%</b>       |
| Grand Forks, Hlth. Care Syst. Rev. Bonds (Altru<br>Hlth. Syst. Oblig. Group), 7 1/8s, 8/15/24 |             |   |                   |   |                  |                     |                   |
|   | Baa2        | -   | -                 | 1,000,000                               | 1,092,650        | 1,000,000           | 1,092,650         |
|   |             |   | -                 |   | <b>1,092,650</b> |                     | <b>1,092,650</b>  |

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| Ohio   |      |           | 2.2%      |           | 3.7%      |           | 2.7%      |
|--|------|-----------|-----------|-----------|-----------|-----------|-----------|
| <hr/>  |      |           |           |           |           |           |           |
| <hr/>  |      |           |           |           |           |           |           |
| Coshocton Cnty., Env. Rev. Bonds (Smurfit-Stone Container Corp.), 5 1/8s, 8/1/13 | CCC+ | 1,400,000 | 1,409,184 | 600,000   | 603,936   | 2,000,000 | 2,013,120 |
| <hr/>  |      |           |           |           |           |           |           |
| Cuyahoga Cnty., Rev. Bonds, Ser. A   |      |           |           |           |           |           |           |
| <hr/>  |      |           |           |           |           |           |           |
| 6s, 1/1/16   | Aa3  | 1,280,000 | 1,419,226 | -         | -         | 1,280,000 | 1,419,226 |
| <hr/>  |      |           |           |           |           |           |           |
| 6s, 1/1/15   | Aa3  | 2,000,000 | 2,223,320 | -         | -         | 2,000,000 | 2,223,320 |
| <hr/>  |      |           |           |           |           |           |           |
| Cuyahoga Cnty., Rev. Bonds, Ser. A, 6s, 1/1/32                                   | Aa3  | -         | -         | 1,000,000 | 1,095,050 | 1,000,000 | 1,095,050 |
| <hr/>  |      |           |           |           |           |           |           |

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|   |             |                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |                  |           |
|---|-------------|------------------|---|---|-------------------|------------------|-----------|
| <hr/>   |             |                  | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     | <hr/>            |           |
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |                  |   |   |                   |                  |           |
|   | Rating(RAT) | Principal amount | Value                                       | Principal amount                        | Value             | Principal amount | Value     |
| <hr/>   |             |                  |   |   |                   |                  |           |
| Montgomery Cnty., Hosp. Rev. Bonds (Kettering Med. Ctr.), 6 3/4s, 4/1/22 (Prerefunded)                      | A2          | -                | -   | 1,500,000                               | 1,639,020         | 1,500,000        | 1,639,020 |
| <hr/>   |             |                  |   |   |                   |                  |           |
| OH State Higher Edl. Fac. Mandatory Put Bonds (Kenyon College), 4.85s, 7/1/14                               | A+          | -                | -   | 1,000,000                               | 1,049,880         | 1,000,000        | 1,049,880 |
| <hr/>   |             |                  |   |   |                   |                  |           |
| OH State Wtr. Dev. Auth. Poll. Control Fac. Mandatory Put Bonds (Cleveland Elec.), Class A, 3 3/4s, 10/1/08 | Baa2        | -                | -   | 1,250,000                               | 1,245,213         | 1,250,000        | 1,245,213 |
| <hr/>   |             |                  |   |   |                   |                  |           |
| Toledo-Lucas Cnty., Port Auth. Rev. Bonds (CSX Transn, Inc.), 6.45s, 12/15/21                               | Baa2        | -                | -   | 500,000                                 | 603,575           | 500,000          | 603,575   |
| <hr/>   |             |                  |   |   |                   |                  |           |
| OH State Air Quality Dev. Auth. Rev. Bonds (Toledo Poll. Control), Ser. A, 6.1s, 8/1/27                     | Baa2        | 3,000,000        | 3,075,720                                   | -                                       | -                 | 3,000,000        | 3,075,720 |
| <hr/>   |             |                  |   |   |                   |                  |           |
|   |             |                  | <b>8,127,450</b>                            | <b>6,236,674</b>                        | <b>14,364,124</b> | <hr/>            |           |
| <hr/>   |             |                  |   |   |                   |                  |           |
| <b>Oklahoma</b>   |             |                  | <b>5.4%</b>                                 | <b>0.9%</b>                             | <b>4.0%</b>       | <hr/>            |           |

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|   |       |           |           |         |         |           |           |
|---|-------|-----------|-----------|---------|---------|-----------|-----------|
| OK City Arpt. Trust Rev. Bonds Jr. Lien 27th  |       |           |           |         |         |           |           |
| Ser., Ser. A, FSA, 5s, 7/1/18 (Prerefunded)   | Aaa   | 3,150,000 | 3,275,717 | -       | -       | 3,150,000 | 3,275,717 |
| OK Dev. Fin. Auth. Rev. Bonds (Hillcrest Hlth. Care Syst.), Ser. A, U.S. Govt. Coll., 5 5/8s, 8/15/29 (Prerefunded)   |       |           |           |         |         |           |           |
|   | Aaa   | 1,575,000 | 1,654,837 | -       | -       | 1,575,000 | 1,654,837 |
| OK Hsg. Fin. Agcy. Single Family Mtge. Rev. Bonds (Homeownership Loan), Ser. C, GNMA Coll., FNMA Coll., 5.95s, 3/1/37 |       |           |           |         |         |           |           |
|   | Aaa   | 3,000,000 | 3,239,970 | -       | -       | 3,000,000 | 3,239,970 |
| OK Hsg. Fin. Agcy. Single Fam. Rev. Bonds (Homeowner Loan), Ser. D-2, GNMA Coll., FNMA Coll., 7.1s, 9/1/26            |       |           |           |         |         |           |           |
|   | Aaa   | -         | -         | 275,000 | 283,066 | 275,000   | 283,066   |
| (Homeownership Loan), Ser. C-2, GNMA Coll., FNMA Coll., 5.7s, 9/1/35  |       |           |           |         |         |           |           |
|   | Aaa   | -         | -         | 235,000 | 245,636 | 235,000   | 245,636   |
| OK State Cap. Impt. Auth. State Facs. VRDN (Higher Ed.), Ser. D-1, CIFG, 4.1s, 7/1/31                                 |       |           |           |         |         |           |           |
|   | VMIG1 | 4,500,000 | 4,500,000 | -       | -       | 4,500,000 | 4,500,000 |
| OK State Indl. Dev. Auth. Rev. Bonds (Hlth. Syst.), Ser. A, MBIA  |       |           |           |         |         |           |           |
|   | Aaa   | 4,045,000 | 4,239,200 | 580,000 | 607,846 | 4,625,000 | 4,847,046 |
|   | Aaa   | 2,955,000 | 3,116,136 | 420,000 | 442,903 | 3,375,000 | 3,559,039 |

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |
|                                  | Rating(RAT)                                 | Principal amount                        | Value             |
|                                  |   | Principal amount                        | Value             |
|                                  |   | <b>20,025,860</b>                       | <b>1,579,451</b>  |
|                                  |   |   | <b>21,605,311</b> |

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| <b>Oregon</b>  |       | <b>0.9%</b>      | <b>1.1%</b> | <b>1.0%</b>      |           |                  |           |  |
|--|-------|------------------|-------------|------------------|-----------|------------------|-----------|--|
| Multnomah Cnty., Hosp. Fac. Auth. Rev. Bonds<br>(Terwilliger Plaza)                            |       |                  |             |                  |           |                  |           |  |
| 6 1/2s, 12/1/29  | BB-/P | 1,900,000        | 1,993,252   | 1,000,000        | 1,049,080 | 2,900,000        | 3,042,332 |  |
| Ser. A, 5 1/4s, 12/1/26  | BB-/P | 510,000          | 526,091     | -                | -         | 510,000          | 526,091   |  |
| OR State Hsg. & Cmnty. Svcs. Dept. Rev. Bonds<br>(Single Family Mtge.), Ser. K, 5 5/8s, 7/1/29 |       |                  |             |                  |           |                  |           |  |
|  | Aa2   | 765,000          | 780,989     | 765,000          | 780,989   | 1,530,000        | 1,561,978 |  |
|  |       | <b>3,300,332</b> |             | <b>1,830,069</b> |           | <b>5,130,401</b> |           |  |
| <b>Pennsylvania</b>  |       | <b>4.2%</b>      | <b>4.6%</b> | <b>4.4%</b>      |           |                  |           |  |
| Allegheny Cnty., Hosp. Dev. Auth. Rev. Bonds<br>(Hlth. Syst.), Ser. B                          |       |                  |             |                  |           |                  |           |  |
| 9 1/4s, 11/15/22   | Ba3   | 30,000           | 35,352      | 195,000          | 229,786   | 225,000          | 265,138   |  |
| 9 1/4s, 11/15/15   | Ba3   | 35,000           | 41,269      | 585,000          | 689,779   | 620,000          | 731,048   |  |
| Allegheny Cnty., Indl. Dev. Auth. Rev. Bonds   |       |                  |             |                  |           |                  |           |  |
| (Env. Impt. - USX Corp.), 6s, 1/15/14  | Baa1  | -                | -           | 750,000          | 766,230   | 750,000          | 766,230   |  |
| Allegheny Cnty., Indl. Dev. Auth. Rev. Bonds<br>(Env. Impt.), 5 1/2s, 11/1/16                  |       |                  |             |                  |           |                  |           |  |
|  | Baa3  | 1,250,000        | 1,335,750   | 600,000          | 641,160   | 1,850,000        | 1,976,910 |  |
| Bucks Cnty., Indl. Dev. Auth. Retirement Cmnty.<br>Rev. Bonds (Ann's Choice, Inc.), Ser. A     |       |                  |             |                  |           |                  |           |  |
| 6 1/8s, 1/1/25   | BB/P  | 610,000          | 648,656     | 550,000          | 584,854   | 1,160,000        | 1,233,510 |  |
| 5.3s, 1/1/14   | BB/P  | 690,000          | 705,477     | -                | -         | 690,000          | 705,477   |  |



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|  |             | Putnam Managed<br>Municipal<br>Income Trust |           | Putnam High Yield<br>Municipal<br>Trust |           | Proforma Combined   |           |
|--|-------------|---|-----------|---|-----------|---------------------|-----------|
|  |             | 143.6%                                      |           | 124.9%                                  |           | 137.8%              |           |
|  | Rating(RAT) | Principal<br>amount                         | Value     | Principal<br>amount                     | Value     | Principal<br>amount | Value     |
| <b>MUNICIPAL BONDS AND NOTES</b>   |             |   |           |   |           |                     |           |
| 5.2s, 1/1/13   | BB/P        | 1,000,000                                   | 1,015,100 | -                                       | -         | 1,000,000           | 1,015,100 |
| Bucks Cnty., Incl. Dev. Auth. Retirement Cmnty.<br>Rev. Bonds (Ann's Choice, Inc.), Ser. A                     |             |   |           |   |           |                     |           |
| 5.1s, 1/1/12   | BB/P        | -   | -         | 400,000                                 | 404,268   | 400,000             | 404,268   |
| Carbon Cnty., Incl. Dev. Auth. Rev. Bonds<br>(Panther Creek Partners), 6.65s, 5/1/10                           |             |   |           |   |           |                     |           |
|  | BBB-        | 1,300,000                                   | 1,341,093 | 575,000                                 | 593,176   | 1,875,000           | 1,934,269 |
| Erie-Western PA Port Auth. Rev. Bonds, 6 1/4s,<br>6/15/10  |             |   |           |   |           |                     |           |
|  | BB+/F       | 505,000                                     | 512,944   | -                                       | -         | 505,000             | 512,944   |
| Lancaster Cnty., Hosp. Auth. Rev. Bonds (Gen.<br>Hosp.), 5 1/2s, 3/15/26 (Prerefunded)                         |             |   |           |   |           |                     |           |
|  | AA-         | -   | -         | 250,000                                 | 274,860   | 250,000             | 274,860   |
| Lebanon Cnty., Hlth. Facs. Rev. Bonds (Pleasant<br>View Retirement), Ser. A, 5.3s, 12/15/26                    |             |   |           |   |           |                     |           |
|  | BB-/P       | 500,000                                     | 508,740   | -                                       | -         | 500,000             | 508,740   |
| Lehigh Cnty., Gen. Purpose Auth. Rev. Bonds<br>(Lehigh Valley Hosp. Hlth. Network), Ser. A, 5<br>1/4s, 7/1/32  |             |   |           |   |           |                     |           |
|  | A1          | 1,000,000                                   | 1,045,310 | -                                       | -         | 1,000,000           | 1,045,310 |
| Monroe Cnty., Hosp. Auth. Rev. Bonds (Pocono<br>Med. Ctr.), 6s, 1/1/43   |             |   |           |   |           |                     |           |
|  | BBB+        | 500,000                                     | 534,120   | -                                       | -         | 500,000             | 534,120   |
| Montgomery Cnty., Incl. Auth. Resource Recvy.<br>Rev. Bonds (Whitemarsh Cont Care), 6 1/4s,<br>2/1/35          |             |   |           |   |           |                     |           |
|  | B/P         | 700,000                                     | 744,009   | 400,000                                 | 425,148   | 1,100,000           | 1,169,157 |
| PA State Econ. Dev. Fin. Auth. Resource Recvy.<br>Rev. Bonds (Northampton Generating), Ser. A,<br>6.6s, 1/1/19 |             |   |           |   |           |                     |           |
|  | B+          | 4,200,000                                   | 4,249,056 | 2,000,000                               | 2,023,360 | 6,200,000           | 6,272,416 |
| PA State Higher Edl. Fac. Auth. Rev. Bonds<br>(Widener U.), 5.4s, 7/15/36                                      |             |   |           |   |           |                     |           |
|  | BBB+        | 1,000,000                                   | 1,051,460 | -                                       | -         | 1,000,000           | 1,051,460 |

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Philadelphia, Hosp. & Higher Ed. Fac. Auth.

Rev. Bonds (Graduate Hlth. Syst.), 7 1/4s, 7/1/10

|                    |     |           |       |   |   |           |       |
|--------------------|-----|-----------|-------|---|---|-----------|-------|
| (In default) (NON) | D/P | 2,715,067 | 5,430 | - | - | 2,715,067 | 5,430 |
|--------------------|-----|-----------|-------|---|---|-----------|-------|

Scranton, G.O. Bonds, Ser. C, 7.1s, 9/1/31

|               |       |   |   |         |         |         |         |
|---------------|-------|---|---|---------|---------|---------|---------|
| (Prerefunded) | AAA/P | - | - | 750,000 | 848,820 | 750,000 | 848,820 |
|---------------|-------|---|---|---------|---------|---------|---------|

Sayre, Hlth. Care Fac. Auth. Rev. Bonds

(Guthrie Hlth.), Ser. A

|                               |   |           |           |         |         |           |           |
|-------------------------------|---|-----------|-----------|---------|---------|-----------|-----------|
| 5 7/8s, 12/1/31 (Prerefunded) | A | 1,390,000 | 1,526,720 | 200,000 | 219,672 | 1,590,000 | 1,746,392 |
|-------------------------------|---|-----------|-----------|---------|---------|-----------|-----------|

|                 |   |         |         |        |        |         |         |
|-----------------|---|---------|---------|--------|--------|---------|---------|
| 5 7/8s, 12/1/31 | A | 410,000 | 438,700 | 60,000 | 64,200 | 470,000 | 502,900 |
|-----------------|---|---------|---------|--------|--------|---------|---------|

|  |  |                   |  |                  |  |                   |  |
|--|--|-------------------|--|------------------|--|-------------------|--|
|  |  | <b>15,739,186</b> |  | <b>7,765,313</b> |  | <b>23,504,499</b> |  |
|--|--|-------------------|--|------------------|--|-------------------|--|

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|                    | Rating(RAT) | Principal<br>amount | Value       | Principal<br>amount | Value       | Principal<br>amount | Value       |
|--------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| <b>Puerto Rico</b> |             |                     | <b>0.5%</b> |                     | <b>0.8%</b> |                     | <b>0.6%</b> |

PR Incl. Tourist Edl. Med. & Env. Control Fac.

|  |      |   |   |           |           |           |           |
|--|------|---|---|-----------|-----------|-----------|-----------|
| Rev. Bonds (Cogen. Fac.-AES), 6 5/8s, 6/1/26 | Baa3 | - | - | 1,000,000 | 1,085,630 | 1,000,000 | 1,085,630 |
|--|------|---|---|-----------|-----------|-----------|-----------|

Cmnwlth. of PR, Hwy. & Trans. Auth. Rev.

Bonds

|                      |     |           |           |   |   |           |           |
|----------------------|-----|-----------|-----------|---|---|-----------|-----------|
| FGIC, 5 1/2s, 7/1/13 | Aaa | 1,035,000 | 1,138,541 | - | - | 1,035,000 | 1,138,541 |
|----------------------|-----|-----------|-----------|---|---|-----------|-----------|

|            |     |         |         |         |         |         |         |
|------------|-----|---------|---------|---------|---------|---------|---------|
| 5s, 7/1/28 | BBB | 590,000 | 609,529 | 270,000 | 278,937 | 860,000 | 888,466 |
|------------|-----|---------|---------|---------|---------|---------|---------|

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|   |        |           |           |                  |           |                  |           |                  |
|---|--------|-----------|-----------|------------------|-----------|------------------|-----------|------------------|
|   |        |           |           | <b>1,748,070</b> |           | <b>1,364,567</b> |           | <b>3,112,637</b> |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| <b>Rhode Island</b>                               |        |           |           | <b>0.8%</b>      |           | <b>1.3%</b>      |           | <b>1.0%</b>      |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| Tobacco Settlement Fin. Corp. Rev. Bonds, Ser.    |        |           |           |                  |           |                  |           |                  |
| A, 6 1/8s, 6/1/32                                 | BBB    | -         | -         | 2,025,000        | 2,165,231 | 2,025,000        | 2,165,231 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| RI State COP (Howard Ctr. Impt.), MBIA, 5         |        |           |           |                  |           |                  |           |                  |
| 3/8s, 10/1/16                                     | Aaa    | 3,000,000 | 3,049,320 | -                | -         | 3,000,000        | 3,049,320 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
|   |        |           |           | <b>3,049,320</b> |           | <b>2,165,231</b> |           | <b>5,214,551</b> |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| <b>South Carolina</b>                             |        |           |           | <b>2.4%</b>      |           | <b>1.9%</b>      |           | <b>2.2%</b>      |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| Lexington Cnty. Hlth. Svcs. Dist. Inc. Hosp. Rev. |        |           |           |                  |           |                  |           |                  |
| Bonds, 5 1/2s, 5/1/37                             | A+     | 1,000,000 | 1,066,850 | 1,250,000        | 1,333,563 | 2,250,000        | 2,400,413 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| Richland Cnty., Rev. Bonds (Intl. Paper Co.),     |        |           |           |                  |           |                  |           |                  |
| Ser. A, 4 1/4s, 10/1/07                           | BBB    | 2,500,000 | 2,502,275 | -                | -         | 2,500,000        | 2,502,275 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| SC Hosp. Auth. Rev. Bonds (Med. U.), Ser. A, 6    |        |           |           |                  |           |                  |           |                  |
| 1/2s, 8/15/32 (Prerefunded)                       | AAA    | 1,250,000 | 1,416,488 | -                | -         | 1,250,000        | 1,416,488 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev.          |        |           |           |                  |           |                  |           |                  |
| Bonds (Palmetto Hlth. Alliance), Ser. A, 7 3/8s,  |        |           |           |                  |           |                  |           |                  |
| 12/15/21 (Prerefunded)                            | BBB+/F | 1,000,000 | 1,138,230 | 600,000          | 682,938   | 1,600,000        | 1,821,168 |                  |
| <hr/>   |        |           |           |                  |           |                  |           |                  |
| SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev.          |        |           |           |                  |           |                  |           |                  |
| Bonds   |        |           |           |                  |           |                  |           |                  |

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|                                  |             | Putnam Managed<br>Municipal<br>Income Trust |               | Putnam High Yield<br>Municipal<br>Trust |               | Proforma Combined   |               |
|----------------------------------|-------------|---|---------------|---|---------------|---------------------|---------------|
| <b>MUNICIPAL BONDS AND NOTES</b> |             |   | <b>143.6%</b> |   | <b>124.9%</b> |                     | <b>137.8%</b> |
|                                  | Rating(RAT) | Principal<br>amount                         | Value         | Principal<br>amount                     | Value         | Principal<br>amount | Value         |

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|  |      |           |                  |             |                  |           |                   |
|--|------|-----------|------------------|-------------|------------------|-----------|-------------------|
| (Palmetto Hlth.), Ser. C, 6s, 8/1/20 (Prerefunded)                                 | Baa1 | -         | -                | 890,000     | 996,827          | 890,000   | 996,827           |
| (Palmetto Hlth.), Ser. C, 6s, 8/1/20 (Prerefunded)                                 | Baa1 | -         | -                | 110,000     | 123,203          | 110,000   | 123,203           |
| SC Tobacco Settlement Rev. Mgmt. Auth. Rev.<br>Bonds, Ser. B                       |      |           |                  |             |                  |           |                   |
| 6 3/8s, 5/15/30  | BBB  | 1,300,000 | 1,513,330        | -           | -                | 1,300,000 | 1,513,330         |
| 6s, 5/15/22  | BBB  | 1,195,000 | 1,264,513        | -           | -                | 1,195,000 | 1,264,513         |
|  |      |           | <b>8,901,686</b> |             | <b>3,136,531</b> |           | <b>12,038,217</b> |
| <b>South Dakota</b>  |      |           | <b>0.7%</b>      | <b>1.2%</b> | <b>0.9%</b>      |           |                   |
| SD Edl. Enhancement Funding Corp. SD<br>Tobacco Rev. Bonds, Ser. B, 6 1/2s, 6/1/32 |      |           |                  |             |                  |           |                   |
|  | BBB  | 2,000,000 | 2,186,120        | -           | -                | 2,000,000 | 2,186,120         |
| SD Hsg. Dev. Auth. Rev. Bonds (Home<br>Ownership Mtg.), Ser. H, 5s, 5/1/28         |      |           |                  |             |                  |           |                   |
|  | AAA  | -         | -                | 730,000     | 739,855          | 730,000   | 739,855           |
| SD State Hlth. & Edl. Fac. Auth. Rev. Bonds<br>(Prairie Lakes), 5.65s, 4/1/22      |      |           |                  |             |                  |           |                   |
|  | Baa1 | -         | -                | 1,250,000   | 1,292,338        | 1,250,000 | 1,292,338         |
| SD Hsg. Dev. Auth. Rev. Bonds (Home<br>Ownership Mtge.), Ser. J, 4 1/2s, 5/1/17    |      |           |                  |             |                  |           |                   |
|  | AAA  | 500,000   | 517,490          | -           | -                | 500,000   | 517,490           |
|  |      |           | <b>2,703,610</b> |             | <b>2,032,193</b> |           | <b>4,735,803</b>  |
| <b>Tennessee</b>   |      |           | <b>2.6%</b>      | <b>2.8%</b> | <b>2.7%</b>      |           |                   |
| Johnson City, Hlth. & Edl. Fac. Board Hosp.<br>Rev. Bonds                          |      |           |                  |             |                  |           |                   |
| (First Mtge. Mountain States Hlth.), Ser. A, 7<br>1/2s, 7/1/33                     |      |           |                  |             |                  |           |                   |
|  | BBB+ | 3,700,000 | 4,277,311        | 1,500,000   | 1,734,045        | 5,200,000 | 6,011,356         |

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|  |     |           |           |   |   |           |           |
|--|-----|-----------|-----------|---|---|-----------|-----------|
| (First Mtge. Mountain States Hlth.), Ser. A,<br>MBIA, 6s, 7/1/21 | Aaa | 2,000,000 | 2,140,740 | - | - | 2,000,000 | 2,140,740 |
|--|-----|-----------|-----------|---|---|-----------|-----------|

|  |       |
|--|-------|
| Johnson City, Hlth. & Edl. Facs. Board | BB-/P |
|--|-------|

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|                                  | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined |
|----------------------------------|---|---|-------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>     |

|  | Rating(RAT) | Principal<br>amount | Value | Principal<br>amount | Value | Principal<br>amount | Value |
|--|-------------|---------------------|-------|---------------------|-------|---------------------|-------|
|--|-------------|---------------------|-------|---------------------|-------|---------------------|-------|

|  |  |         |         |         |         |           |           |
|--|--|---------|---------|---------|---------|-----------|-----------|
| Retirement Fac. Rev. Bonds (Appalachian<br>Christian Village), Ser. A, 6 1/4s, 2/15/32 |  | 600,000 | 632,064 | 400,000 | 421,376 | 1,000,000 | 1,053,440 |
|--|--|---------|---------|---------|---------|-----------|-----------|

|  |      |   |   |           |           |           |           |
|--|------|---|---|-----------|-----------|-----------|-----------|
| Memphis-Shelby Cnty., Arpt. Auth. Rev. Bonds<br>(Federal Express Corp.), 5.05s, 9/1/12 | Baa2 | - | - | 1,085,000 | 1,136,472 | 1,085,000 | 1,136,472 |
|--|------|---|---|-----------|-----------|-----------|-----------|

Shelby Cnty., Hlth. Edl. & Hsg. Fac. Hosp.  
Board Rev. Bonds (Methodist Hlth. Care)

|                              |     |           |           |         |         |           |           |
|------------------------------|-----|-----------|-----------|---------|---------|-----------|-----------|
| 6 1/2s, 9/1/26 (Prerefunded) | AAA | 1,255,000 | 1,423,434 | 625,000 | 708,881 | 1,880,000 | 2,132,315 |
|------------------------------|-----|-----------|-----------|---------|---------|-----------|-----------|

|                              |     |         |         |         |         |           |           |
|------------------------------|-----|---------|---------|---------|---------|-----------|-----------|
| 6 1/2s, 9/1/26 (Prerefunded) | AAA | 745,000 | 844,986 | 375,000 | 425,329 | 1,120,000 | 1,270,315 |
|------------------------------|-----|---------|---------|---------|---------|-----------|-----------|

|  |      |         |         |         |         |         |         |
|--|------|---------|---------|---------|---------|---------|---------|
| Sullivan Cnty., Hlth. Edl. & Hsg. Hosp. Fac.<br>Board Rev. Bonds (Wellmont Hlth. Syst.), Ser.<br>C, 5s, 9/1/22 | BBB+ | 450,000 | 464,189 | 200,000 | 206,306 | 650,000 | 670,495 |
|--|------|---------|---------|---------|---------|---------|---------|

|  |                  |                  |                   |
|--|------------------|------------------|-------------------|
|  | <b>9,782,724</b> | <b>4,632,409</b> | <b>14,415,133</b> |
|--|------------------|------------------|-------------------|

|              |             |             |             |
|--------------|-------------|-------------|-------------|
| <b>Texas</b> | <b>9.6%</b> | <b>5.6%</b> | <b>8.4%</b> |
|--------------|-------------|-------------|-------------|

Abilene, Hlth. Fac. Dev. Corp. Rev. Bonds  
(Sears Methodist Retirement), Ser. A

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|   |      |           |           |           |           |           |           |
|---|------|-----------|-----------|-----------|-----------|-----------|-----------|
| 7s, 11/15/33  | BB/P | 600,000   | 652,344   | -         | -         | 600,000   | 652,344   |
| <hr/>   |      |           |           |           |           |           |           |
| 5 7/8s, 11/15/18  | BB/P | 20,000    | 20,351    | -         | -         | 20,000    | 20,351    |
| <hr/>   |      |           |           |           |           |           |           |
| Abilene, Hlth. Fac. Dev. Corp. Rev. Bonds<br>(Sears Methodist Retirement), 5 7/8s, 11/15/18   | BB/P | -         | -         | 1,000,000 | 1,019,910 | 1,000,000 | 1,019,910 |
| <hr/>   |      |           |           |           |           |           |           |
| Alliance, Arpt. Auth. Rev. Bonds (Federal<br>Express Corp.), 4.85s, 4/1/21 (SEG)              | Baa2 | 3,000,000 | 3,052,020 | -         | -         | 3,000,000 | 3,052,020 |
| <hr/>   |      |           |           |           |           |           |           |
| Carrollton, Farmers Branch Indpt. School Dist.<br>G.O. Bonds, PSFG, 5s, 2/15/17 (Prerefunded) | Aaa  | 4,655,000 | 4,843,155 | -         | -         | 4,655,000 | 4,843,155 |
| <hr/>   |      |           |           |           |           |           |           |
| Dallas, Indpt. School Dist. G.O. Bonds, PSFG, 5<br>1/2s, 2/15/16                              | Aaa  | 1,610,000 | 1,727,128 | -         | -         | 1,610,000 | 1,727,128 |
| <hr/>   |      |           |           |           |           |           |           |
| Fort Worth, Higher Ed. Fin. Corp. Rev. Bonds<br>(Wesleyan U.), Ser. A, 6s, 10/1/12            | Ba2  | 550,000   | 552,536   | 400,000   | 401,844   | 950,000   | 954,380   |
| <hr/>   |      |           |           |           |           |           |           |
| Harris Cnty., Rev. Bonds, Ser. B, FSA, 5s,<br>8/15/32   | Aaa  | 5,500,000 | 5,818,340 | -         | -         | 5,500,000 | 5,818,340 |
| <hr/>   |      |           |           |           |           |           |           |
| Harris Cnty., Hlth. Fac. Rev. Bonds (Memorial<br>Hermann Hlth. Care), Ser. A, 6 3/8s, 6/1/29  | A+   | 3,000,000 | 3,324,480 | -         | -         | 3,000,000 | 3,324,480 |

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|   |             | Putnam Managed<br>Municipal<br>Income Trust | Putnam High Yield<br>Municipal<br>Trust | Proforma Combined                       |
|---|-------------|---|---|---|
| <b>MUNICIPAL BONDS AND NOTES</b>  |             | <b>143.6%</b>                               | <b>124.9%</b>                           | <b>137.8%</b>                           |
|   | Rating(RAT) | Principal<br>amount                         | Value                                   | Principal<br>amount                     |
|   |             |   | Value                                   | Principal<br>amount                     |
| <hr/>   |             |   |   |   |
| (Prerefunded)   |             |   |   |   |
| <hr/>   |             |   |   |   |
| Harris Cnty., Hlth. Fac. Dev. Corp. Hosp. Rev.<br>Bonds (Memorial Hermann Hlth. Care Syst.),<br>Ser. A, 5 1/4s, 12/1/18 | A+          | -   | -                                       | 700,000 745,388 700,000 745,388         |
| <hr/>   |             |   |   |   |
| Houston, Arpt. Syst. Rev. Bonds (Continental<br>Airlines, Inc.), Ser. E, 6 3/4s, 7/1/29                                 | B3          | -   | -                                       | 1,450,000 1,567,291 1,450,000 1,567,291 |

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|  |        |           |                   |           |                  |           |                   |
|--|--------|-----------|-------------------|-----------|------------------|-----------|-------------------|
| Houston, Arpt. Syst. Rev. Bonds (Continental Airlines, Inc.), Ser. C, 5.7s, 7/15/29                            | B3     | 2,500,000 | 2,560,350         | -         | -                | 2,500,000 | 2,560,350         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Lufkin, Hlth. Fac. Dev. Corp. Rev. Bonds (Memorial Hlth. Syst. of East TX), 5.7s, 2/15/28 (Prerefunded)        | AAA/P  | -         | -                 | 250,000   | 258,648          | 250,000   | 258,648           |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Mission, Econ. Dev. Corp. Solid Waste Disp. Rev. Bonds (Allied Waste N.A. Inc.), Ser. A, 5.2s, 4/1/18          | B+     | 500,000   | 504,285           | -         | -                | 500,000   | 504,285           |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Sabine River Auth. Rev. Bonds (TXU Electric), Ser. C, 5.2s, 5/1/28   | Baa2   | 1,000,000 | 1,014,390         | 500,000   | 507,195          | 1,500,000 | 1,521,585         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Sam Rayburn Muni. Pwr. Agcy. Rev. Bonds, 6s, 10/1/21   | Baa2   | 2,500,000 | 2,645,000         | -         | -                | 2,500,000 | 2,645,000         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Tarrant Cnty., Cultural Ed. Fac. Fin. Corp. Rev. Bonds (Northwest Sr. Hsg. Edgemere), Ser. A, 5 3/4s, 11/15/16 | BB-/P  | 300,000   | 320,646           | 125,000   | 133,603          | 425,000   | 454,249           |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Tarrant Cnty., Cultural Ed. Fac. Fin. Corp. Retirement Fac. Rev. Bonds (Air Force Village), 5 1/8s, 5/15/27    | BBB-/P | 2,675,000 | 2,760,975         | 1,325,000 | 1,367,586        | 4,000,000 | 4,128,561         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| TX State Dept. of Hsg. & Cmnty. Affairs Rev. Bonds, Ser. C, GNMA/FNMA Coll., 6.9s, 7/2/24                      | AAA    | -         | -                 | 1,200,000 | 1,201,632        | 1,200,000 | 1,201,632         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| Tomball, Hosp. Auth. Rev. Bonds (Tomball Regl. Hosp.)  |        |           |                   |           |                  |           |                   |
| <hr/>  |        |           |                   |           |                  |           |                   |
| 6s, 7/1/29   | Baa3   | 2,000,000 | 2,075,380         | 2,150,000 | 2,231,034        | 4,150,000 | 4,306,414         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| 6s, 7/1/25   | Baa3   | 800,000   | 830,992           | -         | -                | 800,000   | 830,992           |
| <hr/>  |        |           |                   |           |                  |           |                   |
| 6s, 7/1/19   | Baa3   | 800,000   | 831,656           | -         | -                | 800,000   | 831,656           |
| <hr/>  |        |           |                   |           |                  |           |                   |
| TX State Dept. of Hsg. & Cmnty. Affairs Rev. Bonds (Single Fam.), Ser. F, FHA Insd., 5 3/4s, 3/1/37            | AAA    | 2,000,000 | 2,132,740         | -         | -                | 2,000,000 | 2,132,740         |
| <hr/>  |        |           |                   |           |                  |           |                   |
| <hr/>  |        |           |                   |           |                  |           |                   |
|  |        |           | <b>35,666,768</b> |           | <b>9,434,131</b> |           | <b>45,100,899</b> |
| <hr/>  |        |           |                   |           |                  |           |                   |

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|   |             | Putnam Managed<br>Municipal<br>Income Trust |                  | Putnam High Yield<br>Municipal<br>Trust |                  | Proforma Combined   |                  |
|---|-------------|---|------------------|---|------------------|---------------------|------------------|
|   |             |   |                  |   |                  |                     |                  |
| <b>MUNICIPAL BONDS AND NOTES</b>  |             |   | <b>143.6%</b>    |   | <b>124.9%</b>    |                     | <b>137.8%</b>    |
|   | Rating(RAT) | Principal<br>amount                         | Value            | Principal<br>amount                     | Value            | Principal<br>amount | Value            |
| <b>Utah</b>   |             |   | <b>1.1%</b>      |   | <b>0.9%</b>      |                     | <b>1.0%</b>      |
| Carbon Cnty., Solid Waste Disp. Rev. Bonds<br>(Laidlaw Env.), Ser. A                              |             |   |                  |   |                  |                     |                  |
| 7 1/2s, 2/1/10  | BB-         | 750,000                                     | 753,653          | 800,000                                 | 803,896          | 1,550,000           | 1,557,549        |
| 7.45s, 7/1/17   | BB-         | 600,000                                     | 614,808          | -                                       | -                | 600,000             | 614,808          |
| Tooele Cnty., Harbor & Term. Dist. Port Fac.<br>Rev. Bonds (Union Pacific), Ser. A, 5.7s, 11/1/26 |             |   |                  |   |                  |                     |                  |
|   | Baa2        | 1,500,000                                   | 1,554,735        | -                                       | -                | 1,500,000           | 1,554,735        |
| UT Cnty., Env. Impt. Rev. Bonds (Marathon<br>Oil), 5.05s, 11/1/17                                 |             |   |                  |   |                  |                     |                  |
|   | Baa1        | 1,000,000                                   | 1,052,400        | 750,000                                 | 789,300          | 1,750,000           | 1,841,700        |
|   |             |   | <b>3,975,596</b> |   | <b>1,593,196</b> |                     | <b>5,568,792</b> |
| <b>Vermont</b>  |             |   | <b>0.2%</b>      |   | <b>0.9%</b>      |                     | <b>0.4%</b>      |
| VT Hsg. Fin. Agcy. Rev. Bonds, Ser. 19A, FSA,<br>4.62s, 5/1/29                                    |             |   |                  |   |                  |                     |                  |
|   | Aaa         | 720,000                                     | <b>724,493</b>   | 1,450,000                               | <b>1,459,048</b> | 2,170,000           | <b>2,183,541</b> |
| <b>Virginia</b>   |             |   | <b>1.9%</b>      |   | <b>2.0%</b>      |                     | <b>1.9%</b>      |
| Albemarle Cnty., Indl. Dev. Auth. Res. Care Fac.  |             |   |                  |   |                  |                     |                  |



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|  |      |         |         |   |   |         |         |
|--|------|---------|---------|---|---|---------|---------|
| Rev. Bonds (Westminster-Canterbury), 5s,<br>1/1/24 | B+/P | 600,000 | 608,454 | - | - | 600,000 | 608,454 |
|--|------|---------|---------|---|---|---------|---------|

Henrico Cnty., Econ. Dev. Auth. Res. Care Fac.

Rev. Bonds

|  |      |         |         |   |   |         |         |
|--|------|---------|---------|---|---|---------|---------|
| (VA Baptist Homes), Ser. A, 5 3/8s, 7/1/30 | B+/P | 500,000 | 515,445 | - | - | 500,000 | 515,445 |
|--|------|---------|---------|---|---|---------|---------|

|  |      |         |         |         |         |         |         |
|--|------|---------|---------|---------|---------|---------|---------|
| (VA Baptist Homes), Ser. A, 5 1/4s, 7/1/25 | B+/P | 250,000 | 256,488 | 250,000 | 256,488 | 500,000 | 512,976 |
|--|------|---------|---------|---------|---------|---------|---------|

|                                       |      |         |         |   |   |         |         |
|---------------------------------------|------|---------|---------|---|---|---------|---------|
| (Westminster-Canterbury), 5s, 10/1/22 | BBB- | 600,000 | 622,788 | - | - | 600,000 | 622,788 |
|---------------------------------------|------|---------|---------|---|---|---------|---------|

Henrico Cnty., Econ. Dev. Auth. Rev. Bonds

(United Methodist), Ser. A

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|  |             | <b>Putnam Managed<br/>Municipal<br/>Income Trust</b> | <b>Putnam High Yield<br/>Municipal<br/>Trust</b> | <b>Proforma Combined</b> |           |                     |           |
|--|-------------|--|--|--------------------------|-----------|---------------------|-----------|
| <b>MUNICIPAL BONDS AND NOTES</b>   |             | <b>143.6%</b>  | <b>124.9%</b>                                    | <b>137.8%</b>            |           |                     |           |
|  | Rating(RAT) | Principal<br>amount                                  | Value  | Principal<br>amount      | Value     | Principal<br>amount | Value     |
| 6.7s, 6/1/27   | BB+/P       | -  | -  | 400,000                  | 426,820   | 400,000             | 426,820   |
| 6 1/2s, 6/1/22   | BB+/P       | -  | -  | 600,000                  | 639,336   | 600,000             | 639,336   |
| Prince William Cnty., Indl. Dev. Auth. Hosp.<br>Rev. Bonds (Potomac Hosp. Corp.), 5.35s,<br>10/1/36    | A3          | -  | -  | 1,000,000                | 1,062,530 | 1,000,000           | 1,062,530 |
| Hopewell, Indl. Dev. Auth. Env. Impt. Rev.<br>Bonds (Smurfit-Stone Container Corp.), 5 1/4s,<br>6/1/15 | CCC+        | 500,000  | 506,215  | 200,000                  | 202,486   | 700,000             | 708,701   |
| James Cnty., Indl. Dev. Auth. Rev. Bonds<br>(Williamsburg), Ser. A, 6 1/8s, 3/1/32                     | BB-/P       | 1,000,000  | 1,067,490  | 500,000                  | 533,745   | 1,500,000           | 1,601,235 |

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Lynchburg, Indl. Dev. Auth. Res. Care Fac. Rev.

Bonds (Westminster-Canterbury)

|   |      |           |                  |         |                  |           |                   |
|---|------|-----------|------------------|---------|------------------|-----------|-------------------|
| 5s, 7/1/31  | BB/P | 1,250,000 | 1,269,838        | -       | -                | 1,250,000 | 1,269,838         |
| 4 7/8s, 7/1/21  | BB/P | 1,000,000 | 1,009,120        | -       | -                | 1,000,000 | 1,009,120         |
| Peninsula Ports Auth. Rev. Bonds (Baptist Homes), Ser. C, 5 3/8s, 12/1/26                             | B+/P | 750,000   | 780,435          | -       | -                | 750,000   | 780,435           |
| Winchester, Indl. Dev. Auth. Res. Care Fac. Rev. Bonds (Westminster-Canterbury), Ser. A, 5.2s, 1/1/27 | BB/P | 500,000   | 511,695          | 200,000 | 204,678          | 700,000   | 716,373           |
|   |      |           | <b>7,147,968</b> |         | <b>3,326,083</b> |           | <b>10,474,051</b> |

|                   |  |  |             |  |  |             |             |
|-------------------|--|--|-------------|--|--|-------------|-------------|
| <b>Washington</b> |  |  | <b>1.3%</b> |  |  | <b>0.6%</b> | <b>1.1%</b> |
|-------------------|--|--|-------------|--|--|-------------|-------------|

Tobacco Settlement Auth. of WA Rev. Bonds

|   |     |           |           |         |           |           |           |
|---|-----|-----------|-----------|---------|-----------|-----------|-----------|
| 6 5/8s, 6/1/32  | BBB | 2,000,000 | 2,200,300 | -       | -         | 2,000,000 | 2,200,300 |
| 6 1/2s, 6/1/26  | BBB | 1,180,000 | 1,294,377 | 970,000 | 1,064,022 | 2,150,000 | 2,358,399 |
| WA State Hlth. Care Fac. Auth. Rev. Bonds (Group Hlth. Coop), Radian Insd., 5s, 12/1/22 | AA  | 1,125,000 | 1,184,445 | -       | -         | 1,125,000 | 1,184,445 |

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|                                  | Putnam Managed Municipal Income Trust |                  | Putnam High Yield Municipal Trust |                  | Proforma Combined |                  |                  |
|----------------------------------|---------------------------------------|------------------|-----------------------------------|------------------|-------------------|------------------|------------------|
| <b>MUNICIPAL BONDS AND NOTES</b> |                                       | <b>143.6%</b>    |                                   | <b>124.9%</b>    |                   | <b>137.8%</b>    |                  |
|                                  | Rating(RAT)                           | Principal amount | Value                             | Principal amount | Value             | Principal amount | Value            |
|                                  |                                       |                  | <b>4,679,122</b>                  |                  | <b>1,064,022</b>  |                  | <b>5,743,144</b> |

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|   |      |           |   |   |   |                           |                   |             |
|---|------|-----------|---|---|---|---------------------------|-------------------|-------------|
| <b>West Virginia</b>  |      |           | <b>0.6%</b>                               |   |   | <b>0.5%</b>               |                   | <b>0.6%</b> |
| Princeton, Hosp. Rev. Bonds (Cmnty. Hosp. Assn., Inc.), 6.1s, 5/1/29                            |      |           |   |   |   |                           |                   |             |
|   | B2   | 2,250,000 | <b>2,318,108</b>                          | 825,000                                   | <b>849,973</b>                            | 3,075,000                 | <b>3,168,081</b>  |             |
| <b>Wisconsin</b>  |      |           | <b>3.4%</b>                               |   |   | <b>2.0%</b>               |                   | <b>2.9%</b> |
| Badger Tobacco Settlement Asset Securitization Corp. Rev. Bonds                                 |      |           |   |   |   |                           |                   |             |
| 7s, 6/1/28  |      |           |   |   |   |                           |                   |             |
|   | BBB  | 3,000,000 | 3,331,200                                 | -   | -   | 3,000,000                 | 3,331,200         |             |
| 6 3/8s, 6/1/32  |      |           |   |   |   |                           |                   |             |
|   | BBB  | 4,000,000 | 4,352,040                                 | 1,500,000                                 | 1,632,015                                 | 5,500,000                 | 5,984,055         |             |
| WI Hsg. & Econ. Dev. Auth. Rev. Bonds (Home Ownership), Ser. D, 4 7/8s, 3/1/36                  |      |           |   |   |   |                           |                   |             |
|   | Aa2  | 470,000   | 479,560                                   | -   | -   | 470,000                   | 479,560           |             |
| WI State Hlth. & Edl. Fac. Auth. Rev. Bonds (Wheaton Franciscan), 5 3/4s, 8/15/30 (Prerefunded) |      |           |   |   |   |                           |                   |             |
|   | A3   | 3,900,000 | 4,274,614                                 | 1,600,000                                 | 1,753,696                                 | 5,500,000                 | 6,028,310         |             |
|   |      |           | <b>12,437,414</b>                         |   | <b>3,385,711</b>                          |                           | <b>15,823,125</b> |             |
| <b>Wyoming</b>  |      |           | <b>0.2%</b>                               |   |   | <b>0.2%</b>               |                   | <b>0.2%</b> |
| Sweetwater Cnty., Solid Waste Disp. Rev. Bonds (FMC Corp.), 5.6s, 12/1/35                       |      |           |   |   |   |                           |                   |             |
|   | Baa3 | 700,000   | <b>743,008</b>                            | 300,000                                   | <b>318,432</b>                            | 1,000,000                 | <b>1,061,440</b>  |             |
| <b>Total municipal bonds and notes</b>  |      |           | <b>(cost \$513,128,563) \$532,795,585</b> | <b>(cost \$198,968,161) \$210,290,784</b> | <b>(cost \$712,096,714) \$743,086,369</b> |                           |                   |             |
| <b>Common Stock</b>   |      |           | <b>0.0%</b>                               | <b>(cost \$1,428,766)</b>                 | <b>0.0%</b>                               | <b>(cost \$1,428,766)</b> | <b>0.0%</b>       |             |
|   |      | Shares    | Value                                     | Shares                                    | Value                                     | Shares                    | Value             |             |

|  | Putnam Managed Municipal<br>Income Trust |                                 | Putnam High Yield<br>Municipal<br>Trust |                                 | Proforma Combined    |                                 |                      |
|--|--|---------------------------------|---|---------------------------------|----------------------|---------------------------------|----------------------|
| <b>MUNICIPAL BONDS AND NOTES</b>   |  | <b>143.6%</b>                   |   | <b>124.9%</b>                   |                      | <b>137.8%</b>                   |                      |
|  | Rating(RAT)                              | Principal<br>amount             | Value                                   | Principal<br>amount             | Value                | Principal<br>amount             | Value                |
| Tembec, Inc. (Canada) (NON)  |  | -                               | -                                       | 29,974                          | <b>39,191</b>        | 29,974                          | \$39,191             |
| <b>Preferred Stocks</b>  |  |                                 | <b>1.7%</b>                             |                                 | <b>0.0%</b>          |                                 | <b>1.2%</b>          |
|  |  | Shares                          | Value                                   | Shares                          | Value                | Shares                          | Value                |
| Charter Mac. Equity Trust 144A Ser. A, 6.625%<br>cum. pfd.               |  | 2,000,000                       | 2,093,040                               | -                               | -                    | 2,000,000                       | \$2,093,040          |
| MuniMae Tax Exempt Bond Subsidiary, LLC<br>144A Ser. A, 6.875% cum. pfd. |  | 4,000,000                       | 4,206,480                               | -                               | -                    | 4,000,000                       | 4,206,480            |
| <b>Total preferred stocks</b>  |  | <b>(cost<br/>\$6,000,000)</b>   | <b>\$6,299,520</b>                      | <b>(cost<br/>\$--</b>           | <b>\$--</b>          | <b>(cost<br/>\$6,000,000)</b>   | <b>\$6,299,520</b>   |
| <b>TOTAL INVESTMENTS</b>   |  | <b>(cost<br/>\$519,128,563)</b> | <b>\$539,095,105</b>                    | <b>(cost<br/>\$200,396,917)</b> | <b>\$210,329,975</b> | <b>(cost<br/>\$719,525,480)</b> | <b>\$749,425,080</b> |

NOTES

Because the Funds are actively managed, their portfolio holdings as of April 30, 2007 are unlikely to reflect what their portfolio holdings will be as of the date the merger is completed. Accordingly, no adjustments have been made to indicate holdings that would be sold in anticipation of the merger to accommodate the investment strategies of Putnam Managed Municipal Income Trust.

(a) Percentages indicated are based on net assets as follows:

Putnam Managed Municipal Income Trust: \$371,154,800

Putnam High Yield Municipal Trust: \$168,317,473  
 Proforma Combined: \$539,099,465

(SEG) This security was were pledged and segregated with the custodian to cover margin requirements for futures contracts at April 30, 2007.

The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at April 30, 2007 for the securities listed. Ratings are generally ascribed to securities at the time of issuance.

(RAT) While the agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings do not necessarily represent what the agencies would ascribe to these securities at April 30, 2007. Securities rated by Putnam are indicated by "/P." Securities rated by Fitch are indicated by "/F."

(NON) Non-income-producing security.

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at April 30, 2007 was \$3,331,200 or 0.6% of net assets.

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

At April 30, 2007, liquid assets totaling \$29,681,906 have been designated as collateral for open futures contracts on Putnam Managed Municipal Income Trust

At April 30, 2007, liquid assets totaling \$3,899,813 have been designated as collateral for open futures contracts on Putnam High Yield Municipal Trust

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

The rates shown on Variable Rate Demand Notes (VRDN), Mandatory Put Bonds, Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at April 30, 2007.

The dates shown on Mandatory Put Bonds are the next mandatory put dates.

The dates shown on debt obligations other than Mandatory Put Bonds are the original maturity dates.

| The fund had the following sector concentrations greater than 10% at April 30, 2007 (as a percentage of net assets): | Managed                |                            |                   |
|--|------------------------|----------------------------|-------------------|
|  | Municipal Income Trust | High Yield Municipal Trust | Proforma Combined |
| Health care  | 53.5%                  | 52.1%                      | 53.1%             |

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|                    |      |      |      |
|--------------------|------|------|------|
| Utilities          | 21.3 | 10.8 | 18.0 |
| Housing            | 13.6 | 8.8  | 12.1 |
| Land               | 12.5 | 13.5 | 12.8 |
| Air Transportation | 10.4 | 5.8  | 9.0  |

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The fund had the following insurance concentration greater than 10% at April 30, 2007 (as a percentage of net assets):

|       | Managed<br>Municipal<br>Income<br>Trust | High Yield<br>Municipal<br>Trust | Proforma<br>Combined |
|-------|---|----------------------------------|----------------------|
| AMBAC | 14.1%                                   | 0.7%                             | 10.0%                |

Putnam Managed Municipal Income Trust

**FUTURES CONTRACTS OUTSTANDING at 4/30/07 (Unaudited)**

|                                  | Number of<br>contracts | Value        | Expiration<br>date | Unrealized<br>depreciation |
|----------------------------------|------------------------|--------------|--------------------|----------------------------|
| U.S. Treasury Note 10 yr (Short) | 274                    | \$29,681,906 | Jun-07             | \$(171,742)                |
|                                  |                        |              | 52                 |                            |

Putnam High Yield Municipal Income Trust

**FUTURES CONTRACTS OUTSTANDING at 4/30/07 (Unaudited)**

|                                  | Number of<br>contracts | Value       | Expiration<br>date | Unrealized<br>depreciation |
|----------------------------------|------------------------|-------------|--------------------|----------------------------|
| U.S. Treasury Note 10 yr (Short) | 36                     | \$3,899,813 | Jun-07             | \$(22,552)                 |
|                                  |                        |             | 52                 |                            |

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**4/30/07  
(Unaudited)**

**Pro forma Combining  
Statement of Assets and Liabilities**

|  | <b>Putnam<br/>High Yield<br/>Municipal<br/>Trust</b> | <b>Putnam<br/>Managed<br/>Municipal<br/>Income Trust</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Combined</b> |
|--|--|--|----------------------------------|-------------------------------|
| <b>Assets</b>  |  |  |                                  |                               |
| Investments in securities, at value                                |  |  |                                  |                               |
| Unaffiliated Issuers   | \$210,329,975  | \$539,095,105  |                                  | \$749,425,080                 |
| Cash   | --   | 331,140  |                                  | 331,140                       |
| Dividends, interest and other<br>receivables                       | 3,525,057  | 9,189,778  |                                  | 12,714,835                    |
| Receivable for securities sold                                     | 450,000  | 580,000  |                                  | 1,030,000                     |
| <b>Total assets</b>  | <b>214,305,032</b>                                   | <b>549,196,023</b>                                       |                                  | <b>763,501,055</b>            |
| <b>Liabilities</b>   |  |  |                                  |                               |
| Distributions payable to<br>shareholders                           | 686,887  | 1,535,638  |                                  | 2,222,525                     |
| Payable for securities purchased                                   | --   | 163,300  |                                  | 163,300                       |
| Payable for compensation of<br>Manager                             | 93,070   | 725,975  |                                  | 819,045                       |
| Payable for investor servicing<br>and custodian fees               | 1,810  | 5,471  |                                  | 7,281                         |
| Payable for Trustee<br>compensation and expenses                   | 52,902   | 85,757   |                                  | 138,659                       |
| Payable for administrative<br>services                             | 3,498  | 3,994  |                                  | 7,492                         |
| Payable for variation margin                                       | 17,438   | 115,594  |                                  | 133,032                       |
| Accrued preferred shares<br>distribution payable                   | 23,735   | 266,427  |                                  | 290,162                       |
| Payable to subcustodian  | 9,472  | -  |                                  | 9,472                         |
| Other accrued expenses   | 98,747   | 139,067  | 372,808                          | B 610,622                     |
| <b>Total liabilities</b>   | <b>987,559</b>                                       | <b>3,041,223</b>   | <b>372,808</b>                   | <b>4,401,590</b>              |
| <b>Remarketed preferred shares</b>                                 | <b>45,000,000</b>                                    | <b>175,000,000</b>                                       |                                  | <b>220,000,000</b>            |
| <b>Net assets</b>  | <b>\$168,317,473</b>                                 | <b>\$371,154,800</b>                                     | <b>(372,808)</b>                 | <b>539,099,465</b>            |
| <b>Represented by</b>  |  |  |                                  |                               |
| Paid -in capital   | \$181,452,251  | \$402,020,721  |                                  | \$583,472,972                 |
| Undistributed(distributions in<br>excess of) net investment income | 198,867  | (549,737)  | (372,808)                        | B (723,678)                   |

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|   |               |               |           |                 |
|---|---------------|---------------|-----------|-----------------|
| Accumulated net realized loss on investments and foreign                        | (23,244,151)  | (50,110,984)  |           | (73,355,135)    |
| Net unrealized appreciation of investments and assets and                       | 9,910,506     | 19,794,800    |           | 29,705,306      |
| <b>Total - Representing net assets applicable to capital shares outstanding</b> | \$168,317,473 | \$371,154,800 | (372,808) | \$539,099,465   |
| <b>Class A</b>  |               |               |           |                 |
| Net assets  | \$168,317,473 | \$371,154,800 | (372,808) | B \$539,099,465 |
| Shares outstanding  | 21,131,981    | 44,658,878    | (891,468) | C 64,899,391    |
| Net asset value per share   | \$7.97        | \$8.31        |           | \$8.31          |
| Preferred Shares  |               |               |           |                 |
| Series A  | 900           | 550           | (900)     | 550             |
| Series B  | -             | 550           | -         | 550             |
| Series C  | -             | 650           | 1,550     | D,E 2,200       |
| Series I  | -             | -             | -         | -               |
| Cost of investments   |               |               |           |                 |
| Unaffiliated Issuers  | \$200,396,917 | \$519,128,563 |           | \$719,525,480   |

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**Pro Forma Combining  
Statement of Operations  
Twelve months ended April 30, 2007 (unaudited)**

|  | Putnam<br>High Yield<br>Municipal<br>Income Trust | Putnam<br>Managed<br>Municipal<br>Income Trust | Pro Forma<br>Adjustments | Pro Forma<br>Combined |
|--|---|--|--------------------------|-----------------------|
| <b>Interest Income</b>                 | <b>11,606,924</b>                                 | <b>28,421,103</b>                              |                          | <b>40,028,027</b>     |
| <b>Expenses:</b>                       |   |  |                          |                       |
| Compensation of Manager                | 1,185,924   | 3,010,928                                      |                          | 4,196,852             |
| Custodian fees                         | 82,981  | 120,439  | (65,760)                 | A 137,660             |
| Investor servicing fees                | 84,640  | 186,212  |                          | 270,852               |
| Compensation of Trustees and expenses  | 31,406  | 36,466   | (26,695)                 | A 41,177              |
| Administrative Services                | 18,789  | 21,495   | (16,722)                 | A 23,562              |
| Other Expenses                         | 242,945   | 309,987  | (134,450)                | A 418,482             |
| Preferred share remarketing agent fees | 114,108   | 443,629  |                          | 557,737               |



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|  |                    |                    |                  |                    |
|--|--------------------|--------------------|------------------|--------------------|
| <b>Total Expenses</b>  | <b>1,760,793</b>   | <b>4,129,156</b>   | <b>(243,627)</b> | <b>5,646,322</b>   |
| Expense reduction  | (73,287)           | (155,650)          | -                | (228,937)          |
| <b>Net expenses</b>  | <b>1,687,506</b>   | <b>3,973,506</b>   | <b>(243,627)</b> | <b>5,417,385</b>   |
| <b>Net investment income</b>   | <b>9,919,418</b>   | <b>24,447,597</b>  | <b>243,627</b>   | <b>34,610,642</b>  |
| Net realized gain (loss) on investments  | 177,989            | (530,551)          |                  | (352,562)          |
| Net realized gain (loss) on futures contracts during the period                      | (432,436)          | (673,308)          |                  | (1,105,744)        |
|  | 2,769,134          | 5,008,629          |                  | 7,777,763          |
| <b>Net gain (loss) on investments</b>  | <b>2,514,687</b>   | <b>3,804,770</b>   |                  | <b>6,319,457</b>   |
| <b>Net increase in net assets</b>  |                    |                    |                  |                    |
|  | \$                 | \$                 | \$               | \$                 |
| <b>resulting from operations</b>   | <b>12,434,105</b>  | <b>28,252,367</b>  | <b>243,627</b>   | <b>40,930,099</b>  |
| <b>Distribution to Preferred Shareholders:</b>                                       |                    |                    |                  |                    |
| <b>From ordinary income</b>  |                    |                    |                  |                    |
| <b>Taxable net investment income</b>   | <b>(1,062)</b>     | <b>(32)</b>        |                  | <b>(1,094)</b>     |
| <b>From tax exempt net investment income</b>   | <b>(1,611,584)</b> | <b>(6,323,783)</b> |                  | <b>(7,935,367)</b> |
|  | \$                 | \$                 | \$               | \$                 |
| <b>Net increase in net assets resulting from (applicable to common shareholders)</b> | <b>10,821,459</b>  | <b>21,928,552</b>  | <b>243,627</b>   | <b>32,993,638</b>  |

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## SECURITIES RATINGS

The ratings of securities in which the fund may invest will be measured at the time of purchase and, to the extent a security is assigned a different rating by one or more of the various rating agencies, Putnam Management may use the highest rating assigned by any agency. Putnam Management will not necessarily sell an investment if its rating is reduced. The following rating services describe rated securities as follows:

### Moody's Investors Service, Inc.

#### Bonds

**Aaa** -- Bonds which are rated **Aaa** are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

**Aa** -- Bonds which are rated **Aa** are judged to be of high quality by all standards. Together with the **Aaa** group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in **Aaa** securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the **Aaa** securities.

**A** -- Bonds which are rated **A** possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

**Baa** -- Bonds which are rated **Baa** are considered as medium grade obligations, (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

**Ba** -- Bonds which are rated **Ba** are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

**B** -- Bonds which are rated **B** generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

**Caa** -- Bonds which are rated **Caa** are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

**Ca** -- Bonds which are rated **Ca** represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

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**C** -- Bonds which are rated **C** are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

#### Notes

**MIG 1/VMIG 1** -- This designation denotes best quality. There is present strong protection by established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing.

**MIG 2/VMIG 2** -- This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

#### Commercial paper

Issuers rated **Prime-1** (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by the following characteristics:

- Leading market positions in well established industries.
- High rates of return on funds employed.
- Conservative capitalization structure with moderate reliance on debt and ample asset protection.

- Broad margins in earnings coverage of fixed financial charges and high internal cash generation.
- Well established access to a range of financial markets and assured sources of alternate liquidity.

Issuers rated **Prime-2** (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

## Standard & Poor's

### Bonds

**AAA** -- An obligation rated **AAA** has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

**AA** -- An obligation rated **AA** differs from the highest-rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

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**A** -- An obligation rated **A** is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

**BBB** -- An obligation rated **BBB** exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated **BB**, **B**, **CCC**, **CC** and **C** are regarded as having significant speculative characteristics. **BB** indicates the lowest degree of speculation and **C** the highest. While such obligations will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

**BB** -- An obligation rated **BB** is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

**B** -- An obligation rated **B** is more vulnerable to nonpayment than obligations rated **BB**, but the obligor currently has the capacity to meet its financial commitment on the obligations. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

**CCC** -- An obligation rated **CCC** is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

**CC** -- An obligation rated **CC** is currently highly vulnerable to nonpayment.

**C** -- The **C** rating may be used to cover a situation where a bankruptcy petition has been filed, or similar action has been taken, but payments on this obligation are being continued.

**D** -- An obligation rated **D** is in payment default. The **D** rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The **D** rating also will be used upon the filing of a bankruptcy petition, or the taking of a similar action if payments on an obligation are jeopardized.

#### Notes

**SP-1** -- Strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given a plus (+) designation.

**SP-2** -- Satisfactory capacity to pay principal and interest.

**SP-3** -- Speculative capacity to pay principal and interest.

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#### Commercial paper

**A-1** -- This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation.

**A-2** -- Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated **A-1**.

**A-3** -- Issues carrying this designation have adequate capacity for timely payment. They are, however, more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

#### Duff & Phelps Corporation

##### Long-Term Debt

**AAA** -- Highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.

**AA+, AA, AA-** -- High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-** -- Protection factors are average but adequate. However, risk factors are more variable and greater in periods of economic stress.

**BBB+, BBB, BBB-** -- Below-average protection factors but still considered sufficient for prudent investment. Considerable variability in risk during economic cycles.

**BB+, BB, BB-** -- Below investment grade but deemed likely to meet obligations when due. Present or prospective financial protection factors fluctuate according to industry conditions or company fortunes. Overall quality may move up or down frequently within this category.

**B+, B, B-** -- Below investment grade and possessing risk that obligations will not be met when due. Financial protection factors will fluctuate widely according to economic cycles, industry conditions and/or company fortunes. Potential exists for frequent changes in the rating within this category or into a higher or lower rating grade.

**CCC** -- Well below investment-grade securities. Considerable uncertainty exists as to timely payment of principal, interest or preferred dividends. Protection factors are narrow and risk can be substantial with unfavorable economic/industry conditions, and/or with unfavorable company developments.

**DD** -- Defaulted debt obligations. Issuer failed to meet scheduled principal and/or interest payments.

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### **Fitch Investors Service, Inc.**

**AAA** -- Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

**AA** -- Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated **AAA**.

**A** -- Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

**BBB** -- Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

**BB** -- Bonds considered to be speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

**B** -- Bonds are considered highly speculative. Bonds in this class are lightly protected as to the obligor's ability to pay interest over the life of the issue and repay principal when due.

**CCC** -- Bonds have certain characteristics which, with passing of time, could lead to the possibility of default on either principal or interest payments.

**CC** -- Bonds are minimally protected. Default in payment of interest and/or principal seems probable.

**C** -- Bonds are in actual or imminent default in payment of interest or principal.

**DDD** -- Bonds are in default and in arrears in interest and/or principal payments. Such bonds are extremely speculative and should be valued only on the basis of their value in liquidation or reorganization of the obligor.

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### **DEFINITIONS**

Putnam Management -- Putnam Investment Management, LLC, the fund's investment manager.

|                                |    |   |
|--------------------------------|----|---|
| Putnam Retail Management       | -- | Putnam Retail Management Limited Partnership, the fund's principal underwriter.   |
| Putnam Fiduciary Trust Company | -- | Putnam Fiduciary Trust Company, a custodian of the fund's assets.   |
| Putnam Investor Services       | -- | Putnam Investor Services, a division of Putnam Fiduciary Trust Company, the fund's investor servicing agent.              |
| Putnam Investments             | -- | The name under which Putnam LLC, the parent company of Putnam Management and its affiliates, generally conducts business. |

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## APPENDIX A

### **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 Coordinator's 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 Management's 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 Management's 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 company's 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

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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:

Ø 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.

Ø 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.

Ø 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.),

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· as a director of a public company (Company A), is employed as a senior executive of another public company (Company B) if a director of Company B serves as a senior executive of Company A (commonly referred to as an interlocking directorate ), or

· serves on more than five unaffiliated public company boards (for the purpose of this guideline, boards of affiliated registered investment companies will count as one board).

Commentary:

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

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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*



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

#### *Classified Boards*

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

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

#### *Other Board-Related Proposals*

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

#### **Executive Compensation**

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

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

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

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

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

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

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

**Commentary:** Companies should have compensation programs that are reasonable and that align shareholder and management interests over the longer term. Further, disclosure of compensation programs should provide absolute transparency to shareholders regarding the sources and amounts of, and the factors influencing, executive compensation. Appropriately designed equity-based compensation plans can be an effective way to align the interests of long-term shareholders with the interests of management. The funds may vote against executive compensation proposals on a case-by-case basis where compensation is excessive by reasonable corporate standards, or where a company fails to provide transparent disclosure of executive compensation. In voting on a proposal relating to executive compensation, the funds will consider whether the proposal has been approved by an independent compensation committee of the board.

### **Capitalization**

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

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

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

Ø The funds will vote **for** proposals authorizing share repurchase programs.

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**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:

Ø 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:

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

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

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**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:

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

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

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

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

## **II. SHAREHOLDER PROPOSALS**

SEC regulations permit shareholders to submit proposals for inclusion in a company's proxy statement. These proposals generally seek to change some aspect of the company's corporate governance structure or to change some aspect of its business operations. The funds generally will vote **in accordance with the recommendation of the**

**company's board of directors** on all shareholder proposals, except as follows:

Ø 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.

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

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Ø The funds will vote on a case-by-case basis on shareholder proposals requiring companies to make payments under management severance agreements only if both of the following conditions are met:

- the company undergoes a change in control, and
- the change in control results in a loss of employment for the person receiving the severance payment.

Ø The funds will vote on a case-by-case basis on shareholder proposals requesting that the board adopt a policy to recoup, in the event of a significant restatement of financial results or significant extraordinary write-off, to the fullest extent practicable, for the benefit of the company, all performance-based bonuses or awards that were paid to senior executives based on the company having met or exceeded specific performance targets to the extent that the specific performance targets were not, in fact, met.

Ø The funds will vote for shareholder proposals requiring a company to report on its executive retirement benefits (e.g., deferred compensation, split-dollar life insurance, SERPs and pension benefits).

Ø The funds will vote for shareholder proposals requiring a company to disclose its relationships with executive compensation consultants (e.g., whether the company, the board or the compensation committee retained the consultant, the types of services provided by the consultant over the past five years, and a list of the consultant's clients on which any of the company's executives serve as a director).

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

Ø 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.

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However, the funds generally support shareholder proposals to declassify a board or to require shareholder approval of shareholder rights plans. The funds' Trustees believe that these shareholder proposals further the goals of reducing management entrenchment and conflicts of interest, and aligning management's interests with shareholders' interests in evaluating proposed acquisitions of the company. The Trustees also believe that shareholder proposals to limit severance payments to appropriate situations may further these goals in some instances and the funds will consider supporting these shareholder proposals on a case by case basis. (The funds' Trustees will also consider whether the severance payments, taking all of the pertinent circumstances into account, constitute excessive compensation.)

The funds' Trustees believe that performance-based compensation can be an effective tool for aligning management and shareholder interests. However, to fulfill its purpose, performance compensation should only be paid to executives if the performance targets are actually met. A significant restatement of financial results or a significant extraordinary write-off may reveal that executives who were previously paid performance compensation did not actually deliver the required business performance to earn that compensation. In these circumstances, it may be appropriate for the company to recoup this performance compensation. The fund will consider on a case by case basis shareholder proposals requesting that the board adopt a policy to recoup, in the event of a significant restatement of financial results or significant extraordinary write-off, performance-based bonuses or awards paid to senior executives based on the company having met or exceeded specific performance targets to the extent that the specific performance targets were not, in fact, met. The fund does not believe that such a policy should necessarily disadvantage a company in recruiting executives, as executives should understand that they are only entitled to performance compensation based on the actual performance they deliver.

The funds' Trustees also believe that shareholder proposals that are intended to increase transparency, particularly with respect to executive compensation, without establishing rigid restrictions upon a company's ability to attract and motivate talented executives, are generally beneficial to sound corporate governance without imposing undue burdens. The funds will generally support shareholder proposals calling for reasonable disclosure.

### **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.

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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*

Ø 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**.

Ø 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.

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*Korea*

Ø 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*

Ø 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.

Ø 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

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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.

### *Russia*

Ø The funds will vote on a case-by-case basis for the election of nominees to the board of directors.

**Commentary:** In Russia, director elections are typically handled through a cumulative voting process. Cumulative voting allows shareholders to cast all of their votes for a single nominee for the board of directors, or to allocate their votes among nominees in any other way. In contrast, in regular voting, shareholders may not give more than one vote per share to any single nominee. Cumulative voting can help to strengthen the ability of minority shareholders to elect a director.

In Russia, as in other emerging markets, standards of corporate governance are usually behind those in developed markets. Rather than vote against the entire board of directors, as the funds generally would in the case of a company whose board fails to meet the funds' standards for independence, the funds may, on a case-by-case basis, cast all of their votes for one or more independent director nominees. The funds believe that it is important to increase the number of

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independent directors on the boards of Russian companies to mitigate the risks associated with dominant shareholders.

### **Other Matters**

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

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

Ø 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.

Ø 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 February 9, 2007

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### **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.

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*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 or 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 or 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 or 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

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referred to Putnam Management's investment professionals to determine if a conflict of interest exists and will provide the Proxy Coordinator with a Conflicts Report for each referral item that (1) describes any conflict of interest; (2) discusses the procedures used to address such conflict of interest; and (3) discloses any contacts from parties outside Putnam Management (other than routine communications from proxy solicitors) with respect to the referral item not otherwise reported in an investment professional's recommendation. The Conflicts Report will also include written confirmation that any recommendation from an investment professional provided under circumstances where a conflict of interest exists was made solely on the investment merits and without regard to any other consideration.

As adopted March 11, 2005

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**PUTNAM MANAGED MUNICIPAL INCOME TRUST  
FORM N-14  
PART C**

**OTHER INFORMATION**

**Item 15. Indemnification**

Article VIII of the Registrant's Agreement and Declaration of Trust provides as follows:

Trustees, Officers, etc.

SECTION 1. The Trust shall indemnify each of its Trustees and officers (including persons who serve at the Trust's request as directors, officers or trustees of another organization in which the Trust has any interest as a shareholder, creditor or otherwise) (hereinafter referred to as a "Covered Person") against all liabilities and expenses, including but not limited to amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonable incurred by any Covered Person in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or legislative body, in which such Covered Person may be or may have been involved as a party or otherwise or with which such Covered Person may be or may have been threatened, while in office or thereafter, by reason of being or having been such a Covered Person except with respect to any matter as to which such Covered Person shall have been finally adjudicated in any such action, suit or other proceeding (a) not to have acted in good faith in the reasonable belief that such Covered Person's action was in the best interests of the Trust or (b) to be liable to the Trust or its Shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such Covered Person's office. Expenses, including counsel fees so incurred by any such Covered Person (but excluding amounts paid in satisfaction of judgments, in compromise or as fines or penalties), shall be paid from time to time by the Trust in advance of the final disposition of any such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Covered Person to repay amounts so paid to the Trust if it is ultimately determined that indemnification of such expenses is not authorized under this Article, provided, however, that either (a) such Covered Person shall have provided appropriate security for such undertaking, (b) the Trust shall be insured against losses arising from any such advance payments or (c) either a majority of the disinterested Trustees acting on the matter (provided that a majority of the disinterested Trustees then in office act on the matter, or independent legal counsel in a written opinion, shall have determined, based upon a review of readily available facts (as opposed to a full trial type inquiry), that there is reason to believe that such Covered Person will be found entitled to indemnification under this Article.

**Compromise Payment**

SECTION 2. As to any matter disposed of (whether by a compromise payment, pursuant to a consent decree or otherwise) without an adjudication by a court, or by any other body before which the proceeding was brought, that such Covered Person either (a) did not act in

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good faith in the reasonable belief that his or her action was in the best interests of the Trust or (b) is liable to the Trust or its Shareholders by reason of willfull misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office, indemnification shall be provided if (a) approved as in the best interests of the Trust, after notice that it involves such indemnification, by at least a majority of the disinterested Trustees acting on the matter (provided that a majority of the disinterested Trustees then in office act on the matter) upon a determination, based upon a review of readily available facts (as opposed to a full trial type inquiry), that such Covered Person acted in good faith in the reasonable belief that his or her action was in the best interests of the Trust and is not liable to the Trust or its Shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office, or (b) there has been obtained an opinion

in writing of independent legal counsel, based upon a review of readily available facts (as opposed to a full trial type inquiry), to the effect that such Covered Person appears to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Trust and that such indemnification would not protect such Covered Person against any liability to the Trust to which he or she would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office. Any approval pursuant to this Section shall not prevent the recovery from any Covered Person of any amount paid to such Covered Person in accordance with the Section as indemnification if such Covered Person is subsequently adjudicated by a court of competent jurisdiction not to have acted in good faith in the reasonable belief that such Covered Person's action was in the best interests of the Trust or to have been liable to the Trust or its Shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such Covered Person's office.

#### Indemnification Not Exclusive

SECTION 3. The right of indemnification hereby provided shall not be exclusive of or affect any other rights to which such Covered Person may be entitled. As used in this Article VIII, the term "Covered Person" shall include such person's heirs, executors, and administrators, and a "disinterested Trustee" is a Trustee who is not an "interested person" of the Trust as defined in Section 2(a)(19) of the 1940 Act (or who has been exempted from being an "interested person" by any rule, regulation or order of the Securities and Exchange Commission) and against whom none of such actions, suits or other proceedings or another action, suit or other proceeding on the same or similar grounds is then or has been pending. Nothing contained in this Article shall affect any rights to indemnification to which personnel of the Trust, other than Trustees or officers, and other persons may be entitled by contract or otherwise under law nor the power of the Trust to purchase and maintain liability insurance on behalf of any such person.

#### Shareholders

SECTION 4. In the case any Shareholder or former Shareholder shall be held to be personally liable solely by reason of his or her being or having been a Shareholder and not because of his or her acts or omissions or for some other reason, the Shareholder or former Shareholder (or his or her heirs, executors administrators or other legal representatives or, in the

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case of a corporation or other entity, its corporate or other general successor) shall be entitled to be held harmless from and indemnified against all loss and expense arising from such liability.

#### Item 16. Exhibits

(1)(a) Agreement and Declaration of Trust of Putnam Managed Municipal Income Trust as amended and restated February 3, 1989, and amended April 7, 1989 and July 13, 2001 Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.

(2) By-Laws of Putnam Managed Municipal Income Trust, as amended through February 10, 2006 Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.

(3) Not applicable.

(4) Form of Plan of Entity Conversion and Form of Agreement and Plan of Merger are Appendix A and Appendix B, respectively, to the Prospectus/Proxy Statement included herein.

- (5)(a) Portions of Agreement and Declaration of Trust relating to Shareholders' Rights Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.
- (5)(b) Portions of Bylaws Relating to Shareholders' Rights Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.
- (6) Management Contract dated January 1, 2006 Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.
- (7) Not applicable.
- (8) Trustee Retirement Plan dated October 4, 1996, as amended July 21, 2000 Incorporated by reference to Post-Effective Amendment No. 26 to the Registration Statement of Putnam New York Tax Exempt Income Fund (File No. 811-03731).
- (9)(a) Amended and Restated Custodian Agreement with Putnam Fiduciary Trust Company dated February, 10, 2006 Incorporated by reference to Post-Effective Amendment No. 28 to the Registration Statement of Putnam New York Tax Exempt Income Fund (File No. 811-03731).
- (9)(b) Master Custodian Agreement with State Street Bank and Trust Company dated January 1, 2007 Incorporated by reference to Post-Effective Amendment No. 28 to the Registration Statement of Putnam New York Tax Exempt Income Fund (File No. 811-03731).
- (10) Not applicable.
- (11) Opinion and consent of Ropes & Gray LLP Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.
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- (12)(a) Opinion of Ropes & Gray LLP with respect to tax matters To be filed by post-effective amendment.
- (12)(b) Consent of Ropes & Gray LLP with respect to tax matters Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.
- (13)(a) Letter of Indemnity dated December 18, 2003 with Putnam Investment Management Incorporated by reference to Post-Effective Amendment No. 26 to the Registration Statement of Putnam New York Tax Exempt Income Fund (File No. 811-03731).
- (13)(b) Liability Insurance Allocation Agreement Incorporated by reference to Post-Effective Amendment No. 26 to the Registration Statement of Putnam New York Tax Exempt Income Fund (File No. 811-03731).
- (14) Consent of KPMG LLP, Independent Registered Public Accounting Firm Filed herewith.
- (15) Not applicable.
- (16) Power of Attorney Filed herewith.
- (17)(a) Bylaws of Putnam High Yield Municipal Trust, as amended through February 10, 2006 Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.

(17)(b) Agreement and Declaration of Trust of Putnam High Yield Municipal Trust dated March 30, 1989, as amended July 13, 2001 Filed as an exhibit to the Registration Statement filed by the Registrant on Form N-14 on August 3, 2007.

**Item 17. Undertakings**

(1) The undersigned Registrant agrees that, prior to any public reoffering of the securities registered through the use of a prospectus which is a part of this registration statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) under the Securities Act of 1933, as amended, the reoffering prospectus will contain the information called for by the applicable registration form for reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The undersigned Registrant agrees that every prospectus filed under paragraph (a) above will be filed as a part of an amendment to this registration statement and will not be used until the amendment is effective, and that, in determining any liability under the Act, each post-effective amendment shall be deemed to be a new registration statement for the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering of them.

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(3) The Registrant agrees to file an opinion of counsel supporting the tax consequences of the proposed reorganization as an amendment to this registration statement within a reasonable time after receipt of such opinion.

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**NOTICE**

A copy of the Agreement and Declaration of Trust of Putnam Managed Municipal Income Trust is on file with the Secretary of The Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees, officers or shareholders individually but are binding only upon the assets and property of the Registrant.

**SIGNATURES**

As required by the Securities Act of 1933, as amended, this Registration Statement has been signed on behalf of the Registrant, in the City of Boston and The Commonwealth of Massachusetts on the 12th day of September, 2007.

**PUTNAM MANAGED MUNICIPAL INCOME  
TRUST**

By: /s/Charles E. Porter

Name: Charles E. Porter  
Title: Executive President, Associate Treasurer,  
Principal Executive Officer and Compliance  
Liaison

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As required by the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| <u>Signature</u>  | <u>Title</u>   |
|---|--|
| <u>/s/ JOHN A. HILL*</u><br>John A. Hill                          | Chairman of the Board and Trustee  |
| <u>/S/ JAMESON A. BAXTER*</u><br>Jameson A. Baxter                | Vice Chairman of the Board and Trustee   |
| <u>/s/ CHARLES E. HALDEMAN, JR. *</u><br>Charles E. Haldeman, Jr. | President; Trustee   |
| <u>/s/ CHARLES E. PORTER</u><br>Charles E. Porter                 | Executive Vice President; Associate<br>Treasurer; Principal Executive Officer and Compliance Liaison |
| <u>/s/ STEVEN D. KRICHMAR*</u><br>Steven D. Krichmar              | Vice President and Principal Financial<br>Officer  |

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| <u>Signature</u>                                       | <u>Title</u>  |
|--|---|
| <u>/s/ JANET C. SMITH*</u><br>Janet C. Smith           | Vice President, Assistant Treasurer and<br>Principal Accounting Officer |
| <u>/s/ CHARLES B. CURTIS*</u><br>Charles B. Curtis     | Trustee   |
| <u>/s/ ROBERT J. DARRETTA*</u><br>Robert J. Darretta   | Trustee   |
| <u>/s/ MYRA R. DRUCKER*</u><br>Myra R. Drucker         | Trustee   |
| <u>/s/ PAUL L. JOSKOW*</u><br>Paul L. Joskow           | Trustee   |
| <u>/s/ ELIZABETH T. KENNAN*</u><br>Elizabeth T. Kennan | Trustee   |
| <u>/s/ KENNETH R. LEIBLER*</u><br>Kenneth R. Leibler   | Trustee   |
| <u>/s/ ROBERT E. PATTERSON*</u><br>Robert E. Patterson | Trustee   |

/s/ GEORGE PUTNAM, III\* Trustee  
George Putnam, III

/s/ W. THOMAS STEPHENS\* Trustee  
W. Thomas Stephens

/s/ RICHARD B. WORLEY\* Trustee  
Richard B. Worley

\* By: Charles E. Porter, as Attorney-  
in-Fact pursuant to Power of Attorney filed  
herein as Exhibit 16  
Dated: September 12, 2007

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### Exhibit Index

#### Exhibit Number Exhibit Title

(14) Consent of KPMG LLP, Independent Registered Public Accounting Firm  
(16) Power of Attorney

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