PUTNAM INVESTMENT GRADE MUNICIPAL TRUST
Form N-CSR
January 27, 2006

Item 1. Report to Stockholders:

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

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# What makes Putnam different?

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

THE PRUDENT MAN RULE

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

## A time-honored tradition in money management

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

## A prudent approach to investing

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

## Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their advisors can build diversified portfolios.

## A commitment to doing what's right for investors

We have stringent investor protections and provide a wealth of information about the Putnam funds.

## Industry-leading service

We help investors, along with their financial advisors, make informed investment decisions with confidence.

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# Putnam
# Investment Grade
# Municipal Trust

## 11|30|05

*Annual Report*





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*Message from the Trustees*

# Dear Fellow Shareholder

During the course of 2005, U.S. and global economies proved resilient in the face of some emerging challenges. Higher energy prices, mounting inflationary pressures, and damage caused by an unusually active hurricane season appeared at times to pose a risk to corporate earnings, raising investors' concerns. The Federal Reserve Board's program of interest-rate increases remained in effect throughout the year, as well. Nevertheless, in recent months the financial markets have demonstrated trends consistent with an expanding economy -- relative weakness for bonds and relative strength for stocks. With many companies appearing likely to deliver strong earnings, our teams are working to identify investment opportunities while remaining cognizant of the risks posed by higher energy prices in the winter months, as well as the possibility of continued increases in interest rates in 2006.

In our view, the professional research, diversification, and active management that mutual funds provide continue to make them an intelligent choice for investors. We want you to know that Putnam Investments' management team, under the leadership of Chief Executive

Officer Ed Haldeman, continues to focus on investment performance and remains committed to putting the interests of shareholders first. Also, in keeping with these goals, we have redesigned and expanded our shareholder reports to make it easier for you to learn more about your fund. Furthermore, on page 19 we provide information about the 2005 approval by the Trustees of your fund□s management contract with Putnam.



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In the following pages, members of your fund□s management team discuss the fund□s performance and strategies, and their outlook for the months ahead. We thank you for your support of the Putnam funds throughout 2005 and wish you a happy and prosperous 2006.

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# Putnam Investment Grade Municipal Trust: potential for income exempt from federal income tax

Municipal bonds can help investors keep more of their investment income while also financing important public projects such as schools, roads, and hospitals. Putnam Investment Grade Municipal Trust offers another advantage -- the flexibility to invest in municipal bonds issued by any state in the country.

Municipal bonds are typically issued by states and local municipalities to raise funds for building and maintaining public facilities. The income from a municipal bond is generally exempt from federal income tax. The bonds are backed by either the issuing city or town or by revenues collected from usage fees.

The fund□s management team can select bonds issued by a variety of state and local governments. The fund also combines bonds of differing quality levels to increase income potential. The portfolio focuses primarily on investment-grade bonds to ensure a high level of overall credit quality. The team also allocates a portion of assets to lower-rated bonds, which may offer higher income in return for more risk. When deciding whether to invest in a bond, the team considers factors such as credit risk, interest-rate risk, and the risk that the bond will be prepaid. Once a bond has been purchased, the team continues to monitor developments that affect the bond market, the sector, and the issuer of the bond. Typically, lower-rated bonds are reviewed more often because of their greater potential risk.

Putnam Investment Grade Municipal Trust□s management team is backed by the resources of Putnam□s fixed-income organization, one of the largest in the investment industry. Putnam□s municipal bond analysts are grouped into sector teams and conduct ongoing, rigorous research. The breadth of their expertise in highly complex markets gives Putnam a distinct advantage over smaller firms.

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

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The goal of the management team□s research and active management is to stay a step ahead of the industry and pinpoint opportunities to adjust the fund□s holdings -- either by acquiring more of a particular bond or selling it -- for the benefit of the fund and its shareholders.

*Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Tax-free funds may not be suitable for IRAs and other non-taxable accounts.*

*Please consult with your tax advisor for more information. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Leverage can mean higher returns, but adds risk and may increase share price volatility.*

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

**More assets at work** While open-end funds must maintain a cash position to meet redemptions, closed-end funds have no such requirement and can keep more of their assets invested in the market.

**Traded like stocks** Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

**Market price vs. net asset value** Like an open-end fund's net asset value (NAV) per share, the NAV of a closed-end fund share equals the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. When buying or selling closed-end fund shares, you pay or receive the *market price,* which may be higher or lower than the NAV.

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

*Identified projects are not necessarily represented in your fund's portfolio as of the date of this report, and your fund may invest in securities representing projects not shown here. Your fund's holdings will vary over time. For more information on current fund holdings, see pages 9 and 28.*

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**Putnam Investment Grade Municipal Trust** is a leveraged fund that seeks to provide as high a level of current income free from federal income tax as we believe is consistent with preservation of capital by investing primarily in investment-grade municipal bonds. The fund may be suitable for investors seeking tax-exempt income who can accept a higher level of risk in exchange for the potentially higher level of income offered by a leveraged fund.

### Highlights

- For the 12 months ended November 30, 2005, Putnam Investment Grade Municipal Trust returned 6.67% at net asset value and 2.26% at market price.
- The fund's benchmark, the Lehman Municipal Bond Index, returned 3.90%.
- The average return for the fund's Lipper category, General Municipal Debts Funds (leveraged closed-end), was 6.61%.
- The fund's monthly dividend was reduced twice during the period: from $0.0566 to $0.0498 per share in December 2004 and to $0.0409 per share in June 2005. See page 11 for details.
- Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

**Performance**

It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

Total return for periods ended 11/30/05

Since the fund's inception (10/26/89), average annual return is 7.49% at NAV and 6.01% at market price.

| | Average annual return | | Cumulative return | |
|---|---|---|---|---|
| | NAV | Market price | NAV | Market price |
| 10 years | 5.94% | 3.49% | 78.04% | 40.96% |
| 5 years | 6.99 | 6.08 | 40.22 | 34.33 |
| 3 years | 8.44 | 2.18 | 27.51 | 6.69 |
| 1 year | 6.67 | 2.26 | 6.67 | 2.26 |

*Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes.*

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*Report from the fund managers*

# The year in review

For its 2005 fiscal year, Putnam Investment Grade Municipal Trust delivered positive performance at net asset value (NAV), outpacing its benchmark, the Lehman Municipal Bond Index, and matching the average for its Lipper category of funds that invest in municipal securities. Our defensive positioning of the portfolio helped fund performance as rates generally rose during the period. Short-term bond rates continued to rise as short-term bond prices fell, producing a flatter yield curve. The yield curve is a graphical representation of yields for bonds of comparable quality plotted from the shortest to the longest maturity. The curve flattened more than we anticipated, however, dampening relative performance. While your fund's focus remains on investment-grade bonds, a modest allocation to outperforming lower-rated bonds aided results. The fund also benefited from its overweight position in tobacco settlement bonds, though a relative underweight position to volatile, airline-related industrial development bonds (IDBs) modestly detracted when this sector outperformed for the fiscal year.

# Market overview

Signs of solid economic growth, and the desire to curb the potential inflation that may accompany economic growth, prompted the Federal Reserve Board (the Fed) to increase short-term interest rates eight times in 0.25% increments during the fund's fiscal year. The Fed's gradual approach to reining in economic growth may have helped allay investor fears of higher longer-term rates, as long-term bond yields ended the year slightly lower despite rising short-term rates. As shorter- and longer-term interest rates began to converge, the yield curve flattened significantly.

An improving economy and rising corporate earnings contributed to the strong performance of lower-rated bonds. Among uninsured bonds in general and especially among bonds rated Baa and below, yield spreads tightened based on strong interest



among buyers in search of higher yields. Based on continued favorable legal rulings, spreads on tobacco settlement bonds narrowed overall for the year. Although airline-related industrial development bonds (IDBs) exhibited a high level of volatility and ended the year on price weakness amid bankruptcy filings by Northwest and Delta, they outperformed modestly for the period. On a geographic basis, municipal bonds issued in the territory of Puerto Rico, which are tax exempt in all states, under-performed during the period. Callable bonds (which can be redeemed by their issuers before maturity) outperformed non-callable bonds, as investors expect that callable bonds will generally be less sensitive to interest-rate increases.

# Strategy overview

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

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

### Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 11/30/05.

| | |
|---|---|
| Bonds | |
| Lehman Municipal Bond Index (tax-exempt bonds) | 3.90% |
| Lehman Aggregate Bond Index (broad bond market) | 2.40% |
| Lehman Government Bond Index (U.S. Treasury and agency securities) | 2.62% |
| JP Morgan Global High Yield Index (global high-yield corporate bonds) | 3.74% |
| Equities | |

| | |
|---|---|
| S&P 500 Index (broad stock market) | 8.44% |
| Russell 1000 Index (large-company stocks) | 9.96% |
| Russell 2000 Index (small-company stocks) | 8.14% |

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expectation that short-term rates would continue to rise, we reduced the fund□s positions in inverse floating-rate securities during the period. These securities pay additional interest income as short-term rates fall and less interest income when short-term rates rise. By decreasing the fund□s exposure to these securities, we took a more defensive position against rising short-term rates. The fund also benefited from its overweight position in lower-rated, higher-yielding bonds in comparison with other funds in its peer group, as this segment of the market outperformed during the period.

An overweight position in tobacco settlement bonds relative to the fund□s peer group contributed to results as this sector also outperformed. The fund□s relative underweight position in airline-related IDBs modestly detracted from relative results as this sector outperformed for the fiscal year amid high volatility. We increased the fund□s exposure to the single-family housing sector, as we believe rising interest rates and declining mortgage prepayments will help this sector outperform. The fund□s relative underweight position in municipal bonds issued in Puerto Rico helped results as this segment of the market underperformed for the period.

# Your fund□s holdings

During its fiscal year, your fund bene-fited from the pre-refunding of two bond holdings. Through pre-refunding, an

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

This chart compares changes in the fund□s duration (a measure of its sensitivity to interest-rate changes) and its average effective maturity (a weighted average of the holdings□ maturities).

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

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issuer brings new bonds to market at current lower interest rates to refinance older, higher-coupon debt. The issuer then invests the money in a secure investment, typically U.S. Treasury securities, which matures at the older bond□s first call date, when proceeds are used to pay off the older bonds. The added security that this approach provides is often seen as a credit upgrade by the market, and can increase the price investors are willing to pay for the old bonds. For example, in July, bonds issued by the **Arkansas State Hospital Development Finance Authority** for **Washington Regional Medical Center** in Fayetteville, Arkansas, were pre-refunded. Their original maturity date (when issued) was 2029 and they were pre-refunded to 2010, resulting in a credit-rating upgrade. Bonds issued by the **New York City Municipal Water and Sewer Financing Authority** were also pre-refunded in December 2004. The price of the bonds rose in response to the pre-refunding.

Throughout the period, we maintained our focus on **tobacco settlement bonds**, which helped your fund□s performance during its fiscal year. These bonds□ coupon payments are secured by income from the settlement obligations of tobacco companies to states and municipalities. A separate lawsuit brought in 1999 by the U.S. Department of Justice (DOJ) against the major tobacco companies -- seeking

## Credit quality overview

Credit qualities shown as a percentage of portfolio value as of 11/30/05. A bond rated Baa or higher is considered investment grade. The chart reflects Moody□s ratings; percentages may include bonds not rated by Moody's but considered by Putnam Management to be of comparable quality. Ratings will vary over time.

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billions of dollars that the DOJ insisted had been obtained fraudulently from the sale of cigarettes -- had posed a threat to this income stream. However, a ruling in February by a panel of the U.S. Circuit Court of Appeals for the District of Columbia against the federal government reassured investors by reducing the potential financial impact of the lawsuit and helping to boost demand and returns in this sector. The fund holds tobacco settlement bonds from several states, including **California, New Jersey, South Carolina, South Dakota, Washington,** and **Wisconsin**.

After underperforming significantly in most of 2004, **airline-related industrial development bonds (IDBs)** rebounded from formerly distressed levels. However, on the recommendation of Putnam□s analysts, we steered clear of IDBs issued for Delta Airlines and Northwest Airlines, which filed for bankruptcy in September 2005. While municipalities issue IDBs, the bonds are backed by the credit of the company or institution benefiting from the financing, and are consequently more likely to be affected by trends in the related industry than by the municipality□s creditworthi-ness. This market sector experienced volatility during the period, but it ultimately outperformed; as a result, our underweight position hindered results.

Bonds issued for **Lake Charles Memorial Hospital** in Louisiana also rose in value, reflecting the steps that the hospital is taking to improve its operation. We sold this holding by year-end to take profits.

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

# Of special interest

**Fund□s dividend reduced**

As certain higher-yielding bonds in the portfolio have matured, those assets have been reinvested into newer bonds, which in some cases carried lower yields. As a result, the fund□s earnings declined over the course of the fiscal year, resulting in two dividend adjustments. In December 2004, the dividend rate was adjusted from $0.0566 to $0.0498 per share. A second reduction in June 2005 brought the dividend to $0.0409 per share.

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## The outlook for your fund

The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team□s plans for responding to them.

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

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

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

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

*Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value.*

*The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.*

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# Your fund's performance

This section shows your fund's performance during its fiscal year, which ended November 30, 2005. In accordance with regulatory requirements for mutual funds, we also include performance for the most current calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

## Fund performance

Total return and comparative index results for periods ended 11/30/05

| | NAV | Market price | Lehman Municipal Bond Index | Lipper General Municipal Debt Funds (leveraged closed-end) category average* |
|---|---|---|---|---|
| Annual average | | | | |
| Life of fund | | | | |
| (since 10/26/89) | 7.49% | 6.01% | 6.85% | 7.38% |

| | | | | |
|---|---|---|---|---|
| 10 years | 78.04 | 40.96 | 74.50 | 84.63 |
| Annual average | 5.94 | 3.49 | 5.73 | 6.32 |
| 5 years | 40.22 | 34.33 | 33.35 | 45.12 |
| Annual average | 6.99 | 6.08 | 5.93 | 7.70 |
| 3 years | 27.51 | 6.69 | 15.33 | 24.76 |
| Annual average | 8.44 | 2.18 | 4.87 | 7.63 |
| 1 year | 6.67 | 2.26 | 3.90 | 6.61 |

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

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

**Over the 1-, 3-, 5-, and 10-year periods ended 11/30/05, there were 64, 59, 48, and 43 funds, respectively, in this Lipper category.*

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## Fund price and distribution information

For the 12-month period ended 11/30/05

| | | |
|---|---|---|
| Distributions -- per common share | | |
| Number | 12 | |
| Income[1] | $0.5511 | |
| Capital gains[2] | -- | |
| Total | $0.5511 | |
| Distributions -- per preferred share | Series A (1,400 shares) | |
| Income[1] | $2,340.13 | |
| Capital gains[2] | -- | |
| Total | $2,340.13 | |
| Common share value | NAV | Market price |

| | | |
|---|---|---|
| 11/30/04 | $10.73 | $9.67 |
| 11/30/05 | 10.81 | 9.34 |
| Current yield (common shares, end of period)<br>Current dividend rate[2] | 4.54% | 5.25% |
| Taxable equivalent[3] | 6.98 | 8.08 |

1 *For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.*

2 *Capital gains, if any, are taxable for federal and, in most cases, state purposes. Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.*

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

## Fund performance for most recent calendar quarter

Total return for periods ended 12/31/05

| | NAV | Market price |
|---|---|---|
| Annual average<br>Life of fund (since 10/26/89) | 7.53% | 6.06% |
| 10 years<br>Annual average | 77.97<br>5.93 | 40.63<br>3.47 |
| 5 years<br>Annual average | 39.21<br>6.84 | 30.35<br>5.44 |
| 3 years<br>Annual average | 25.23<br>7.79 | 6.70<br>2.18 |
| 1 year | 5.76 | 4.40 |

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# Your fund's management

Your fund is managed by the members of the Putnam Tax Exempt Fixed-Income Team. David Hamlin is the Portfolio Leader, and Paul Drury, Susan McCormack, and James St. John are Portfolio Members of your fund. The Portfolio Leader and Portfolio Members coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Tax Exempt Fixed-Income Team, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at www.putnam.com.

## Fund ownership by the Portfolio Leader and Portfolio Members

The table below shows how much the fund’s current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is as of November 30, 2005, and November 30, 2004.

| | | | $1 - | $10,001 - | $50,001 - | $100,001 - | $500,001 - | $1,000,001 |
|---|---|---|---|---|---|---|---|---|
| | Year | $0 | $10,000 | $50,000 | $100,000 | $500,000 | $1,000,000 | and over |
| David Hamlin | 2005 | | | | | | | |
| *Portfolio Leader* | 2004 |  | | | | | | |
| Paul Drury | 2005 |  | | | | | | |
| *Portfolio Member* | 2004 |  | | | | | | |
| Susan McCormack | 2005 |  | | | | | | |
| *Portfolio Member* | 2004 |  | | | | | | |
| James St. John | 2005 |  | | | | | | |
| *Portfolio Member* | 2004 |  | | | | | | |

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## Fund manager compensation

The total 2004 fund manager compensation that is attributable to your fund is approximately $60,000. This amount includes a portion of 2004 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2004 compensation paid to the Chief Investment Officer of the team and the Group Chief Investment Officer of the fund’s broader investment category for their oversight responsibilities, calculated based on the fund assets they oversee taken as a percentage of the total assets they oversee. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the fund’s fiscal period-end. For personnel who joined Putnam Management during or after 2004, the calculation reflects annualized 2004 compensation or an estimate of 2005 compensation, as applicable.

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

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

David Hamlin, Paul Drury, Susan McCormack, and James St. John may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

### Changes in your fund's Portfolio Leader and Portfolio Members

Your fund's Portfolio Leader and Portfolio Members did not change during the year ended November 30, 2005.



### Fund ownership by Putnam's Executive Board

The table below shows how much the members of Putnam's Executive Board have invested in the fund (in dollar ranges). Information shown is as of November 30, 2005, and November 30, 2004.

| | Year | $0 | $1 - $10,000 | $10,001 - $50,000 | $50,001- $100,000 | $100,001 and over |
|---|---|---|---|---|---|---|
| Philippe Bibi | 2005 | | | | | |
| *Chief Technology Officer* | 2004 |  | | | | |
| Joshua Brooks | 2005 |  | | | | |
| *Deputy Head of Investments* | N/A | | | | | |
| William Connolly | 2005 |  | | | | |
| *Head of Retail Management* | N/A | | | | | |
| Kevin Cronin | 2005 |  | | | | |
| *Head of Investments* | 2004 |  | | | | |
| Charles Haldeman, Jr. | 2005 | |  | | | |
| *President and CEO* | 2004 | |  | | | |
| Amrit Kanwal | 2005 |  | | | | |
| *Chief Financial Officer* | 2004 |  | | | | |
| Steven Krichmar | 2005 |  | | | | |
| *Chief of Operations* | 2004 |  | | | | |
| Francis McNamara, III | 2005 |  | | | | |

| | | |
|---|---|---|
| *General Counsel* | 2004 | |
| Richard Robie, III | 2005 | |
| *Chief Administrative Officer* | 2004 | |
| Edward Shadek | 2005 | |
| *Deputy Head of Investments* | N/A | |
| Sandra Whiston | 2005 | |
| *Head of Institutional Management* | N/A | |

*N/A indicates the individual was not a member of Putnam's Executive Board as of 11/30/04.*

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# Terms and definitions

## Important terms

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities and the net assets allocated to any outstanding preferred shares, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on exchanges such as the American Stock Exchange and the New York Stock Exchange.

## Comparative indexes

JP Morgan Global High Yield Index is an unmanaged index of global high-yield fixed-income securities.

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

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

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

Russell 1000 Index is an unmanaged index of the 1,000 largest companies in the Russell 3000 Index.

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

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

*Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.*

Lipper is a third-party industry-ranking entity that ranks mutual funds. Lipper rankings are based on total return at net asset value and do not reflect sales charges. Funds are ranked among other funds with similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

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# Trustee approval of management contract

## General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Management. In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not "interested persons" (as such term is defined in the Investment Company Act of 1940, as amended) of the Putnam funds (the "Independent Trustees"), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months beginning in March and ending in June 2005, the Contract Committee met five times to consider the information provided by Putnam Management and other information developed with the assistance of the Board's independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended and the Independent Trustees approved the continuance of your fund's management contract, effective July 1, 2005.

This approval was based on the following conclusions:

- That the fee schedule currently in effect for your fund, subject to certain changes noted below, represents reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and

- That such fee schedule represents an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements in prior years.

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## Model fee schedules and categories; total expenses

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

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

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

(a) 0.55% of the fund's average net assets (including assets attributable to both common and preferred shares)

or

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

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

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- Competitiveness. The Trustees also reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 53rd percentile in management fees and in the 53rd percentile in total expenses as of December 31, 2004 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of the Putnam funds continue to meet evolving competitive standards.

- Economies of scale. The Trustees concluded that the fee schedule currently in effect for your fund, subject to the changes noted above, represents an appropriate sharing of economies of scale at current asset levels. The Trustees examined the existing breakpoint structure of the Putnam funds' management fees in light of competitive industry practices. The Trustees considered various possible modifications to the Putnam funds' current breakpoint structure, but ultimately concluded that the current breakpoint structure continues to serve the interests of fund shareholders. Accordingly, the Trustees continue to believe that the fee schedules currently in effect for the funds, subject to the changes noted above, represent an appropriate sharing of economies of scale at current asset levels.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by Putnam Management and its affiliates from the relationship with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management and distribution services provided to the funds. In this regard, the Trustees also reviewed an analysis of Putnam Managements revenues, expenses and profitability with respect to the funds management contracts, allocated on a fund-by-fund basis.

## Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees evaluation of the quality of services provided by Putnam Management under your funds management contract. The Trustees were assisted in their review of the funds investment process and performance by the work of the Investment Oversight Committees of the Trustees, which meet on a regular monthly basis with the funds portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process -- as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel -- but also recognize that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing the funds performance with various benchmarks and with the performance of competitive funds. The



Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and continued to discuss with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of under-performance. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted.

In the case of your fund, the Trustees considered that your funds common share performance at net asset value was in the following percentiles of its Lipper Inc. peer group (compared using tax-adjusted performance to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions) for the one-, three- and five-year periods ended December 31, 2004 (the first percentile being the best-performing funds and the 100th percentile being the worst-performing funds):

| One-year period | Three-year period | Five-year period |
|---|---|---|
| 25th | 29th | 51st |

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

As a general matter, the Trustees believe that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees believe that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees believe that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees view, the alternative of terminating a management contract and engaging a new investment advisor for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

### Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include principally benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage is earmarked to pay for research services that may be utilized by a fund's investment advisor, subject to the obligation to seek best execution. The Trustees believe that soft-dollar credits and other potential benefits associated with the