

SECURITIES AND EXCHANGE COMMISSION

FORM PRE 14A

Preliminary proxy statement not related to a contested matter or merger/acquisition

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FILER

PUTNAM FEDERAL INCOME TRUST

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Business Address
ONE POST OFFICE SQ
BOSTON MA 02109
6172921492

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

/ X /

Filed by a Party other than the Registrant

/ /

CHECK THE APPROPRIATE BOX:

/ X / Preliminary Proxy Statement

/ / Preliminary Additional Materials

/ / Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to Sec. 240.14a-11(e) or
- ---- Sec. 240.14a-12

PUTNAM FEDERAL INCOME TRUST
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

/ x / \$125 per Exchange Act Rules 0-11(c) (1) (ii),
- ---- 14a-6(i) (1), or 14a-6(i) (2).

/ / \$500 per each party to the controversy pursuant
- ---- to Exchange Act Rule 14a-6(i) (3).

/ / Fee computed on table below per Exchange Act Rules
- ---- 14a-6(i) (4) and 0-11.

(1) Title of each class of securities to which
transaction applies:

(2) Aggregate number of securities to which
transaction applies:

(3) Per unit price or other underlying value of
transaction computed pursuant to Exchange Act Rule
0-11:

(4) Proposed maximum aggregate value of transaction:

/ / Check box if any part of the fee is offset as provided
- ---- by Exchange Act Rule 0-11(a) (2) and identify the filing
for which the offsetting fee was paid previously.
Identify the previous filing by registration statement
number, or the Form or Schedule and the date of its
filing.

- (1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

PUTNAM FEDERAL INCOME TRUST
ONE POST OFFICE SQUARE
BOSTON, MASSACHUSETTS 02109

February , 1994

Dear Shareholder:

You are cordially invited to attend the 1994 Meeting of
Shareholders of your Fund, which will be held on May 5, 1994 at

1:00 p.m., Boston time, on the eighth floor of One Post Office Square, Boston, Massachusetts.

The matters to be acted upon at the meeting -- (1) electing Trustees, (2) ratifying the Trustees' selection of Coopers & Lybrand as independent auditors of the Fund for its current fiscal year, (3) considering a proposal to eliminate the Fund's fundamental investment restriction with respect to investments in investment companies, (4) considering a proposal to amend the Fund's fundamental investment restriction with respect to investments in restricted securities and (5) considering a proposal to amend the Fund's Agreement and Declaration of Trust to permit the issuance of additional classes of shares -- ARE DESCRIBED IN THE ATTACHED NOTICE AND PROXY STATEMENT.

Although we would like very much to have each shareholder attend the 1994 Meeting, we realize this is not possible. Whether or not you plan to be present at the meeting, WE NEED YOUR VOTE. WE URGE YOU TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY CARD PROMPTLY. A POSTAGE-PAID ENVELOPE IS ENCLOSED FOR THIS PURPOSE.

If you return your proxy promptly, you can help your Fund avoid the expense of follow-up mailings to achieve a quorum so that the meeting can be held. If you decide between now and May that you can attend the meeting in person, you can revoke your proxy at that time and vote your shares at the meeting. If your shares are held in street name, only your bank or broker can vote your shares, and only upon receipt of your specific instructions. Please contact the person responsible for your account and instruct him or her to execute a proxy card today.

We look forward to seeing you at the meeting or receiving your proxy so that your shares may be voted at the meeting.

Sincerely yours,

/s/George Putnam
George Putnam, Chairman
PUTNAM FEDERAL INCOME TRUST

NOTICE OF THE 1994 MEETING OF SHAREHOLDERS

To The Shareholders of Putnam Federal Income Trust:

The 1994 Meeting of Shareholders of Putnam Federal Income Trust (the "Fund") will be held on May 5, 1994 at 1:00 p.m., Boston time, on the eighth floor of One Post Office Square, Boston, Massachusetts, for the following purposes:

1. Electing Trustees, as described in Part I of the attached Proxy Statement. (p.)
2. Ratifying or rejecting the selection of independent accountants as auditors for the Fund for the current fiscal year, as described in Part II of the attached Proxy Statement. (p.)
3. Approving or disapproving a proposal to eliminate the Fund's fundamental investment restriction with respect to investments in investment companies, as described in Part III of the attached Proxy Statement. (p.)
4. Approving or disapproving a proposal to amend the Fund's fundamental investment restriction with respect to investments in restricted securities, as described in Part IV of the attached Proxy Statement. (p.)
5. Approving or disapproving a proposal to amend the Fund's Agreement and Declaration of Trust to permit the issuance of additional classes of shares, as described in Part V of the attached Proxy Statement. (p.)
6. Such other matters as may properly come before the meeting.

By the Trustees

GEORGE PUTNAM, CHAIRMAN
WILLIAM F. POUNDS, VICE CHAIRMAN
JAMESON A. BAXTER DONALD S. PERKINS
HANS H. ESTIN WILLIAM F. POUNDS
JOHN A. HILL GEORGE PUTNAM, III
ELIZABETH T. KENNAN A.J.C. SMITH

February , 1994

WE URGE YOU TO MARK, SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE SO YOU WILL BE REPRESENTED AT THE MEETING.

PUTNAM FEDERAL INCOME TRUST
ONE POST OFFICE SQUARE
BOSTON, MASSACHUSETTS 02109

PROXY STATEMENT

THE ENCLOSED PROXY IS SOLICITED BY THE TRUSTEES OF PUTNAM FEDERAL INCOME TRUST (the "Fund") for use at the 1994 Meeting of Shareholders to be held on May 5, 1994, and at any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting of Shareholders. Shareholders of record at the close of business on February 11, 1994 are entitled to be present and to vote at the meeting or any adjourned session thereof. The Notice of Meeting, proxy and this Proxy Statement have been mailed to such shareholders of record on or about February , 1994.

A copy of the Annual Report of the Fund for its most recent fiscal year, including financial statements, has previously been mailed to shareholders. A representative of Coopers & Lybrand, auditors of the Fund, is expected to be present at the meeting with the opportunity to make statements and to respond to appropriate questions.

Each share of beneficial interest is entitled to one vote. Shares represented by duly executed proxies will be voted for the election of the persons named herein as Trustees, unless such authority has been withheld. With respect to the other matters specified in the proxy, shares will be voted in accordance with the instructions made. If no instructions are made, the proxy will be voted for the matters specified in the proxy. Proxies may be revoked at any time before they are voted by a written revocation received by the Clerk of the Fund, by properly executing a later-dated proxy or by attending the meeting and voting in person.

I. ELECTION OF TRUSTEES

The Trustees have fixed the number of Trustees for election at this meeting at eleven. The nominees for Trustees of the Fund who are proposed for election at the meeting, their ages, and a description of their principal occupations are set forth below. All the nominees have been recommended by the Nominating Committee, which consists solely of Trustees who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Fund or Putnam Investment Management, Inc., the Fund's investment manager ("Putnam Management"). All the nominees are presently Trustees of the Fund. Each of the current Trustees was elected by the shareholders in July, 1991 (except for Messrs. Lasser and Thorndike, who were elected by the Trustees effective January 1, 1992, Mrs. Kennan, who was elected by the Trustees effective May 7, 1992 and Mrs. Baxter, who was elected by the Trustees effective January 6, 1994). All of the Trustees are also Trustees of all of the other open-end Putnam funds. Except as shown, the principal occupations and business experience for the last five years of the nominees have been with the employers indicated, although in some cases they have held different positions with such employers.

The term of office of each person elected as a Trustee will be until the next meeting held for the purpose of electing Trustees and until his or her successor is elected and qualified. Each of the nominees has agreed to serve as a Trustee if elected. If any of the nominees should be unavailable for election at the time of the meeting (which is not presently anticipated), the persons named as proxies may vote for other persons in their discretion, or the Trustees may vote to fix the number of Trustees at fewer than eleven.

NOMINEE	PRINCIPAL OCCUPATION FOR LAST FIVE YEARS
Jameson Adkins Baxter (50)	President, Baxter Associates, Inc. Prior to 1992 Vice President and Principal, Regency Group, Inc. and Consultant, The First Boston

Corporation. Also, Director, Banta Corporation, International Acoustics, Inc., ASHTA Chemicals, Inc. and B3 Systems. Trustee, Mount Holyoke College and Emma Willard School. Member, Governing Council, Good Shepherd Hospital.

Hans H. Estin (65)

Vice Chairman, North American Management Corp. (a registered investment adviser). Also, Director, The Boston Company, Inc. and Boston Safe Deposit and Trust Company. Member, Massachusetts General Hospital. Trustee, New England Aquarium.

John A. Hill (52)

Chairman and Managing Director, First Reserve Corporation (a registered investment adviser). Prior to 1989, General Partner, Meridien Capital Corporation (a venture capital investment firm). Also, Director, Lantana Corporation, Snyder Oil Corporation, Maverick Tube Corporation, Hattiesburg Gas Corporation and various First Reserve Funds.

Elizabeth T. Kennan (55)

President, Mount Holyoke College. Also, Director, NYNEX Corporation, Northeast Utilities and the Kentucky Home Life Insurance Companies. Trustee, University of Notre Dame.

*Lawrence J. Lasser (51)

Vice President of the Putnam funds. President, Chief Executive Officer and Director of Putnam Investments, Inc. and Putnam Management. Director, Marsh & McLennan Companies, Inc. and INROADS/Central New England Inc. Member, Board of Overseers, Museum of Science, Boston and Museum of Fine Arts, Boston. Also, Trustee, Beth Israel Hospital, Buckingham, Browne and Nichols School and (ex officio) Isabella Stewart Gardner Museum.

PRINCIPAL OCCUPATION
FOR LAST FIVE YEARS

NOMINEE

Robert E. Patterson (48)

Executive Vice President of Cabot Partners Limited Partnership (a registered investment adviser to institutional clients in the acquisition and management of their real estate portfolios). Also, Trustee, Joslin Diabetes Center. From May, 1987 to October, 1990, Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (predecessor of Cabot Partners Limited Partnership).

Donald S. Perkins (66)

Director of various corporations, including American Telephone & Telegraph Company, AON Corp., Cummins Engine Company, Inc., Illinois Power Co., Inland Steel Industries, Inc., K mart Corporation, LaSalle Street Fund, Inc., Springs Industries, Inc., TBG, Inc., and Time Warner Inc. Also, Trustee and Vice Chairman, Northwestern University. Chairman, The Hospital Research and Education Trust. Member, The Business Council. Founding Chairman, the Civic Committee of the Commercial Club of Chicago.

William F. Pounds (65)

Vice Chairman. Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology. Director, IDEXX, M/A-COM, Inc., EG&G, Inc., Fisher-Price Inc., and Sun Company, Inc. Also, Overseer, Museum of Fine Arts, Boston and WGBH Educational Foundation.

PRINCIPAL OCCUPATION FOR LAST FIVE YEARS

NOMINEE

*George Putnam (67)

Chairman and President of the Putnam funds. Chairman and Director of Putnam Management and Putnam Mutual Funds Corp. Also, Director, The Boston Company, Inc., Boston Safe Deposit and Trust Company, Freeport-McMoRan, Inc., General Mills, Inc., Houghton Mifflin Company, Marsh & McLennan Companies, Inc., and Rockefeller Group, Inc. Trustee, Massachusetts General Hospital, McLean Hospital, Vincent Memorial Hospital, WGBH Educational Foundation, The Colonial Williamsburg Foundation and Museum of Fine Arts, Boston.

*George Putnam, III (42)

President, New Generation Research, Inc. (publisher of bankruptcy information). Director, World Environment Center. Also, Trustee, Sea Education Association.

*A.J.C. Smith (59)

Chairman and Chief Executive Officer, Marsh & McLennan Companies, Inc. Also, Trustee of The American Institute for Chartered Property Casualty Underwriters, The Employee Benefit Research Institute, the Central Park Conservancy, and the Carnegie Hall Society.

*Nominees who are "interested persons" (as defined in the Investment Company Act of 1940) of the Fund, Putnam Management, and Putnam Mutual Funds Corp. ("Putnam Mutual Funds"), the principal underwriter for all the open-end Putnam funds and an affiliate of Putnam Management. Mr. Putnam, Mr. Lasser and Mr. Smith are deemed "interested persons" of the Fund, Putnam Management and Putnam Mutual Funds by virtue of their positions as officers of the Fund or officers or directors of Putnam Management, Putnam Mutual Funds, or their parent, Marsh & McLennan Companies, Inc., or their ownership of stock of Marsh & McLennan Companies, Inc. Mr. George Putnam, III, Mr. Putnam's son, is also an "interested person" of the Fund, Putnam Management and Putnam Mutual Funds. The balance of the nominees are not "interested persons."

W. Nicholas Thorndike (60)

Director of various corporations and charitable organizations, including Providence Journal Co. and Courier Corporation. Also, Trustee and President, Massachusetts General Hospital. Trustee, Bradley Real Estate Trust and Eastern Utilities Associates. Prior to December, 1988, Mr. Thorndike was Chairman of the Board and Managing Partner of Wellington Management Company/Thorndike, Doran, Paine & Lewis (a registered investment adviser).

Each Trustee of the Fund receives an annual fee, and an additional fee for each Trustees' meeting attended. Trustees who are not "interested persons" of Putnam Management and who serve on committees of the Trustees receive additional fees for attendance at certain committee meetings. The annual fee paid, the number of Trustees' meetings held and the aggregate fees paid to all Trustees are set forth in "Trustees and Officers

Information" below.

The Fund's Trustees have approved Retirement Guidelines for Trustees of the Putnam funds. These guidelines provide generally that a Trustee who retires after reaching age 72 and who has at least 10 years of continuous service will be eligible to receive a retirement benefit from each Putnam fund for which he or she served as a Trustee. The amount and form of such benefit is subject to determination annually by the Trustees and, except as otherwise determined by the Trustees, will be an annual cash benefit equal to one-half of the Trustee retainer paid by the Fund at the time of retirement. Several retired Trustees of the Fund are currently receiving retirement benefits pursuant to these Guidelines and it is anticipated that the current Trustees of the Fund will receive similar benefits upon their retirement. The Trustees of the Fund reserve the right to amend or terminate such Guidelines and the related payments at any time, and may modify or waive the foregoing eligibility requirements when deemed appropriate.

The Agreement and Declaration of Trust of the 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 arising by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his or her duties. The Fund, at its expense, provides liability insurance for the benefit of its Trustees and officers.

AUDIT AND NOMINATING COMMITTEES. The voting members of the Audit Committee of the Fund include only Trustees who are not "interested persons" of the Fund or Putnam Management. The Audit Committee recommends to the Trustees the independent public accountants to be selected for the Fund. It also reviews the performance, scope of work and compensation of such accountants, and reviews with such accountants the quality, accounting controls, procedures and adequacy of the accounting services rendered to the Fund by Putnam Management and by the Fund's investor servicing agent and custodian. The Audit Committee reports to the Trustees the results of its inquiries. The Audit Committee currently consists of Messrs. Estin (Chairman), Perkins, Putnam, III (without vote), Smith (without vote) and Mrs. Kennan.

The Nominating Committee consists only of Trustees who are not "interested persons" of the Fund or Putnam Investment Management. It recommends to the Trustees persons to be elected as Trustees and as Chairman, Vice Chairman, President and certain other officers of the Fund. The Nominating Committee will consider individuals proposed by a shareholder for election as a Trustee. Shareholders wishing to submit the name of any individual must submit in writing a brief description of the proposed nominee's business experience and other information relevant to the qualifications of the individual to serve as a Trustee of the Fund. The Nominating Committee currently consists of Mrs. Kennan and Dr. Pounds (Co-chairmen), and Messrs. Estin, Hill, Patterson, Perkins and Thorndike.

The number of meetings of the Audit and Nominating Committees in the Fund's most recent fiscal year is set forth in "Trustees and Officers Information" below.

TRUSTEES AND OFFICERS INFORMATION

The shareholdings of each Trustee in the Fund are shown below. Unless noted below, each Trustee has sole investment power and sole voting power with respect to his or her shares of the Fund and no Trustee owns 1% or more of the outstanding shares of the Fund.

YEAR FIRST ELECTED AS TRUSTEES	OWNERSHIP OF SHARES OF THE TRUSTEE	OWNERSHIP OF SHARES OF ALL PUTNAM FUNDS AS OF 1/14/94	AS OF 1/14/94*
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Jameson A. Baxter	1994		
Hans H. Estin	1986		
John A. Hill	1986		
Elizabeth T. Kennan	1992		
Lawrence J. Lasser	1992		
Robert E. Patterson	1986		
Donald S. Perkins	1986		
William F. Pounds	1986		
George Putnam	1986		
George Putnam, III	1986		
A.J.C. Smith	1986		
W. Nicholas Thorndike		1992	

* Does not include shares owned in Putnam Capital Manager Trust, Putnam Daily Dividend Trust, Putnam Tax Exempt Money Market Fund, Putnam California Tax Exempt Money Market Fund, and Putnam New York Tax Exempt Money Market Fund.

As of January 14, 1994, the Trustees and officers of the Fund owned in aggregate _____ shares of the Fund comprising _____ % of the outstanding shares of the Fund on that date. With respect to _____ of these shares which are held for their individual accounts in the Putnam Investments, Inc. Profit Sharing Retirement Plan, certain Trustees who are "interested persons" of the Fund and Putnam Management and certain officers of the Fund each individually has sole investment power and shared voting power. With respect to the remainder of these shares, the Trustees and officers individually have sole investment power and sole voting power.

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1993

MEETINGS OF THE TRUSTEES DURING THE YEAR

Full Board of Trustees meetings:	11
Audit Committee meetings:	3
Nominating Committee meetings:	3

TRUSTEES' FEES

Annual retainer fee per Trustee:	\$
Additional attendance fee per Trustees' meeting:	\$
Aggregate fees paid to all Trustees for the year*:	\$

*Includes both annual fees and fees for attendance at Trustees' meetings and certain meetings of committees of the Trustees. These committees include: Compensation, Legal, Administration; Audit; Closed-End Funds; Distribution; Pricing/Brokerage/Special Investments; Communication and Service; Contract; Executive; Board Policy and Nominating; and Proxy.

In addition to George Putnam and Lawrence J. Lasser, the officers of the Fund are Charles E. Porter, Executive Vice President, Patricia C. Flaherty, Senior Vice President, Gordon H. Silver, Gary N. Coburn, Alan J. Bankart, Kenneth J. Taubes, Max S. Senter (Messrs. Taubes and Senter are the Fund's Portfolio Managers), William N. Shiebler (President of Putnam Mutual Funds), John R. Verani and Paul M. O'Neil, each of whom serves as a Vice President, John D. Hughes, Vice President and

Treasurer, and Beverly Marcus, Clerk of the Fund. All of the officers of the Fund are employees of Putnam Management or its affiliates. Because of their positions with Putnam Management or its affiliates or their ownership of stock of Marsh & McLennan Companies, Inc. (the parent corporation of Putnam Management and Putnam Mutual Funds), Messrs. Putnam, George Putnam, III, Lasser and Smith (nominees for Trustees of the Fund), as well as the officers of the Fund, will benefit from the management fees, distribution fees, underwriting commissions, custodian fees, and investor servicing fees paid or allowed by the Fund.

PUTNAM INVESTMENT MANAGEMENT, INC. Putnam Management and its affiliates, Putnam Mutual Funds, the principal underwriter for shares of the Fund, and Putnam Fiduciary Trust Company, the Fund's investor servicing agent and custodian, are wholly owned by Putnam Investments, Inc., One Post Office Square, Boston, Massachusetts 02109, a holding company that is in turn wholly owned by Marsh & McLennan Companies, Inc., which has executive offices at 1166 Avenue of the Americas, New York, New York 10036. Marsh & McLennan Companies, Inc. and its operating subsidiaries are professional services firms with insurance and reinsurance brokering, consulting and investment management businesses. A certified balance sheet of Putnam Management as of December 31, 1992 is attached to this Proxy Statement as Exhibit A-1, and an uncertified balance sheet of Putnam Management as of September 30, 1993 is attached hereto as Exhibit A-2. To Putnam Management's knowledge, there has been no material adverse change in its financial condition since September 30, 1993. Proxies solicited by the Trustees for the meeting will not be voted for approval of any proposal to be voted on by the shareholders unless (a) (1) in the Trustees' judgment, there has been no material adverse change in Putnam Management's financial condition between September 30, 1993 and December 31, 1993, and (2) the Fund has received a certificate from the President or a Senior Vice President of Putnam Management, dated May 5, 1994, that, to his or her knowledge, there has been no material adverse change in Putnam Management's financial condition since December 31, 1993, except as otherwise disclosed to the shareholders in additional proxy solicitation materials, or (b) the Fund shall have mailed to all shareholders of record a certified balance sheet of Putnam Management as of December 31, 1993 and given the shareholders the opportunity to revoke any proxies previously furnished.

The directors of Putnam Management are George Putnam, Lawrence J. Lasser and Gordon H. Silver. Mr. Lasser is the principal executive officer of Putnam Management. The principal occupations of Messrs. Putnam, Lasser and Silver are as officers and directors of Putnam Management and certain of its corporate affiliates. The address of Putnam Management and the business address of the directors and officers of Putnam Management is One Post Office Square, Boston, Massachusetts 02109.

In addition to its services to the Fund, Putnam Management acts as investment adviser or subadviser of other publicly-owned investment companies having differing investment objectives.

Putnam Management is also affiliated with The Putnam Advisory Company, Inc., which together with subsidiaries furnishes investment advice to domestic and foreign institutional clients and foreign mutual funds. Another affiliate, Putnam Fiduciary Trust Company, provides investment advice to institutional clients under its banking and fiduciary powers. The advisory fees charged by such firms to their institutional clients are generally at lower rates than those charged the Putnam funds. The services performed and responsibilities assumed by these firms for such clients are, however, not as extensive as those performed or assumed by Putnam Management for the Putnam funds.

Some officers and directors of Putnam Management, including some who are officers of the Fund, serve as officers or directors of some of these affiliates. Putnam Management may also enter into other businesses.

THE MANAGEMENT CONTRACT. Putnam Management serves as investment manager of the Fund pursuant to a Management Contract. The management fee payable under the Contract is based on the following annual rates: 0.75% of the first \$100 million of average net assets, 0.65% of the next \$100 million, 0.55% of the next \$300 million, 0.45% of the next \$500 million, and 0.40% of any amount over \$1.0 billion, subject to reduction in any year by the amount of certain brokerage commissions and fees (less expenses) received by affiliates of Putnam Management on the

Fund's portfolio transactions. Management fees are payable quarterly, based on the average net assets of the Fund as determined at the close of each business day. Such fees are in addition to the compensation of Trustees and certain officers and other expenses borne by the Fund. The compensation payable to Putnam Management is subject to reduction or reimbursement to the extent that expenses of the Fund in any fiscal year exceed the limits on investment company expenses imposed by any statute or regulatory authority in any jurisdiction where shares of the Fund are qualified for offer and sale. The term "expenses" is defined in the statutes and regulations of such jurisdictions and, generally speaking, excludes brokerage commissions, taxes, interest and extraordinary expenses. The only limitation in effect as of the date of this Proxy Statement is 2.5% of the first \$30 million of average net assets, 2% of the next \$70 million and 1.5% of the remaining average net assets. The fee payable to Putnam Management is also subject to reduction by the amount of certain possible commissions, fees, brokerage or similar payments received by Putnam Mutual Funds, less expenses approved by the Trustees of the Fund, in respect of purchases and sales of the Fund's portfolio investments. The fees paid to Putnam Management in the most recent fiscal year are shown in "Fund Information" below.

Under the Contract, subject to such policies as the Trustees may determine, Putnam Management, at its expense, furnishes continuously an investment program for the Fund and makes investment decisions on behalf of the Fund. Subject to the control of the Trustees, Putnam Management manages, supervises and conducts the other affairs and business of the 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 brokerage and research services of value to Putnam Management and its affiliates in advising the Fund and other clients. In so doing, Putnam Management may cause the Fund to pay greater brokerage commissions than it might otherwise pay. See "Brokerage and research services" below.

The Fund also pays, or reimburses Putnam Management for, the compensation and related expenses of certain officers of the Fund and their assistants. Currently, the Fund is reimbursing Putnam Management for a portion of the compensation and related expenses of certain officers of the Fund who provide certain administrative services to the Fund and the other Putnam funds, each of which bears an allocated share of the costs. The aggregate amount of all such payments and reimbursements is determined annually by the Trustees, and the amount paid in the most recent fiscal year is set forth in "Fund Information" below. Putnam Management pays all other salaries of officers of the Fund. The Fund pays all expenses not assumed by Putnam Management including, without limitation, auditing, legal, custodial, investor servicing agent and shareholder reporting expenses.

The Contract provides that Putnam Management shall not be subject to any liability to the Fund or to any shareholder of the Fund for any act or omission in the course of or connected with rendering services thereunder in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

The Contract may be terminated without penalty upon 30 days' written notice by Putnam Management, by the Trustees of the Fund, or by the affirmative vote of the holders of a "majority of the outstanding voting securities" of the Fund (as defined in the Investment Company Act of 1940). It may be amended only by an affirmative vote of the holders of a majority of the outstanding voting securities of the Fund and by a majority of the Trustees who are not "interested persons" of the Fund or Putnam Management.

The Contract will terminate automatically if it is assigned, or unless its continuance is approved at least annually by either the Trustees or shareholders of the Fund and in either case by a majority of the Trustees who are not "interested persons" of Putnam Management or the Fund.

INVESTMENT DECISIONS. Investment decisions for the Fund and for the other investment advisory clients of Putnam Management and its affiliates are made with a view to achieving each

client's respective investment objectives. Investment decisions are the product of many factors in addition to basic suitability for the particular client involved. Thus, a particular security may be bought and sold for clients even though it could have been bought or sold for other clients at the same time. Likewise, a particular security may be bought for some clients when other clients are selling the security. In some cases, one client may sell a particular security to another client. When two or more clients simultaneously purchase or sell the same security, each day's transactions in the security are, insofar as possible, averaged as to price and allocated between the clients in a manner which in the opinion of Putnam Management is equitable to each and in accordance with the total amount of the security being purchased or sold by each. There may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients.

BROKERAGE AND RESEARCH SERVICES. Transactions on U.S. stock exchanges, commodities markets and futures markets and other agency transactions involve the payment by the Fund of negotiated brokerage commissions. Such commissions vary among different brokers. A particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in foreign investments often involve the payment of fixed brokerage commissions, which may be higher than those in the United States. There is generally no stated commission in the case of securities traded in the over-the-counter markets, but the price paid by the Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by the Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. It is anticipated that most purchases and sales of securities by funds investing primarily in certain fixed-income securities will be with the issuer or with underwriters of or dealers in those securities, acting as principal. Accordingly, those funds would not ordinarily pay significant brokerage commissions with respect to securities transactions.

It has for many years been a common practice in the investment advisory business for advisers of investment companies and other institutional investors to receive brokerage and research services (as defined in the Securities Exchange Act of 1934, as amended (the "1934 Act")), from broker-dealers that execute portfolio transactions for the clients of such advisers and from third parties with which such broker-dealers have arrangements. Consistent with this practice, Putnam Management receives brokerage and research services and other similar services from many broker-dealers with which Putnam Management places the Fund's portfolio transactions and from third parties with which these broker-dealers have arrangements. These services include such matters as general economic and market reviews, industry and company reviews, evaluations of investments, recommendations as to the purchase and sale of investments, newspapers, magazines, pricing services, quotation services, news services and personal computers utilized by Putnam Management's managers and analysts. Where the services referred to above are not used exclusively by Putnam Management for research purposes, Putnam Management, based upon its own allocations of expected use, bears the portion of the cost of these services that directly relates to their non-research use. 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. The management fee paid by the Fund is not reduced because Putnam Management and its affiliates receive these services even though Putnam Management might otherwise be required to purchase some of these services for cash.

Putnam Management places all orders for the purchase and sale of portfolio investments for the Fund and buys and sells investments for the Fund through a substantial number of brokers and dealers. In so doing, Putnam Management uses its best efforts to obtain for the Fund the most favorable price and execution 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, Putnam Management, having in mind the Fund's best interests, considers all factors it deems relevant, including, by way of illustration, price, the size 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.

As permitted by Section 28(e) of the 1934 Act, and by the Management Contract, Putnam Management may cause the Fund to pay a broker-dealer that provides "brokerage and research services" (as defined in the 1934 Act) 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 which 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 also subject to such policies as the Trustees may adopt from time to time. Putnam Management does not currently intend to cause the Fund to make such payments. It is the position of the staff of the Securities and Exchange Commission that Section 28(e) does not apply to the payment of such greater commissions in "principal" transactions. Accordingly, Putnam Management will use its best efforts to obtain the most favorable price and execution available with respect to such transactions, as described above.

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 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.

Consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and subject to seeking the most favorable price and execution available and such other policies as the Trustees may determine, Putnam Management may consider sales of shares of the Fund (and, if permitted by law, of the other Putnam funds) as a factor in the selection of broker-dealers to execute portfolio transactions for the Fund.

PAYMENTS TO AFFILIATES OF PUTNAM MANAGEMENT. Putnam Mutual Funds is the principal underwriter of shares of the Fund and of the other continuously offered Putnam funds. Putnam Fiduciary Trust Company is the Fund's investor servicing agent and custodian. The amount of sales charges retained by Putnam Mutual Funds and the investor servicing fees and custodian fees paid to Putnam Fiduciary Trust Company in the Fund's most recent fiscal year are set forth in "Fund Information" below.

Under the terms of its Distribution Plan, the Fund compensates Putnam Mutual Funds at the annual rate of up to 0.35% of the average net assets of the Fund, although a limit of 0.25% is currently in effect. Payments under the Distribution Plan compensate Putnam Mutual Funds for service provided and expenses incurred by it in promoting the sale of shares of the Fund, reducing redemptions or maintaining or improving services provided to shareholders by Putnam Mutual Funds or by dealers. The fee paid to Putnam Mutual Funds under the Plan in the Fund's most recent fiscal year is set forth in "Fund Information" below.

FUND INFORMATION

ASSETS OF THE FUND; SHARES OUTSTANDING

Net assets of the Fund as of January 14, 1994	\$
Shares of the Fund outstanding and authorized to vote as of February 11, 1994	shares
Persons beneficially owning more than 5% of the Fund's shares as of January 31, 1994	

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1993

MANAGEMENT CONTRACT

The Management Contract dated December 21, 1988 was approved by the shareholders on December 20, 1988 and was last approved by the Trustees on January 7, 1994.

Management fee paid to Putnam

Management for the fiscal year \$

Reimbursement paid by the Fund to Putnam Management for compensation, related expenses and employee benefit plan contributions for the Fund's Executive Vice President (Charles E. Porter), Senior Vice President (Patricia C. Flaherty), Clerk (Beverly Marcus) and those who assist them \$

PAYMENTS TO AFFILIATES

Sales charges on sales of Fund shares retained by Putnam Mutual Funds after payments to selling broker-dealers \$

Payments under Rule 12b-1 Plan to Putnam Mutual Funds \$

Investor servicing and custodian fees paid to Putnam Fiduciary Trust Company (after application of credits) \$

BROKERAGE

Total Fund payments to broker-dealers as commissions on agency transactions \$

Total Fund payments to broker-dealers as commissions on underwritten transactions \$

The Fund placed agency and underwritten transactions having an approximate aggregate dollar value of \$ (% of the Fund's agency and underwritten transactions, on which approximately \$ of commissions were paid) with brokers and dealers whose research, statistical and quotation services Putnam Management considered to be particularly useful to it and its affiliates. However, many of such transactions were placed with such brokers and dealers without regard to the furnishing of such services.

II. RATIFICATION OR REJECTION OF SELECTION OF INDEPENDENT AUDITORS

Coopers & Lybrand, One Post Office Square, Boston, Massachusetts, independent accountants, has been selected by the Trustees as auditors of the Fund for the current fiscal year. Unless otherwise indicated, the proxy will be voted in favor of ratifying the selection of Coopers & Lybrand as auditors.

III. APPROVAL OR DISAPPROVAL OF THE ELIMINATION OF THE FUND'S FUNDAMENTAL INVESTMENT RESTRICTION WITH RESPECT TO INVESTMENTS IN INVESTMENT COMPANIES

The Fund currently has a fundamental investment restriction that prohibits the Fund from investing in the securities of other registered investment companies, except as they may be acquired as part of a merger or consolidation or acquisition of assets.

From time to time new investment vehicles arise that would assist the Fund in meeting its investment objective but that may be registered investment companies (as defined in the Investment Company Act of 1940) (the "1940 Act") and therefore prohibited by the Fund's investment restrictions. Generally, the credit support for these securities is the issuer of a bond that has been purchased by a trust or other pass-through entity. This entity, which is registered under the 1940 Act as a unit investment trust, in turn sells securities. Even though the securities that are issued by such pass-through entities may involve the duplication of some fees and expenses, Putnam Management believes that they may provide attractive investment opportunities that, except for the restriction stated above, would be consistent with the Fund's investment objective and policies. However, the issuers of such securities may be registered investment companies because they are organized as unit investment trusts, which invest solely in the underlying bonds. To permit maximum flexibility to take advantage of future investment opportunities, the Trustees, therefore, recommend that the Fund's fundamental investment restriction with respect to investments in investment companies be eliminated.

If shareholders approve the elimination of this restriction, the Trustees intend to adopt a more flexible non-fundamental

investment restriction that would prohibit investments by the Fund in registered open-end investment companies such as the Fund, but not investments in other entities that might otherwise be registered investment companies, such as the unit investment trusts mentioned above. Such a non-fundamental investment restriction could be amended or eliminated by the Trustees without a shareholder vote.

The Trustees recommend changing the fundamental investment restriction with respect to investments in investment companies to a non-fundamental policy (with the language to be added shown in (()) to provide that the Fund may not:

Invest in the securities of other registered ((open-end)) investment companies, except as they may be acquired as part of a merger or consolidation or acquisition of assets.

REQUIRED VOTE. Approval of this proposal will require the affirmative vote of a "majority of the outstanding voting securities" of the Fund, which for this purpose means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Fund, or (2) 67% or more of the shares of the Fund present at the meeting if more than 50% of the Fund's outstanding shares are present at the meeting in person or by proxy.

If the shareholders do not approve the proposal, the fundamental investment restriction of the Fund with respect to investments in investment companies will remain unchanged.

IV. APPROVAL OR DISAPPROVAL OF AN AMENDMENT TO THE FUND'S FUNDAMENTAL INVESTMENT RESTRICTION WITH RESPECT TO INVESTMENTS IN RESTRICTED SECURITIES

The Trustees recommend that the Fund's fundamental investment restriction with respect to restricted securities be revised to permit the Fund to invest a greater portion of its assets in securities restricted as to resale under the federal securities laws ("restricted securities"). Putnam Management has recommended the proposed change to the Trustees because it believes that the increased flexibility will assist the Fund in achieving its investment objective.

The Fund's current investment restrictions prohibit it from investing more than 10% of its net assets in restricted securities. In order to permit maximum flexibility in investing the Fund's assets, the proposed amendment would raise the current limit from 10% to 15% of the Fund's net assets that may be invested in such securities and would exclude from the restriction certain restricted securities that are readily marketable. Putnam Management believes that the proposed amendment would benefit the Fund by permitting it to respond to regulatory and market developments regarding restricted securities.

The Securities and Exchange Commission ("SEC") has long taken the position that an open-end investment company should limit its investments in illiquid securities because such securities may present problems of accurate valuation and because it is possible that the investment company would have difficulty satisfying redemptions within seven days. In general, illiquid securities have included restricted securities and those securities for which there is no readily available market. While it had been the SEC's position that an open-end investment company should not invest more than 10% of its assets in illiquid securities, the SEC has recently revised its position to permit an open-end investment company to invest up to 15% of its net assets in illiquid securities.

In recognition of the increased size and liquidity of the institutional markets for unregistered securities and the importance of institutional investors in the capital formation process, the SEC has also adopted Rule 144A, which is designed to facilitate efficient trading of restricted securities among institutional investors. Rule 144A allows for an even broader institutional trading market for restricted securities. In adopting Rule 144A, the SEC specifically stated that restricted securities traded under Rule 144A may be treated as liquid for purposes of investment limitations if the trustees of an investment company determine that the securities are, in fact, liquid. The Trustees of the Fund have delegated to Putnam Management the daily function of determining and monitoring

liquidity of restricted securities. The Trustees, however, will retain general oversight and be ultimately responsible for the determinations.

As the securities markets evolve and new types of instruments are developed, Putnam Management believes that the Fund's present restriction may become overbroad and unnecessarily restrictive. The fact that a security may be restricted will not necessarily adversely affect either the liquidity of such investment or the ability of the Fund to determine the value of such investment. As institutional markets develop, the Fund would be constrained by its current investment restriction even though the institutional restricted securities markets could provide both readily ascertainable values for restricted securities and the ability to reduce an investment to cash in order to satisfy Fund share redemption orders on a timely basis.

In order to be able to take advantage of these regulatory initiatives and the increasingly liquid institutional trading markets for restricted securities, the Trustees recommend that the proposed amendments to the Fund's fundamental restriction be adopted by shareholders to increase the current limit from 10% to 15% of the Fund's net assets that may be invested in restricted securities and to provide that certain restricted securities that are nonetheless liquid may be purchased without regard to the 15% limit. If the proposed amendment is approved, this investment practice could have the effect of increasing the level of illiquidity of the Fund's portfolio securities to the extent that institutional investors become uninterested, for a time, in purchasing these restricted securities.

Certain state securities laws may limit the ability of the Fund to invest in restricted securities, including restricted securities that are readily marketable.

The Trustees recommend changing the fundamental investment restriction with respect to restricted securities (with the language to be deleted shown in // //, and the language to be added shown in (())) to provide that the Fund may not:

Purchase securities the disposition of which is restricted under federal securities laws, if as a result such investments would exceed //10%// ((15%)) of the value of the Fund's net assets.

REQUIRED VOTE. Approval of this proposal will require the affirmative vote of a "majority of the outstanding voting securities" of the Fund, which for this purpose means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Fund, or (2) 67% or more of the shares of the Fund present at the meeting if more than 50% of the Fund's outstanding shares are present at the meeting in person or by proxy.

If shareholders do not approve the proposal, the fundamental investment restriction of the Fund with respect to investments in restricted securities will remain unchanged.

V. APPROVAL OR DISAPPROVAL OF AMENDMENTS TO THE FUND'S AGREEMENT AND DECLARATION OF TRUST TO PERMIT ISSUANCE OF ADDITIONAL CLASSES OF SHARES

The Agreement and Declaration of Trust of the Fund (the "Declaration of Trust") currently provides for the issuance of one class of shares with each share representing an equal proportionate interest in the Fund. The Trustees recommend that they be authorized to amend the Declaration of Trust to permit the Trustees, without further shareholder action, to issue one or more additional classes of shares having such preferences and special or relative rights and privileges as the Trustees may determine.

The purpose of these amendments would be to permit the Fund to take advantage of alternative methods of selling Fund shares. At present the Fund's shares generally are sold to investors at a public offering price which includes a sales charge. The Fund and its principal underwriter, Putnam Mutual Funds, are currently considering offering new investors the option of buying Fund shares at net asset value without an initial sales charge. Shares sold on this basis would be subject to a contingent deferred sales charge on redemption and would bear the cost of ongoing distribution fees paid to Putnam Mutual Funds for its services and expenses in connection with the sale of such shares, including commissions paid to investment dealers, which would

likely be higher than the level of the Fund's current distribution fee.

The creation of one or more separate classes of shares for this purpose would permit the Trustees to allocate costs associated with the distribution of such shares to those investors who elect this optional method of purchasing shares without an initial sales charge. SHAREHOLDERS WHO CURRENTLY OWN SHARES OF THE FUND WOULD NOT BEAR ANY PORTION OF SUCH COSTS.

Any such additional class of shares would participate in all other respects on an equal proportionate basis with all other classes of shares, including as to investment income, realized and unrealized gains and losses on portfolio investments and all other operating expenses of the Fund. All classes of shares will generally vote together as a single class at meetings of shareholders, except that shares of a class which is affected by any matter materially differently from shares of other classes will vote as a separate class and that holders of shares of a class not affected by a matter will not vote on that matter.

The Trustees believe that providing investors this alternative method of purchasing Fund shares may lead to increased sales of shares, resulting in greater investment flexibility for the Fund and, to the extent of any increase in the size of the Fund, possible reductions in operating expense ratios due to economies of scale--thus benefiting both existing and future shareholders.

The proposed amendments would permit the creation of additional classes of shares for other purposes as well. While the Fund has no present intention of creating additional classes of shares for purposes other than as described above, it may choose to do it at any time if the proposal is approved.

REQUIRED VOTE. Approval of this proposal will require the affirmative vote of a majority of the outstanding shares of the Fund.

If shareholders do not approve the proposal, the Agreement and Declaration of Trust will remain unchanged.

VI. MISCELLANEOUS

QUORUM AND METHODS OF TABULATION. Thirty percent of the shares entitled to vote, present in person or represented by proxy, constitutes a quorum for the transaction of business with respect to such proposals at the Meeting. Votes cast by proxy or in person at the meeting will be counted by persons appointed by the Trust as tellers for the Meeting.

The eleven nominees for election as Trustees at the Meeting who receive the greatest number of votes properly cast for the election of Trustees shall be elected Trustees. A majority of the votes properly cast on the matter is necessary to ratify the selection of independent auditors.

The tellers will count the total number of votes cast "for" approval of the proposals 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. With respect to the election of Trustees and selection of auditors, neither abstentions nor broker non-votes have any effect on the outcome of the proposal. With respect to other proposals, abstentions and broker non-votes have the effect of a negative vote on the proposal.

OTHER BUSINESS. The Trustees know of no other business to be brought before the meeting. However, if any other matters properly come before the meeting, it is their intention that proxies that do not contain specific restrictions to the contrary will be voted on such matters in accordance with the judgment of the persons named as proxies in the enclosed form of proxy.

SIMULTANEOUS MEETINGS. The meeting of shareholders of the Fund is called to be held at the same time as the meetings of shareholders of certain of the other Putnam funds. It is anticipated that all meetings will be held simultaneously. If

any Fund shareholder at the meeting objects to the holding of a simultaneous meeting and moves for an adjournment of the meeting to a time promptly after the simultaneous meetings, the persons named as proxies will vote in favor of such adjournment.

SOLICITATION OF PROXIES. In addition to the solicitation of proxies by mail, Trustees of the Fund and employees of Putnam Management, Putnam Fiduciary Trust Company and Putnam Mutual Funds may solicit proxies in person or by telephone. The Fund may also arrange to have votes recorded by telephone. If this procedure were subject to a successful legal challenge, such votes would not be counted at the meeting. Persons holding shares as nominees will upon request be reimbursed for their reasonable expenses in sending soliciting material to their principals. The Fund has retained at its expense _____, to aid in the solicitation of nominee accounts for a fee not to exceed \$ _____ plus reasonable out-of-pocket expenses.

DATE FOR RECEIPT OF SHAREHOLDERS' PROPOSALS FOR SUBSEQUENT MEETINGS OF SHAREHOLDERS. The Fund's Agreement and Declaration of Trust does not provide for annual meetings of shareholders, and the Fund does not currently intend to hold such a meeting in 1995. Shareholder proposals for inclusion in the proxy statement for any subsequent meeting must be received by the Fund within a reasonable period of time prior to any such meeting.

ADJOURNMENT. If sufficient votes in favor of any of the proposals set forth in the Notice of the Meeting are not received by the time scheduled for the meeting, the persons named as proxies may propose one or more adjournments of the meeting for a period or periods of not more than 60 days in the aggregate to permit further solicitation of proxies with respect to any of such proposals. 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 such proposals. They will vote against any such adjournment those proxies required to be voted against any of such proposals. The Fund pays the costs of any additional solicitation and of any adjourned session.

SCHEDULE A

MANAGEMENT FEE RATE	NAME OF FUND (NET ASSETS AS OF JANUARY 14, 1994)
0.35% of average net assets	Putnam Capital Manager Trust: PCM Money Market Fund (\$)
-----	-----
0.45% of the first \$500 million of average net assets, 0.35% of the next \$500 million, 0.30% of the next \$500 million, and 0.25% of any excess over \$1.5 billion	Putnam California Tax Exempt Money Market Fund (\$) Putnam New York Tax Exempt Money Market Fund (\$) Putnam Tax Exempt Money Market Fund (\$)
-----	-----
0.50% of the first \$100 million of average net assets, 0.40% of the next \$100 million, 0.35% of the next \$300 million, 0.325% of the next \$500 million, and 0.30% of any excess over \$1.0 billion	Putnam Daily Dividend Trust (\$)
-----	-----
0.50% of the first \$100 million of average net assets, 0.40% of the next \$100 million, and 0.35% of any excess over \$200 million	Putnam Income Fund (\$)
-----	-----
0.50% of the first \$500 million of average net assets, 0.43% of the next \$500 million, 0.39%	Putnam Municipal Opportunities Trust (\$) Putnam Investment Grade Intermediate

of the next \$500 million,
and 0.35% of any excess
over \$1.5 billion

Municipal Trust
(\$)

Putnam Investment Grade Municipal
Trust III
(\$)

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

MANAGEMENT FEE RATE

0.55% of the first
\$500 million of average
net assets, 0.48% of the
next \$500 million, 0.44%
of the next \$500 million,
and 0.40% of any excess
over \$1.5 billion

Putnam Managed High Yield Trust
(\$)

0.60% of average net
assets

Putnam Capital Manager Trust:
PCM Diversified Income Fund
(\$)

PCM Global Growth Fund
(\$)

PCM Growth and Income Fund
(\$)

PCM High Yield Fund
(\$)

PCM U.S. Government and High
Quality Bond Fund
(\$)

PCM Asset Allocation Fund
(\$)

PCM Utilities Growth and Income
Fund
(\$)

PCM Voyager Fund
(\$)

0.60% of the first \$1.0
billion, 0.50% of the
next \$500 million, and
0.45% of any excess over
\$1.5 billion

Putnam Balanced Government Fund
(\$)

MANAGEMENT FEE RATE

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

0.60% of the first \$500
million of average net
assets, 0.50% of the next
\$1.0 billion, 0.45% of
the next \$1.0 billion,
0.40% of the next \$4.5
billion, 0.375% of the
next \$2.5 billion, and
0.35% of any excess over
\$9.5 billion

Putnam American Government Income
Fund
(\$)

0.60% of the first \$500
million of average net
assets, 0.50% of the
next \$500 million, 0.45%
of the next \$500 million,
and 0.40% of any excess
over \$1.5 billion

Putnam Adjustable Rate U.S.
Government Fund
(\$)
Putnam Arizona Tax Exempt Income Fund
(\$)

Putnam California Tax Exempt Income
Fund
(\$)

Putnam Florida Tax Exempt Income Fund
(\$)

Putnam Massachusetts Tax Exempt
Income Fund II
(\$)

Putnam Michigan Tax Exempt Income
Fund II
(\$)

Putnam Minnesota Tax Exempt Income
Fund II
(\$)

Putnam New Jersey Tax Exempt Income
Fund
(\$)

Putnam New York Tax Exempt Income
Fund
(\$)

Putnam Ohio Tax Exempt Income Fund II
(\$)

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

MANAGEMENT FEE RATE

Putnam Pennsylvania Tax Exempt Income
Fund
(\$)

Putnam Tax Exempt Income Fund
(\$)

Putnam Tax-Free Income Trust:
Putnam Tax-Free Insured Fund
(\$)

Putnam Texas Tax Exempt Income Fund
(\$)

Putnam U.S. Government Income Trust
(\$)

0.60% of the first \$100 million of average net assets, 0.50% of the next \$100 million, 0.40% of the next \$300 million, 0.325% of the next \$500 million, and 0.30% of any excess over \$1.0 billion

The George Putnam Fund of Boston
(\$)

0.65% of the first \$500 million of average net assets, 0.55% of the next \$500 million, and 0.45% of any excess over \$1.5 billion

Putnam Capital Appreciation Fund
(\$)

Putnam Capital Growth and Income Fund
(\$)

Putnam Corporate Asset Trust
(\$)

Putnam Dividend Growth Fund
(\$)

The Putnam Fund for Growth and Income
(\$)

Putnam Growth Fund
(\$)

Putnam Investors Fund
(\$)

Putnam Managed Income Trust
(\$)

MANAGEMENT FEE RATE

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

Putnam Municipal Income Fund
(\$)

Putnam New York Tax Exempt

Opportunities Fund
(\$)

Putnam Research Analysts Fund
(\$)

Putnam Vista Fund
(\$)

0.70% of average net assets Putnam High Yield Municipal Trust*
(\$)

Putnam Investment Grade Municipal Trust**
(\$)

Putnam Tax-Free Health Care Fund
(\$)

*If dividends payable on the Trust's Preferred Shares during any dividend payment period plus expenses attributable to the Preferred Shares for that period exceed the portion of the Trust's net income attributable to the liquidation value of the Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than an amount equal to 0.70% of the liquidation preference of the Preferred Shares outstanding during the period).

**If dividends payable on the Trust's Preferred Shares during any dividend period plus expenses attributable to the Preferred Shares for that period exceed the portion of the Trust's net income and net short-term capital gains (but not long-term capital gains) attributable to the investment of the proceeds of the Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than an amount equal to 0.70% of the liquidation preference of the Preferred Shares outstanding during the period).

MANAGEMENT FEE RATE	NAME OF FUND (NET ASSETS AS OF JANUARY 14, 1994)
0.70% of the first \$500 million of average net assets, 0.60% of the next \$500 million, 0.55% of the next \$500 million, and 0.50% of any excess over \$1.5 billion	Putnam California Investment Grade Municipal Trust* (\$)
	Putnam Diversified Income Trust (\$)
	Putnam Energy-Resources Trust (\$)
	Putnam Health Sciences Trust (\$)
	Putnam High Yield Trust (\$)
	Putnam Investment Grade Municipal Trust II* (\$)
	Putnam Asset Allocation Funds (\$)
	Putnam Managed Municipal Income Trust** (\$)
	Putnam New Opportunities Fund (\$)

*If dividends payable on the Trust's Remarketed Preferred Shares during any dividend payment period plus any expenses attributable to the Remarketed Preferred Shares for that period exceed the Trust's net income attributable to the liquidation value of the

Remarketed Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess, but not more than .70% (or such lower percentage as reflects the applicable reduction in the management fee if the net asset value of the Trust exceeds \$500 million) of the liquidation preference of the Remarketed Preferred Shares outstanding during the period.

**If dividends payable on the Trust's Preferred Shares during any dividend period plus expenses attributable to the Preferred Shares for that period exceed the portion of the Trust's net income and net short-term capital gains (but not long-term capital gains) attributable to the investment of the proceeds of the Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than an amount equal to 0.70% of the liquidation preference of the Preferred Shares outstanding during the period).

MANAGEMENT FEE RATE	NAME OF FUND (NET ASSETS AS OF JANUARY 14, 1994)
	Putnam OTC Emerging Growth Fund (\$)
	Putnam New York Investment Grade Municipal Trust* (\$)
	Putnam Utilities Growth and Income Fund (\$)
	Putnam Voyager Fund (\$)

0.75% of the first \$500 million of average net assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million, and 0.55% of any excess over \$1.5 billion	Putnam Dividend Income Fund** (\$)
	Putnam High Income Convertible and Bond Fund (\$)

*If dividends payable on the Trust's Preferred Shares during any dividend payment period plus any expenses attributable to the Preferred Shares for that period exceed the Trust's net income attributable to the liquidation value of the Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess, but not more than .70% (or such lower percentage as reflects the applicable reduction in the management fee if the net asset value of the Trust exceeds \$500 million) of the liquidation preference of the Preferred Shares outstanding during that period.

**If dividends payable on the Fund's Preferred Shares during any dividend payment period plus any expenses attributable to the Preferred Shares for that period, as determined by the Trustees, exceed the portion of the Fund's net income and net short-term capital gains (but not long-term capital gains) attributable to the proceeds of the Preferred Shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than the fee that otherwise would have been payable to Putnam Management for such period attributable to the aggregate liquidation preference of the Preferred Shares outstanding during the period).

MANAGEMENT FEE RATE	NAME OF FUND (NET ASSETS AS OF JANUARY 14, 1994)
	Putnam Intermediate Government Income Trust (\$)
	Putnam Master Income Trust (\$)
	Putnam Master Intermediate Income Trust (\$)
	Putnam Premier Income Trust (\$)

0.75% of the first \$100 million of average net assets, 0.65% of the next \$100 million, 0.55% of the next \$300 million, 0.45% of the next \$500 million, and 0.40% of any excess over \$1.0 billion

Putnam Federal Income Trust
(\$)

0.75% of the first \$100 million of average net assets, 0.65% of the next \$100 million, 0.55% of the next \$300 million, 0.50% of the next \$1.0 billion, 0.45% of the next \$1.0 billion, and 0.40% of any excess over \$2.5 billion

Putnam Equity Income Fund
(\$)

MANAGEMENT FEE RATE

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

0.80% of the first \$500 million of average net assets, 0.70% of the next \$500 million, 0.65% of the next \$500 million, and 0.60% of any excess over \$1.5 billion

Putnam Asia Pacific Growth Fund
(\$)
Putnam Europe Growth Fund
(\$)
Putnam Global Governmental Income Trust
(\$)
Putnam Global Growth Fund
(\$)

Putnam Overseas Growth Fund
(\$)

0.70% of the first \$100 million of average net assets, 0.60% of the next \$100 million, 0.50% of the next \$300 million, 0.45% of the next \$500 million, and 0.425% of any excess over \$1.0 billion

Putnam Convertible Income-Growth Trust
(\$)
Putnam High Yield Advantage Fund
(\$)
Putnam Tax-Free Income Trust:
Putnam Tax-Free High Yield Fund
(\$)

Proposed to be changed to 0.65% of the first \$500 million of average net assets, 0.55% of the next \$500 million, 0.50% of the next \$500 million, and 0.45% of any excess over \$1.5 billion

MANAGEMENT FEE RATE

NAME OF FUND
(NET ASSETS AS OF JANUARY 14, 1994)

0.635% of average net assets

Nomura Dividend Income Fund, Inc.
(\$)

0.75% of the first \$200 million of average net assets, 0.70% of the next \$200 million, and 0.68% of any excess over \$400 million

Lincoln National Putnam Master Fund, Inc.*
(\$)

%50 of average net assets

CIGNA Annuity Equity Fund
(\$)
CIGNA Annuity Growth and Income Fund
(\$)
CIGNA Annuity Aggressive Equity Fund

FUNDS IN REGISTRATION OR IN INITIAL PUBLIC OFFERING AS OF JANUARY 14, 1994:

Putnam Qualified Dividend Income Fund
(\$0)

*Management fee paid by the Fund to its investment advisor. Putnam Management, as subadvisor, receives annually from the investment advisor the greater of (a) \$40,000 or (b) 0.47% of the first \$200 million of average net assets, 0.42% of the next \$200 million, and 0.40% of any excess over \$400 million.

GENERAL. Except for fees paid by Putnam OTC Emerging Growth Fund and Putnam Tax-Free Income Trust, all of the above fees are payable quarterly, based on the average net assets of the fund as determined at the close of each business day (or for Putnam Intermediate Government Income Trust, Putnam High Yield Municipal Trust, Putnam Investment Grade Municipal Trust, Putnam Managed Municipal Income Trust, Putnam Investment Grade Intermediate Municipal Trust, Putnam High Income Convertible and Bond Fund, Putnam Managed High Yield Trust, Putnam Master Income Trust, Putnam Master Intermediate Income Trust, Putnam Premier Income Trust, Putnam Dividend Income Fund, Putnam Tax-Free Health Care Fund, Putnam Investment Grade Municipal Trust II, Putnam Investment Grade Municipal Trust III, Putnam California Investment Grade Municipal Trust, Putnam Municipal Opportunities Trust, Putnam New York Investment Grade Municipal Trust, and Nomura Dividend Income Fund, Inc., at the close of each business week) during the quarter, at the annual rates shown. For Putnam OTC Emerging Growth Fund and Putnam Tax-Free Income Trust, fees are payable monthly at the end of each month, based on valuations during the month. For the Putnam funds, such fees are in addition to the compensation of Trustees and certain officers and other expenses borne by each fund, as described in the Proxy Statement under "The Management Contract."

Except for fees paid by Nomura Dividend Income Fund, Inc., the compensation payable to Putnam Management is subject to reduction or reimbursement to the extent that expenses of a fund in any fiscal year exceed the limits on investment company expenses imposed by any statute or regulatory authority in any jurisdiction where shares of the fund are qualified for offer and sale. The term "expenses" is defined in the statutes and regulations of such jurisdictions and, generally speaking, excludes brokerage commissions, taxes, interest and extraordinary expenses. The only limitation in effect as of the date of this Proxy Statement is 2.5% of the first \$30 million of average net assets, 2% of the next \$70 million and 1.5% of the remaining average net assets. The fee payable to Putnam Management is also subject to reduction by the amount of certain possible commissions, fees, brokerage or similar payments received by Putnam Mutual Funds, less expenses approved by the Trustees of the fund in respect of purchases and sales of fund portfolio investments.

ADDITIONAL REDUCTIONS APPLICABLE TO CERTAIN FUNDS. In the case of certain funds, the Management Contracts provide that Putnam Management's compensation shall be reduced to the extent that annual expenses of the fund exceed any expense limitation which Putnam Management may, by written notice to the fund, declare to be effective. Currently, Putnam Management has assumed the following expense limitations:

0.80% of average daily net assets for the following fund:

Putnam Balanced Government Fund

0.90% of average daily net assets for the following fund:

Putnam Texas Tax Exempt Income Fund

1.00% of average daily net assets for the following funds:

Putnam Growth Fund
Putnam Capital Appreciation Fund
Putnam Capital Growth and Income Fund
CIGNA Annuity Equity Fund
CIGNA Annuity Growth and Income Fund
CIGNA Annuity Aggressive Equity Fund

1.20% of average daily net assets for the following fund:

Putnam Capital Manager Trust:
PCM Diversified Income Fund

1.50% of average daily net assets for the following fund:

Putnam Research Analysts Fund

and 1.90% of average daily net assets for the following funds:

Putnam Asia Pacific Growth Fund
Putnam Overseas Growth Fund

Expenses subject to the foregoing limitations are generally exclusive of brokerage commissions, interest, taxes, deferred organizational and extraordinary expenses, if any, and expenses incurred pursuant to Distribution Plan(s), if any, under SEC Rule 12b-1.

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EXHIBIT A

PUTNAM INVESTMENT MANAGEMENT, INC.
BALANCE SHEET
DECEMBER 31, 1992

ASSETS:	NOTES	
Cash.....		\$ 300
Investments.....	2	50,000
Investment management fees receivable....		42,500,239
Accounts receivable from affiliates.....	6	8,231,201
Prepaid expenses and other assets.....		1,919,451
Property and equipment - net.....	2, 3	2,902,616

TOTAL ASSETS.....		\$55,603,807
		=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses....	5	\$12,804,260
Accounts payable to affiliate.....	6	181,206

Total liabilities.....		12,985,466

STOCKHOLDER'S EQUITY:		
Common stock - \$1 par value; authorized and outstanding, 1,000 shares.....		1,000
Paid-in surplus.....		4,696,665
Retained earnings.....		37,920,676

Total stockholder's equity.....		42,618,341

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY.....		\$55,603,807
		=====

See notes to balance sheet.

PUTNAM INVESTMENT MANAGEMENT, INC.

NOTES TO BALANCE SHEET

1. CORPORATE AFFILIATION

Putnam Investment Management, Inc., formerly The Putnam Management Company, Inc., (the Company) is a wholly-owned subsidiary of Putnam Investments, Inc., formerly The Putnam Companies, Inc., (the Parent), which is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. (MMC).

The Company's primary business is to provide investment advisory services to Putnam-sponsored mutual funds. In

connection with providing these services, the Company receives a management fee which is based upon the average net asset value of the respective fund to which the services are provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

Investments consist of time deposits held by an affiliate. Investments are recorded at the lower of cost or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Office and data processing equipment are depreciated using the straight-line method over their estimated useful lives of four to ten years. Leasehold improvements are amortized using the straight-line method over ten years or the period covered by the lease, whichever is less. Additions, renewals and betterments of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to income when incurred.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Office and data processing equipment.....	\$ 2,785,939	
Less accumulated depreciation.....		(1,952,916)

Total.....	833,023	

Leasehold improvements.....	3,922,612	
Less accumulated amortization.....		(1,853,019)

Total.....	2,069,593	

Property and equipment - net.....	\$ 2,902,616	
	=====	

4. INCOME TAXES

In 1992, the Company adopted STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 109 - ACCOUNTING FOR INCOME TAXES (SFAS 109). In accordance with the provisions of SFAS 109, the Company records a current liability or asset for the estimated taxes payable or refundable on tax returns for the current year and a deferred tax liability or asset for the estimated future tax effects attributable to temporary differences.

The Company, through MMC, files its federal tax return as a member of a consolidated group. The Parent allocates its current and deferred tax provision or benefit to the Company in a manner which is representative of how the Company would compute its provision as a separate entity.

Under an agreement with its Parent, the Company pays its Parent each month for the amount of its net current and deferred tax provision. If the Company has a net tax benefit, the Parent pays the Company that amount. The Parent then assumes responsibility for the payment of all taxes in accordance with federal, state and local laws. As a result of this agreement, the Company has no current or deferred tax liability or asset reflected in its balance sheet at December 31, 1992.

5. EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLAN

The Company, its Parent and affiliates sponsor a profit-sharing plan (the Plan) covering substantially all employees, providing for annual contributions as determined by the Board of Directors. The Company's provision is limited to the maximum amount deductible under the Internal Revenue Code. Contributions payable to the Plan at December 31, 1992 were \$426,000.

RETIREE HEALTH CARE PLAN

MMC provides a health care plan which covers all eligible retirees of the Company and its affiliates. The Parent subsidizes a portion of the cost of the plan. In 1992, the Parent allocated its cost of the plan to the Company and its affiliates in a manner which management believed reflected the

actual cost of the plan on a cash basis.

In 1992, the Parent adopted STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 106 - EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (SFAS 106). This statement requires the Parent to account for the cost of the plan on an accrual basis instead of a cash basis. The transition obligation related to adopting SFAS 106 was absorbed by the Parent.

6. RELATED PARTY TRANSACTIONS

The Company shares office facilities and personnel with other wholly-owned subsidiaries of the Parent. Accordingly, the related costs of such arrangements have been allocated among the various subsidiaries in a manner which management believes is representative of the actual costs incurred.

Accounts receivable from affiliates primarily represents advances made to the Parent in connection with the Parent's cash management policy.

In 1992, the Company paid a dividend of \$70,000,000 to the Parent.

INDEPENDENT AUDITORS' REPORT

Putnam Investment Management, Inc.

We have audited the accompanying balance sheet of Putnam Investment Management, Inc., formerly The Putnam Management Company, Inc. (a wholly-owned subsidiary of Putnam Investments, Inc., formerly The Putnam Companies, Inc.) as of December 31, 1992. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Putnam Investment Management, Inc. at December 31, 1992 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE

March 18, 1993
Boston, Massachusetts

EXHIBIT A-2

PUTNAM INVESTMENT MANAGEMENT, INC.
BALANCE SHEET
SEPTEMBER 30, 1993
(UNAUDITED)

ASSETS:	
Cash	\$ 300
Investments (note 2)	50,000
Investment management fees receivable	57,545,441
Accounts receivable from affiliates (note 6)	76,289,965
Prepaid expenses and other assets	3,453,641
Property and equipment - net (notes 2 & 3)	4,485,402

TOTAL ASSETS	\$141,824,749
	=====

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Accounts payable and accrued expenses (note 5)	\$ 24,925,578
Accounts payable to affiliate	938

TOTAL LIABILITIES	24,926,516

STOCKHOLDER'S EQUITY:

Common stock - \$1 par value; authorized and outstanding, 1,000 shares	1,000
Paid-in surplus	4,696,665
Retained earnings	112,200,568

TOTAL STOCKHOLDER'S EQUITY	116,898,233

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$141,824,749
	=====

See notes to balance sheet.

PUTNAM INVESTMENT MANAGEMENT, INC.

NOTES TO BALANCE SHEET
(Unaudited)

1. CORPORATE AFFILIATION

Putnam Investment Management, Inc. (the Company) is a wholly-owned subsidiary of Putnam Investments, Inc., (the Parent), which is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. (MMC).

The Company's primary business is to provide investment advisory services to Putnam-sponsored mutual funds. In connection with providing these services, the Company receives a management fee which is based upon the average net asset value of the respective fund to which the services are provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments - Investments consist of time deposits held by an affiliate. Investments are recorded at the lower of cost or market.

Property and Equipment - Property and equipment are recorded at cost. Office and data processing equipment are depreciated using the straight-line method over their estimated useful lives of four to ten years. Leasehold improvements are amortized using the straight-line method over ten years or the period covered by the lease, whichever is less. Additions, renewals and betterments of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to income when incurred.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Office and data processing equipment	\$ 3,465,917
Less accumulated depreciation	(2,169,511)

	1,296,406

Leasehold improvements	5,356,264
Less accumulated amortization	(2,167,268)

	3,188,996

Property and equipment - net	\$ 4,485,402
	=====

4. INCOME TAXES

In accordance with the provisions of STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 109 - ACCOUNTING FOR INCOME TAXES, the Company records a current liability or asset for the estimated taxes payable or refundable on tax returns for the current year and a deferred tax liability or asset for the estimated future tax effects attributable to temporary differences.

The Company, through MMC, files its federal tax return as a member of a consolidated group. The Parent allocates its current and deferred tax provision or benefit to the Company in a manner which is representative of how the Company would compute its provision as a separate entity.

Under an agreement with the Parent, the Company pays the Parent each month for the amount of its net current and deferred tax provision. If the Company has a net tax benefit, the Parent pays the Company that amount. The Parent then assumes responsibility for the payment of all taxes in accordance with federal, state and local laws. As a result of this agreement, the Company has no current or deferred tax liability or asset reflected in its balance sheet at September 30, 1993.

5. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Company, its Parent and affiliates sponsor a profit-sharing plan (the Plan) covering substantially all employees, providing for annual contributions as determined by the Board of Directors. Contributions payable to the Plan at September 30, 1993 were \$457,000.

Retiree Health Care Plan

MMC provides a health care plan which covers all eligible retirees of the Company and its affiliates. The Parent subsidizes a portion of the cost of the plan. The Parent allocates its cost of the plan to the Company and its affiliates in a manner which management believes reflects the actual cost of the plan on an accrual basis.

6. RELATED PARTY TRANSACTIONS

The Company shares office facilities and personnel with other wholly-owned subsidiaries of the Parent. Accordingly, the related costs of such arrangements have been allocated among the various subsidiaries in a manner which management believes is representative of the actual costs incurred.

Accounts receivable from affiliates primarily represents advances made to the Parent in connection with the Parent's cash management policy.

PUTNAM FEDERAL INCOME TRUST

PROXY BALLOT

PROXY FOR THE MEETING OF
SHAREHOLDERS, MAY 5, 1994

THIS PROXY IS SOLICITED ON BEHALF OF THE TRUSTEES OF THE FUND.

The undersigned hereby appoints George Putnam, Hans H. Estin and William F. Pounds, and each of them separately, proxies, with power of substitution, and hereby authorizes them to represent and to vote, as designated below, at the Meeting of Shareholders of Putnam Federal Income Trust on May 5, 1994, at 1:00 p.m., Boston time, and at any adjournments thereof, all of the shares of the Fund which the undersigned would be entitled to vote if personally present.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ELECTING TRUSTEES AS SET FORTH IN PROPOSAL 1 AND FOR PROPOSALS 2, 3, 4 AND 5. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

PLEASE VOTE AND SIGN ON OTHER SIDE AND RETURN PROMPTLY IN ENCLOSED ENVELOPE.

NOTE: Please sign exactly as name appears on this card. All joint owners should sign. When signing as executor, administrator, attorney, trustee or guardian or as custodian for a minor, please give full title as such. If a corporation, please sign in full corporate name and indicate the signer's office. If a partner, sign in the partnership name.

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Please mark your choices / X / in blue or black ink.

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(Control #)

THE TRUSTEES RECOMMEND A VOTE FOR ELECTING ALL OF THE NOMINEES FOR TRUSTEES AND FOR THE PROPOSALS LISTED BELOW.
1. ELECTION OF TRUSTEES: NOMINEES: PROPOSAL TO: FOR AGAINST ABSTAIN
FOR electing all the J. A. Baxter 2. RATIFY THE SELECTION OF COOPERS & LYBRAND AS AUDITORS.
2. APPROVE THE ELIMINATION OF THE FUND'S FUNDAMENTAL INVESTMENT RESTRICTION WITH RESPECT TO INVESTMENTS IN INVESTMENT COMPANIES.
3. APPROVE AN AMENDMENT TO THE FUND'S FUNDAMENTAL INVESTMENT RESTRICTION WITH RESPECT TO INVESTMENTS IN RESTRICTED SECURITIES.
4. APPROVE AMENDMENTS TO THE FUND'S AGREEMENT AND DECLARATION OF TRUST TO PERMIT THE ISSUANCE OF ADDITIONAL CLASSES OF SHARES.

Please be sure to sign and date this Proxy. (Account #) (Shares #)
Date
Shareholder sign here Co-owner sign here
Please fold at perforation before detaching

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(Detachable attachment to proxy card; Page 3 is on the same side as page 1; and Page 4 is on the reverse side, i.e., the same side as Page 2.)

(Putnam Logo)

CHANGE OF ADDRESS NOTIFICATION. Please use this form to inform us of any change in address or telephone number or to provide us with your comments. Detach this form from the Proxy Ballot and return it with your executed Proxy in the enclosed envelope.

<C> HAS YOUR ADDRESS CHANGED? <C> DO YOU HAVE ANY COMMENTS?
Telephone

Dear Shareholder: (Name and Address)

YOUR VOTE IS IMPORTANT. Please help us to eliminate the expense of follow-up mailings by executing and returning this Proxy as soon as possible. A postage-paid business reply envelope is enclosed for your convenience.

Thank you!

(Account #)

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