

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1995-07-28** | Period of Report: **1995-05-31**
SEC Accession No. **0000915707-95-000039**

([HTML Version](#) on secdatabase.com)

FILER

PUTNAM CAPITAL APPRECIATION FUND

CIK: **902475** | State of Incorporation: **MA** | Fiscal Year End: **1231**
Type: **N-30D** | Act: **40** | File No.: **811-07061** | Film No.: **95556819**

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PUTNAM
 CAPITAL
 APPRECIATION
 FUND

ANNUAL REPORT

MAY 31, 1995

[LOGO]

BOSTON * LONDON * TOKYO

PERFORMANCE HIGHLIGHTS

One broad trend may help to explain the current market rally: the dramatic moves many domestic companies have made to become more efficient. As Business Week noted in a June 19, 1995 article, "After years of massive restructuring, U.S. industry has reduced its overhead, enhanced productivity, and learned how to compete in the global market."

FISCAL 1995 RESULTS AT A GLANCE

<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
		CLASS A		CLASS B	
TOTAL RETURN		NAV	POP	NAV	CDSC

(change in value during period plus reinvested distributions)

12 months ended 5/31/95	15.61%	8.92%			
Life of Class B (since 11/2/94)				11.55%	6.55%

SHARE VALUE:	NAV	POP	NAV
	CLASS A		CLASS B

5/31/94	\$10.74	\$11.40	
11/2/94	--	--	\$11.08
5/31/95	12.24	12.99	12.19

CAPITAL GAINS

DISTRIBUTIONS	NO.	INCOME	LONG-TERM	SHORT-TERM	TOTAL
Class A	1	\$0.030	--	\$0.122	\$0.152

<FN>
Performance data represent past results and reflect an expense limitation in effect during the period. Without the limitation, results would have been lower. Performance will differ for each share class. For performance over longer periods, see pages 8 and 9. POP assumes 5.75% maximum sales charge. CDSC assumes 5% maximum contingent deferred sales charge.
</TABLE>

FROM THE CHAIRMAN

[PHOTO OF GEORGE PUTMAN]
(C) KARSH, OTTAWA

DEAR SHAREHOLDER:

THE STOCK MARKET MADE A REMARKABLE LEAP OUT OF THE DOLDRUMS DURING THE SIX MONTHS ENDED MAY 31, 1995. PUTNAM CAPITAL APPRECIATION FUND CLEARLY WAS AMONG THE BENEFICIARIES OF THIS TURNABOUT, AS YOU CAN SEE BY THE RESULTS FOR FISCAL 1995 ON THE FACING PAGE.

DURING MOST OF THE PERIOD, HOWEVER, THE MARKET TENDED TO FAVOR STOCKS OF LARGER, MORE ESTABLISHED COMPANIES. YOUR FUND SEEKS OUT STOCKS WITH ABOVE-AVERAGE PROSPECTS FOR CAPITAL GROWTH. OFTEN THESE ARE STOCKS OF SMALLER AND MEDIUM-SIZED COMPANIES. FUND MANAGER GERALD ZUKOWSKI HAS POSITIONED THE PORTFOLIO IN A WAY HE BELIEVES WILL DERIVE THE MOST BENEFIT FROM ANY RISE IN STOCKS OF SMALLER COMPANIES IN THE MONTHS AHEAD.

THE INTEREST RATE CUT AFTER THE END OF THE FUND'S FISCAL PERIOD SUGGESTS THAT THE FEDERAL RESERVE BOARD IS SATISFIED THAT THE ECONOMY HAS SLOWED SUFFICIENTLY TO KEEP INFLATION IN CHECK. SOME OBSERVERS ARE EVEN PREDICTING FURTHER REDUCTIONS BEFORE YEAR'S END, A PLUS FOR STOCK MARKET PROSPECTS.

ON THE PAGES THAT FOLLOW, GERRY REVIEWS THE STOCK MARKET ENVIRONMENT IN THE CONTEXT OF YOUR FUND'S PERFORMANCE AND PROVIDES AN OUTLOOK FOR THE REMAINDER OF CALENDAR 1995.

RESPECTFULLY YOURS,

[SIGNATURE]

GEORGE PUTNAM
CHAIRMAN OF THE TRUSTEES
JULY 19, 1995

REPORT FROM THE FUND MANAGER
GERALD ZUKOWSKI

Putnam Capital Appreciation Fund's fiscal year ended May 31, 1995, can be divided neatly into two periods. The first six months, from spring through November 1994, witnessed a sluggish period for equities, and a disastrous time for fixed-income securities. However, just before the beginning of 1995 began a dramatic upsurge in stock and bond prices. Investor confidence in a moderating economy, coupled with stabilizing interest rates, helped fuel the financial markets. Despite some concern about the U.S. economy's overall condition, the markets' strength persists as of this writing.

Over its fiscal year, your fund returned 15.61% at net asset value (NAV) for class A shares, a result somewhat below the Standard & Poor's (Registered Trademark) 500 Index's increase of 19.89% for the same period. Your fund's class B shares returned 11.55% at NAV since inception, compared with the S&P 500's rise of 15.90% over that time. The fund trailed the broader index principally because of its heavy weighting in small-capitalization stocks -- an advantageous choice in 1993. These stocks have been lagging as a group recently, as current market trends are being determined by larger, well-established companies.

A POSITIVE CONFLUENCE OF EVENTS

Domestic financial markets have indeed enjoyed a breathtaking several months. Today's prevailing investor optimism contrasts sharply with the gloomy atmosphere six months ago. Then, equities were stagnant and bond valuations were depressed. Successive interest-rate increases by the Federal Reserve Board, prompted by a too-vibrant economy, had cast a lengthy shadow over the markets. Toward the end of 1994, however, stock and bond prices were buoyed by hopes of a soft landing, a desirable condition where economic growth slackens just enough to stave off inflation and to keep interest rates stable. Growing evidence supporting the soft-landing scenario lent momentum to the rally.

With inflation apparently tamed and interest rates holding steady, investors have been drawn to the fundamental vigor of many domestic companies. Corporate earnings continue to surpass even optimistic estimates; cash flows remain similarly robust. American businesses' ongoing obsession with efficiency and cost-cutting has further amplified positive results. Additionally, the dollar's continuing weakness has added to American competitiveness internationally -- U.S. goods and services are cheaper, and thus more attractive, abroad.

We believe another extremely important boost for equities over the

past six months has been the recent acceleration of stock- buyback programs. According to Fortune magazine's June 12, 1995 issue, U.S. companies announced share buybacks totaling \$43 billion in the first four months of 1995 alone. If implemented, stock buybacks can increase equity demand and simultaneously reduce supply, while strengthening per-share earnings. We believe the large number of companies retiring their own stock is a manifestation of a growing corporate orientation toward serving investors, which could prove a positive development for equities.

A POSITIVE ENVIRONMENT FOR FUND'S HOLDINGS

In early 1995, with the economy apparently slowing, we positioned the fund to take advantage of a more stable interest- rate environment. Accordingly, we increased exposure to insurance and finance stocks. Nearly 16% of the fund's net assets are in this sector, which is traditionally favored by

[BAR CHART]

TOP INDUSTRY SECTORS

Insurance and finance	15.9%
Health care	8.5%
Business equipment and services	8.4%
Real estate	6.8%
Consumer nondurables	6.3%

*Based on net assets on 5/31/95. Holdings will vary over time.

moderate interest rates. Financial stocks were also helped by the dramatic surge in the fixed-income market, whose 1994 lows caused problems for many investment banks. Indeed, the long- depressed bond market helped keep bank shares trading at relatively low valuations; consequently, early in 1995, we found room for appreciation in certain banking stocks. We have also begun adding to the fund's holdings of health-care stocks. We believe this sector has been hit recently by unwarranted investor pessimism; we have found a number of health-care companies in very sound shape, with strong growth potential.

Northwest Airlines, a solid competitor in an often-beleaguered sector, was a positive holding for your fund over the annual period. We believe Northwest enjoys an advantage because it is firmly entrenched in routes that, for a number of reasons, are difficult for smaller airlines to penetrate. Additionally, Northwest operates one of the best management information systems (MIS) in the

industry, which allows it to make strategic pricing decisions and plan fare reductions effectively. Northwest's significant investment in cutting-edge information technology represents a broader phenomenon: the automation and streamlining of American industry. Many credit this emphasis on efficiency with helping to restore competitiveness to American producers.

Perhaps the quintessential American restructuring story in recent times is IBM, some of whose shares are held by your fund. After years of losing money, IBM trimmed salaries, cut dividends, and sold real estate (it even auctioned off many of its corporate art holdings). Today, the company's core products, particularly large mainframe computers, are selling well; it has accumulated some \$10.5 billion in cash over two years. IBM had enough retained earnings to purchase Lotus, a premier software developer (and has also announced a stock buyback program). Clearly, IBM has reaped the rewards of dramatic change, and its stock has rebounded nicely.

Over the fund's annual period, PepsiCo proved to be a strong holding for your fund, as it improved profit margins in its food service businesses. General Electric, currently your fund's largest holding, also enjoyed strong earnings over the past

[CHART]

TOP 10 HOLDINGS (5/31/95)

GENERAL ELECTRIC CO.

Services, technology, manufacturing

TANDY CORP.

Computer services and software

AVON PRODUCTS, INC.

Beauty products, fashion jewelry

RECKSON ASSOCIATES REALTY CORP.

Owns and manages office and industrial properties in New York

BRUNSWICK CORP.

Recreation products

GRACE & CO.

Chemicals and refining products

ICN PHARMACEUTICALS

Pharmaceuticals, nutritional products, and research

IMPERIAL OIL LTD.

Domestic oil and gas producer

CHEMICAL BANKING CORP.
Banking, financial services

ITT CORP.
Hotel services, technology, insurance conglomerate

These holdings represent 18.4% of the fund's net assets. Holdings will vary over time.

several quarters. Additionally, GE announced plans to retire \$5 billion worth of stock over the next two years -- a massive stock buyback. Capital Cities Broadcasting, owner of ABC, had strong cash flows over the year, and continues to be a positive holding for your fund.

CHALLENGES AND OPPORTUNITIES IN THE COMING MONTHS

We believe the next several months may be marked by a moderating U.S. economy. The degree of the economic slowdown will probably have a significant impact on financial markets. We are cautiously optimistic that domestic companies will continue to report strong earnings, which could in turn support equity prices. Whatever happens, however, you should try to maintain a longer-term outlook when evaluating your fund's performance, as time tends to smooth out fluctuations in the economy and in stock prices.

[FN]

The views expressed here are exclusively those of Putnam Management. They are not meant as investment advice. Although the described holdings were viewed favorably as of May 31, 1995, there is no guarantee the fund will continue to hold these securities in the future.

PERFORMANCE SUMMARY

This section provides, at a glance, information about your fund's performance. 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 back into the fund. We show total return in two ways: on a cumulative long-term basis and on average how the fund might have grown each year over varying periods.

Performance should always be considered in light of a fund's investment strategy. Putnam Capital Appreciation Fund is designed for investors seeking capital appreciation through investments in equities chosen for their growth potential.

TOTAL RETURN FOR PERIODS ENDED 5/31/95

<TABLE><CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
	CLASS A		CLASS B		STANDARD & POOR'S 500	
	NAV	POP	NAV	CDSC	INDEX	CPI
1 year	15.61%	8.92%	--	--	19.89%	3.19%
Life of class A	47.49	39.02	--	--	24.98	5.40
Annual average	23.80	19.84	--	--	13.03	2.93
Life of class B	--	--	11.55%	6.55%	15.90	1.81

</TABLE>

TOTAL RETURN FOR PERIODS ENDED 6/30/95

(most recent calendar quarter)

<TABLE><CAPTION>

<S>	<C>	<C>	<C>	<C>
	CLASS A		CLASS B	
	NAV	POP	NAV	CDSC
1 year	24.18%	17.00%	--	--
Life of class A	51.35	42.65	--	--
Annual average	24.23	20.44	--	--
Life of class B	--	--	14.38%	9.38%

<FN>

Fund performance data do not take into account any adjustment for taxes payable on reinvested distributions and reflect an expense limitation in effect during the period. Without the limitation, results would have been lower. The fund began operations on 8/5/93 offering shares now known as class A. Class B shares became available 11/2/94. Performance data represent past results and will differ for each share class. Investment returns and principal value will fluctuate so an investor's shares, when sold, may be worth more or less than their original cost.

</TABLE>

TERMS AND DEFINITIONS

CLASS A SHARES are generally subject to an initial sales charge.

CLASS B SHARES may be subject to a sales charge upon redemption.

NET ASSET VALUE (NAV) is the value of all your fund's assets, minus any liabilities, divided by the number of outstanding shares, not including any initial or contingent deferred sales charge.

PUBLIC OFFERING PRICE (POP) is the price of a mutual fund share plus the maximum sales charge levied at the time of purchase. POP performance figures shown here assume the maximum 5.75% sales charge.

CONTINGENT DEFERRED SALES CHARGE (CDSC) is a charge applied at the time of the redemption of class B shares and assumes redemption at the end of the period. Your fund's CDSC declines from a 5% maximum during the first year to 1% during the sixth year. After the sixth year, the CDSC no longer applies.

COMPARATIVE BENCHMARKS

STANDARD & POOR'S 500 INDEX is an unmanaged list of common stocks that is frequently used as a general measure of stock market performance. The index assumes reinvestment of all distributions and does not take into account brokerage commissions or other costs. The fund's portfolio contains securities that do not match those in the index.

CONSUMER PRICE INDEX (CPI) is a commonly used measure of inflation; it does not represent an investment return.

REPORT OF INDEPENDENT ACCOUNTANTS for the year ended May 31, 1995

To the Trustees and Shareholders of
Putnam Capital Appreciation Fund

We have audited the accompanying statement of assets and liabilities of Putnam Capital Appreciation Fund, including the portfolio of investments owned, as of May 31, 1995, and the related statement of operations for the year then ended, the statement of changes in net assets for the year then ended and for the period August 5, 1993 (commencement of operations) to May 31, 1994 and the "Financial highlights" for each of the periods indicated therein. These financial statements and "Financial highlights" are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements and "Financial highlights" based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and "Financial highlights" are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 1995, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and "Financial highlights" referred to above present fairly, in all material respects, the financial position of Putnam Capital Appreciation Fund as of May 31, 1995, and the results of its operations for the year then ended, the changes in its net assets for the year then ended and for the period August 5, 1993 (commencement of operations) to May 31, 1994 and the "Financial highlights" for each of the periods indicated therein, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts
July 14, 1995

PORTFOLIO OF INVESTMENTS OWNED
May 31, 1995

<TABLE>

<C> <S>

<C>

COMMON STOCKS (94.5%)*

NUMBER OF SHARES VALUE

AUTOMOTIVE (4.0%)

106,000		A.P.S. Holding Corp.+
\$ 2,756,000		
60,000	Capco Automotive Products Corp.	
495,000		
28,600	Echlin, Inc.	
1,029,600		
42,000	Ford Motor Co.	
1,228,500		
25,000	General Motors Corp.	
1,200,000		
27,000	Snap-On Inc.	
958,500		

7,667,600

BASIC INDUSTRIAL PRODUCTS (3.9%)

32,000	Deere (John) & Co.
2,768,000	
18,000	Millipore Corp.
1,181,250	
102,000	Owens-Illinois, Inc.+
1,351,500	
35,000	Raychem Corp.
1,273,125	
58,000	Shorewood Packaging Corp.+
913,500	

7,487,375

BUILDING AND CONSTRUCTION (2.4%)

45,000	Armstrong World Industries, Inc.
2,323,125	
44,000	Cavalier Homes, Inc.
489,500	
130,100	Congoleum Corp. Class A+
1,886,450	

4,699,075

BUSINESS EQUIPMENT AND SERVICES (8.3%)

52,000	Adaptec, Inc.+
1,566,500	
22,400	Boise Cascade Office Products+
554,400	
12,500	CMC Group, Inc.
28,125	
20,000	Cabletron Systems, Inc.+
1,070,000	
44,000	Computer Associates International, Inc.
2,882,000	
70,000	Corrpro Cos., Inc.+
1,260,000	
36,000	EMC Corp.+
828,000	
26,000	IBM Corp.
2,424,500	
33,000	Parametric Technology Corp.+
1,402,500	
35,000	Sensomatic Electronics Corp.

1,028,129	
68,000	Tandem Computers Inc. United States+
901,000	
31,000	Western Digital Corp.+
546,375	
14,000	Xerox Corp.
1,587,250	

16,078,779

CHEMICALS (2.5%)

45,000	Dexter Corp.
1,063,125	
48,000	Grace (W.R.) & Co.
3,084,000	
44,000	Southern Petrochemical Ltd. 144A
341,000	
11,000	Witco Chemical Corp.
302,500	

4,790,625

COMMON STOCKS

NUMBER OF SHARES

VALUE

COMPUTER SERVICES AND SOFTWARE (4.2%)

33,600	Bell & Howell Holdings Co.+
\$ 621,600	
5,000	CBT Group PLC ADR (Ireland)+
178,750	
21,000	National Computer Systems Inc.
399,000	
35,000	STB Systems, Inc.+
271,250	
64,200	Sterling Software, Inc.
2,174,775	
96,000	Tandy Corp.
4,488,000	
2,000	Tivoli Systems, Inc.+
72,500	

8,205,875

CONGLOMERATES (2.6%)

26,000	ITT Corp.
2,908,750	
28,600	TRW, Inc.
2,255,825	

5,164,575

CONSUMER NON DURABLES (6.1%)

65,000	Avon Products, Inc.
4,379,375	
35,600	Collins & Aikman Corp.+
249,200	
37,500	Dimon Inc.+
646,875	
13,000	Donnkenny, Inc.+
247,000	
56,000	Herbalife International, Inc.
581,000	
59,000	Lowe's Cos., Inc.
1,607,750	
14,000	Norton McNaughton, Inc.+
199,500	
20,500	OroAmerica, Inc.+
89,687	
43,000	Premark International, Inc.
2,144,625	
60,000	RJR Nabisco Holdings Corp.+
1,710,000	

11,855,012

CONSUMER SERVICES (3.5%)

33,000	Block (H & R), Inc.
1,192,125	
2,500	CBS, Inc.
167,500	
23,000	Capital Cities/ABC, Inc.
2,219,500	
14,500	Dun & Bradstreet Corp.
768,500	
14,000	Service Corp. International
400,750	
21,000	Sports Club Co., Inc.+
105,000	
45,000	Team Rental Group, Inc.+
343,125	

13,500	Tribune Co.
804,937	
35,000	Young Broadcasting Corp. Class A+
739,375	

6,740,812

ELECTRONICS AND ELECTRICAL EQUIPMENT (4.1%)

18,000	Diebold, Inc.
749,250	
82,000	General Electric Co.
4,756,000	
13,000	Holophane Corp.+
269,750	
27,000	Nokia Corp. ADR
1,255,500	
130,000	Richey Electronics, Inc.+
893,750	

7,924,250

COMMON STOCKS

NUMBER OF SHARES

VALUE

ENTERTAINMENT (1.4%)

80,000	Aztar Corp.+
\$ 750,000	
46,000	Circus Circus Enterprises, Inc.+
1,535,250	
19,000	Speedway Motorsports, Inc.+
391,875	

2,677,125

ENVIRONMENTAL CONTROL (0.5%)

35,000	WMX Technologies, Inc.
953,750	

FOOD AND BEVERAGES (3.0%)

56,000	American Family Restaurants, Inc.+
238,000	
9,000	Canandaigua Wine, Inc. Class A+
389,250	

51,500	PepsiCo, Inc.
2,523,500	
92,000	Sara Lee Corp.
2,564,500	

5,715,250
FOREST PRODUCTS (0.8%)

200,000	Asia Pacific Resource International	
Class A (Indonesia)+		1,525,000

HEALTH CARE (8.5%)

25,900	Advocat, Inc.+
288,137	
22,500	Baxter International, Inc.
784,687	
30,000	Beckman Instruments, Inc. New
832,500	
34,680	Columbia/HCA Healthcare Corp.
1,417,545	
53,000	Elan Corp., PLC ADR
1,848,375	
40,500	Epitope, Inc.+
597,375	
59,200	Foundation Health Corp.+
1,665,000	
22,000	Health Systems International, Inc. Class A+
585,750	
12,000	Horizon Healthcare Corp.+
219,000	
150,399	ICN Pharmaceuticals, Inc.
2,556,785	
31,000	Integrated Health Services, Inc.
1,034,625	
59,000	Mid Atlantic Medical Services, Inc.+
1,224,250	
43,100	Owens & Minor, Inc. Holding Co.
560,300	
6,000	Oxford Health Plans Inc.
303,000	
15,000	Pfizer, Inc.
1,321,875	
53,000	Rightchoice Managed Care, Inc. Class A +
695,625	
42,000	Sterile Concepts Holdings
477,750	

16,412,579

INSURANCE AND FINANCE (15.9%)

64,500	American Express Co.
2,297,813	
9,500	American General Corp.
327,750	
12,500	Banco Commercial S.A. ADS+
212,500	
53,200	Bank of Boston Corp.
1,941,800	
34,000	BankAmerica Corp.
1,776,500	
34,000	Bankers Life Holding Corp.
663,000	
13,000	CIGNA Corp.
971,750	
9,000	Capital One Financial Corp.
189,000	
64,000	Chemical Banking Corp.
2,952,000	
22,000	Citicorp
1,177,000	
10,000	Federal National Mortgage Association
930,000	
4,500	First Financial Management Corp.
319,500	
32,000	First Interstate Bancorp
2,688,000	
22,000	Fremont General Corp.
555,500	
6,000	General RE Corp.
812,250	

COMMON STOCKS

NUMBER OF SHARES

VALUE

INSURANCE AND FINANCE (continued)

40,000	Life Partners Group, Inc.
\$ 750,000	
20,500	Merrill Lynch & Co., Inc.
963,500	
25,500	Midocean, Ltd.+
723,562	
5,500	Morgan (J.P.) & Co., Inc.
389,812	
7,500	Morgan Stanley Group, Inc.
570,937	
25,500	NationsBank Corp.

1,443,937	
81,000	Presidential Life Corp.
587,250	
90,900	Reliance Group Holdings, Inc.
579,484	
7,000	River Bank America
50,750	
9,000	Signet Banking Corp.
203,625	
33,000	St. Paul Cos., Inc.
1,678,875	
58,000	The PMI Group, Inc.+
2,370,750	
45,465	Titan Holdings, Inc.
488,749	
13,000	Transnational Re Corp.+
256,750	
49,000	United Asset Management Corp.
1,800,750	

30,673,094

METALS AND MINING (2.3%)

46,800	Mapco, Inc.
2,755,350	
23,000	Minerals Technologies, Inc.
759,000	
31,000	Pittston Minerals Group
341,000	
60,000	Zeigler Coal Holding Co.
690,000	

4,545,350

OIL AND GAS (2.3%)

76,000	Imperial Oil Ltd.
2,954,500	
14,000	Nuevo Energy Co.+
299,250	
16,000	Santa Fe Energy Resources, Inc.+
156,000	
13,500	Seitel, Inc.
381,375	
17,000	TransTexas Gas Corp.+
244,375	
20,000	Union Texas Petroleum Hldgs., Inc.
452,500	

4,488,000
PHOTOGRAPHY (0.4%)

13,000 Eastman Kodak Co.
784,875

REAL ESTATE (6.9%)

89,000 Alexander Haagen Properties
979,000
6,000 Bradley Real Estate Trust, Inc.
94,500
85,000 CWM Mortgage Holdings, Inc.
988,125
32,000 Capstone Capital Trust, Inc.
552,000
14,500 CenterPoint Properties Corp.
288,188
41,000 Crown American Realty Trust
486,875
9,000 FelCor Suite Hotels, Inc.
227,250
51,000 First Industrial Realty Trust, Inc.
937,125
6,000 LTC Properties, Inc.
77,250
26,000 Malan Realty Investors, Inc.
367,250
30,000 McArthur/Glen Realty Corp.
435,000
11,000 Mid Atlantic Realty Trust
101,062
35,000 National Health Investors, Inc.
905,625
83,000 RFS Hotel Investors, Inc.
1,250,183
150,000 Reckson Associates Realty Corp.+
3,656,253
12,000 Sizeler Property Investments, Inc.
123,000

COMMON STOCKS

NUMBER OF SHARES

VALUE

REAL ESTATE (continued)

25,000 Storage Equities, Inc.
\$ 396,875

7,000	Sun Communities, Inc.
167,125	
21,000	Town & Country Trust
299,250	
12,000	Walden Residential Props, Inc.
222,000	
20,000	Wellsford Residential Property Trust
430,000	
39,000	Winston Hotels
370,500	

13,354,436
RECREATION (2.3%)

194,000	Brunswick Corp.
3,564,750	
48,000	Outboard Marine Corp.
966,000	

4,530,750
RETAIL (4.3%)

26,000	Baker J, Inc.
341,250	
57,000	Best Products, Inc.+
370,500	
47,000	Borders Group, Inc.+
687,375	
27,500	Circle K Corp.+
464,065	
36,000	InterTAN, Inc.+
261,000	
54,000	Limited, Inc. (The)
1,201,500	
40,000	Penney (J.C.) Co., Inc.
1,885,000	
80,000	Rite Aid Corp.
1,900,000	

7,110,690
TRANSPORTATION (3.0%)

25,000	AMR Corp. United States+
1,706,250	
26,000	Jinhui Shipping & Transportation+

32,591	
4,000	Landstar System, Inc. +
106,000	
4,000	Maritime Investment Fund 144A
41,500	
22,000	Norfolk Southern Corp.
1,507,000	
60,000	Northwest Airlines Corp. Class A+
1,702,500	
25,000	Ryder System, Inc.
634,375	
17,000	Trism, Inc.
136,000	

5,866,216
UTILITIES (1.9%)

9,000	Bell Atlantic Corp.
501,750	
27,000	GTE Corp.
901,125	
49,100	Shandong Huaneng Power ADR (China)
362,113	
42,000	Sprint Corp.
1,407,000	
13,000	US WEST, Inc.
536,250	

3,708,238

TOTAL COMMON STOCKS (cost \$167,173,812)	
\$182,959,331	

CONVERTIBLE PREFERRED STOCKS (1.1%)*

NUMBER OF SHARES	VALUE
------------------	-------

BUSINESS EQUIPMENT AND SERVICES (0.9%)

40,000	Unisys Corp. Ser. A, \$3.75 cv. pfd.
\$1,710,000	

CONSUMER SERVICES (0.2%)

8,000	Service Corp. International \$6.25 cv. pfd.
456,000	

TOTAL CONVERTIBLE PREFERRED STOCKS	\$2,166,000
(cost \$1,820,825)	

CONVERTIBLE BONDS AND NOTES (0.9%)*

PRINCIPAL AMOUNT	VALUE
------------------	-------

\$ 440,000	ICN Pharmaceuticals cv. deb. 8 1/2s,	
11/15/1999		\$438,900
1,200,000	Danka Business Systems 144A cv. sub.	
	notes 6 3/4s, 2002	
1,230,000		

TOTAL CONVERTIBLE BONDS AND NOTES	\$1,668,900
(cost \$1,642,200)	

SHORT-TERM INVESTMENTS (6.1%)*

PRINCIPAL AMOUNT	VALUE
------------------	-------

\$11,000,000	Federal National Mortgage Assn. 5.88s,	
July 21, 1995		\$10,908,369
940,000	Interest in \$523,899,000 repurchase	
	agreement dated May 31, 1995 with	
	Goldman, Sachs & Co. due June 1, 1995	
	with respect to various U.S. Treasury	
	obligations -- maturity value of	
	\$940,159 for an effective yield of 6.07%	940,159

TOTAL SHORT-TERM INVESTMENTS	\$11,848,528
(cost \$11,848,528)	

TOTAL INVESTMENTS (cost \$182,485,365)**	\$198,642,759
--	---------------

<FN>
NOTES

* Percentages indicated are based on net assets of \$193,517,123, which correspond to a net asset value per class A share and class B share of \$12.24 and \$12.19, respectively.

+ Non-income-producing security.

** The aggregate identified cost for federal income tax purposes is \$182,486,958, resulting in gross unrealized appreciation and depreciation of \$20,246,439 and \$4,090,638, respectively, or net unrealized appreciation of \$16,155,801.

ADR or ADS after the name of a holding stands for American

Depository Receipt or American Depository Shares, respectively, representing ownership of foreign securities on deposit with a domestic custodian bank.

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

</TABLE>

STATEMENT OF ASSETS AND LIABILITIES

May 31, 1995

<TABLE>

<S> <C>

ASSETS

Investments in securities, at value
(identified cost \$182,485,365) (Note 1) \$198,642,759

Cash 498

Dividends, interest and other receivables 426,461

Receivable for shares of the fund sold 703,598

Receivable for securities sold 1,404,872

Unamortized organization expenses (Note 1) 10,861

TOTAL ASSETS 201,189,049

LIABILITIES

Payable for securities purchased 7,072,465

Payable for shares of the fund repurchased 192,823

Payable for compensation of Manager and
other affiliates (Note 2) 225,430

Payable for distribution fees (Note 2) 114,144

Payable for administrative services (Note 2) 714

Payable to affiliate for organization expenses (Note 2) 17,091

Other accrued expenses 49,259

TOTAL LIABILITIES 7,671,926

NET ASSETS \$193,517,123

REPRESENTED BY

Paid-in capital (Notes 1 and 4) \$176,665,929

Undistributed net investment income (Note 1) 727,495

Accumulated net realized loss on investments (33,695)

Net unrealized appreciation of investments 16,157,394

TOTAL -- REPRESENTING NET ASSETS APPLICABLE TO
CAPITAL SHARES OUTSTANDING \$193,517,123

COMPUTATION OF NET ASSET VALUE AND OFFERING PRICE

Net asset value and redemption price of class A shares
(\$103,555,000 divided by 8,462,293 shares) \$12.24

Offering price per class A share (100/94.25 of \$12.24)* \$12.99

Net asset value and redemption price of class B shares
(\$89,962,123 divided by 7,381,829 shares)+ \$12.19

<FN>

* On single retail sales of less than \$50,000. On sales of \$50,000 or more and on group sales the offering price is reduced.

+ Redemption price per share is equal to net asset value less any applicable contingent deferred sales charge.

</TABLE>

STATEMENT OF OPERATIONS

Year ended May 31, 1995

<TABLE>

<S> <C>

INVESTMENT INCOME

Dividends (net of foreign tax of \$7,633) \$1,431,141

Interest 421,536

TOTAL INVESTMENT INCOME 1,852,677

EXPENSES:

Compensation of Manager (Note 2)	395,267
Investor servicing and custodian fees (Note 2)	70,538
Compensation of Trustees (Note 2)	2,862
Reports to shareholders	30,632
Registration fee	33,351
Auditing	9,579
Legal	13,015
Postage	2,867
Administrative services (Note 2)	805
Distribution fees -- class A (Note 2)	84,775
Distribution fees -- class B (Note 2)	266,028
Amortization of organization expenses (Note 1)	3,413
Other expenses	4,642
Fees waived by Manager (Note 2)	(15,154)
TOTAL EXPENSES	902,620
NET INVESTMENT INCOME	950,057
Net realized gain on investments (Notes 1 and 3)	208,076
Net unrealized appreciation of investments during the year	15,958,951
NET GAIN ON INVESTMENTS	16,167,027
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$17,117,084

</TABLE>

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>

<S>	<C>	<C>
		FOR THE PERIOD
		AUGUST 5, 1993
YEAR ENDED		(COMMENCEMENT OF
MAY 31		OPERATIONS) TO

	1995	1994

INCREASE IN NET ASSETS		

Operations:		

Net investment income	\$950,057	\$18,691

Net realized gain on investments	208,076	347,288

Net unrealized appreciation of investments	15,958,951	198,443

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	17,117,084	564,422

Distributions to shareholders:		

From net investment income		

Class A	(127,251)	(9,697)

Class B	(67,212)	--

From net realized gain on investments		

Class A	(329,475)	(21,817)

Class B	(204,599)	--

In excess of realized gain on investments		

Class A	(20,787)	--

Class B	(12,908)	--

Increase from capital share transactions (Note 4)	174,100,271	528,779

TOTAL INCREASE IN NET ASSETS	190,455,123	1,061,687

NET ASSETS:		
Beginning of period	3,062,000	2,000,313

END OF PERIOD (including undistributed net investment income of \$727,495 and \$10,771, respectively)	\$193,517,123	\$3,062,000

</TABLE>

FINANCIAL HIGHLIGHTS

(For a share outstanding throughout the period)

<TABLE>

	<C> FOR THE PERIOD NOVEMBER 2, 1994 (COMMENCEMENT OF OPERATIONS) TO MAY 31	<C> YEAR ENDED MAY 31	<C> FOR THE PERIOD AUGUST 5, 1993 (COMMENCEMENT OF OPERATIONS) TO MAY 31
	1995	1995	1994
	CLASS B	CLASS A	
NET ASSET VALUE, BEGINNING OF PERIOD	\$11.08	\$10.74	\$8.53
INVESTMENT OPERATIONS			
Net investment income	.06	.06	.07 (a) (b)
Net realized and unrealized gain on investments	1.20	1.59	2.27
TOTAL FROM INVESTMENT OPERATIONS	1.26	1.65	2.34
DISTRIBUTIONS TO SHAREHOLDERS:			
From net investment income	(.03)	(.03)	(.04)
From net realized gain on investments	(.10)	(.10)	(.09)
In excess of realized gain on investments	(.02)	(.02)	--
TOTAL DISTRIBUTIONS	(.15)	(.15)	(.13)
NET ASSET VALUE, END OF PERIOD	\$12.19	\$12.24	\$10.74
TOTAL INVESTMENT RETURN AT NET ASSET VALUE (%) (c)	11.55 (d)	15.61	27.58 (d)
NET ASSETS, END OF PERIOD (in thousands)	\$89,962	\$103,555	\$3,062
Ratio of expenses to average net assets (%)	1.12 (b) (d)	1.13 (b)	.78 (b) (d)
Ratio of net investment income to average net assets (%)	.65 (d)	1.89	.73 (b) (d)

Portfolio turnover (%) 15.32 15.32 102.99 (d)

- <FN>
- (a) Per share net investment income for the period ended May 31, 1994 has been determined on the basis of the weighted average number of shares outstanding during the period.
 - (b) Reflects an expense limitation during the period. As a result of these limitations, expenses of the fund for the period ended May 31, 1994 reflect a reduction of \$0.11 per share. For the period ended May 31, 1995 the reduction was less than \$0.01 per share for both class A and class B. See Note 2.
 - (c) Total investment return assumes dividend reinvestment and does not reflect the effects of sales charges.
 - (d) Not annualized.

</TABLE>

NOTES TO FINANCIAL STATEMENTS

May 31, 1995

NOTE 1

SIGNIFICANT ACCOUNTING POLICIES

The fund is registered under the Investment Company Act of 1940, as amended, as a diversified open-end management investment company. The fund seeks capital appreciation and current income by investing primarily in common stocks that offer potential for capital appreciation.

The fund offers both class A and class B shares. As of April 21, 1995 only existing shareholders are able to purchase additional shares. The fund commenced its public offering of class B shares on November 2, 1994. Class A shares are sold with a maximum front-end sales charge of 5.75%. Class B shares do not pay a front-end sales charge, but pay a higher ongoing distribution fee than class A shares, and may be subject to a contingent deferred sales charge, if those shares are redeemed within six years of purchase. Expenses of the fund are borne pro-rata by the holders of both classes of shares, except that each class bears expenses unique to that class (including distribution fees applicable to such class) and votes as a class only with respect to its own distribution plan or other matters on which a class vote is required by law or determined by the Trustees. Shares of each class should receive their pro-rata share of the net assets of the fund, if the fund were liquidated. In addition, the Trustees declare separate dividends on each class of shares.

The following is a summary of significant accounting policies followed by the fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting

principles.

A) SECURITY VALUATION Investments for which market quotations are readily available are stated at market value, which is determined using the last reported sale price, or, if no sales are reported -- as in the case of some securities traded over-the-counter -- the last reported bid price, except that certain U.S. government obligations are stated at the mean between the bid and asked prices. Short-term investments having remaining maturities of 60 days or less are stated at amortized cost which approximates market, and other investments are stated at fair value following procedures approved by the Trustees. Foreign securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate.

B) JOINT TRADING ACCOUNT Pursuant to an exemptive order issued by the Securities and Exchange Commission, the fund may transfer uninvested cash balances into a joint trading account, along with the cash and certain other accounts of other registered investment companies managed by Putnam Investment Management Inc., (Putnam Management) the fund's Manager, a wholly-owned subsidiary of Putnam Investments, Inc. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

C) REPURCHASE AGREEMENTS The fund, through its custodian, receives delivery of the underlying securities, the market value of which at the time of purchase is required to be in an amount at least equal to the resale price, including accrued interest. The fund's Manager is responsible for determining that the value of these

underlying securities is at all times at least equal to the resale price, including accrued interest.

D) SECURITY TRANSACTIONS AND RELATED INVESTMENT INCOME Security transactions are accounted for on the trade date (date the order to buy or sell is executed). Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date, except that certain dividends from foreign securities are recorded as soon as the fund is informed of the ex-dividend date.

Foreign currency-denominated receivables and payables are "marked-to-market" daily using the current exchange rate. The fluctuation between the original exchange rate and the current exchange rate is recorded daily as unrealized gain or loss. Upon receipt or payment, the fund realizes a gain or loss amounting to the difference between the original value and the ending value of the receivable or payable. Foreign currency gains and losses related to interest and dividends receivable are reported as part of dividend income.

E) FEDERAL TAXES It is the policy of the fund to distribute all of its income within the prescribed time and otherwise comply with the

provisions of the Internal Revenue Code applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Internal Revenue Code of 1986 as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation of securities held and excise tax on income and capital gains.

F) DISTRIBUTIONS TO SHAREHOLDERS Distributions to shareholders are recorded by the fund on the ex-dividend date.

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These differences include treatment of non-taxable dividends, wash sales and post October loss deferral. Reclassifications are made to the fund's capital accounts as necessary so that they reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. During the year ended May 31, 1995, the fund reclassified \$38,870 to decrease undistributed net investment income and \$392 to increase net realized gain, and to increase paid-in-capital by \$38,478.

G) UNAMORTIZED ORGANIZATION EXPENSES Expenses incurred by the fund in connection with its organization, its registration with the Securities and Exchange Commission and with various state and the initial public offering of its shares aggregated \$17,091. These expenses are being amortized by the fund on a straight-line basis over a five-year period.

NOTE 2

MANAGEMENT FEE, ADMINISTRATIVE SERVICES, AND OTHER TRANSACTIONS

Compensation of The Putnam Investment Management, Inc., the fund's Manager, a wholly-owned subsidiary of The Putnam Investments, Inc., for management and investment advisory services is paid quarterly based on the average net assets of the fund for the quarter. Such fee is based on the following annual rates: 0.65% of the first \$500 million of average net assets, 0.55% of the next \$500 million, 0.5% of the next \$500 million, and 0.45% of the next \$5.0 billion, subject to reduction in any year to the extent that expenses (exclusive of distribution fees, brokerage, interest and taxes) of the fund exceed 2.5% of the first

expenses (exclusive of distribution fees, brokerage, interest and taxes) of the fund exceed 2.5% of the first \$30 million of average net assets, 2.0% of the next \$70 million and 1.5% of any amount over \$100 million and by the amount of certain brokerage commissions and fees (less expenses) received by affiliates of the Manager on the fund's portfolio transactions.

Until February 28, 1995 the Manager agreed to reduce its compensation to the extent that expenses of the fund exceed 1.0% of the fund's average net assets. The fund's expenses subject to this limitation were exclusive of brokerage, interest, taxes, insurance, amortization of deferred organization expenses and extraordinary expenses, if any, and expenses incurred under the fund's distribution plan described below. This limitation was accomplished by a reduction of the compensation payable under the management contract to the Manager.

The fund also reimburses the Manager for the compensation and related expenses of certain officers of the fund and their staff who provide administrative services to the fund. The aggregate amount of all such reimbursements is determined annually by the Trustees. The fund has agreed to reimburse the offering and organizational costs paid on behalf of Putnam Management.

Trustees of the fund receive an annual Trustee's fee of \$350 and an additional fee for each Trustees' meeting attended. Trustees who are not interested persons of the Manager and who serve on committees of the Trustees receive additional fees for attendance at certain committee meetings.

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a subsidiary of The Putnam Investments, Inc. Investor servicing agent functions were provided by Putnam Investor Services, Inc., a division of PFTC.

Investor servicing and custodian fees reported in the Statement of Operations for the year ended May 31, 1995 have been reduced by credits allowed by PFTC. These credits amount to \$93,876 for the year ended May 31, 1995.

The fund has adopted distribution plans (the "Plans") with respect to its class A shares and class B shares pursuant to Rule 12b-1 under the Investment Company Act of 1940. The purpose of the Plans is to compensate Putnam Mutual Funds Corp., a wholly-owned subsidiary of Putnam Investments Inc., for services provided and expenses incurred by it in distributing shares of the fund. The Trustees have approved payment by the fund at an annual rate of .25% and 1.00% of the average net assets attributable to class A and class B shares respectively.

For the year ended May 31, 1995, Putnam Mutual Funds Corp., acting as underwriter received net commissions of \$331,537 from the sale of class A shares and \$32,760 in contingent deferred sales charges from redemptions of class B shares. A deferred sales charge of up to 1% is assessed on certain redemptions of class A shares purchased as part of an investment of \$1 million or more.

NOTE 3

PURCHASES AND SALES OF SECURITIES

During the year ended May 31, 1995, purchases and sales of investment securities other than short-term investments aggregated \$177,614,811 and \$9,693,972, respectively. In determining the net gain or loss on securities sold, the cost of securities has been determined on the identified cost basis.

NOTE 4

CAPITAL SHARES

At May 31, 1995, there was an unlimited number of shares of beneficial interest authorized divided into two shares. Transactions in capital shares were as follows:

<TABLE>

<S>	<C>	<C>
		YEAR ENDED MAY 31
	CLASS A	1995
	SHARES	AMOUNT
Shares sold	8,977,882	\$100,455,028
Shares issued in connection with reinvestment of distributions	8,592	90,470
	8,986,474	100,545,498
Shares repurchased	(809,397)	(9,031,629)
NET INCREASE	8,177,077	\$91,513,869
		FOR THE PERIOD AUGUST 5, 1993 (COMMENCEMENT OF OPERATIONS) TO MAY 31
	CLASS A	1994
	SHARES	AMOUNT
Shares sold	66,369	\$694,673
Shares issued in connection with reinvestment of distributions	3,209	31,514

	69,578	726,187
Shares repurchased	(18,870)	(197,408)
NET INCREASE	50,708	\$528,779
FOR THE PERIOD NOVEMBER 2, 1994 (COMMENCEMENT OF OPERATIONS) TO MAY 31		
CLASS B		1995
	SHARES	AMOUNT
Shares sold	7,750,225	\$86,801,011
Shares issued in connection with reinvestment of distributions	4,256	44,813
	7,754,481	86,845,824
Shares repurchased	(372,652)	(4,259,422)
NET INCREASE	7,381,829	\$82,586,402

</TABLE>

FEDERAL TAX INFORMATION

May 31, 1995

The fund has designated 100% of the distributions as qualifying for the dividends-received deductions for corporations.

The Form 1099 you receive in January 1996 will show the tax status of all distributions paid to your account in calendar 1995.

FUND INFORMATION

INVESTMENT MANAGER

Putnam Investment
Management, Inc.
One Post Office Square
Boston, MA 02109

MARKETING SERVICES

Putnam Mutual Funds Corp.
One Post Office Square

Boston, MA 02109

CUSTODIAN

Putnam Fiduciary Trust Company

LEGAL COUNSEL

Ropes & Gray

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P.

TRUSTEES

George Putnam, Chairman

William F. Pounds, Vice Chairman

Jameson Adkins Baxter

Hans H. Estin

John A. Hill

Elizabeth T. Kennan

Lawrence J. Lasser

Robert E. Patterson

Donald S. Perkins

George Putnam, III

Eli Shapiro

A.J.C. Smith

W. Nicholas Thorndike

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President

Charles E. Porter

Executive Vice President

Patricia C. Flaherty

Senior Vice President

Lawrence J. Lasser

Vice President

Gordon H. Silver

Vice President

Peter Carman

Vice President

Brett C. Browchuk

Vice President

Gerald Zukowski

Vice President and Fund Manager

William N. Shiebler
Vice President

John R. Verani
Vice President

Paul M. O'Neil
Vice President

John D. Hughes
Vice President and Treasurer

Beverly Marcus
Clerk and Assistant Treasurer

This report is for the information of shareholders of Putnam Capital Appreciation Fund. It may also be used as sales literature when preceded or accompanied by the current prospectus, which gives details of sales charges, investment objectives, and operating policies of the fund, and the most recent copy of Putnam's Quarterly Performance Summary. For more information or to request a prospectus, call toll-free: 1-800-225-1581.

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PUTNAM INVESTMENTS
THE PUTNAM FUNDS
One Post Office Square
Boston, Massachusetts 02109

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Investments

18996-433/948

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- (2) Italic typefaces is displayed in normal type.
- (3) Boldface type is displayed in capital letters.

- (4) Headers (e.g. the names of the fund) and footers (e.g. page numbers and OThe accompanying notes are an integral part of these financial statementsO) are omitted.
- (5) Because the printed page breaks are not reflected, certain tabular and columnar headings and symbols are displayed differently in this filing.
- (6) Bullet points and similar graphic symbols are omitted.
- (7) Page numbering is different.