

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)

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PUTNAM FUND FOR GROWTH & INCOME

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The Putnam
Fund for
Growth and
Income

ANNUAL REPORT
October 31, 1996

[LOGO: BOSTON * LONDON * TOKYO]

Fund highlights

* The Putnam Fund for Growth and Income continues to substantially outperform the average growth and income fund tracked by Lipper Analytical Services, based on total returns for the 1-, 5- and 10-year periods ended October 31, 1996. Over these periods, class A shares ranked 130 out of 516, 57 out of 210, and 25 out of 123 for 1-, 5-, and 10-year performance, respectively; class B shares ranked 173 out of 516 for 1-year performance, and class M shares ranked 149 out of 516 for 1-year performance.*

* Morningstar Mutual Funds noted in its August 2, 1996, analysis that "even within the conservative group of income-oriented equity funds, this fund's insistence on keeping its yield above that of the S&P 500 (registered trademark) index stands out."

CONTENTS

4	Report from Putnam Management
9	Fund performance summary
14	Portfolio holdings
22	Financial statements

Footnote reads:

*Lipper Analytical Services, an independent research organization, ranks funds according to total return performance. Rankings vary over time and do not reflect the effects of sales charges. Past performance is not indicative of future results.

From the Chairman

[GRAPHIC OMITTED: PHOTO OF GEORGE PUTNAM]

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Dear Shareholder:

The Putnam Fund for Growth and Income, one of Putnam's oldest and most respected funds, closed the books on yet another successful fiscal year on October 31, 1996, with total returns well into the double digits for all share classes. I think it is appropriate to note that, over the years, your fund has also been a consistent performer, as shown in the performance tables that follow the management report.

Although the stock market remained on its generally upward course throughout most of the period, the industries leading the advance shifted along the way. This meant adjusting the portfolio's emphasis in response to and in anticipation of these changes. Thus industry sector selection, as well as individual company selection, played a key role in the management of the portfolio in this environment.

In the following report, your fund's management team provides detailed discussion of performance and prospects as the fund enters its new fiscal year.

Respectfully yours,

/S/George Putnam

George Putnam

Chairman of the Trustees

December 18, 1996

Report from the Fund Managers

David L. King
Anthony I. Kreisel
Hugh H. Mullin

The Putnam Fund for Growth and Income brought its 39th fiscal year to a close with results that add to the fund's reputation as a solid long-term performer. Without sacrificing its dedication to decreased price volatility relative to other growth and income funds, the fund took advantage of the strong stock market to post total returns of more than 20% at net asset value for all share classes for the 12 months ended October 31, 1996. The fund's class A shares earned a total return of 23.89% at net asset value (16.78% at public offering price), as compared with the 21.21% average total return for the 516 funds in Lipper's growth and income category. Additional performance results for class A shares, as well as performance results for other share classes and comparative indexes, are listed in the performance summary that begins on page 9.

* STOCK MARKET RISE CONTINUED DESPITE JULY CORRECTION

Continued economic growth and low inflation characterized fiscal year 1996. Overall, the strength of corporate America, exemplified by high returns on equity and disciplined cost containment, kept the stock market on an unprecedented positive track throughout the fiscal year. In July, however, the market experienced a sudden but short-lived correction, spurred by a drop in the price of technology stocks.

Although ensuing positive economic indicators quickly restored consumer confidence and reversed the downturn, many mutual fund investors were shaken by the interruption in the market's record-setting advances. For your fund's shareholders, the effect of the correction was softened by the portfolio's emphasis on undervalued companies that perform well through both up and down markets. This strategy helped the fund outperform the average growth and income fund during the downturn, with a total return of -3.55% (for class A shares at net asset value) as compared with the group average of -4.32% as reported by Lipper for July 1996.

* TOP-PERFORMING STOCKS REPRESENT WIDE RANGE OF INDUSTRIES

While the stock market as a whole has been trending upward, it is interesting to note that there have been no clear-cut leaders among industry sectors for the full duration of this bull market. Rather, the rising market has rotated favor among a variety of industries, leaving mutual fund managers with the challenge of catching each wave. Although we were not about to ignore the potential offered by such opportunities, we remained mindful of the fund's disciplined investment strategy and maintained high standards in seeking quality companies whose stocks we believed to be undervalued and poised to turn around over time.

Reflective of the market, the portfolio's top-performing holdings represent a variety of sectors, including pharmaceutical companies, regional banks, retail stores, and producers of consumer products. What these diverse holdings have in common -- and what warrants their inclusion in the fund's portfolio -- is our belief in their potential, which is illustrated by characteristics such as strong market shares, unique products, and managements' commitments to cost cutting, restructuring, and global expansion. The fund's value-oriented investment style makes it our job to identify these companies before their stock prices reflect what we believe to be their potential worth.

[GRAPHIC OMITTED: TOP INDUSTRY SECTORS*]

Insurance and finance	16.7%
Utilities	10.6%
Oil and Gas	8.5%
Retail	6.1%
Consumer nondurables	6.0%

Footnote reads:

*Based on net assets as of 10/31/96. Holdings will vary over time.

Realization of a company's potential generally calls for some patience, and consequently, we typically hold a stock in the fund's portfolio for

at least two to three years. Occasionally, our assessments prove rewarding over a much shorter time frame. For example, earlier in the fiscal year, the stocks of computer semiconductor companies had fallen from favor. Within this industry sector, we identified Intel Corp. as a market leader whose shares we believed were trading at a bargain price. Approximately six months later, when investor confidence returned to the technology sector, the market recognized Intel's position as a solid company within an attractive industry, and we were able to sell these shares at a considerable profit. Although technology stocks are generally associated with growth-oriented investments that emphasize earnings momentum, our success with Intel shows that sound research can identify undervalued, quality investments in any industry.

The pharmaceutical industry has played an important role in the fund over time, and fiscal year 1996 was no exception. As some of our existing pharmaceutical holdings reached our valuation expectations toward the end of the year, we sold our positions and began to redeploy some of the assets into Pharmacia & Upjohn, another pharmaceutical company. While these stocks, along with others discussed in the report, were viewed favorably at the end of the fiscal year, all portfolio holdings are subject to review and adjustment in accordance with the fund's investment strategy and may vary in the future.

* EARLIER INVESTMENT IN REGIONAL BANKS BENEFITED FUND

Early in fiscal year 1995, we began to favor financial stocks, eventually moving the insurance and finance sector to the top of the fund's diverse industry weightings. We maintained a heavy weighting in financial stocks throughout fiscal 1996, with an emphasis on the stocks of regional banking concerns such as Fleet Financial Group and NationsBank. Well-timed purchases of these rate-sensitive holdings have benefited the fund as valuations improved.

[GRAPHIC OMITTED:
TOP 10 HOLDINGS (10/31/96)*]

U.S. Treasury Bonds
8s of November 15, 2021

Warner-Lambert Co.
Pharmaceuticals

General Motors Corp.
Automotive

IBM Corp.
Computer services and software

J. P. Morgan & Co., Inc.
Insurance and finance

Pharmacia & Upjohn, Inc.
Pharmaceuticals

Kimberly-Clark Corp.
Consumer nondurables

Fleet Financial Group, Inc.
Insurance and finance

Weyerhaeuser Co.
Forest products

TRW, Inc.
Conglomerate

Footnote reads:

* These holdings represent 18.4% of the fund's net assets as of 10/31/96. Portfolio holdings will vary over time.

As an additional but equally important benefit, financial stocks also provide the fund with above-average dividend yields. As we have mentioned many times before -- and as noted by independent research firms such as Morningstar (see fund highlights on page 2) -- above-average yields help cushion the fund against price volatility and minimize losses during down markets.

* FUND SEEKS TO BENEFIT FROM U.S. PARTICIPATION IN GLOBAL ECONOMY

We expect slow growth with low inflation to continue to characterize the

economic climate of the United States -- a scenario that bodes well for domestic stocks. Confusing economic signals that threaten any deviation from this course can cause a market correction, but we believe a sustained bear market is unlikely in the foreseeable future.

The strongest economic growth in the coming year may actually occur overseas. To take advantage of the growing global economy, we plan to invest increasingly in undervalued stocks of U.S.-based multinational corporations whose products and marketing strategies we believe to be particularly well suited to foreign consumers. In this area, we currently favor -- among others -- Minnesota Mining and Manufacturing Company, known more commonly as 3M. This company offers a broadly diversified array of consumer and industrial products, and its aggressive marketing strategies are giving it strong geographical growth, most notably in developing countries. We expect this growing global representation, along with innovative new products for the domestic market, to result in higher sales and better profit margins.

No matter what the investment climate, however, we remain committed to our value-oriented strategies and will continue to employ in-depth research to identify investment opportunities and monitor the progress of portfolio holdings.

Footnote reads:

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 10/31/96, there is no guarantee the fund will continue to hold these securities in the future.

Performance summary

Performance should always be considered in light of a fund's investment strategy. The Putnam Fund for Growth and Income is designed for investors seeking capital growth and current income.

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 in the fund.

TOTAL RETURN FOR PERIODS ENDED 10/31/96

(inception date)	Class A (11/16/57)		Class B (4/27/92)		Class M (5/1/95)	
	NAV	POP	NAV	CDSC	NAV	POP
1 year	23.89%	16.78%	23.04%	18.04%	23.31%	19.00%
5 years	103.66	91.98	--	--	--	--
Annual average	15.29	13.93	--	--	--	--
10 years	265.63	244.64	--	--	--	--
Annual average	13.84	13.17	--	--	--	--
Life of class	--	--	86.60	84.60	37.96	33.10
Annual average	--	--	14.83	14.56	23.75	20.85

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 10/31/96

	S&P(registered trademark) 500 Index	Consumer Price Index
1 year	24.08%	2.99%
5 years	105.60	15.21
Annual average	15.50	2.87
10 years	292.00	43.52
Annual average	14.64	3.68
Life of class B	94.62	13.48
Annual average	15.90	2.84
Life of class M	42.00	4.21
Annual average	26.22	2.77

Footnote reads:

Performance data represent past results, do not reflect future performance, and will differ for each share class. They do not take into account any adjustment for taxes payable on reinvested distributions. Investment returns and net asset value will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. POP assumes 5.75% maximum sales charge for class A shares and 3.50% for class M shares. CDSC for class B shares assumes the applicable sales charge, with the maximum being 5%.

[GRAPHIC OMITTED:WORM CHART GROWTH OF A \$10,000 INVESTMENT]

(plot points for 10-year total return mountain chart)

Date/year	Fund at POP	S&P 500 Index	CPI
10/31/86	9,425	10,000	10,000
10/31/87	9,721	10,634	10,453
10/31/88	11,491	12,212	10,898
10/31/89	13,691	15,420	11,387
10/31/90	13,147	14,261	12,103
10/31/91	16,922	19,039	12,457
10/31/92	18,535	20,929	12,856
10/31/93	22,011	24,045	13,209
10/31/94	22,615	24,975	13,554
10/31/95	27,817	31,558	13,935
10/31/96	34,464	39,200	14,352

Footnote reads:

Past performance is no assurance of future results. A \$10,000 investment in the fund's class B shares at inception on 4/27/92 would have been valued at \$18,660 on 10/31/96. (\$18,460 with a redemption at the end of the period). A \$10,000 investment in the fund's class M shares at inception on 5/1/95 would have been valued at \$13,796 at net asset value on 10/31/96 (\$13,310 at public offering price).

PRICE AND DISTRIBUTION INFORMATION

12 months ended 10/31/96

	Class A		Class B		Class M
Distributions (number)	4		4		4
Income	\$0.400		\$0.281		\$0.341
Capital gains					
Long-term	0.334		0.334		0.334
Short-term	0.386		0.386		0.386
Total	\$1.120		\$1.001		\$1.061
Share value:	NAV	POP	NAV	NAV	POP
10/31/95	\$15.77	\$16.73	\$15.63	\$15.74	\$16.31
10/31/96	18.27	19.38	18.10	18.21	18.87
Current return					
End of period					
Current dividend rate ¹	2.19%	2.06%	1.55%	1.80%	1.74%
Current 30-day SEC yield ²	2.42	2.28	1.68	1.92	1.85

1 Income portion of most recent distribution, annualized and divided by NAV or POP at end of period.

2 Based on investment income, calculated using SEC guidelines.

TOTAL RETURN FOR PERIODS ENDED 9/30/96

(most recent calendar quarter)

(inception date)	Class A (11/16/57)		Class B (4/27/92)		Class M (5/1/95)	
	NAV	POP	NAV	CDSC	NAV	POP

1 year	19.51%	12.61%	18.57%	13.57%	18.93%	14.77%
5 years	102.36	90.72	--	--	--	-
Annual average	15.14	13.78	--	--	--	-
10 years	274.45	253.02	--	--	--	-
Annual average	14.11	13.44	--	--	--	-
Life of class	--	--	82.58	80.58	35.01	30.25
Annual average	--	--	14.56	14.27	23.54	20.46

Footnote reads:

Performance data represent past results, do not reflect future performance, and will differ for each share class. Investment returns and net asset value will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

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.

Class M shares have a lower initial sales charge and a higher 12b-1 fee than class A shares and no sales charge on 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 for class A shares and 3.50% for class M shares.

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 index of common stocks frequently used as a general measure of stock market performance. The index assumes reinvestment of all distributions and interest payments and does not take into account brokerage fees or taxes. Securities in the fund do not match those in the index and performance of the fund will differ. It is not possible to invest directly in an index.

Consumer Price Index (CPI) is a commonly used measure of inflation; it does not represent an investment return.

Report of independent accountants

To the Trustees and Shareholders of
The Putnam Fund for Growth and Income

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments owned, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Putnam Fund for Growth and Income (the "fund") at October 31, 1996, and the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with generally accepted accounting principles. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investments owned at October

31, 1996 by correspondence with the custodian and brokers and the application of alternative auditing procedures where confirmations from brokers were not received, provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP
 Boston, Massachusetts
 December 9, 1996

<TABLE>
 <CAPTION>

Portfolio of investments owned
 October 31, 1996

<S>	<C>	<C>	<C>	VALUE
COMMON STOCKS (91.3%) *				
NUMBER OF SHARES				
Aerospace and Defense (0.7%)				
1,404,080	Lockheed Martin Corp.			\$125,840,670
242,500	Northrop Grumman Corp.			19,581,875

				145,422,545
Automotive (4.7%)				
10,000	Bayerische Motoren Werke (BMW) AG (Germany)			5,836,627
6,369,636	Chrysler Corp.			214,179,011
7,797,700	Ford Motor Co.			243,678,125
7,384,620	General Motors Corp.			397,846,403
2,150,000	Goodyear Tire & Rubber Co. (The)			98,631,250

				960,171,416
Basic Industrial Products (3.4%)				
322,400	Case Corp.			14,991,600
915,000	Caterpillar, Inc.			62,791,875
2,175,000	Cooper Industries, Inc.			87,543,750
4,604,317	Deere (John) & Co.			192,230,235
1,784,350	General Signal Corp.			72,712,263
3,558,400	Minnesota Mining & Manufacturing Co.			272,662,400

				702,932,123
Building and Construction (0.4%)				
1,195,905	Armstrong World Industries, Inc.			79,826,659
Business Equipment and Services (2.0%)				
247,200	Deluxe Corp.			8,064,900
1,100,000	Dun & Bradstreet Corp.			63,662,500
3,226,410	Hewlett-Packard Co.			142,365,341
4,291,380	Xerox Corp.			199,012,748

				413,105,489
Chemicals (3.7%)				
4,655,620	Bayer AG ADR (Germany)			176,046,665
1,207,460	Dow Chemical Co.			93,880,015
2,425,070	du Pont (E.I.) de Nemours & Co.			224,925,243
2,925,700	Eastman Chemical Co.			154,330,675
100,000	Hoechst AG (Germany)			3,751,647
3,141,100	Witco Chemical Corp.			97,374,100

				750,308,345
Computer Services and Software (1.9%)				
3,037,390	IBM Corp.			391,823,310
Conglomerates (5.9%)				
2,939,300	Eaton Corp.			175,623,175
1,110,000	General Electric Co.			107,392,500
3,647,740	General Motors Corp. Class H			194,698,123

5,160,990	ITT Industries, Inc.	119,993,018
1,300,000	Ogden Corp.	23,562,500
2,163,000	Tenneco Inc.	107,068,500
3,396,850	TRW, Inc.	307,414,925
1,399,330	United Technologies Corp.	180,163,738

		1,215,916,479
Consumer Durable Goods (1.0%)		

4,129,410	Whirlpool Corp.	195,114,623
Consumer Non Durables (6.0%)		

4,937,000	American Brands, Inc.	235,741,750
2,989,950	Avon Products, Inc.	162,204,788
1,079,050	Colgate-Palmolive Co.	99,272,600
3,867,340	Kimberly-Clark Corp.	360,629,455
2,733,510	Philip Morris Cos., Inc.	253,191,364
4,550,530	RJR Nabisco Holdings Corp.	131,396,554

		1,242,436,511
Electronics and Electrical Equipment (1.8%)		

75,000	Emerson Electric Co.	6,675,000
769,100	Honeywell, Inc.	47,780,338
1,374,060	Motorola, Inc.	63,206,760
100,000	Siemens AG (Germany)+	5,154,809
4,914,600	Texas Instruments, Inc.	236,515,125

		359,332,032
Environmental Control (0.8%)		

4,655,160	WMX Technologies, Inc.	160,021,125
Food and Beverages (1.1%)		

3,000,000	Anheuser-Busch Cos., Inc.	115,500,000
1,565,800	General Mills, Inc.	89,446,325
235,000	Heinz (H.J.) Co.	8,342,500
250,000	Sara Lee Corp.	8,875,000
280,000	Whitman Corp.	6,790,000

		228,953,825
Forest Products (1.8%)		

533,100	Rayonier, Inc.	21,124,088
170,000	Temple Inland, Inc.	8,712,500
776,000	Union Camp Corp.	37,830,000
6,723,400	Weyerhaeuser Co.	308,435,975

		376,102,563
Insurance and Finance (16.7%)		

6,124,300	Ahmanson (H.F.) & Co.	192,149,913
5,627,340	American General Corp.	209,618,415
3,239,200	AON Corp.	187,063,800
4,877,870	Banc One Corp.	206,699,741
2,354,200	BankAmerica Corp.	215,409,300
2,710,655	Bankers Trust New York Corp.	229,050,348
3,094,000	Beneficial Corp.	180,999,000
1,513,450	CIGNA Corp.	197,505,225
1,220,400	CoreStates Financial Corp.	59,341,950
976,800	Federal National Mortgage Association	38,217,300
6,481,870	Fleet Financial Group, Inc.	323,283,266
240,000	Great Western Financial Corp.	6,720,000
4,429,100	Keycorp	206,506,788
4,516,829	Morgan (J.P.) & Co., Inc.	390,141,105
695,700	National City Corp.	30,175,988
2,092,940	NationsBank Corp.	197,259,595
190,000	Norwest Corp.	8,336,250
7,975,988	PNC Bank Corp.	289,129,565
1,700,000	St. Paul Cos., Inc.	92,437,500
4,300,000	USF&G Corp.	81,700,000
375,000	Wells Fargo & Co.	100,171,875

		3,441,916,924

Medical Supplies and Devices (0.9%)

196,180	Allegiance Corporation +	3,678,375
4,525,900	Baxter International, Inc.	188,390,588

		192,068,963

Metals and Mining (1.1%)

4,189,260	Freeport-McMoRan Copper & Gold Co., Inc. Class A	121,488,540
3,151,734	Freeport-McMoRan Copper & Gold Co., Inc. Class B	95,733,920

		217,222,460

Oil and Gas (8.5%)

2,778,300	Amoco Corp.	210,456,225
1,583,390	British Petroleum PLC ADR (United Kingdom)	203,663,515
3,113,950	Chevron, Inc.	204,742,213
2,060,000	Enron Corp.	95,790,000
2,301,900	Exxon Corp.	204,005,888
1,541,950	Mobil Corp.	180,022,663
7,928,427	Occidental Petroleum Corp.	194,246,462
2,707,100	PanEnergy Corp.	104,223,350
1,679,500	Phillips Petroleum Co.	68,859,500
225,300	Royal Dutch Petroleum Co. PLC ADR (Netherlands)	37,258,988
5,746,164	Total Corp. ADR (France)	224,100,396
933,249	Union Pacific Resources Group Inc.	25,664,348

		1,753,033,548

Packaging and Containers (0.9%)

800,000	Ball Corp.	19,300,000
3,418,900	Crown Cork & Seal Co., Inc.	164,107,200

		183,407,200

Pharmaceuticals (5.7%)

3,108,500	American Home Products Corp.	190,395,625
1,914,200	Bristol-Myers Squibb Co.	202,426,650
10,195,250	Pharmacia & Upjohn, Inc.	367,029,000
6,325,560	Warner-Lambert Co.	402,463,755

		1,162,315,030

Photography (1.3%)

3,368,090	Eastman Kodak Co.	268,605,178
200,000	Polaroid Corp.	8,125,000

		276,730,178

Publishing (0.8%)

1,355,900	McGraw-Hill, Inc.	63,557,813
2,355,000	Times Mirror Co. Class A	108,918,750

		172,476,563

Real Estate Investment Trust (REIT's) (0.8%)

500,000	Avalon Properties, Inc.	11,562,500
605,767	Beacon Properties Corp.	17,794,406
349,900	Bradley Real Estate Trust, Inc.	5,817,088
500,000	FelCor Suite Hotels, Inc.	16,375,000
336,000	LTC Properties, Inc.	5,712,000
397,600	Macerich Co.	8,747,200
718,300	Meditrust Corp.	25,858,800
750,000	Nationwide Health Properties, Inc.	16,875,000
680,000	Simon DeBartolo Group, Inc.	17,935,000
352,200	Smith (Charles East) Residential Realty, Inc.	8,584,875
425,000	Storage USA, Inc.	14,768,750
228,000	Tanger Factory Outlet Center	5,529,000
225,000	Wellsford Residential Property Trust	5,175,000

		160,734,619

Retail (6.1%)

8,051,090	Dayton Hudson Corp.	278,768,991
-----------	---------------------	-------------

13,770,700	K mart Corp.	134,264,325
4,341,900	May Department Stores Co.	205,697,513
1,150,000	Melville Corp.	42,837,500
5,017,790	Penney (J.C.) Co., Inc.	263,433,975
5,098,580	Rite Aid Corp.	173,351,720
3,344,600	Sears, Roebuck & Co.	161,795,025

		1,260,149,049
Transportation (2.7%)		

1,192,000	Conrail, Inc.	113,389,000
1,012,440	Delta Air Lines, Inc.	71,756,685
2,147,020	Norfolk Southern Corp.	191,353,158
590,400	Railtrack Group PLC (United Kingdom) +	2,659,994
3,854,600	Ryder System, Inc.	114,674,350
1,241,900	Union Pacific Corp.	69,701,638

		563,534,825
Utilities (10.6%)		

3,559,570	Bell Atlantic Corp.	214,464,093
3,142,000	BellSouth Corp.	128,036,500
267,900	Carolina Power & Light Co.	9,677,888
1,513,500	Cinergy Corp.	50,134,688
300,000	Edison International	5,925,000
5,238,900	GTE Corp.	220,688,663
918,100	Houston Industries, Inc.	21,001,538
2,553,700	Long Island Lighting Co.	46,285,813
4,571,600	Northeast Utilities Co.	49,144,700
3,983,860	NYNEX Corp.	177,281,770
1,700,000	Pacific Enterprises	52,275,000
2,300,000	Pacific Gas & Electric Co.	54,050,000
7,272,950	Pacific Telesis Group	247,280,300
2,357,900	Peco Energy Co.	59,536,975
3,045,100	Potomac Electric Power Co.	78,030,688
630,600	Public Service Co. of Colorado	23,332,200
5,289,650	Public Service Enterprise Group, Inc.	142,159,344
2,524,000	SBC Communications, Inc.	122,729,500
7,586,120	Sprint Corp.	297,755,210
727,600	Union Electric Co.	28,103,550
5,108,500	US West Communications, Inc.	155,170,688
75,000	Veba (Vereinigte Elektrizitaets Bergwerks) AG (Germany) +	3,990,613

		2,187,054,721
	Total Common Stocks (cost \$15,532,943,927)	\$18,792,111,125
U.S. GOVERNMENT AND AGENCY OBLIGATIONS (4.5%) *		
PRINCIPAL AMOUNT		VALUE
U.S. Government Agency Mortgage Pass-Through Certificates (--%)		

	Government National Mortgage Association	
\$2,575	11 1/2s, with various due dates from March 15, 2010 to March 15, 2013	2,959
3,532	11s, January 15, 2010	3,982
277,205	9s, with various due dates from December 15, 2004 to June 15, 2011	297,131
151,110	7 1/2s, with various due dates from February 15, 2007 to April 15, 2007	153,693
473,597	7 1/4s, with various due dates from February 15, 2005 to March 15, 2005	481,535

		939,300
U.S. Treasury Obligations (4.5%)		

	U.S. Treasury Bonds	
200,000,000	8 1/8s, August 15, 2019	\$231,718,000
469,625,000	8s, November 15, 2021	539,556,859
172,495,000	6 1/4s, August 15, 2023	162,036,628

		933,311,487
	Total U.S. Government and Agency Obligations (cost \$903,174,632)	\$934,250,787
CONVERTIBLE BONDS AND NOTES (0.9%) *		
PRINCIPAL AMOUNT		VALUE

\$16,444,000	Banamex (Nassau Branch) 144A cv. jr. sub. notes 11s, 2003 (Mexico)	\$16,526,220
4,556,000	Banco Nacional de Mexico S.A. cv. bonds 7s, 1999 (Mexico)	4,248,470
GBP 25,000,000	British Airport Authority 144A cv. bonds 5 3/4s, 2006 (United Kingdom)	42,390,656
\$48,400,000	Home Depot, Inc. cv. sub. notes 3 1/4s, 2001	48,339,500
24,600,000	Mitsubishi Bank Ltd. International Finance Bermuda cv. trust guaranteed	

115,000,000	notes 3s, 2002 (Japan)	26,721,750
	Roche Holdings, Inc. 144A cv. unsub. Liquid Yield Option Note zero %, 2010 (Switzerland)	50,743,750
	Total Convertible Bonds and Notes (cost \$176,291,344)	\$188,970,346

CONVERTIBLE PREFERRED STOCKS (0.4%) *		VALUE
NUMBER OF SHARES		
484,300	Atlantic Richfield Co. \$2.23 cv. pfd.	\$10,472,988
450,000	Freeport-McMoran Copper Co., Inc. \$1.75 cv. pfd.	12,262,500
1,390,980	Kmart Financing I \$3.875 cv. pfd.	66,071,550
	Total Convertible Preferred Stocks (cost \$94,638,191)	\$88,807,038

CORPORATE BONDS AND NOTES (0.1%) *(cost \$24,521,875)		VALUE
PRINCIPAL AMOUNT		
\$19,000,000	Siemens Capital Corp. Co. Guaranty 8s, 2002 (Germany)	\$25,080,000

FOREIGN GOVERNMENT BONDS AND NOTES (0.1%) *(cost \$22,777,250)		VALUE
PRINCIPAL AMOUNT		
\$22,550,000	Italy (Government of) cv. notes 5s, 2001	\$22,803,688

SHORT-TERM INVESTMENTS (2.3%) *		VALUE
PRINCIPAL AMOUNT		
\$25,000,000	Ciesco L.P. effective yield of 5.37%, November 5, 1996	\$24,985,083
20,000,000	Corporate Asset Funding Corp. effective yield of 5.42%, December 19, 1996	19,855,468
20,000,000	Corporate Receivables Corp. effective yield of 5.28%, December 29, 1996	19,888,533
30,000,000	Falcon Asset Securitization Corp. effective yield of 5.26%, November 15, 1996	29,938,633
20,000,000	Federal Home Loan Bank effective yield of 5.30%, November 12, 1996	19,967,611
25,000,000	Federal Home Loan Mortgage Corp. effective yield of 5.30%, December 11, 1996	24,852,777
25,000,000	Federal Home Loan Mortgage Corp. effective yield of 5.25%, February 3, 1997	24,661,861
30,000,000	Federal National Mortgage Assn. effective yield of 5.29%, December 27, 1996	29,753,135
25,000,000	Federal National Mortgage Assn. effective yield of 5.24%, March 17, 1997	24,511,722
30,000,000	Federal National Mortgage Assn. effective yield of 5.24%, January 17, 1997	29,668,900
25,000,000	Ford Motor Credit Co. effective yield of 5.33%, December 3, 1996	24,881,555
25,000,000	General Electric Capital Corp. effective yield of 5.30%, December 10, 1996	24,856,458
30,000,000	General Electric Capital Corp. effective yield of 5.30%, November 13, 1996	29,947,000
25,000,000	Household Finance Corp. effective yield of 5.30%, November 18, 1996	24,937,430
25,000,000	Merrill Lynch & Co. Inc. effective yield of 5.35%, November 4, 1996	24,988,855
25,000,000	Morgan (J.P.) & Co. Inc. effective yield of 5.31%, December 16, 1996	24,834,063
10,000,000	National Rural Utilities Cooperative Finance Corp. effective yield of 5.32%, November 5, 1996	9,994,089
30,000,000	National Rural Utilities Cooperative Finance Corp. effective yield of 5.31%, January 16, 1996	29,666,233
25,000,000	Sheffield Receivables Corp. effective yield of 5.27%, December 17, 1996	24,831,653
10,000,000	Interest in \$500,000,000 joint repurchase agreement dated October 31, 1996 with Lehman Brothers Inc. due November 1, 1996 with respect to various U.S. Treasury obligations -- maturity value of \$10,001,536 for an effective yield of 5.53%	\$10,001,536
6,000,000	Interest in \$356,650,000 joint repurchase agreement dated October 31, 1996 with Morgan (J.P.) & Co., Inc. due November 1, 1996 with respect to various U.S. Treasury obligations -- maturity value of \$6,000,918 for an effective yield of 5.51%	6,000,918
	Total Short-Term Investments (cost \$483,004,666)	\$483,023,513
	Total Investments (cost \$17,237,351,885) ***	\$20,535,046,497

* Percentages indicated are based on net assets of \$20,572,364,247.

*** The aggregate identified cost on a tax basis is \$17,275,108,735, resulting in gross unrealized appreciation and depreciation of \$3,719,422,059 and \$459,484,297, respectively, or net unrealized appreciation of \$3,259,937,762.

+ Non-income producing security.

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.

ADR after the name of a foreign holding stands for American Depository Receipts, representing ownership of foreign securities on deposit with a domestic custodian bank.

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

</TABLE>

<TABLE>
<CAPTION>

Statement of assets and liabilities
October 31, 1996

<S>	<C>
Assets	
Investments in securities, at value (identified cost \$17,237,351,885) (Note 1)	\$20,535,046,497
Cash	10,900,193
Dividends and interest receivable	71,074,110
Receivable for shares of the fund sold	68,078,005
Receivable for securities sold	129,169,811
Total assets	20,814,268,616
Liabilities	
Payable for securities purchased	185,674,153
Payable for shares of the fund repurchased	15,698,246
Payable for compensation of Manager (Note 2)	20,820,073
Payable for investor servicing and custodian fees (Note 2)	4,511,518
Payable for compensation of Trustees (Note 2)	37,474
Payable for administrative services (Note 2)	25,187
Payable for distribution fees (Note 2)	9,813,539
Other accrued expenses	5,324,179
Total liabilities	241,904,369
Net Assets	\$20,572,364,247
Represented by	
Paid-in capital (Notes 1 and 4)	\$15,851,153,592
Undistributed net investment income (Note 1)	87,270,432
Accumulated net realized gain on investments (Note 1)	1,336,245,611
Net unrealized appreciation of investments	3,297,694,612
Total - Representing net assets applicable to capital shares outstanding	\$20,572,364,247
Computation of net asset value and offering price	
Net asset value and redemption price per class A share (\$11,403,813,376 divided by 624,029,425 shares)	\$18.27
Offering price per class A share (100/94.25 of \$18.27)*	\$19.38
Net asset value and offering price per class B share (\$8,692,162,589 divided by 480,237,247 shares) **	\$18.10
Net asset value and redemption price per class M share (\$132,453,037 divided by 7,274,828 shares)	\$18.21
Offering price per class M share (100/96.50 of \$18.21)*	\$18.87
Net asset value, offering and redemption price per class Y share (\$343,935,245 divided by 18,802,567 shares)	\$18.29

* 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.

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

</TABLE>

<TABLE>
<CAPTION>

Statement of operations
Year ended October 31, 1996

<S>	<C>
Investment Income:	
-----	-----
Dividends (net of foreign tax of \$1,285,147)	\$519,230,004
-----	-----
Interest income	70,683,052
-----	-----
Total investment income	589,913,056
Expenses	
-----	-----
Compensation of Manager (Note 2)	73,757,675
-----	-----
Investor servicing and custodian fees (Note 2)	31,284,282
-----	-----
Compensation of Trustees (Note 2)	242,932
-----	-----
Administrative services (Note 2)	75,345
-----	-----
Distribution fees -- Class A (Note 2)	24,268,217
-----	-----
Distribution fees -- Class B (Note 2)	68,898,645
-----	-----
Distribution fees -- Class M (Note 2)	509,346
-----	-----
Reports to shareholders	1,053,507
-----	-----
Registration fees	926,252
-----	-----
Auditing	332,062
-----	-----
Legal	302,885
-----	-----
Postage	5,529,162
-----	-----
Other	693,688
-----	-----
Total expenses	207,873,998
-----	-----
Expense reduction (Note 2)	(5,077,031)
-----	-----
Net expenses	202,796,967
-----	-----
Net investment income	387,116,089
-----	-----
Net realized gain on investments (Notes 1 and 3)	1,400,606,590
-----	-----
Net unrealized appreciation of investments during the year	1,626,421,833
-----	-----
Net gain on investments	3,027,028,423
-----	-----
Net increase in net assets resulting from operations	\$3,414,144,512
-----	-----

The accompanying notes are an integral part of these financial statements

</TABLE>

<TABLE>
<CAPTION>

Statement of changes in net assets

Year ended October 31

	1996	1995
<S>	<C>	<C>
Increase in net assets		
Operations:		
Net investment income	\$387,116,089	\$318,107,138
Net realized gain on investments	1,400,606,590	567,738,792
Net unrealized appreciation of investments	1,626,421,833	1,368,165,037
Net increase in net assets resulting from operations	3,414,144,512	2,254,010,967
Distributions to shareholders:		
From net investment income		
Class A	(223,915,286)	(186,528,064)
Class B	(112,039,069)	(84,305,152)
Class M	(1,264,823)	(104,438)
Class Y	(6,598,623)	(2,521,806)
From net realized gain on investments		
Class A	(362,744,121)	(193,525,619)
Class B	(240,133,705)	(109,385,623)
Class M	(1,187,122)	--
Class Y	(8,902,432)	(882,814)
Increase from capital share transactions (Note 4)	4,951,758,539	2,130,825,036
Total increase in net assets	7,409,117,870	3,807,582,487
Net assets		
Beginning of year	13,163,246,377	9,355,663,890
End of year (including undistributed net investment income of \$87,270,432 and \$46,517,767, respectively)	\$20,572,364,247	\$13,163,246,377

The accompanying notes are an integral part of these financial statements

</TABLE>

<TABLE>
<CAPTION>

Financial highlights
(For a share outstanding throughout the period)

	Year ended October 31	June 15, 1994 (commencement of operations) to October 31
	1996	1995
	Class Y	
<S>	<C>	<C>
Net asset value, beginning of period	\$15.78	\$13.66
Investment operations		
Net investment income	.47	.49 (d)
Net realized and unrealized gain (loss) on investments	3.20	2.50
Total from investment operations	3.67	2.99
Distributions to shareholders:		
From net investment income	(.44)	(.43)
		(.11)

From net realized gain on investments	(.72)	(.44)	--
Total distributions	(1.16)	(.87)	(.11)
Net asset value, end of period	\$18.29	\$15.78	\$13.66
Total investment return at net asset value (%) (a)	24.24	23.28	2.28*
Net assets, end of period (in thousands)	\$343,935	\$193,292	\$27,632
Ratio of expenses to average net assets (%) (b)	.68	.64	.26*
Ratio of net investment income to average net assets (%)	2.83	3.14	1.17*
Portfolio turnover (%)	41.26	58.40	48.76
Average commission rate paid (c)	\$0.0524		

<CAPTION>

Financial Highlights (continued)
(For a share outstanding throughout the period)

	May 1, 1995 (commencement of operations) to October 31		
	Year ended October 31	1995	1996
	1996	1995	1996
	Class M		
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$15.74	\$14.24	\$15.63
Investment operations			
Net investment income	.35	.15(d)	.30
Net realized and unrealized gain (loss) on investments	3.18	1.53	3.17
Total from investment operations	3.53	1.68	3.47
Distributions to shareholders:			
From net investment income	(.34)	(.18)	(.28)
From net realized gain on investments	(.72)	--	(.72)
Total distributions	(1.06)	(.18)	(1.00)
Net asset value, end of period	\$18.21	\$15.74	\$18.10
Total investment return at net asset value (%) (a)	23.31	11.88*	23.04
Net assets, end of period (in thousands)	\$132,453	\$21,100	\$8,692,163
Ratio of expenses to average net assets (%) (b)	1.44	.66*	1.68
Ratio of net investment income to average net assets (%)	2.02	1.12*	1.84
Portfolio turnover (%)	41.26	58.40	41.26
Average commission rate paid (c)	\$0.0524		\$0.0524

<CAPTION>

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

	Year ended October 31		
	1995	1994	1993
	Class B		
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$13.56	\$14.18	\$12.88
Investment operations			

Net investment income	.35 (d)	.35	.31 (d)
Net realized and unrealized gain (loss) on investments	2.46	(.09)	1.89
Total from investment operations	2.81	.26	2.20
Distributions to shareholders:			
From net investment income	(.30)	(.34)	(.44)
From net realized gain on investments	(.44)	(.54)	(.46)
Total distributions	(.74)	(.88)	(.90)
Net asset value, end of period	\$15.63	\$13.56	\$14.18
Total investment return at net asset value (%) (a)	21.91	2.01	17.86
Net assets, end of period (in thousands)	\$5,089,359	\$3,318,858	\$1,819,793
Ratio of expenses to average net assets (%) (b)	1.64	1.70	1.68
Ratio of net investment income to average net assets (%)	2.42	2.42	2.27
Portfolio turnover (%)	58.40	48.76	64.02
Average commission rate paid (c)			

<CAPTION>

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

April 27, 1992
(commencement
of operations) to
October 31

	1992	1996	1995
	Class A		
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$12.69	\$15.77	\$13.65
Investment operations			
Net investment income	.18 (d)	.43	.46 (d)
Net realized and unrealized gain (loss) on investments	.26	3.19	2.50
Total from investment operations	.44	3.62	2.96
Distributions to shareholders:			
From net investment income	(.25)	(.40)	(.40)
From net realized gain on investments	--	(.72)	(.44)
Total distributions	(.25)	(1.12)	(.84)
Net asset value, end of period	\$12.88	\$18.27	\$15.77
Total investment return at net asset value (%) (a)	3.47*	23.89	23.00
Net assets, end of period (in thousands)	\$288,121	\$11,403,813	\$7,859,496
Ratio of expenses to average net assets (%) (b)	.97*	.92	.89
Ratio of net investment income to average net assets (%)	1.15*	2.59	3.20
Portfolio turnover (%)	66.63	41.26	58.40
Average commission rate paid (c)		\$0.0524	

<CAPTION>

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

	Year ended October 31		
	1994	1993	1992
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$14.26	\$12.92	\$12.82
Investment operations			
Net investment income	.44	.43	.48
Net realized and unrealized gain (loss) on investments	(.08)	1.88	.65
Total from investment operations	.36	2.31	1.13
Distributions to shareholders:			
From net investment income	(.43)	(.51)	(.54)
From net realized gain on investments	(.54)	(.46)	(.49)
Total distributions	(.97)	(.97)	(1.03)
Net asset value, end of period	\$13.65	\$14.26	\$12.92
Total investment return at net asset value (%) (a)	2.74	18.75	9.53
Net assets, end of period (in thousands)	\$6,009,174	\$5,214,239	\$3,517,199
Ratio of expenses to average net assets (%) (b)	.95	.93	1.07
Ratio of net investment income to average net assets (%)	3.18	3.18	3.72
Portfolio turnover (%)	48.76	64.02	66.63
Average commission rate paid (c)			

See page 27 for notes to financial highlights.

*Not annualized.

(a) Total investment return assumes dividend reinvestment and does not reflect the effect of sales charges.

(b) The ratio of expenses to average net assets for the period ended October 31, 1995 and thereafter, includes amounts paid through expense offset arrangements. Prior period ratios exclude these amounts (Note 2).

(c) Average commission rate paid on security trades is required for fiscal periods beginning on or after September 1, 1995.

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

</TABLE>

Notes to financial statements October 31, 1996

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 growth and current income by investing primarily in a portfolio of common stocks that offer the potential for capital growth, current income or both.

The fund offers class A, class B, class M and class Y shares. Class A shares are sold with a maximum front-end sales charge of 5.75%. Class B shares, which convert to class A shares after approximately eight years, 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. Class M shares are sold with a maximum front end sales charge

of 3.50% and pay an ongoing distribution fee that is higher than class A shares but lower than class B shares. Class Y shares, which are sold at net asset value, are generally subject to the same expenses as class A, class B and class M shares, but do not bear a distribution fee. Class Y shares are sold to defined contribution plans that initially invest at least \$250 million in a combination of Putnam Funds.

Expenses of the fund are borne pro-rata by the holders of each class of shares, except that each class bears expenses unique to that class (including the distribution fees applicable to such class). Each class 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 would 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 preparation of financial statements is in conformity with generally accepted accounting principles and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

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. Securities quoted in foreign currencies are translated into U.S. dollars at the current exchange rate. Short-term investments having remaining maturities of 60 days or less are stated at amortized cost, which approximates market value, and other investments are stated at fair market value following procedures approved by the Trustees. Market quotations are not considered to be readily available for long-term corporate bonds and notes; such investments are stated at fair value on the basis of valuations furnished by a pricing service, approved by the Trustees, or dealers which determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities that are generally recognized by institutional traders.

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 of other registered investment companies and certain other accounts 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, or any joint trading account, 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. Putnam Management 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. 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. Discounts on zero coupon bonds, are accreted according to the effective yield method.

E) Federal taxes It is the policy of the fund to distribute all of its taxable income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code 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. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

F) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Capital gain distributions, if any, are recorded on the ex-dividend date and paid annually. The amount and character of income and gains to be

distributed are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

These differences include treatment of losses on wash sale transactions, non-taxable dividends and market discount. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. For the year ended October 31, 1996, the fund reclassified \$2,545,623 to decrease undistributed net investment income and \$690,831 to increase paid-in-capital, with an increase to accumulated net realized gain on investments of \$1,854,792. The calculation of net investment income per share in the financial highlights table excludes these adjustments.

Note 2

Management fee, administrative services and other transactions

Compensation of Putnam Management, for management and investment advisory services is paid quarterly based on the average net assets of the fund. Such fee is based on the following annual rates: 0.65% of the first \$500 million of average assets, 0.55% of the next \$500 million, 0.50% of the next \$500 million, and 0.45% of the next \$5 billion, 0.425% of the next \$5 billion, 0.405% of the next \$5 billion, 0.390% of the next \$5 billion and 0.380% of any excess thereafter subject, under current law, 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.

The fund reimburses Putnam Management for the compensation and related expenses of certain officers of the fund and their staff who provide administrative services to the fund. The aggregate amount of all such reimbursements is determined annually by the Trustees.

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company (PFTC), a wholly-owned subsidiary of Putnam Investments, Inc.

Investor servicing agent functions are provided by Putnam Investor Services, a division of PFTC.

For the year ended October 31, 1996, fund expenses were reduced by \$5,077,031 under expense offset arrangements with PFTC. Investor servicing and custodian fees reported in the Statement of operations exclude these credits. The fund could have invested a portion of the assets utilized in connection with the expense offset arrangements in an income producing asset if it had not entered into such arrangements.

Trustees of the fund receive an annual Trustees fee of \$11,268 and an additional fee for each Trustee's 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 fund adopted a Trustee Fee Deferral Plan (the "Plan") which allows the Trustees to defer the receipt of all or a portion of Trustees Fees payable on or after July 1, 1995. The deferred fees remain in the fund and are invested in certain Putnam funds until distribution in accordance with the Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan covering all Trustees of the Fund who have served as Trustee for at least five years. Benefits under the plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Compensation of trustees in the Statement of operations. Accrued pension liability is included in Payable for compensation of Trustees in the Statement of assets and liabilities.

The fund has adopted distribution plans (the "Plans") with respect to its class A, class B and class M 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 Plans provide for payments by the fund to Putnam Mutual Funds Corp. at an annual rate up to 0.35%, 1.00% and 1.00% of the average net assets attributable to class A, class B and class M shares, respectively. The Trustees have approved payment by the fund at an annual rate of 0.25%, 1.00% and 0.75% of the average net assets attributable to class A, class B and class M shares,

respectively.

For the year ended October 31, 1996, Putnam Mutual Funds Corp., acting as underwriter received net commissions of \$10,503,021 and \$230,930 from the sale of class A and class M shares, respectively, and \$7,920,693 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. For the year ended October 31, 1996, Putnam Mutual Funds Corp., acting as underwriter received \$44,337 on class A redemptions.

Note 3
Purchase and sales of securities

During the year ended October 31, 1996, purchases and sales of investment securities other than U.S. government obligations and short-term investments aggregated \$10,303,557,786 and \$6,720,905,944, respectively. Purchases and sales of U.S. government obligations aggregated \$902,300,507 and \$205,237, 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 October 31, 1996, there was an unlimited number of shares of beneficial interest authorized. Transactions in capital shares were as follows:

Year ended
October 31, 1996

Class A	Shares	Amount
Shares sold	174,995,766	\$2,992,497,428
Shares issued in connection with reinvestment of distributions	32,806,678	538,127,028
	207,802,444	3,530,624,456
Shares repurchased	(82,235,085)	(1,402,222,592)
Net increase	125,567,359	\$2,128,401,864

Year ended
October 31, 1995

Class A	Shares	Amount
Shares sold	106,699,884	\$1,535,276,912
Shares issued in connection with reinvestment of distributions	26,155,203	345,499,774
	132,855,087	1,880,776,686
Shares repurchased	(74,467,149)	(1,063,380,132)
Net increase	58,387,938	\$817,396,554

Year ended
October 31, 1996

Class B	Shares	Amount
Shares sold	180,596,591	\$3,061,568,355
Shares issued in connection with reinvestment of distributions	20,249,530	328,605,353
	200,846,121	3,390,173,708
Shares repurchased	(46,154,659)	(781,507,908)

Net increase 154,691,462 \$2,608,665,800

Year ended
October 31, 1995

Class B	Shares	Amount
Shares sold	103,563,018	\$1,481,487,774
Shares issued in connection with reinvestment of distributions	13,827,849	180,565,029
	117,390,867	1,662,052,803
Shares repurchased	(36,574,502)	(517,036,794)
Net increase	80,816,365	\$1,145,016,009

Year ended
October 31, 1996

Class M	Shares	Amount
Shares sold	6,625,588	\$113,736,760
Shares issued in connection with reinvestment of distributions	141,706	2,345,665
	6,767,294	116,082,425
Shares repurchased	(833,232)	(14,291,401)
Net increase	5,934,062	\$101,791,024

For the period
May 1, 1995
(commencement of
operations) to
October 31, 1995

Class M	Shares	Amount
Shares sold	1,408,277	\$21,457,349
Shares issued in connection with reinvestment of distributions	6,677	102,694
	1,414,954	21,560,043
Shares repurchased	(74,188)	(1,150,413)
Net increase	1,340,766	\$20,409,630

Year ended
October 31, 1996

Class Y	Shares	Amount
Shares sold	9,693,165	\$167,559,028
Shares issued in connection with reinvestment of distributions	941,889	15,501,055
	10,635,054	183,060,083
Shares repurchased	(4,080,903)	(70,160,232)
Net increase	6,554,151	\$112,899,851

Year ended
October 31, 1995

Class Y	Shares	Amount
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Shares sold	11,259,867	\$163,682,273
Shares issued in connection with reinvestment of distributions	240,803	3,404,620
	11,500,670	167,086,893
Shares repurchased	(1,274,438)	(19,084,050)
Net increase	10,226,232	\$148,002,843

Federal tax information
(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, as amended, the Fund hereby designates \$.334 per share (or if different, the amount necessary to offset net capital gain earned by the Fund) for all classes of shares as capital gain dividends for its taxable year ended October 31, 1996.

The fund has designated 76.11% of the distributions from net investment income as qualifying for the dividends received deduction for corporations.

The Form 1099 you receive in January 1997 will show the tax status of all distributions paid to your account in calendar 1996.

Results of October 3, 1996 shareholder meeting
(Unaudited)

A meeting of shareholders of the fund was held on October 3, 1996. At the meeting, each of the nominees for Trustees was elected, as follows:

	Votes for	Votes withheld
Jameson Adkins Baxter	608,693,141	8,939,400
Hans H. Estin	608,692,635	8,939,906
John A. Hill	608,685,346	8,947,195
R.J. Jackson	608,676,833	8,955,708
Elizabeth T. Kennan	608,633,702	8,998,839
Lawrence J. Lasser	608,677,351	8,955,190
Robert E. Patterson	608,681,537	8,957,004
Donald S. Perkins	608,661,626	8,970,915
William F. Pounds	608,675,190	8,957,351
George Putnam	608,681,783	8,950,758
George Putnam, III	608,667,391	8,956,150
Eli Shapiro	608,513,785	9,118,756
A.J.C. Smith	608,688,937	8,943,604
W. Nicholas Thorndike	608,645,438	8,987,103

A proposal to ratify the selection of Price Waterhouse LLP as auditors for the fund was approved as follows: 597,336,477 votes for, and 4,791,294 votes against, with 15,504,770 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to the fund's permitted investments was approved as follows: 559,437,369 votes for, and 25,912,524 votes against, with 32,282,648 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to diversification of investments was approved as follows: 558,304,730 votes for, and 27,860,445 votes against, with 31,467,366 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to investments in issuers that have been in operation less than three years was approved as follows: 553,066,847 votes for, and 30,819,800 votes against, with 33,745,894 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to purchase of illiquid securities was approved as follows: 545,717,444 votes for, and 36,536,325 votes against, with 35,378,772 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to investments in securities of issuers in which Putnam Investments Management, Inc. owns securities was approved as follows: 552,160,398 votes for, and 32,290,518 votes against, with 33,181,625 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to making loans by purchasing securities was approved as follows: 552,009,361 votes for, and 31,993,884 votes against, with 33,629,296 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to making loans through repurchase agreements and securities was approved as follows: 546,398,631 votes for, and 36,961,477 votes against, with 34,272,433 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to investments in the securities of a single issuer was approved as follows: 551,510,252 votes for, and 32,242,532 votes against, with 33,879,757 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to investments in real estate was approved as follows: 554,252,905 votes for, and 31,401,360 votes against, with 31,978,276 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to concentration of its assets was approved as follows: 560,458,189 votes for, and 25,019,430 votes against, with 32,154,922 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to pledging assets was approved as follows: 548,330,890 votes for, and 35,121,855 votes against, with 34,179,796 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust with respect to borrowing was approved as follows: 550,847,644 votes for, and 33,104,012 votes against, with 33,680,885 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to investments in commodities was approved as follows: 547,583,766 votes for, and 37,567,518 votes against, with 32,481,257 abstentions and broker non-votes.

A proposal to eliminate the fund's fundamental investment restriction with respect to margin transactions was approved as follows: 544,958,418 votes for, and 38,867,541 votes against, with 33,804,582 abstentions and broker non-votes.

A proposal to amend the fund's Agreement and Declaration of Trust and eliminate the fund's fundamental investment restriction with respect to short sales was approved as follows: 549,728,817 votes for, and 33,996,985 votes against, with 33,906,739 abstentions and broker non-votes.

A proposal to amend the fund's fundamental investment restriction with respect to underwriting was approved as follows: 556,770,031 votes for, and 25,888,945 votes against, with 34,973,565 abstentions and broker non-votes.

A proposal to eliminate the fund's fundamental investment restriction with respect to invest to gain control of a company's management was approved as follows: 554,262,046 votes for, and 30,495,739 votes against, with 32,874,756 abstentions and broker non-votes.

All tabulations are rounded to nearest whole number.

Our commitment to quality service

* CHOOSE AWARD-WINNING SERVICE

Putnam Investor Services has won the DALBAR Quality Tested Service Seal for the past six years. In 1995, over 146,000 tests of 56 shareholder service components demonstrated that Putnam outperformed the industry standard in every category.

* HELP YOUR INVESTMENT GROW

Set up a systematic program for investing with as little as \$25 a month from a Putnam money market fund or from your checking or savings account.*

* SWITCH FUNDS EASILY

You can move money from one account to another with the same class of shares without a service charge. (This privilege is subject to change or termination.)

* ACCESS YOUR MONEY QUICKLY

You can get checks sent regularly or redeem shares any business day at the then-current net asset value, which may be more or less than the original cost of the shares.

For details about any of these or other services, contact your financial advisor or call the toll-free number shown below and speak with a helpful Putnam representative.

To make an additional investment in this or any other Putnam fund, contact your financial advisor or call our toll-free number: 1-800-225-1581.

Footnote reads:

*Regular investing of course, does not guarantee a profit or protect against a loss in a declining market.

Fund information

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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

Price Waterhouse LLP

TRUSTEES

George Putnam, Chairman
William F. Pounds, Vice Chairman
Jameson Adkins Baxter
Hans H. Estlin
John A. Hill
Ronald J. Jackson
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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Executive Vice President

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John D. Hughes

Senior Vice President and Treasurer

Lawrence J. Lasser
Vice President

Gordon H. Silver
Vice President

Peter Carman
Vice President

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Vice President

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Vice President and Fund Manager

Anthony I. Kreisel
Vice President and Fund Manager

Hugh H. Mullin
Vice President and Fund Manager

William N. Shiebler
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John R. Verani
Vice President

Paul M. O'Neil
Vice President

Beverly Marcus
Clerk and Assistant Treasurer

This report is for the information of shareholders of The Putnam Fund for Growth and Income. 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. You can also learn more at Putnam Investments' website: <http://www.putnaminv.com>.

Shares of mutual funds are not deposits or obligations of, or guaranteed or endorsed by, any financial institution, are not insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board or any other agency, and involve risk, including the possible loss of the principal amount invested.

PUTNAM INVESTMENTS

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Boston, Massachusetts 02109

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