

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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FILER

PUTNAM ADJUSTABLE RATE US GOVERNMENT FUND

CIK: **807932** | IRS No.: **046561111** | State of Incorpor.: **MA** | Fiscal Year End: **1031**
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Putnam
Adjustable Rate
U.S. Government
Fund

ANNUAL REPORT

October 31, 1996

[LOGO: BOSTON * LONDON * TOKYO]

From the Chairman

[GRAPHIC OMITTED: PHOTO OF GEORGE PUTNAM]

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Dear Shareholder:

As we reported to you in the fund's April 30, 1996, semiannual report and in proxy materials that were mailed during the summer, Putnam Management proposed a merger of Putnam Adjustable Rate U.S. Government Fund into Putnam Intermediate U.S. Government Income Fund. A majority of shareholders approved the proposal and the two funds were merged on November 11, 1996.

Your fund completed its final fiscal year by posting solid total returns in a market environment marked by alternating periods of turbulence and strength. Fiscal 1996 began with the same bond market strength that capped off a successful calendar 1995. Beginning in January and extending through the first four months of calendar 1996, however, interest rates rose dramatically across the spectrum of bond maturities. Then, from May to the end of the fiscal year, rates stayed in a relatively tight range of 6.7% to 7.2% for the 30-year Treasury bond and were accompanied by a somewhat surprising lack of activity by the Federal Reserve Board. In fact, a pronounced market rally in September was in response to the Fed's decision to keep the target for short-term bank-lending rates unchanged at 5.25% -- a level it established last January -- based on evidence of a slowing economy.

Fund Manager Michael Martino currently plans to retain many of the fund's adjustable-rate mortgage-backed securities (ARMs) that were transferred into the Putnam Intermediate U.S. Government Income Fund portfolio. He believes they are well structured with respect to prepayment risk* and may contain yet-to-be-realized value with regard to appreciation potential.

Looking ahead, Mike believes that the economy's growth rate is likely to moderate, perhaps moving back toward a 2% annual level. While he anticipates that inflation could exhibit some near-term signs of accelerating, if the pace of economic growth slows in the months ahead, he maintains that inflation is likely to remain well behaved over the longer term. Accordingly, while we cannot provide assurances, if Mike's expectations for the economy prove correct, then the current favorable environment for bonds may persist for some time.

Respectfully yours,

/S/George Putnam

George Putnam

Chairman of the Trustees

December 18, 1996

Footnote reads:

*Mortgage-backed securities are subject to prepayment risk, which is the risk that an investor's principal will be returned in full at some point prior to the security's stated maturity date. Such prepayment may cause an investor's actual rate of return to differ from the expected rate of return. Prepayment risk is greatest when interest rates are falling, since mortgage holders rush to refinance, forcing retirement of the bonds that back their existing mortgages.

Performance summary

Performance should always be considered in light of a fund's investment strategy. Putnam Adjustable Rate U.S. Government Fund is designed for investors seeking attractive current income and preservation of capital primarily through U.S. adjustable rate mortgage securities.

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 (1/5/88)		Class B (5/11/92)	
	NAV	POP	NAV	CDSC
1 year	5.86%	2.40%	5.33%	2.33%
5 years	19.95	16.02	--	--
Annual average	3.70	3.02	--	--
Life of class	57.39	52.31	13.59	13.59
Annual average	5.28	4.89	2.88	2.88

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 10/31/96

	Lehman Bros. Mortgaged-backed Securities Index	Consumer Price Index
1 year	6.92%	2.99%
5 years	40.90	15.21
Annual average	7.09	2.87
Life of class A	120.34	37.18
Annual average	9.35	3.65
Life of class B	36.97	13.48
Annual average	7.23	2.86

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 3.25% maximum sales charge for class A shares. CDSC for class B shares assumes the applicable sales charge, with the maximum being 3%.

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

Cumulative total return of a \$10,000 investment since 1/5/88

Starting value		(Insert ending Total)
\$9,675	Fund's class A shares at POP	\$15,231
\$10,000	Lehman Bros. Mortgage-Backed Securities Index	\$22,034
\$10,000	Consumer Price Index	\$13,718

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

Date/year	Fund at POP	Lehman Bros. Mort.-Backed Securities Index	CPI
1/5/88	9,675	10,000	10,000
10/31/88	10,081	11,091	10,416
10/31/89	10,925	12,333	10,884
10/31/90	11,687	13,376	11,568
10/31/91	12,697	15,638	11,906
10/31/92	13,169	16,915	12,288
10/31/93	13,346	18,251	12,626
10/31/94	13,385	17,981	12,955
10/31/95	14,387	20,607	13,319

Footnote reads:

Past performance is no assurance of future results. A \$10,000 investment in the fund's class B shares at inception on 5/11/92 would have been valued at \$11,359 on 10/31/96.

TOTAL RETURN FOR PERIODS ENDED 9/30/96
(most recent calendar quarter)

(inception date)	Class A (1/5/88)		Class B (5/11/92)	
	NAV	POP	NAV	CDSC
1 year	5.65%	2.20%	5.02%	2.03%
5 years	19.73	15.82	--	--
Annual average	3.67	2.98	--	--
Life of class	56.18	51.13	12.66	12.66
Annual average	5.23	4.84	2.75	2.75

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.

PRICE AND DISTRIBUTION INFORMATION
12 months ended 10/31/96

	Class A		Class B
Distributions (number)	12		12
Income	\$0.570		\$0.507
Return of capital	0.030		0.030
Total	\$0.600		\$0.537
Share value:	NAV	POP	NAV
10/31/95	\$10.38	\$10.73	\$10.36
10/31/96	10.37	10.72	10.36
Current return: (end of period)			
Current dividend rate ¹	5.47%	5.29%	4.93%
Current 30-day SEC yield ²	5.39	5.21	4.78

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

²Based on investment income, calculated using SEC guidelines.

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 3.25% sales charge for class A.

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 3% maximum during the first year to 1% during the fourth year. After the fourth year, the CDSC no longer applies.

1,339,564	7.329s, April 1, 2019	1,387,293
2,150,595	7.125s, February 1, 2018	2,213,780
2,774,024	6.875s, April 1, 2018	2,872,419
4,198,318	6.375s, April 1, 2017	4,272,461
	Federal National Mortgage Association ARMS	
203,142	7.95s, January 1, 2017	211,078
197,252	7.69s, February 1, 2027	202,061
1,396,298	7.603s, May 1, 2020	1,456,521
2,049,567	7.556s, December 1, 2019	2,137,965
3,373,162	7.501s, September 1, 2018	3,518,647
31,616	7.275s, May 1, 2016	32,071
2,491,099	7.251s, April 1, 2022	2,597,370
6,239,410	6.975s, April 1, 2028	6,506,520
192,070	6.069s, July 1, 2026	191,290
134,690	6.069s, November 1, 2024	134,144
152,997	Federal National Mortgage Association pass-through certificates	
	11 1/4s, October 1, 2010	172,599
	Federal National Mortgage Association ARM pass-through certificates	
3,698,334	7.229s, June 1, 2018	3,819,677
4,043	6.08s, February 1, 2016	4,028
14,140,781	Government National Mortgage Association ARM pass-through certificates	
	6s, with various due dates to July 20, 2026	14,315,152
	U.S. Treasury Notes	
10,000,000	8 1/4s, July 15, 1998	10,406,200
1,500,000	7 3/8s, November 15, 1997	1,526,715
2,000,000	6 1/4s, April 30, 2001	2,013,440
----- Total Investments (cost \$77,173,997)***		77,417,879
-----		-----

* Percentages indicated are based on net assets of \$79,145,974.

*** The aggregate identified cost on a tax basis is \$78,585,455, resulting in gross unrealized depreciation of \$1,167,576.

The rates shown on ARMS are the current rates at October 31, 1996, which are subject to change based on the terms of the security.

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

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Statement of assets and liabilities
October 31, 1996

<S>	<C>
Assets	

Investments in securities, at value (identified cost \$77,173,997) (Note 1)	\$77,417,879

Cash	903,703

Interest and other receivables	1,233,574

Total assets	79,555,156

Liabilities	

Payable for shares of the fund repurchased	170,253

Payable for compensation of Manager (Note 2)	124,150

Payable for investor servicing and custodian fees (Note 2)	17,530

Payable for compensation of Trustees (Note 2)	142

Payable for administrative services (Note 2)	1,564

Payable for distribution fees (Note 2)	28,138

Payable for postage	32,206

Payable for auditing fee	26,774
Other accrued expenses	8,425
Total liabilities	409,182
Net assets	\$79,145,974

Represented by

Paid-in capital (Notes 1 and 4)	\$105,738,451
Accumulated net realized loss on investments (Note 1)	(26,836,359)
Net unrealized appreciation of investments	243,882
Total -- Representing net assets applicable to capital shares outstanding	\$79,145,974

Computation of net asset value and offering price

Net asset value and redemption price per class A share (\$57,655,482 divided by 5,558,261 shares)	\$10.37
Offering price per class A share (100/96.75 of \$10.37)*	\$10.72
Net asset value and offering price per class B share (\$21,490,492 divided by 2,074,917 shares)**	\$10.36

* On single retail sales of less than \$100,000. On sales of \$100,000 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.

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Statement of operations
Year ended October 31, 1996

<S>	<C>
Interest income	\$6,485,253
Expenses:	
Compensation of Manager (Note 2)	579,797
Investor servicing and custodian fees (Note 2)	206,265
Compensation of Trustees (Note 2)	8,861
Administrative services (Note 2)	5,863
Distribution fees -- Class A (Note 2)	175,265
Distribution fees -- Class B (Note 2)	225,906
Reports to shareholders	37,055
Registration fees	425
Auditing	25,000
Legal	4,737
Postage	49,052
Other	5,984
Total expenses	1,324,210

Expense reduction (Note 2)	(60,660)
Net expenses	1,263,550
Net investment income	5,221,703
Net realized loss on investments (Notes 1 and 3)	(917,185)
Net unrealized appreciation of investments during the year	979,597
Net gain on investments	62,412
Net increase in net assets resulting from operations	\$5,284,115

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

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Statement of changes in net assets

	Year ended October 31	
	1996	1995
<S>	<C>	<C>
Decrease in net assets		
Operations:		
Net investment income	\$5,221,703	\$6,955,653
Net realized loss on investments	(917,185)	(472,237)
Net unrealized appreciation of investments	979,597	1,992,189
Net increase in net assets resulting from operations	5,284,115	8,475,605
Distributions to shareholders:		
From net investment income:		
Class A	(3,828,074)	(4,678,220)
Class B	(1,299,833)	(1,453,488)
From return of capital:		
Class A	(223,360)	--
Class B	(75,843)	--
Decrease from capital share transactions (Note 4)	(30,198,648)	(41,088,335)
Total decrease in net assets	(30,341,643)	(38,744,438)
Net assets		
Beginning of year	109,487,617	148,232,055
End of year (including undistributed net investment income of \$0 and \$314,913, respectively)	\$79,145,974	\$109,487,617

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

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Financial highlights
(For a share outstanding throughout the period)

Year ended October 31

	1996	1995	1994
			Class B
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$10.36	\$10.15	\$10.53
Investment operations			
Net investment income	.52	.54	.43
Net realized and unrealized gain (loss) on investments	.02	.14	(.46)
Total from investment operations	.54	.68	(.03)
Less distributions from:			
Net investment income	(.51)	(.47)	(.33)
Return of capital	(.03)	--	(.02)
Total distributions	(.54)	(.47)	(.35)
Net asset value, end of period	\$10.36	\$10.36	\$10.15
Total investment return at net asset value (%) (b)	5.33	6.86	(0.31)
Net assets, end of period (in thousands)	\$21,490	\$29,375	\$38,030
Ratio of expenses to average net assets (%) (c)	1.81	1.80	1.59
Ratio of net investment income to average net assets (%)	4.97	5.20	3.98
Portfolio turnover (%)	120.41	178.97	196.00

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

For the Period
May 11, 1992
(commencement
of operations) to
October 31

	1993	1992	1996
	Class B	Class A	
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$10.91	\$11.15	\$10.38
Investment operations			
Net investment income	.52	.33 (a)	.59
Net realized and unrealized gain (loss) on investments	(.45)	(.26)	--
Total from investment operations	.07	.07	.59
Less distributions from:			
Net investment income	(.45)	(.31)	(.57)
Return of capital	--	--	(.03)
Total distributions	(.45)	(.31)	(.60)
Net asset value, end of period	\$10.53	\$10.91	\$10.37
Total investment return at net asset value (%) (b)	0.66	0.58*	5.86

Net assets, end of period (in thousands)	\$43,851	\$42,017	\$57,656
Ratio of expenses to average net assets (%) (c)	1.67	.82 (a) *	1.21
Ratio of net investment income to average net assets (%)	4.78	2.45 (a) *	5.58
Portfolio turnover (%)	49.16	237.21	120.41

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

	1995	1994	1993
	Class A		
<S>	<C>	<C>	<C>
Net asset value, beginning of period	\$10.17	\$10.55	\$10.92
Investment operations			
Net investment income	.61	.55	.59
Net realized and unrealized gain (loss) on investments	.13	(.52)	(.44)
Total from investment operations	.74	.03	.15
Less distributions from:			
Net investment income	(.53)	(.39)	(.52)
Return of capital	--	(.02)	--
Total distributions	(.53)	(.41)	(.52)
Net asset value, end of period	\$10.38	\$10.17	\$10.55
Total investment return at net asset value (%) (b)	7.48	0.30	1.34
Net assets, end of period (in thousands)	\$80,112	\$110,202	\$193,510
Ratio of expenses to average net assets (%) (c)	1.20	.99	1.07
Ratio of net investment income to average net assets (%)	5.78	4.59	5.42
Portfolio turnover (%)	178.97	196.00	49.16

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

	1992
<S>	<C>
Net asset value, beginning of period	\$11.25
Investment operations	
Net investment income	.75 (a)

Net realized and unrealized gain (loss) on investments	(.34)
Total from investment operations	.41
Less distributions from:	
Net investment income	(.74)
Return of capital	--
Total distributions	(.74)
Net asset value, end of period	\$10.92
Total investment return at net asset value (%) (b)	3.72
Net assets, end of period (in thousands)	\$376,353
Ratio of expenses to average net assets (%) (c)	1.12 (a)
Ratio of net investment income to average net assets (%)	6.44 (a)
Portfolio turnover (%)	237.21

* Not annualized.

(a) Reflects an expense limitation in effect during the period. (Note 1). Expenses for the period ended October 31, 1992 reflect a reduction of approximately \$0.01 per share for class A and class B shares.

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

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

</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 attractive current income and preservation of capital by investing primarily in adjustable rate mortgage securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities.

The fund offers both class A and class B shares. Class A shares are sold with a maximum front-end sales charge of 3.25%. 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 four 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 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 consistently 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. 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.

B) 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.

C) 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.

At October 31, 1996, the fund had a capital loss carryover of approximately \$25,425,000 available to offset future capital gains, if any. The amount of the carryover and the expiration dates are:

Loss Carryover	Expiration
-----	-----
\$ 483,000	October 31, 1998
799,000	October 31, 1999
7,516,000	October 31, 2001
16,119,000	October 31, 2002
508,000	October 31, 2004

D) 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. These differences include treatment of losses on wash sale transactions and paydown gains and losses on mortgage backed securities. 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 \$408,709 to decrease undistributed net investment income, with a decrease to accumulated net realized loss on investment transactions of \$408,709. 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 0.60% of the first \$500 million of average net assets, 0.50% of the next \$500 million. 0.45% of the next \$500 million, and 0.40% of any amount over \$1.5 billion 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 \$60,660 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 \$480 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 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 Plans provide for payments by the fund to Putnam Mutual Funds Corp. at an annual rate up to 0.35% and 1.00% of the average net assets attributable to class A and class B shares, respectively. The Trustees have approved payment by the fund at an annual rate of 0.25% and 0.85% of the average net assets attributable to class A and class B shares, respectively.

For the year ended October 31, 1996, Putnam Mutual Funds Corp., acting as underwriter received net commissions of \$21,123 from the sale of class A shares and \$64,191 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 \$1,189 on class A redemptions.

Note 3
Purchase and sales of securities

During the year ended October 31, 1996, purchases and sales of U.S. Government and agency obligations other than short-term investments aggregated \$102,387,279 and \$129,783,101, 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	4,045,546	\$41,961,220
Shares issued in connection with reinvestment of distributions	268,501	2,776,463
	4,314,047	44,737,683
Shares repurchased	(6,474,777)	(67,084,931)
Net decrease	(2,160,730)	\$(22,347,248)

	Year ended October 31, 1995	
Class A	Shares	Amount
Shares sold	4,270,588	\$43,668,758
Shares issued in		

connection with reinvestment of distributions	326,061	3,329,547
	-----	-----
	4,596,649	46,998,305
Shares repurchased	(7,714,371)	(78,844,222)
	-----	-----
Net decrease	(3,117,722)	\$ (31,845,917)
	-----	-----

Year ended
October 31, 1996

Class B	Shares	Amount
	-----	-----
Shares sold	1,043,749	\$10,801,127
	-----	-----
Shares issued in connection with reinvestment of distributions	103,515	1,068,947
	-----	-----
	1,147,264	11,870,074
Shares repurchased	(1,907,091)	(19,721,474)
	-----	-----
Net decrease	(759,827)	\$ (7,851,400)
	-----	-----

Year ended
October 31, 1995

Class B	Shares	Amount
	-----	-----
Shares sold	1,322,585	\$13,480,112
	-----	-----
Shares issued in connection with reinvestment of distributions	110,183	1,124,255
	-----	-----
	1,432,768	14,604,367
Shares repurchased	(2,343,549)	(23,846,785)
	-----	-----
Net decrease	(910,781)	\$ (9,242,418)
	-----	-----

Note 5
Merger into Putnam Intermediate U.S. Government Income Fund

On October 31, 1996, the shareholders of the fund approved the transfer of all of the assets of the fund to Putnam Intermediate U.S. Government Income Fund (the "Intermediate Fund") in exchange for the shares of the Intermediate Fund and the assumption by the Intermediate Fund of all of the liabilities of the fund. The tax-free exchange is effective November 11, 1996.

Federal tax information
(Unaudited)

For the year ended October 31, 1996, a portion of the Fund's distribution represents a return of capital and is therefore not taxable to shareholders.

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)

An annual 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:

A proposal of the Agreement and Plan of Reorganization providing for the transfer of all of the assets of Putnam Adjustable Rate U.S. Government Fund (the "Adjustable Rate Fund") to Putnam Intermediate U.S. Government Income Fund (the "Intermediate Fund") in exchange for shares of the Intermediate Fund and the assumption by the Intermediate Fund of all of the liabilities of the Adjustable Rate Fund, in liquidation of the Adjustable Rate Fund was approved as follows: 4,960,644 votes for, and 289,272 votes against, with 272,772 abstentions.

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

Price Waterhouse LLP

TRUSTEES

George Putnam, Chairman
William F. Pounds, Vice Chairman
Jameson Adkins Baxter
Hans H. Estin
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

OFFICERS

George Putnam
President

Charles E. Porter
Executive Vice President

Patricia C. Flaherty
Senior Vice President

John D. Hughes
Senior Vice President and Treasurer

Lawrence J. Lasser
Vice President

Gary N. Coburn
Vice President

William J. Curtin

Vice President

Alan Bankart
Vice President

Michael Martino
Vice President and Fund Manager

William N. Shiebler
Vice President

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 Putnam Adjustable Rate U.S. Government 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. 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 principal amount invested.

PUTNAM INVESTMENTS

The Putnam Funds
One Post Office Square
Boston, Massachusetts 02109

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Investments

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