

SECURITIES AND EXCHANGE COMMISSION

FORM PRE 14A

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

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FILER

PUTNAM TAX FREE INCOME TRUST /MA/

CIK: **771951** | State of Incorporation: **MA** | Fiscal Year End: **0731**
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Mailing Address
NULL

Business Address
*ONE POST OFFICE SQ
BOSTON MA 02109
6172921000*

SCHEDULE 14A INFORMATION

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

Filed by the Registrant

/ X /

Filed by a Party other than the Registrant

/ /

CHECK THE APPROPRIATE BOX:

/ X / Preliminary Proxy Statement

/ / Preliminary Additional Materials

/ / Definitive Proxy Statement

/ / Definitive Additional Materials

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

Sec. 240.14a-12

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

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

/ x / \$125 per Exchange Act Rules 0-11(c) (1) (ii),

14a-6(i) (1), or 14a-6(i) (2).

/ / \$500 per each party to the controversy pursuant

to Exchange Act Rule 14a-6(i) (3).

/ / Fee computed on table below per Exchange Act Rules

14a-6(i) (4) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

/ / Check box if any part of the fee is offset as provided

by Exchange Act Rule 0-11(a) (2) and identify the filing
for which the offsetting fee was paid previously.
Identify the previous filing by registration statement
number, or the Form or Schedule and the date of its
filing.

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

PUTNAM TAX-FREE INCOME TRUST
(INCLUDING ITS TWO PORTFOLIO SERIES,
PUTNAM TAX-FREE INSURED FUND AND
PUTNAM TAX-FREE HIGH YIELD FUND)
ONE POST OFFICE SQUARE
BOSTON, MASSACHUSETTS 02109

February , 1994

Dear Shareholder:

You are cordially invited to attend the 1994 Meeting of Shareholders of the Trust, which will be held on May 5, 1994 at 1:00 p.m., Boston time, on the eighth floor of One Post Office Square, Boston, Massachusetts.

The matters to be acted upon at the meeting -- (1) electing Trustees, (2) ratifying the Trustees' selection of Price Waterhouse as independent auditors of the Trust for its current fiscal year and (3) for Putnam Tax-Free High Yield Fund only, considering an amendment to the Trust's Management Contract increasing the management fee payable by the Fund to Putnam Investment Management, Inc. ("Putnam Management") -- ARE DESCRIBED IN THE ATTACHED NOTICE AND PROXY STATEMENT.

During 1991, your Trustees completed a comprehensive review of the management fees paid to Putnam Management by the Putnam funds. As a result of this review, new Management Contracts were approved by the shareholders of many of the Putnam funds during the past three years. These new Contracts provided for an increase in the management fees payable by some funds and a decrease in the fees payable by others. On an overall basis, the fee changes resulted in a net increase in the aggregate management fees paid to Putnam Management by the Putnam funds.

Consistent with these fee changes recently approved by other Putnam funds, the Trustees are recommending an increase in the management fee payable by Putnam Tax-Free High Yield Fund to Putnam Management. In the case of Putnam Tax-Free Insured Fund, the Trustees are not recommending any change in the management fee payable to Putnam Management. Your Trustees feel that the proposed new Management Contract is fair to both the shareholders and to Putnam Management and will help to assure for the future the high quality of management services which the Fund has received in the past. As Trustees we have concluded that the proposed new Contract is in the best interests of shareholders of Putnam Tax-Free High Yield Fund and recommend that they vote in favor of its approval.

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

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

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

Sincerely yours,

/s/George Putnam
George Putnam, Chairman
PUTNAM TAX-FREE INCOME TRUST
(INCLUDING ITS TWO PORTFOLIO SERIES,
PUTNAM TAX-FREE INSURED FUND AND
PUTNAM TAX-FREE HIGH YIELD FUND)

NOTICE OF THE 1994 MEETING OF SHAREHOLDERS

To The Shareholders of Putnam Tax-Free Income Trust:

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

1. Electing Trustees, as described in Part I of the attached Proxy Statement. (p.)
2. Ratifying or rejecting the selection of independent accountants as auditors for the Trust for the current fiscal year, as described in Part II of the attached Proxy Statement. (p.)

3. Approving or disapproving an amendment to the Management Contract between the Trust and Putnam Investment Management, Inc., as set forth in Exhibit B and as described in Part III of the attached Proxy Statement. (To be voted on by Putnam Tax-Free High Yield Fund shareholders only.) (p.)
4. Such other matters as may properly come before the meeting.

By the Trustees

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

February , 1994

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

PUTNAM TAX-FREE INCOME TRUST
(INCLUDING ITS TWO PORTFOLIO SERIES,
PUTNAM TAX-FREE INSURED FUND AND
PUTNAM TAX-FREE HIGH YIELD FUND)
One Post Office Square
Boston, Massachusetts 02109

PROXY STATEMENT

THE ENCLOSED PROXY IS SOLICITED BY THE TRUSTEES OF PUTNAM TAX-FREE INCOME TRUST (the "Trust") (including its two portfolio series, Putnam Tax-Free Insured Fund and Putnam Tax-Free High Yield Fund (the "Funds") for use at the 1994 Meeting of Shareholders to be held on May 5, 1994, and at any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting of Shareholders. Shareholders of record at the close of business on February 11, 1994 are entitled to be present and to vote at the meeting or any adjourned session thereof. The Notice of Meeting, proxy and this Proxy Statement have been mailed to such shareholders of record on or about February , 1994.

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

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

I. ELECTION OF TRUSTEES

The Trustees have fixed the number of Trustees for election at this meeting at twelve. The nominees for Trustees of the Trust who are proposed for election at the meeting, their ages, and a description of their principal occupations are set forth below. All the nominees have been recommended by the Nominating Committee, which consists solely of Trustees who are not "interested persons" (as defined in the Investment Company Act of 1940) of the Trust or Putnam Management, the Trust's investment manager. All the nominees are presently Trustees of the Trust. Each of the current Trustees was elected by the shareholders in July, 1993 (except for Mrs. Baxter, who was elected by the Trustees effective January 6, 1994). All of the Trustees are also Trustees of all of the other open-end Putnam funds. Except as shown, the principal occupations and business experience for the last five years of the nominees have been with the employers

indicated, although in some cases they have held different positions with such employers.

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

| NOMINEE | PRINCIPAL OCCUPATION FOR LAST FIVE YEARS |
|----------------------------|--|
| Jameson Adkins Baxter (50) | President, Baxter Associates, Inc. Prior to 1992 Vice President and Principal, Regency Group, Inc. and Consultant, The First Boston Corporation. Also, Director, Banta Corporation, International Acoustics, Inc., ASHTA Chemicals, Inc. and B3 Systems. Trustee, Mount Holyoke College and Emma Willard School. Member, Governing Council, Good Shepherd Hospital. |
| Hans H. Estin (65) | Vice Chairman, North American Management Corp. (a registered investment adviser). Also, Director, The Boston Company, Inc. and Boston Safe Deposit and Trust Company. Member, Massachusetts General Hospital. Trustee, New England Aquarium. |
| John A. Hill (52) | Chairman and Managing Director, First Reserve Corporation (a registered investment adviser). Prior to 1989, General Partner, Meridien Capital Corporation (a venture capital investment firm). Also, Director, Lantana Corporation, Snyder Oil Corporation, Maverick Tube Corporation, Hattiesburg Gas Corporation and various First Reserve Funds. |
| Elizabeth T. Kennan (55) | President, Mount Holyoke College. Also, Director, NYNEX Corporation, Northeast Utilities and the Kentucky Home Life Insurance Companies. Trustee, University of Notre Dame. |
| *Lawrence J. Lasser (51) | Vice President of the Putnam funds. President, Chief Executive Officer and Director of Putnam Investments, Inc. and Putnam Management. Director, Marsh & McLennan Companies, Inc. and INROADS/Central New England Inc. Member, Board of Overseers, Museum of Science, Boston and Museum of Fine Arts, Boston. Also, Trustee, Beth Israel Hospital, Buckingham, Browne and Nichols School and (ex officio) Isabella Stewart Gardner Museum. |

| NOMINEE | PRINCIPAL OCCUPATION FOR LAST FIVE YEARS |
|--------------------------|--|
| Robert E. Patterson (48) | Executive Vice President of Cabot Partners Limited Partnership (a registered investment adviser to institutional clients in the acquisition and management of their real estate portfolios). Also, Trustee, Joslin Diabetes Center. From May, 1987 to October, 1990, |

Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (predecessor of Cabot Partners Limited Partnership).

Donald S. Perkins (66)

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

William F. Pounds (65)

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

PRINCIPAL OCCUPATION
FOR LAST FIVE YEARS

NOMINEE

*George Putnam (67)

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

*George Putnam, III (42)

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

*A.J.C. Smith (59)

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

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

W. Nicholas Thorndike (60) Director of various corporations and charitable organizations, including Providence Journal Co. and Courier Corporation. Also, Trustee and President, Massachusetts General Hospital. Trustee, Bradley Real Estate Trust and Eastern Utilities Associates. Prior to December, 1988, Mr. Thorndike was Chairman of the Board and Managing Partner of Wellington Management Company/Thorndike, Doran, Paine & Lewis (a registered investment adviser).

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

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

The Agreement and Declaration of Trust of the Fund provides that the Fund will indemnify its Trustees and officers against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Fund, except if it is determined in the manner specified in the Agreement and Declaration of Trust that they have not acted in good faith in the reasonable belief that their actions were in the best interests of the Fund or that such indemnification would relieve any officer or Trustee of any liability to the Fund or its shareholders arising by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his or her duties. The Fund, at its expense, provides liability insurance for the benefit of its Trustees and officers.

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

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

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

TRUSTEES AND OFFICERS INFORMATION

The shareholdings of each Trustee in the Funds for Class B shares are shown below. No Trustee owned any Class A shares of the Funds. Unless noted below, each Trustee has sole investment power and sole voting power with respect to his or her shares of a Fund and no Trustee owns 1% or more of the outstanding shares of a Fund.

| OF | OWNERSHIP OF | OWNERSHIP | |
|---|-------------------------------|--|-------|
| YEAR FIRST ELECTED AS TRUSTEES 1/14/94* | CLASS B SHARES OF THE TRUSTEE | SHARES OF ALL PUTNAM FUNDS TRUST AS OF 1/14/94 | AS OF |

| | | | |
|-----------------------|---------------------------------|----------------------|---------|
| | Putnam Tax-Free High Yield Fund | Putnam Tax-Free Fund | Insured |
| | ----- | ----- | ----- |
| Jameson A. Baxter | 1994 | | |
| Hans H. Estin | 1985 | | |
| John A. Hill | 1985 | | |
| Elizabeth T. Kennan | 1992 | | |
| Lawrence J. Lasser | 1992 | | |
| Robert E. Patterson | 1985 | | |
| Donald S. Perkins | 1985 | | |
| William F. Pounds | 1985 | | |
| George Putnam | 1985 | | |
| George Putnam, III | 1985 | | |
| A.J.C. Smith | 1986 | | |
| W. Nicholas Thorndike | | 1992 | |

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

As of January 14, 1994, the Trustees and officers of the Trust owned in aggregate Class B shares of Putnam Tax-Free High Yield Fund comprising % of the outstanding Class B shares of that Fund on that date and Class B shares of Putnam Tax-Free Insured Fund comprising % of the outstanding Class B shares of that Fund on that date. The Trustees and officers individually have sole investment power and sole voting power with respect to all of these shares.

MEETINGS OF THE TRUSTEES DURING THE YEAR

| | |
|----------------------------------|----|
| Full Board of Trustees meetings: | 11 |
| Audit Committee meetings: | 4 |
| Nominating Committee meetings: | 2 |

TRUSTEES' FEES

| | |
|--|----------|
| Annual retainer fee per Trustee: | \$3,950 |
| Additional attendance fee per Trustees' meeting: | \$ |
| Aggregate fees paid to all Trustees for the year*: | \$49,551 |

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

In addition to George Putnam and Lawrence J. Lasser, the officers of the Trust are Charles E. Porter, Executive Vice President, Patricia C. Flaherty, Senior Vice President, Gordon H. Silver, Gary N. Coburn, James E. Erickson, Richard P. Wyke, Triet M. Nguyen (Messrs. Wyke and Nguyen are the Trust's Portfolio Managers), William N. Shiebler (President of Putnam Mutual Funds), John R. Verani and Paul M. O'Neil, each of whom serves as a Vice President, John D. Hughes, Vice President and Treasurer, and Beverly Marcus, Clerk of the Trust. All of the officers of the Trust are employees of Putnam Management or its affiliates. Because of their positions with Putnam Management or its affiliates or their ownership of stock of Marsh & McLennan Companies, Inc. (the parent corporation of Putnam Management and Putnam Mutual Funds), Messrs. Putnam, George Putnam, III, Lasser and Smith (nominees for Trustees of the Trust), as well as the officers of the Trust, will benefit from the management fees, distribution fees, underwriting commissions, custodian fees, and investor servicing fees paid or allowed by the Funds.

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

The directors of Putnam Management are George Putnam, Lawrence J. Lasser and Gordon H. Silver. Mr. Lasser is the principal executive officer of Putnam Management. The principal occupations of Messrs. Putnam, Lasser and Silver are as officers and directors of Putnam Management and certain of its corporate

affiliates. The address of Putnam Management and the business address of the directors and officers of Putnam Management is One Post Office Square, Boston, Massachusetts 02109.

In addition to its services to the Trust, Putnam Management acts as investment adviser or subadviser of other publicly-owned investment companies having differing investment objectives. For the names of such funds and the current rates of Putnam Management's annual fees as adviser or subadviser of such funds, see Schedule A to this Proxy Statement.

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

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

THE MANAGEMENT CONTRACT. Putnam Management serves as investment manager of the Trust pursuant to a Management Contract. The management fee payable under the Contract is described in Schedule A to this Proxy Statement. The fees paid to Putnam Management in the most recent fiscal year are shown in "Trust Information" below.

Under the Contract, subject to such policies as the Trustees may determine, Putnam Management, at its expense, furnishes continuously an investment program for the Trust and makes investment decisions on behalf of the Trust. Subject to the control of the Trustees, Putnam Management manages, supervises and conducts the other affairs and business of the Trust, furnishes office space and equipment, provides bookkeeping and clerical services (including determination of the Trust's net asset value, but excluding shareholder accounting services) and places all orders for the purchase and sale of the Trust's portfolio securities. Putnam Management may place Trust portfolio transactions with broker-dealers that furnish Putnam Management, without cost to it, certain brokerage and research services of value to Putnam Management and its affiliates in advising the Trust and other clients. In so doing, Putnam Management may cause the Trust to pay greater brokerage commissions than it might otherwise pay. See "Brokerage and research services" below.

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

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

The Contract may be terminated as to any series without penalty upon 30 days' written notice by Putnam Management, by the Trustees of the Trust, or by the affirmative vote of the holders of a "majority of the outstanding voting securities" of the one or more affected series of the Trust (as defined in the Investment Company Act of 1940). It may be amended as to either

Fund only by an affirmative vote of the holders of a majority of the outstanding voting securities of such Fund and by a majority of the Trustees who are not "interested persons" of the Trust or Putnam Management.

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

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

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

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

Putnam Management places all orders for the purchase and sale of portfolio investments for the Trust and buys and sells investments for the Trust through a substantial number of brokers and dealers. In so doing, Putnam Management uses its best efforts to obtain for the Trust the most favorable price and execution available, except to the extent it may be permitted to pay higher brokerage commissions as described below. In seeking the most favorable price and execution, Putnam Management, having in mind the Trust's best interests, considers all factors it deems relevant, including, by way of illustration, price, the size of the transaction, the nature of the market for the security or other investment, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved and the quality of service rendered by the broker-dealer in other transactions.

As permitted by Section 28(e) of the 1934 Act, and by the Management Contract, Putnam Management may cause the Trust to pay a broker-dealer that provides "brokerage and research services" (as defined in the 1934 Act) to Putnam Management an amount of disclosed commission for effecting securities transactions on stock exchanges and other transactions for the Trust on an agency basis in excess of the commission which another broker-dealer would have charged for effecting that transaction. Putnam Management's authority to cause the Trust to pay any such greater commissions is also subject to such policies as the Trustees may adopt from time to time. Putnam Management does not currently intend to cause the Trust to make such payments. It is the position of the staff of the Securities and Exchange Commission that Section 28(e) does not apply to the payment of such greater commissions in "principal" transactions. Accordingly, Putnam Management will use its best efforts to obtain the most favorable price and execution available with respect to such transactions, as described above.

The Management Contract provides that commissions, fees, brokerage or similar payments received by Putnam Management or an affiliate in connection with the purchase and sale of portfolio investments of the Trust, less any direct expenses approved by the Trustees, shall be recaptured by the Trust through a reduction of the fee payable by the Trust under the Management Contract. Putnam Management seeks to recapture for the Trust soliciting dealer fees on the tender of the Trust's portfolio securities in tender or exchange offers. Any such fees which may be recaptured are likely to be minor in amount.

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

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

Under the terms of its Class A Distribution Plan, the Trust compensates Putnam Mutual Funds at the annual rate of up to 0.35% of the average net assets of each Fund attributable to Class A shares, although a limit of 0.20% is currently in effect. Payments under the Class A Plan compensate Putnam Mutual Funds for service provided and expenses incurred by it in promoting the sale of shares of the Trust, reducing redemptions or maintaining or improving services provided to shareholders by Putnam Mutual Funds or by dealers. The fee paid to Putnam Mutual Funds under the Plan in the Trust's most recent fiscal year is set forth in "Trust Information" below.

Under the terms of its Class B Distribution Plan, the Trust compensates Putnam Mutual Funds at the annual rate of up to 1.00% of the average net assets of each Fund attributable to Class B shares. The purpose of the Class B Plan is to permit the Trust to compensate Putnam Mutual Funds for services provided and expenses incurred by it in promoting the sale of Class B shares of the Trust, including commissions and service fees paid by it to dealers. The fee paid to Putnam Mutual Funds under the Plan

in the Trust's most recent fiscal year is set forth in "Trust Information" below.

TRUST INFORMATION

ASSETS OF THE TRUST; SHARES OUTSTANDING

Net assets of each Fund as of January 14, 1994

| | |
|-----------------|----|
| Insured Fund | \$ |
| High Yield Fund | \$ |

Class A shares of each Fund outstanding and authorized to vote as of February 11, 1994

| | |
|-----------------|--------|
| Insured Fund | shares |
| High Yield Fund | shares |

Class B shares of each Fund outstanding and authorized to vote as of February 11, 1994

| | |
|-----------------|--------|
| Insured Fund | shares |
| High Yield Fund | shares |

Persons beneficially owning more than 5% of each Fund's Class A shares as of January 31, 1994

| | |
|-----------------|--|
| Insured Fund | |
| High Yield Fund | |

Persons beneficially owning more than 5% of each Fund's Class B shares as of January 31, 1994

| | |
|-----------------|--|
| Insured Fund | |
| High Yield Fund | |

FOR THE FISCAL YEAR ENDED JULY 31, 1993

MANAGEMENT CONTRACT

The Management Contract dated July 26, 1985, as amended December 21, 1988 and as further amended July 11, 1991, was approved by the shareholders of Putnam Tax-Free High Yield Fund on December 8, 1988, and by the shareholders of Putnam Tax-Free Insured Fund on July 11, 1991, and was last approved by the Trustees on January 7, 1994.

| | |
|--|-------------|
| Management fee paid to Putnam Management for the fiscal year | \$9,076,137 |
|--|-------------|

| | |
|--|----------|
| Reimbursement paid by the Trust to Putnam Management for compensation, related expenses and employee benefit plan contributions for the Trust's Executive Vice President (Charles E. Porter), Senior Vice President (Patricia C. Flaherty), Clerk (Beverly Marcus) and those who assist them | \$44,046 |
|--|----------|

PAYMENTS TO AFFILIATES

| | |
|---|------|
| Sales charges on sales of Class A shares retained by Putnam Mutual Funds after payments to selling broker-dealers (No Class A shares were outstanding during this period) | NONE |
|---|------|

| | |
|---|------|
| Deferred sales charges on Class A share redemptions retained by Putnam Mutual Funds (No Class A shares were outstanding during this period) | NONE |
|---|------|

| | |
|---|-------------|
| Deferred sales charges on Class B share redemptions retained by Putnam Mutual Funds | \$1,937,388 |
|---|-------------|

| | |
|---|------|
| Payments under Class A Distribution Plan to Putnam Mutual Funds (No Class A shares were outstanding during this period) | NONE |
|---|------|

| | |
|---|--------------|
| Payments under Class B Distribution Plan to Putnam Mutual Funds | \$14,346,484 |
|---|--------------|

Investor servicing and custodian fees
paid to Putnam Fiduciary Trust Company
(after application of credits) \$1,707,473

BROKERAGE

Total Trust payments to broker-dealers as
commissions on agency transactions \$512,293

Total Trust payments to broker-dealers as
commissions on underwritten transactions \$2,995,626

Putnam Management, on behalf of Putnam Tax-Free Insured Fund, placed agency and underwritten transactions having an approximate aggregate dollar value of \$9,112,575 (6.75% of the Fund's agency and underwritten transactions, on which approximately \$66,588 of commissions were incurred) with brokers and dealers to recognize research, statistical and quotation services Putnam Management considered to be particularly useful to it and its affiliates.

Putnam Management, on behalf of Putnam Tax-Free High Yield Fund, placed agency and underwritten transactions having an approximate aggregate dollar value of \$57,123,323 (15.11% of the Fund's agency and underwritten transactions, on which approximately \$381,063 of commissions were incurred) with brokers and dealers to recognize research, statistical and quotation services Putnam Management considered to be particularly useful to it and its affiliates.

II. RATIFICATION OR REJECTION OF SELECTION OF
INDEPENDENT AUDITORS

Price Waterhouse, 160 Federal Street, Boston, Massachusetts, independent accountants, has been selected by the Trustees as auditors of the Trust for the current fiscal year. Unless otherwise indicated, the proxy will be voted in favor of ratifying the selection of Price Waterhouse as auditors.

III. APPROVAL OR DISAPPROVAL OF AN AMENDMENT TO
THE MANAGEMENT CONTRACT
(TO BE VOTED ON BY SHAREHOLDERS OF
PUTNAM TAX-FREE HIGH YIELD FUND ONLY)

The Trustees of the Trust are recommending that shareholders of Putnam Tax-Free High Yield Fund approve an amendment to the Management Contract between the Trust and Putnam Management, which provides for an increase in the management fees payable to Putnam Management. The proposed amended Contract (a copy of which is set forth as Exhibit B hereto) is identical in all other substantive respects to the existing Contract, except as noted below. The proposed amendment to the Contract is described below under "The Proposed Amended Management Contract".

REASONS FOR THE PROPOSAL. In October 1990, Putnam Management submitted a proposal to the Trustees for a comprehensive revision of the management fees paid to it by the Putnam funds. This proposal included certain structural changes in the funds' fee arrangements with Putnam Management. Although management fees for certain funds would have been reduced under Putnam Management's proposal, it involved a net increase in the aggregate management fees paid to it by the Putnam funds overall.

The Trustees, acting primarily through their Contract Committee, which consists solely of Trustees who are not "interested persons" of the Putnam funds or of Putnam Management, carefully reviewed Putnam Management's proposal. This Committee met on numerous occasions to evaluate the proposal and was assisted in that process by the funds' legal counsel and an independent consultant engaged by the Committee. The Committee considered, among other things, the nature and quality of the services being provided by Putnam Management, including the relative complexity of management of each fund, and information comparing the recent investment performance, management fees and other expenses paid by each fund with those of comparable funds managed by other investment advisers. The Committee also considered information provided by Putnam Management regarding the profitability of its current and proposed management fee arrangements with each fund (without regard to costs incurred by Putnam Management and its affiliates in connection with the marketing of shares), as well as the benefits to Putnam Management and its affiliates resulting from the fact that affiliates of Putnam Management currently serve as shareholder servicing agent, distributor and custodian for each of the Putnam

funds pursuant to separate contractual arrangements. In the case of Putnam Tax-Free High Yield Fund, Putnam Management estimates that its after-tax profit margin for managing the Fund was % in calendar 1992 and % in calendar 1993. These estimates are based on Putnam Management's internal allocations, which it believes to be reasonable, of costs related to services provided under its Management Contract with each of the Putnam funds (excluding costs relating to marketing of shares). Such allocations include consideration of numbers of personnel, time spent, expenses and relative net assets for each of the Putnam funds. Other allocation methods might produce different results.

Following discussion of these and other relevant factors between representatives of Putnam Management and the Contract Committee, Putnam Management modified its proposal in several respects and on January 17, 1991, the Contract Committee voted unanimously to recommend approval of this revised proposal by the Trustees. This revised proposal established the general outlines of a comprehensive restructuring of the management fee arrangements for all of the Putnam funds. The proposed new fee arrangements included proposed fee increases for certain funds, as well as fee decreases for other funds. Under this proposal, however, a new management fee would be implemented for a particular fund only if the Trustees determined that such fee would be fair and reasonable in light of the particular facts and circumstances pertaining to that fund. The Contract Committee advised Putnam Management that, in making this determination, the Trustees would generally expect to consider all relevant factors but would place special weight on the comparative investment performance and expense levels of a fund and similar competitive funds. On February 8, 1991, the Trustees of the Putnam funds, including those Trustees who are not "interested persons" of the funds or Putnam Management, unanimously approved the recommendations of the Contract Committee.

Since that time, management fee changes have been adopted by many of the Putnam funds pursuant to the general principle established as a result of the foregoing discussions. Such changes have included both increases and decreases, but on the whole have resulted in a net increase in the overall fees paid to Putnam Management by the Putnam funds. The Trustees have determined that, consistent with the fee changes recently approved by shareholders of other funds, it would be appropriate at this time to implement revised management fee structures for Putnam Tax-Free High Yield Fund and certain other Putnam funds. Accordingly, on , 1994, the Trustees of the Fund, including those Trustees who are not "interested persons" of the Fund or Putnam Management, voted to submit a proposed amended Management Contract for approval by shareholders of Putnam Tax-Free High Yield Fund. The current fee arrangements for the Putnam funds and the changes being proposed for certain funds at this time are set forth in Schedule A.

THE PROPOSED AMENDED MANAGEMENT CONTRACT. A description of the existing Management Contract, the services provided thereunder, the procedures for its termination and renewal, other services provided by Putnam Management and its affiliates, and information concerning brokerage and related matters is set forth in Part I above. The proposed amended Management Contract is identical in all substantive respects to the existing Contract, except for the proposed change in management fee.

Under the amended Management Contract, the annual management fee paid by Putnam Tax-Free High Yield Fund under the Trust's Management Contract with Putnam Management would be increased as follows:

| EXISTING FEE | PROPOSED FEE |
|---------------------------|---------------------------|
| First \$100 Million 0.70% | First \$500 Million 0.65% |
| Next \$100 Million 0.60% | Next \$500 Million 0.55% |
| Next \$300 Million 0.50% | Next \$500 Million 0.50% |
| Next \$500 Million 0.45% | Over \$1.5 Billion 0.45% |
| Over \$1.0 Billion 0.425% | |

If the proposed new fee rate had been in effect for the Fund's last two fiscal years, Putnam Tax-Free High Yield Fund would have paid annual management fees as follows:

| EXISTING FEE (July 31) | PROPOSED FEE (July 31) |
|---------------------------|---------------------------|
| 1992 \$ | 1992 \$ |
| 1993 \$ | 1993 \$ |

Based upon net assets of Putnam Tax-Free High Yield Fund as of January 14, 1994 of \$, the effective annual management fee rate under the proposed fee schedule would be % as compared to % under the existing schedule. Also, based upon its internal cost allocations described above, Putnam Management estimates that its after-tax profit margin for managing the Fund in calendar 1993 would have been % under the proposed fee schedule.

The Trustees believe that the proposed new management fee is fair and reasonable and in the best interests of the shareholders of Putnam Tax-Free High Yield Fund. Accordingly, the Trustees recommend that shareholders of the Fund vote for approval of the proposed new Contract.

REQUIRED VOTE. As provided in the Investment Company Act of 1940, approval of the amendment to the Management Contract will require the affirmative vote of a "majority of the outstanding voting securities" of Putnam Tax-Free High Yield Fund, which for this purpose means the affirmative vote of the lesser of (1) more than 50% of the outstanding shares of the Fund or (2) 67% or more of the shares present at the meeting if more than 50% of the outstanding shares are present at the meeting in person or by proxy.

If the shareholders do not approve the amendment to the Contract, the existing Management Contract will continue in effect.

IV. MISCELLANEOUS

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

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

The tellers will count the total number of votes cast "for" approval of the proposals for purposes of determining whether sufficient affirmative votes have been cast. The tellers will count shares represented by proxies that reflect abstentions and "broker non-votes" (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have the discretionary voting power on a particular matter) as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum. With respect to the election of Trustees and selection of auditors, neither abstentions nor broker non-votes have any effect on the outcome of the proposal. With respect to other proposal, abstentions and broker non-votes have the effect of a negative vote on the proposal.

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

SIMULTANEOUS MEETINGS. The meeting of shareholders of the Trust is called to be held at the same time as the meetings of shareholders of certain of the other Putnam funds. It is anticipated that all meetings will be held simultaneously. If any Trust shareholder at the meeting objects to the holding of a simultaneous meeting and moves for an adjournment of the meeting to a time promptly after the simultaneous meetings, the persons named as proxies will vote in favor of such adjournment.

SOLICITATION OF PROXIES. In addition to the solicitation of proxies by mail, Trustees of the Trust and employees of Putnam Management, Putnam Fiduciary Trust Company and Putnam Mutual Funds may solicit proxies in person or by telephone. The Trust may also arrange to have votes recorded by telephone. If this procedure were subject to a successful legal challenge, such votes would not be counted at the meeting. Persons holding

shares as nominees will upon request be reimbursed for their reasonable expenses in sending soliciting material to their principals. The Trust has retained at its expense , to aid in the solicitation of nominee accounts for a fee not to exceed \$ plus reasonable out-of-pocket expenses.

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

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

EXHIBIT A

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

| ASSETS: | NOTES | |
|--|-------|--------------|
| Cash..... | | \$ 300 |
| Investments..... | 2 | 50,000 |
| Investment management fees receivable.... | | 42,500,239 |
| Accounts receivable from affiliates..... | 6 | 8,231,201 |
| Prepaid expenses and other assets..... | | 1,919,451 |
| Property and equipment - net..... | 2, 3 | 2,902,616 |
| | | ----- |
| TOTAL ASSETS..... | | \$55,603,807 |
| | | ===== |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| LIABILITIES: | | |
| Accounts payable and accrued expenses.... | 5 | \$12,804,260 |
| Accounts payable to affiliate..... | 6 | 181,206 |
| | | ----- |
| Total liabilities..... | | 12,985,466 |
| | | ----- |
| STOCKHOLDER'S EQUITY: | | |
| Common stock - \$1 par value; authorized and outstanding, 1,000 shares..... | | 1,000 |
| Paid-in surplus..... | | 4,696,665 |
| Retained earnings..... | | 37,920,676 |
| | | ----- |
| Total stockholder's equity..... | | 42,618,341 |
| | | ----- |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY..... | | \$55,603,807 |
| | | ===== |

See notes to balance sheet.

PUTNAM INVESTMENT MANAGEMENT, INC.

NOTES TO BALANCE SHEET

1. CORPORATE AFFILIATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

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

PROPERTY AND EQUIPMENT

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | | |
|---|--------------|-------------|
| Office and data processing equipment..... | \$ 2,785,939 | |
| Less accumulated depreciation..... | | (1,952,916) |
| | ----- | |
| Total..... | 833,023 | |
| | ----- | |
| Leasehold improvements..... | 3,922,612 | |
| Less accumulated amortization..... | | (1,853,019) |
| | ----- | |
| Total..... | 2,069,593 | |
| | ----- | |
| Property and equipment - net..... | \$ 2,902,616 | |
| | ===== | |

4. INCOME TAXES

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

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

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

5. EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLAN

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

RETIREE HEALTH CARE PLAN

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

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

6. RELATED PARTY TRANSACTIONS

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

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

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

INDEPENDENT AUDITORS' REPORT

Putnam Investment Management, Inc.

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

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

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

DELOITTE & TOUCHE

March 18, 1993
Boston, Massachusetts

EXHIBIT A-2

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

| ASSETS: | |
|--|------------|
| Cash | \$ 300 |
| Investments (note 2) | 50,000 |
| Investment management fees receivable | 57,545,441 |
| Accounts receivable from affiliates (note 6) | 76,289,965 |

| | |
|--|---------------|
| Prepaid expenses and other assets | 3,453,641 |
| Property and equipment - net (notes 2 & 3) | 4,485,402 |
| | ----- |
| TOTAL ASSETS | \$141,824,749 |
| | ===== |
| LIABILITIES AND STOCKHOLDER'S EQUITY | |
| LIABILITIES: | |
| Accounts payable and accrued expenses (note 5) | \$ 24,925,578 |
| Accounts payable to affiliate | 938 |
| | ----- |
| TOTAL LIABILITIES | 24,926,516 |
| | ----- |
| STOCKHOLDER'S EQUITY: | |
| Common stock - \$1 par value; authorized and outstanding, 1,000 shares | 1,000 |
| Paid-in surplus | 4,696,665 |
| Retained earnings | 112,200,568 |
| | ----- |
| TOTAL STOCKHOLDER'S EQUITY | 116,898,233 |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$141,824,749 |
| | ===== |

See notes to balance sheet.

PUTNAM INVESTMENT MANAGEMENT, INC.

NOTES TO BALANCE SHEET
(Unaudited)

1. CORPORATE AFFILIATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | |
|--------------------------------------|--------------|
| Office and data processing equipment | \$ 3,465,917 |
| Less accumulated depreciation | (2,169,511) |
| | ----- |
| | 1,296,406 |
| | ----- |
| Leasehold improvements | 5,356,264 |
| Less accumulated amortization | (2,167,268) |

3,188,996

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

4. INCOME TAXES

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

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

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

5. EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

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

Retiree Health Care Plan

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

6. RELATED PARTY TRANSACTIONS

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

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

EXHIBIT B

PUTNAM TAX-FREE INCOME TRUST

MANAGEMENT CONTRACT

Additions are indicated by (()); deletions by // //

Management Contract dated as of July 26, 1985, as amended //December 21, 1988, and as further amended July 11, 1991// ((AND RESTATED AS OF MAY , 1994)), between PUTNAM TAX-FREE INCOME TRUST, a Massachusetts business trust (the "Fund"), and //THE PUTNAM MANAGEMENT COMPANY, INC.// ((PUTNAM INVESTMENT MANAGEMENT,

INC.), a Delaware corporation (the "Manager").

WITNESSETH:

That in consideration of the mutual covenants herein contained, it is agreed as follows:

1. SERVICES TO BE RENDERED BY MANAGER TO FUND.

(a) The Manager, at its expense, will furnish continuously an investment program for the Fund, will determine what investments shall be purchased, held, sold or exchanged by the Fund and what portion, if any, of the assets of the Fund shall be held uninvested and shall, on behalf of the Fund, make changes in the Fund's investments. Subject always to the control of the Trustees of the Fund and except for the functions carried out by the officers and personnel referred to in Section 1(d), the Manager will also manage, supervise and conduct the other affairs and business of the Fund and matters incidental thereto. In the performance of its duties, the Manager will comply with the provisions of the Agreement and Declaration of Trust and By-Laws of the Fund and its stated investment objectives, policies and restrictions, and will use its best efforts to safeguard and promote the welfare of the Fund and to comply with other policies which the Trustees may from time to time determine and shall exercise the same care and diligence expected of the Trustees.

(b) The Manager, at its expense, except as such expense is paid by the Fund as provided in Section 1(d), will furnish (1) all necessary investment and management facilities, including salaries of personnel, required for it to execute its duties faithfully; (2) suitable office space for the Fund; and (3) administrative facilities, including bookkeeping, clerical personnel and equipment necessary for the efficient conduct of the affairs of the Fund, including determination of the Fund's net asset value, but excluding shareholder accounting services. Except as otherwise provided in Section 1(d), the Manager will pay the compensation, if any, of the officers of the Fund.

(c) The Manager, at its expense, shall place all orders for the purchase and sale of portfolio investments for the Fund's account with brokers or dealers selected by the Manager. In the selection of such brokers or dealers and the placing of such orders, the Manager shall use its best efforts to obtain for the Fund the most favorable price and execution available, except to the extent it may be permitted to pay higher brokerage commissions for brokerage and research services as described below. In using its best efforts to obtain for the Fund the most favorable price and execution available, the Manager, bearing in mind the Fund's best interests at all times, shall consider all factors it deems relevant, including by way of illustration, price, the size of the transaction, the nature of the market for the security, the amount of the commission, the timing of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker or dealer involved and the quality of service rendered by the broker or dealer in other transactions. Subject to such policies as the Trustees of the Fund may determine, the Manager shall not be deemed to have acted unlawfully or to have breached any duty created by this Contract or otherwise solely by reason of its having caused the Fund to pay a broker or dealer that provides brokerage and research services to the Manager an amount of commission for effecting a portfolio investment transaction in excess of the amount of commission another broker or dealer would have charged for effecting that transaction, if the Manager determines in good faith that such amount of commission was reasonable in relation to the value of the brokerage and research services provided by such broker or dealer, viewed in terms of either that particular transaction or the Manager's overall responsibilities with respect to the Fund and to other clients of the Manager as to which the Manager exercises investment discretion. The Manager agrees that in connection with purchases or sales of portfolio investments for the Fund's account, neither the Manager nor any officer, director, employee or agent of the Manager shall act as a principal or receive any commission other than as provided in Section 3.

(d) The Fund will pay or reimburse the Manager for (i) the compensation of the Vice Chairman and Treasurer of the Fund and of persons assisting him in these offices, as determined from time to time by the Trustees of the Fund, (ii) the compensation in whole or in part of such other officers of the Fund and persons assisting them as may be determined from time to time by the Trustees of the Fund, and (iii) the cost of suitable office

space, utilities, support services and equipment of the Vice Chairman and Treasurer and persons assisting him and, as determined from time to time by the Trustees of the Fund, all or a part of such cost attributable to the other officers and persons assisting them whose compensation is paid in whole or in part by the Fund. The Fund will pay the fees, if any, of the Trustees of the Fund.

(e) The Manager shall pay all expenses incurred in connection with the organization of the Fund and the initial public offering and sale of its shares of beneficial interest, provided that upon the issuance and sale of such shares to the public pursuant to the offering, and only in such event, the Fund shall become liable for, and to the extent requested reimburse the Manager for, registration fees payable to the Securities and Exchange Commission and for an additional amount not exceeding \$62,500 per series of the Fund as its agreed share of such expenses.

(f) The Manager shall not be obligated to pay any expenses of or for the Fund not expressly assumed by the Manager pursuant to this Section 1 other than as provided in Section 3.

2. OTHER AGREEMENTS, ETC.

It is understood that any of the shareholders, Trustees, officers and employees of the Fund may be a shareholder, director, officer or employee of, or be otherwise interested in, the Manager, and in any person controlled by or under common control with the Manager, and that the Manager and any person controlled by or under common control with the Manager may have an interest in the Fund. It is also understood that the Manager and any person controlled by or under common control with the Manager have and may have advisory, management, service or other contracts with other organizations and persons, and may have other interests and business.

3. COMPENSATION TO BE PAID BY THE FUND TO THE MANAGER.

The Fund will pay to the Manager as compensation for the Manager's services rendered, for the facilities furnished and for the expenses borne by the Manager pursuant to paragraphs (a), (b), (c) and (e) of Section 1, a fee, computed and paid monthly at the following annual rates applicable to the average net asset value of each series of the Fund (a "Series"): Putnam Tax-Free Insured Fund - 0.60% of the first \$500 million, 0.50% of the next \$500 million; 0.45% of the next \$500 million and 0.40% of any excess; Putnam Tax-Free High Yield Fund - //0.7% of the first \$100 million, .6% of the next \$100 million, .5% of the next \$300 million, .45% of the next \$500 million and .425% of any excess// ((0.65% OF THE FIRST \$500 MILLION, 0.55% OF THE NEXT \$500 MILLION, 0.50% OF THE NEXT \$500 MILLION AND 0.45% OF ANY EXCESS OVER \$1.5 BILLION)). Such fee computed with respect to the net asset value of each of the Series shall be paid from the assets of such Series. Such average net asset value of each Series shall be determined by taking an average of all of the determinations of such net asset value during such month at the close of business on each business day during such month while this Contract is in effect. Such fee shall be payable for each month within 15 days after the close of such month and shall commence accruing as of the date of the initial issuance of shares of the Fund to the public.

The fees payable to the Manager pursuant to this Section 3 shall be reduced by any commissions, fees, brokerage or similar payments received by the Manager or any affiliated person of the Manager in connection with the purchase and sale of portfolio investments of the particular Series, less any direct expenses approved by the Trustees incurred by the Manager or any affiliated person of the Manager in connection with obtaining such payments.

In the event that expenses of the Fund or of any Series, if applicable, for any fiscal year should exceed the expense limitation on investment company expenses imposed by any statute or regulatory authority of any jurisdiction in which shares of the Fund are qualified for offer or sale, the compensation due the Manager for such fiscal year shall be reduced by the amount of excess by a reduction or refund thereof. In the event that the expenses of any Series exceed any expense limitation which the Manager may, by written notice to the Fund, voluntarily declare to be effective subject to such terms and conditions as the Manager may prescribe in such notice, the compensation due the Manager shall be reduced, and, if necessary, the Manager

shall assume expenses of the Series to the extent required by the terms and conditions of such expense limitation.

If the Manager shall serve for less than the whole of a quarter, the foregoing compensation shall be prorated.

4. ASSIGNMENT TERMINATES THIS CONTRACT; AMENDMENTS OF THIS CONTRACT.

This Contract shall automatically terminate, without the payment of any penalty, in the event of its assignment; and this Contract shall not be amended as to any Series unless such amendment be approved at a meeting by the affirmative vote of a majority of the outstanding shares of the Series, and by the vote, cast in person at a meeting called for the purpose of voting on such approval, of a majority of the Trustees of the Fund who are not interested persons of the Fund or of the Manager.

5. EFFECTIVE PERIOD AND TERMINATION OF THIS CONTRACT.

This Contract shall become effective upon its execution, and shall remain in full force and effect as to each Series continuously thereafter (unless terminated automatically as set forth in Section 4) until terminated as follows:

(a) Either party hereto may at any time terminate this Contract as to any Series or as to the Fund as a whole by not more than sixty days' nor less than thirty days' written notice delivered or mailed by registered mail, postage prepaid, to the other party, or

(b) If (i) the Trustees of the Fund or the shareholders by the affirmative vote of a majority of the outstanding shares of the Series and (ii) a majority of the Trustees of the Fund who are not interested persons of the Fund or of the Manager, by vote cast in person at a meeting called for the purpose of voting on such approval, do not specifically approve at least annually the continuance of this Contract, then this Contract shall automatically terminate as to Putnam Tax-Free High Yield Fund at the close of business on January 31, //1990// ((1996)) and as to Putnam Tax-Free Insured Fund at the close of business on January 31, 1993, or the expiration of one year from the effective date of the last such continuance, whichever is later; provided, however, that if the continuance of this Contract is submitted to the shareholders of a Series for their approval and such shareholders fail to approve such continuance as provided herein, the Manager may continue to serve hereunder in a manner consistent with the Investment Company Act of 1940 and the Rules and Regulations thereunder.

Action by the Fund under (a) above may be taken either (i) by vote of a majority of its Trustees, or (ii) by the affirmative vote of a majority of the outstanding shares of the one or more Series affected.

Termination of this Contract pursuant to this Section 5 will be without the payment of any penalty.

6. CERTAIN DEFINITIONS.

For the purposes of this Contract, the "affirmative vote of a majority of the outstanding shares of the Fund or the Series" means the affirmative vote, at a duly called and held meeting of shareholders of the Fund or the Series, as the case may be, (a) of the holders of 67% or more of the shares of the Fund or the Series, as the case may be, present (in person or by proxy) and entitled to vote at such meeting, if the holders of more than 50% of the outstanding shares of the Fund or the Series, as the case may be, entitled to vote at such meeting are present in person or by proxy, or (b) of the holders of more than 50% of the outstanding shares of the Fund or the Series, as the case may be, entitled to vote at such meeting, whichever is less.

For the purposes of this Contract, the terms "affiliated person", "control", "interested person" and "assignment" shall have their respective meanings defined in the Investment Company Act of 1940 and the Rules and Regulations thereunder, subject, however, to such exemptions as may be granted by the Securities and Exchange Commission under said Act; the term "specifically approve at least annually" shall be construed in a manner consistent with the Investment Company Act of 1940 and the Rules and Regulations thereunder; and the term "brokerage and research services" shall have the meaning given in the Securities Exchange

Act of 1934 and the Rules and Regulations thereunder.

7. NON-LIABILITY OF MANAGER.

In the absence of willful misfeasance, bad faith or gross negligence on the part of the Manager, or reckless disregard of its obligations and duties hereunder, the Manager shall not be subject to any liability to the Fund or to any shareholder of the Fund, for any act or omission in the course of, or connected with, rendering services hereunder.

8. LIMITATION OF LIABILITY OF THE TRUSTEES AND SHAREHOLDERS.

A copy of the Agreement and Declaration of Trust of the Fund is on file with the Secretary of the Commonwealth of Massachusetts, and notice is hereby given that this instrument is executed on behalf of the Trustees of the Fund as Trustees and not individually and that the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually but are binding only upon the assets and property of the Fund.

IN WITNESS WHEREOF, PUTNAM TAX-FREE INCOME TRUST and //THE PUTNAM MANAGEMENT COMPANY, INC.// ((PUTNAM INVESTMENT MANAGEMENT, INC.)) have each caused this instrument to be signed in duplicate in its behalf by its President or a Vice President thereunto duly authorized, all as of the day and year first above written.

PUTNAM TAX-FREE INCOME TRUST

By:

//THE PUTNAM MANAGEMENT

COMPANY, INC.//

((PUTNAM INVESTMENT MANAGEMENT, INC.))

By:

PUTNAM TAX-FREE INCOME TRUST
PUTNAM TAX-FREE HIGH YIELD FUND

PROXY BALLOT

PROXY FOR THE MEETING OF
SHAREHOLDERS, MAY 5, 1994

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

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

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION

IS MADE, THIS PROXY WILL BE VOTED FOR ELECTING TRUSTEES AS SET FORTH IN PROPOSAL 1 AND FOR PROPOSALS 2 AND 3. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

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

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

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

(Control #)

THE TRUSTEES RECOMMEND A VOTE FOR ELECTING ALL OF THE NOMINEES FOR TRUSTEES AND FOR THE PROPOSALS LISTED BELOW.
1. ELECTION OF TRUSTEES: NOMINEES: PROPOSAL TO: FOR AGAINST ABSTAIN

FOR electing all the J. A. Baxter 2. RATIFY THE SELECTION
nominees H. H. Estin OF PRICE WATERHOUSE
(EXCEPT AS MARKED TO J. A. Hill AS AUDITORS.

THE CONTRARY BELOW). E. T. Kennan
L. J. Lasser
R. E. Patterson
D. S. Perkins

3. APPROVE A NEW MANAGEMENT CONTRACT.
/ / / / /

WITHHOLD authority G. Putnam
to vote for all G. Putnam, III
nominees. A.J. C. Smith
W. N. Thorndike

TO WITHHOLD AUTHORITY TO
VOTE FOR AN INDIVIDUAL
NOMINEE, WRITE THAT
NOMINEE'S NAME BELOW.

Please be sure to sign and date this Proxy. (Account #) (Shares #)

Shareholder sign here Date (Name & Address)
Co-owner sign here

Please fold at perforation before detaching

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

(Putnam Logo)

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

HAS YOUR ADDRESS CHANGED? DO YOU HAVE ANY COMMENTS?
Telephone

Dear Shareholder:

(Name and Address)

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

Thank you!

(Account #)

</TABLE>

PRELIMINARY COPY FOR THE INFORMATION OF THE SECURITIES AND EXCHANGE COMMISSION ONLY

PUTNAM TAX-FREE INCOME TRUST
PUTNAM TAX-FREE INSURED FUND

PROXY BALLOT

PROXY FOR THE MEETING OF
SHAREHOLDERS, MAY 5, 1994

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

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

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

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

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

Please fold at perforation before detaching

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

(Control #)

THE TRUSTEES RECOMMEND A VOTE FOR ELECTING ALL OF THE NOMINEES FOR TRUSTEES AND FOR THE PROPOSAL LISTED BELOW.
<C> <C> <C> <C> <C> <C> <C> <C> <C>
1. ELECTION OF TRUSTEES: NOMINEES: PROPOSAL TO: FOR AGAINST ABSTAIN

FOR electing all the J. A. Baxter 2. RATIFY THE SELECTION
/ / nominees H. H. Estin OF PRICE WATERHOUSE / /
---- (EXCEPT AS MARKED TO J. A. Hill AS AUDITORS. ----

THE CONTRARY BELOW). E. T. Kennan
L. J. Lasser
R. E. Patterson
D. S. Perkins

W. F. Pounds
---- WITHHOLD authority G. Putnam
/ / to vote for all G. Putnam, III
---- nominees. A.J.C. Smith
W. N. Thorndike

TO WITHHOLD AUTHORITY TO
VOTE FOR AN INDIVIDUAL
NOMINEE, WRITE THAT
NOMINEE'S NAME BELOW.

Please be sure to sign and date this Proxy. (Account #) (Shares #)

...../ Date (Name & Address)
Shareholder sign here Co-owner sign here

Please fold at perforation before detaching

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<CAPTION>

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

(Putnam Logo)

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

<C>
HAS YOUR ADDRESS CHANGED?

<C>
DO YOU HAVE ANY COMMENTS?

.....
.....
Telephone

Dear Shareholder: (Name and Address)

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

Thank you! (Account #)

</TABLE>