FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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FILER

PUTNAM ARIZONA TAX EXEMPT INCOME FUND
CIK:**869392**| IRS No.: **046665534** | State of Incorp.:**MA** | Fiscal Year End: **0630**
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Business Address
ONE POST OFFICE SQUARE
BOSTON MA 02109
6172921000

As filed with the Securities and Exchange Commission on
December 27, 1994

Registration No. 33-37992
811-6258

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 / X /

Pre-Effective Amendment No. /   /

Post-Effective Amendment No. 5 / X /

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 / X /

Amendment No. 7 / X /

(Check appropriate box or boxes)

PUTNAM ARIZONA TAX EXEMPT INCOME FUND
(Exact name of registrant as specified in charter)

One Post Office Square, Boston, Massachusetts 02109
(Address of principal executive offices)

Registrant's Telephone Number, including Area Code
(617) 292-1000

It is proposed that this filing will become effective
(check appropriate box)

/   / immediately upon filing pursuant to paragraph (b)

/ X / on January 1, 1995 pursuant to paragraph (b)

/   / 60 days after filing pursuant to paragraph (a) (i)

/   / on (date) pursuant to paragraph (a) (i)

/   / 75 days after filing pursuant to paragraph (a)(ii)

/   / on (date) pursuant to paragraph (a)(ii) of rule 485 .

If appropriate, check the following box:

/   / this post-effective amendment designates a new effective date for a previously filed post-effective amendment.

JOHN R. VERANI, Vice President
PUTNAM ARIZONA TAX EXEMPT INCOME FUND
One Post Office Square
Boston, Massachusetts 02109
(Name and address of agent for service)

Copy to:
JOHN W. GERSTMAYR, Esquire
ROPES & GRAY
One International Place
Boston, Massachusetts 02110

The Registrant has registered an indefinite number or amount of securities under the Securities Act of 1933 pursuant to Rule 24f-2. A Rule 24f-2 Notice for the fiscal year ended August 31, 1994 was filed on October 28, 1994 .

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

CROSS REFERENCE SHEET

(AS REQUIRED BY RULE 481(A))

PART A

N-1A ITEM NO.	LOCATION
1. Cover Page.......................	Cover Page
2. Synopsis.........................	Expenses summary
3. Condensed Financial Information..	Financial highlights; How performance is shown
4. General Description of Registrant.......................	Objective; How objective is pursued; Organization and history
5. Management of the Fund...........	Expenses summary; How the Fund is managed; About Putnam Investments, Inc.
5A. Management's Discussion of Fund Performance.................	(Contained in the Annual Report of the Registrant)
6. Capital Stock and Other Securities.......................	Cover Page; Organization and history; How distributions are made; tax information
7. Purchase of Securities Being Offered..........................	How to buy shares; Distribution Plans; How to sell shares; How to exchange shares; How the Fund values its shares
8. Redemption or Repurchase.........	How to buy shares; How to sell shares; How to exchange shares; Organization and history
9. Pending Legal Proceedings........	Not Applicable

PART B

N-1A ITEM NO.	LOCATION
10. Cover Page.......................	Cover Page
11. Table of Contents................	Cover Page
12. General Information and History..	Organization and history (Part A)
13. Investment Objectives and Policies.........................	How objective is pursued (Part A); Investment Restrictions of the Fund; Miscellaneous Investment Practices
14. Management of the Registrant.....	Management of the Fund (Trustees; Officers); Additional Officers of the Fund
15. Control Persons and Principal Holders of Securities...........	Management of the Fund (Trustees; Officers); Fund Charges and

PART B

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C of the Registration Statement.

PROSPECTUS

JANUARY 1, 1995

PUTNAM ARIZONA TAX EXEMPT INCOME FUND
CLASS A AND B SHARES
INVESTMENT STRATEGY: TAX-ADVANTAGED

This Prospectus explains concisely what you should know before investing in Class A or B shares of Putnam Arizona Tax Exempt Income Fund (the "Fund"). Please read it carefully and keep it for future reference. You can find more detailed information about the Fund in the January 1, 1995 Statement of

Additional Information, as amended from time to time. For a free copy of the Statement, call Putnam Investor Services at 1-800-225-1581. The Statement has been filed with the Securities and Exchange Commission and is incorporated into this Prospectus by reference.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY FINANCIAL INSTITUTION, ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY, AND INVOLVE RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

BOSTON * LONDON * TOKYO

ABOUT THE FUND

EXPENSES SUMMARY

Expenses are one of several factors to consider when investing in the Fund. The following table summarizes your maximum transaction costs from investing in the Fund and expenses incurred by the Fund based on its most recent fiscal year. The Examples show the cumulative expenses attributable to a hypothetical $1,000 investment over specified periods.

	CLASS A SHARES	CLASS B SHARES
SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price)	4.75%	NONE*
Deferred Sales Charge (as a percentage of the lower of purchase price or redemption proceeds)	NONE**	5.0% in the first year declining to 1.0% in the sixth year, original and eliminated thereafter
ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets)		
Management Fees	0.60%	0.59%
12b-1 Fees	0.20%	0.85%
Other Expenses	0.17%	0.16%
Total Fund Operating Expenses	0.97%	1.60%

The table is provided to help you understand the expenses of investing in the Fund and your share of the operating expenses which the Fund incurs.

EXAMPLES

Your investment of $1,000 would incur the following expenses, assuming 5% annual return and redemption at the end of each period:

	1 year	3 years	5 years	10 years
CLASS A	$57	$77	$99	$161
CLASS B	$66	$80	$107	$173** *

Your investment of $1,000 would incur the following expenses, assuming 5% annual return but no redemption:

	1 year	3 years	5 years	10 years
CLASS A	$57	$77	$99	$161
CLASS B	$16	$50	$87	$173***

The Examples do not represent past or future expense levels . Actual Fund expenses may be greater or less than those shown. Federal regulations require the Examples to assume a 5% annual return, but actual annual return has varied.

* Class B shares are sold without a front-end sales charge, but their higher 12b-1 fees may cause long-term shareholders to pay more than the economic equivalent of the maximum permitted front-end sales charge.

** A deferred sales charge of up to 1.00% is assessed on certain redemptions of Class A shares that were purchased without an initial sales charge as part of an investment of $1 million or more. See "How to buy shares -- Class A shares."

*** Reflects conversion of Class B shares to Class A shares (which pay lower ongoing expenses) approximately eight years after purchase. See "How to buy shares -- Class B shares -- Conversion of Class B shares."

FINANCIAL HIGHLIGHTS

The table on the following page presents per share financial information for Class A and B shares . This information has been audited and reported on by the Fund's independent accountants. The Report of Independent Accountants and financial statements included in the Fund's Annual Report to shareholders for the 1994 fiscal year are incorporated by reference into this Prospectus. The Fund's Annual Report, which contains additional unaudited performance information, is available without charge upon request.

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FINANCIAL HIGHLIGHTS
(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

<S> <C> <C>

	YEAR ENDED AUGUST 31 1994	FOR THE PERIOD JULY 15, 1993 (COMMENCEMENT OF OPERATIONS) TO AUGUST 31 1993
CLASS B		
NET ASSET VALUE, BEGINNING OF PERIOD	$9.47	$9.39
INVESTMENT OPERATIONS		
NET INVESTMENT INCOME	.45	.11
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	(.61)	.03
TOTAL FROM INVESTMENT OPERATIONS	(.16)	.14
LESS DISTRIBUTIONS FROM:		
NET INVESTMENT INCOME	(.45)	(.06)
NET REALIZED GAIN ON INVESTMENTS	--	--
IN EXCESS OF NET REALIZED GAIN ON INVESTMENTS	(.03)	--
TOTAL DISTRIBUTIONS	(.48)	(.06)
NET ASSET VALUE, END OF PERIOD	$8.83	$9.47
TOTAL INVESTMENT RETURN AT NET ASSET VALUE (%)(B)	(1.80)	1.45(C)
NET ASSETS, END OF PERIOD (IN THOUSANDS)	$16,247	$2,974
RATIO OF EXPENSES TO AVERAGE NET ASSETS (%)	1.60	.19(C)
RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS (%)	4.82	.43(C)
PORTFOLIO TURNOVER (%)	34.68	5.72

/TABLE

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FINANCIAL HIGHLIGHTS (CONTINUED)

<S> <C> <C> <C> <C>

	YEAR ENDED AUGUST 31 1994	1993	1992	FOR THE PERIOD JANUARY 30, 1991 (COMMENCEMENT OF OPERATIONS) TO AUGUST 31 1991
CLASS A				
NET ASSET VALUE, BEGINNING OF PERIOD	$9.47	$9.07	$8.66	$8.50
INVESTMENT OPERATIONS				
NET INVESTMENT INCOME	.51	.54	.57(A)	.33(A)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	(.61)	.47	.42	.16
TOTAL FROM INVESTMENT OPERATIONS	(.10)	1.01	.99	.49

LESS DISTRIBUTIONS FROM:				
NET INVESTMENT INCOME	(.50)	(.55)	(.57)	(.33)
NET REALIZED GAIN ON INVESTMENTS	--	(.06)	(.01)	--
IN EXCESS OF NET REALIZED GAIN ON INVESTMENTS	(.03)	--	--	--
TOTAL DISTRIBUTIONS	(.53)	(.61)	(.58)	(.33)
NET ASSET VALUE, END OF PERIOD	$8.84	$9.47	$9.07	$8.66
TOTAL INVESTMENT RETURN AT NET ASSET VALUE (%)(B)	(1.07)	11.54	11.85	5.84(C)
NET ASSETS, END OF PERIOD (IN THOUSANDS)	$142,950	$145,304	$88,566	$46,902
RATIO OF EXPENSES TO AVERAGE NET ASSETS (%)	.97	.89	.58(A)	.16(A)(C)
RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS (%)	5.55	5.82	6.34(A)	3.91(A)(C)
PORTFOLIO TURNOVER (%)	34.68	5.72	31.84	12.46(C)

(A) REFLECTS AN ABSORPTION OF EXPENSES INCURRED BY THE FUND AND AN EXPENSE LIMITATION APPLICABLE DURING THE PERIOD. AS A RESULT OF THESE LIMITATIONS, NET INVESTMENT INCOME OF THE FUND FOR THE YEAR ENDED AUGUST 31, 1992 AND THE PERIOD ENDED AUGUST 31, 1991, REFLECT EXPENSE REDUCTIONS OF $0.03 AND $0.05 PER SHARE, RESPECTIVELY.

(B) TOTAL INVESTMENT RETURN ASSUMES DIVIDEND REINVESTMENT AND DOES NOT REFLECT THE EFFECT OF SALES CHARGES.

(C) NOT ANNUALIZED.
</TABLE>

OBJECTIVE

THE FUND'S OBJECTIVE IS TO SEEK AS HIGH A LEVEL OF CURRENT INCOME EXEMPT FROM FEDERAL INCOME TAX AND ARIZONA STATE INCOME TAX AS PUTNAM INVESTMENT MANAGEMENT , INC., THE FUND'S INVESTMENT MANAGER ("PUTNAM MANAGEMENT"), BELIEVES IS CONSISTENT WITH PRESERVATION OF CAPITAL. The Fund is not intended to be a complete investment program, and there is no assurance it will achieve its objective.

HOW OBJECTIVE IS PURSUED

BASIC INVESTMENT STRATEGY

PUTNAM ARIZONA TAX EXEMPT INCOME FUND SEEKS ITS OBJECTIVE BY FOLLOWING THE FUNDAMENTAL INVESTMENT POLICY OF INVESTING AT LEAST 80% OF ITS NET ASSETS IN ARIZONA TAX EXEMPT SECURITIES (WHICH ARE DESCRIBED BELOW), EXCEPT WHEN INVESTING FOR DEFENSIVE PURPOSES DURING TIMES OF ADVERSE MARKET CONDITIONS. Under current law, to the extent distributions by the Fund are derived from interest on Arizona Tax Exempt Securities, they shall be exempt from federal and Arizona state income taxes (other than any applicable federal alternative minimum tax and Arizona minimum corporate income tax). The Fund may also invest in taxable obligations, as described below, to the extent permitted by its investment policies, or hold its assets in money market instruments or in cash. Putnam Management expects the Fund will generally invest in Arizona Tax Exempt Securities of longer maturities (10 years or more), but the Fund may invest in Arizona Tax Exempt Securities having a broad range of maturities.

The Fund's investments in Arizona Tax Exempt Securities and taxable obligations will be limited to securities rated at the time of purchase not lower than the five highest grades assigned by Moody's Investors Service, Inc. ("Moody's") (Aaa, Aa, A, Baa or Ba) and Standard & Poor's Corporation ("S&P") (AAA, AA, A, BBB or BB), or unrated securities which Putnam Management determines are of comparable quality. The Fund will not purchase an Arizona Tax Exempt Security rated both Ba by Moody's and BB by S&P at the time of purchase, or, if unrated, determined by Putnam Management to be of comparable quality if, as a result, more than 25% of the Fund's total assets would be of that quality. The rating services' descriptions of the five highest grades of debt securities are included in the Appendix to this Prospectus. Arizona Tax Exempt Securities rated Ba or BB (and comparable unrated securities), commonly known as "junk bonds," are considered to have speculative elements, with large uncertainties or major risk exposures to adverse conditions.

INTEREST INCOME FROM CERTAIN TYPES OF ARIZONA TAX EXEMPT SECURITIES MAY BE SUBJECT TO FEDERAL ALTERNATIVE MINIMUM TAX FOR INDIVIDUALS AND CORPORATIONS. It is a fundamental policy of the Fund to exclude these securities from the term "Arizona Tax Exempt Securities" for purposes of determining compliance with the 80% test described above. Individuals and corporations may be subject to federal alternative minimum tax on a portion of the exempt-interest dividends they receive from the Fund.

At times Putnam Management may judge that conditions in the markets for Arizona Tax Exempt Securities make pursuing the Fund's basic investment strategy inconsistent with the best interests of its shareholders. At such times Putnam Management may temporarily use alternative strategies, primarily designed to reduce fluctuations in the value of the Fund's assets. In implementing these "defensive" strategies, the Fund may invest without limit in taxable obligations, including: obligations of the U.S. government, its agencies or instrumentalities; obligations issued by governmental issuers in other states, the interest on which would be exempt from federal income tax; other debt securities rated within the four highest grades by either Moody's or S&P ; commercial paper rated in the highest grade by either rating service (Prime-1 or A-1+, respectively); certificates of deposit and bankers' acceptances; repurchase agreements; or any other securities that Putnam Management considers consistent with such defensive strategies. It is impossible to predict when, or for how long, the Fund will use such alternative strategies.

ARIZONA TAX EXEMPT SECURITIES

ARIZONA TAX EXEMPT SECURITIES INCLUDE OBLIGATIONS OF THE STATE OF ARIZONA , ITS POLITICAL SUBDIVISIONS , AND THEIR AGENCIES , INSTRUMENTALITIES AND OTHER GOVERNMENTAL UNITS, THE INTEREST WITH RESPECT TO WHICH, IN THE OPINION OF BOND COUNSEL, IS EXEMPT FROM FEDERAL INCOME TAX AND ARIZONA STATE INCOME TAX (OTHER THAN ARIZONA MINIMUM CORPORATE INCOME TAX). These securities are issued to obtain funds for various public purposes, such as the construction of public facilities, the payment of general operating expenses or the refunding of outstanding debts. They may also be issued to finance various private activities, including the lending of funds to public or private institutions for the construction of housing, educational or medical facilities, and may also include certain types of industrial development bonds, private activity bonds or notes issued by public authorities to finance privately owned or operated facilities, or to fund short-term cash requirements. Short-term Arizona Tax Exempt Securities may be issued as interim financing in anticipation of tax collections, revenue receipts or bond sales to finance various public purposes. Arizona Tax Exempt Securities may also include obligations issued by certain other governmental entities, such as U.S. territories , if such debt obligations generate interest income which is exempt from federal income tax and Arizona state income tax.

THE TWO PRINCIPAL CLASSIFICATIONS OF ARIZONA TAX EXEMPT SECURITIES ARE GENERAL OBLIGATION AND SPECIAL OBLIGATION (OR SPECIAL REVENUE OBLIGATION) SECURITIES. GENERAL OBLIGATION securities involve a pledge of the credit of an issuer possessing taxing power and are payable from the issuer's general unrestricted revenues. The characteristics and methods of enforcement of general obligation securities vary according to the law applicable to the particular issuer. SPECIAL OBLIGATION (or SPECIAL REVENUE OBLIGATION) securities are payable only from the revenues derived from a particular facility or class of facilities, or a specific revenue source, and generally are not payable from the unrestricted revenues of the issuer. Their payment may depend on an appropriation by the issuer's legislative body. Industrial development bonds and private activity bonds are in most cases special obligation securities, the credit quality of which is directly related to the private user of the facilities.

The Fund may also invest in securities representing interests in Arizona Tax Exempt Securities, known as "inverse floating obligations" or "residual interest bonds," which pay interest rates that vary inversely to changes in the interest rates of specified short-term tax exempt securities or an index of short-term tax exempt securities. The interest rates on inverse floating obligations or residual interest bonds will typically decline as short-term market interest rates increase and increase as short-term market rates decline. Such securities have the effect of providing a degree of investment leverage, since they will generally increase or decrease in value in response to changes in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax exempt securities increase or decrease in response to such changes. As a result, the market values of inverse floating obligations and residual interest bonds will generally be more volatile than the market values of fixed-rate tax exempt securities.

INVESTMENTS IN PREMIUM SECURITIES

During a period of declining interest rates, many of the Fund's portfolio investments will likely bear coupon rates which are higher than current market rates, regardless of whether such securities were originally purchased at a premium. Such securities would generally carry market values greater than the principal amounts payable on maturity, which would be reflected in the net asset value of the Fund's shares. The values of such "premium" securities tend to approach the principal amount as they approach maturity (or call price in the case of securities approaching their first call date). As a result, an investor who purchases shares of the Fund during such periods would initially receive higher monthly distributions (derived from the higher coupon rates payable on the Fund's investments) than might be available from alternative investments bearing current market interest rates, but may face an increased risk of capital loss as these higher coupon securities approach maturity (or first call date). In evaluating the potential performance of an investment in the Fund, investors may find it useful to compare the Fund's current dividend rate with the Fund's "yield," which is computed on a yield-to-maturity basis in accordance with SEC regulations and which reflects amortization of market premiums. See "How performance is shown."

RISK FACTORS

THE VALUES OF ARIZONA TAX EXEMPT SECURITIES FLUCTUATE IN RESPONSE TO CHANGES IN INTEREST RATES. Thus, a decrease in interest rates will generally result in an increase in the value of the Fund's assets. Conversely, during periods of rising interest rates, the value of the Fund's assets will generally decline. The magnitude of these fluctuations generally is greater for securities with longer maturities. However, the yields on such securities are also generally higher. In addition, the values of such securities are affected by changes in general economic conditions and business conditions affecting the specific industries of their issuers. Changes by recognized rating services in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities generally will not affect income derived from such securities, but will affect the Fund's net asset value. The Fund will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase, although Putnam Management will monitor the investment to determine whether continued investment in the security will assist in meeting its investment objective.

THE FUND MAY INVEST IN BOTH HIGHER-RATED AND LOWER-RATED ARIZONA TAX EXEMPT SECURITIES. The values of lower-rated securities generally fluctuate more than those of higher-rated securities. In addition, the lower rating reflects a greater possibility that the financial condition of the issuer, or adverse changes in general economic conditions, or both, may impair the ability of the issuer to make payments of income and principal.

The table on the following page shows the percentages of the Fund's assets invested during fiscal 1994 in securities assigned to the various rating categories by Moody's and S&P and in unrated securities determined by Putnam Management to be of comparable quality:

RATING	RATED SECURITIES, AS PERCENTAGE OF FUND'S ASSETS	UNRATED SECURITIES OF COMPARABLE QUALITY, AS PERCENTAGE OF FUND'S ASSETS
"AAA"/"Aaa"	37.81%	-
"AA"/"Aa"	14.15%	-

"A"/"A"	17.27%	-
"BBB"/"Baa"	17.20%	4.77%
"BB"/"Ba"	4.16%	3.87%
"B"/"B"	-	0.64%
Not Rated	0.13%	-
Total	90.72%	9.28%

Putnam Management seeks to minimize the risks of investing in lower-rated securities through careful investment analysis. However, the amount of information about the financial condition of an issuer of Arizona Tax Exempt Securities may not be as extensive as that which is made available by corporations whose securities are publicly traded. When the Fund invests in Arizona Tax Exempt Securities in the lower rating categories, the achievement of the Fund's goals is more dependent on Putnam Management's ability than would be the case if the Fund were investing in Arizona Tax Exempt Securities in the higher rating categories. Investors should consider carefully their ability to assume the risks of owning shares of a mutual fund which may invest in securities in certain of the lower rating categories.

At times, a substantial portion of the Fund's assets may be invested in securities as to which the Fund, by itself or together with other funds and accounts managed by Putnam Management and its affiliates, holds a major portion or all of such securities. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund could find it more difficult to sell such securities when Putnam Management believes it advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. Under such circumstances, it may also be more difficult to determine the fair value of such securities for purposes of computing the Fund's net asset value. In order to enforce its rights in the event of a default under such securities, the Fund may be required to take possession of and manage assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses and adversely affect the Fund's net asset value. Any income derived from the Fund's ownership or operation of such assets would not be tax exempt.

Certain securities held by the Fund may permit the issuer at its option to "call," or redeem, its securities. If an issuer were to redeem securities held by the Fund during a time of declining interest rates, the Fund may not be able to reinvest the proceeds in securities providing the same investment return as the securities redeemed.

The Fund may at times invest in so-called "zero-coupon" bonds and "payment-in-kind" bonds. Zero-coupon bonds are issued at a significant discount from their principal amount and pay interest only at maturity rather than at intervals during the life of the security. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. The values of zero-coupon bonds and payment-in-kind bonds are subject to greater fluctuation in response to changes in market interest rates than bonds which pay interest in cash currently. Both zero-coupon bonds and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently. Even though such bonds do not pay current interest in cash, the Fund is nonetheless required to accrue interest income on such investments and to distribute such amounts at least annually to shareholders. Thus, the Fund could be required at times to liquidate other investments in order to satisfy its distribution requirements.

The secondary market for Arizona Tax Exempt Securities is generally less liquid than that for taxable fixed-income securities, particularly in the lower rating categories. Thus, the ability of the Fund to buy and sell certain securities may be limited from time to time.

FOR ADDITIONAL INFORMATION CONCERNING THE RISKS ASSOCIATED WITH INVESTMENT BY THE FUND IN SECURITIES IN THE LOWER RATING CATEGORIES, SEE THE STATEMENT OF ADDITIONAL INFORMATION.

SINCE THE FUND INVESTS PRIMARILY IN ARIZONA TAX EXEMPT SECURITIES, THE VALUE OF ITS SHARES MAY BE ESPECIALLY AFFECTED BY FACTORS PERTAINING TO THE ARIZONA ECONOMY AND OTHER FACTORS SPECIFICALLY AFFECTING THE ABILITY OF ISSUERS OF ARIZONA TAX

EXEMPT SECURITIES TO MEET THEIR OBLIGATIONS. As a result, the value of the Fund's shares may fluctuate more widely than the value of shares of a portfolio investing in securities relating to a number of different states. The ability of state, county or local governments to meet their obligations will depend primarily on the availability of tax and other revenues to those governments and on their fiscal conditions generally. The amounts of tax and other revenues available to governmental issuers of Arizona Tax Exempt Securities may be affected from time to time by economic, political and demographic conditions affecting Arizona. In addition, constitutional or statutory restrictions may limit a government's power to raise revenues or increase taxes or expenditures. The availability of federal, state and local aid to issuers of Arizona Tax Exempt Securities may also affect their ability to meet their obligations. Payments of principal and interest on special obligation securities will depend on the economic condition of the facility or specific revenue source from whose revenues the payments will be made, which in turn could be affected by economic, political and demographic conditions in the state. Any reduction in the actual or perceived ability of an issuer of Arizona Tax Exempt Securities to meet its obligations (including a reduction in the rating of its outstanding securities) would likely affect adversely the market value and marketability of its obligations and could affect adversely the values of other Arizona Tax Exempt Securities as well.

DIVERSIFICATION AND CONCENTRATION POLICIES

THE FUND IS A "NON-DIVERSIFIED" INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940. This means that it may invest its assets in a limited number of issuers. Under the Internal Revenue Code, the Fund generally may not invest more than 25% of its assets in securities of any one issuer other than U.S. government securities and, with respect to 50% of its total assets, the Fund may not invest more than 5% of its total assets in the securities of any one issuer (except U.S. government securities). Thus the Fund may invest up to 25% of its total assets in the securities of each of any two issuers. Because of the relatively small number of issuers of Arizona Tax Exempt Securities, the Fund is more likely to invest a higher percentage of its assets in the securities of a single issuer than an investment company which invests in a broad range of tax-exempt securities. This practice involves an increased risk of loss to the Fund if the issuer is unable to make interest or principal payments or if the market value of such securities were to decline.

THE FUND WILL NOT INVEST MORE THAN 25% OF ITS TOTAL ASSETS IN ANY INDUSTRY. Governmental issuers of Arizona Tax Exempt Securities are not considered part of any "industry." However, Arizona Tax Exempt Securities backed only by the assets and revenues of nongovernmental users may for this purpose (and for diversification purposes discussed above) be deemed to be issued by such nongovernmental users. Thus, the 25% limitation would apply to such obligations.

It is nonetheless possible that the Fund may invest more than 25% of its assets in a broader segment of the market for Arizona Tax Exempt Securities, such as revenue obligations of hospitals and other health care facilities, housing revenue obligations, or airport revenue obligations. This would be the case only if Putnam Management determined that the yields available from obligations in a particular segment of the market justified the additional risks associated with such concentration. Although such obligations could be supported by the credit of governmental users or by the credit of nongovernmental users engaged in a number of industries, economic, business, political and other developments generally affecting the revenues of such issuers (for example, proposed legislation or pending court decisions affecting the financing of such projects and market factors affecting the demand for their services or products) may have a general adverse effect on all Arizona Tax Exempt Securities in such a market segment.

The Fund reserves the right to invest more than 25% of its assets in industrial development bonds and private activity bonds.

PORTFOLIO TURNOVER

The length of time the Fund has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the Fund is known as "portfolio turnover." As a result of the Fund's investment policies, under certain market conditions the Fund's portfolio turnover rate may be higher than that of other mutual funds. Portfolio turnover generally involves some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. Such transactions may result in realization of taxable capital gains. Portfolio turnover rates for the life of the Fund are shown in the section "Financial highlights."

FINANCIAL FUTURES AND OPTIONS

THE FUND MAY PURCHASE AND SELL FINANCIAL FUTURES CONTRACTS FOR HEDGING PURPOSES. Futures contracts on a Municipal Bond Index are traded on the Chicago Board of Trade. This Index is intended to represent a numerical measure of market performance for long-term tax-exempt bonds. An "index future" is a contract to buy or sell units of a particular securities index at an agreed price on a specified future date. Depending on the change in value of the index between the time when the Fund enters into and terminates an index futures contract, the Fund realizes a gain or loss. The Fund may purchase and sell futures contracts on the Index (or any other tax-exempt bond index approved for trading by the Commodity Futures Trading Commission) to hedge against general changes in market values of Arizona Tax Exempt Securities which the Fund owns or expects to purchase. The Fund may also purchase and sell put and call options on index futures or on the indices directly, in addition to or as an alternative to purchasing and selling index futures.

The Fund may also, for hedging purposes, purchase and sell futures contracts and related options with respect to U.S. Treasury securities, including U.S. Treasury bills, notes and bonds ("U.S. Government Securities") and options directly on U.S. Government Securities. U.S. Government Securities futures and options would be used in a way similar to the Fund's use of index futures and options.

THE USE OF FUTURES AND OPTIONS INVOLVES CERTAIN SPECIAL RISKS AND MAY RESULT IN REALIZATION OF TAXABLE INCOME AND CAPITAL GAINS. FUTURES AND OPTIONS TRANSACTIONS INVOLVE COSTS AND MAY RESULT IN LOSSES. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of financial futures and options and movements in the prices of the underlying bond index or U.S. Government Securities or of the Arizona Tax Exempt Securities which are the subject of the hedge. The successful use of futures and options further depends on Putnam Management's ability to forecast interest rate and market movements correctly. Other risks arise from the Fund's potential inability to close out its futures or related options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at any particular time. Certain provisions of the Internal Revenue Code and certain regulatory requirements may limit the Fund's ability to engage in futures and options transactions.

A MORE DETAILED EXPLANATION OF FINANCIAL FUTURES AND OPTIONS TRANSACTIONS AND THE RISKS ASSOCIATED WITH THEM IS INCLUDED IN THE STATEMENT OF ADDITIONAL INFORMATION.

OTHER INVESTMENT PRACTICES

THE FUND MAY ALSO ENGAGE TO A LIMITED EXTENT IN THE FOLLOWING INVESTMENT PRACTICES, EACH OF WHICH MAY RESULT IN TAXABLE INCOME OR CAPITAL GAINS AND INVOLVES CERTAIN SPECIAL RISKS. THE STATEMENT OF ADDITIONAL INFORMATION CONTAINS MORE DETAILED INFORMATION ABOUT THESE PRACTICES, INCLUDING LIMITATIONS DESIGNED TO REDUCE THESE RISKS.

REPURCHASE AGREEMENTS AND FORWARD COMMITMENTS. The Fund may enter into repurchase agreements on up to 25% of its assets. These transactions must be fully collateralized at all times. The Fund may also purchase securities for future delivery, which may increase its overall investment exposure and involves a risk of loss if the value of the securities declines prior to the settlement date. These transactions involve some risk to the Fund if the other party should default on its obligation and the Fund is delayed or prevented from recovering the collateral or completing the transaction.

LIMITING INVESTMENT RISK

SPECIFIC INVESTMENT RESTRICTIONS HELP THE FUND LIMIT INVESTMENT RISKS FOR ITS SHAREHOLDERS. THESE RESTRICTIONS PROHIBIT THE FUND FROM INVESTING MORE THAN: (a) (with respect to 50% of its total assets) 5% of its total assets in the securities of any one issuer, other than U.S. government securities;* (b) 5% of its net assets in securities of any issuer if the party responsible for payment, together with any predecessor, has been in operation for less than three years (except obligations of the U.S. government or its agencies or instrumentalities and general obligations backed by the full faith, credit and taxing power of any person authorized to issue Arizona Tax Exempt Securities); (c) 5% of its net assets in securities restricted as to resale;* and (d) 15% of its net assets in any combination of securities that are not readily marketable, securities restricted as to resale (excluding securities determined by the Fund's Trustees (or the person designated by the Fund's Trustees to make such determinations) to be readily marketable), and repurchase agreements maturing in more than seven days.

Restrictions marked with an asterisk (*) above are summaries of fundamental investment policies. See the Statement of Additional Information for the full text of these policies and the Fund's other fundamental investment policies. Except for investment policies designated as fundamental in this Prospectus or the Statement, the investment policies described in this Prospectus and in the Statement are not fundamental policies. The Trustees
may change any non-fundamental investment policies without shareholder approval. As a matter of policy, the Trustees would not materially change the Fund's investment objective without shareholder approval.

HOW PERFORMANCE IS SHOWN

THE FUND'S INVESTMENT PERFORMANCE MAY FROM TIME TO TIME BE INCLUDED IN ADVERTISEMENTS ABOUT THE FUND. "Yield" for each class of shares is calculated by dividing the annualized net investment income per share during a recent 30-day period by the maximum public offering price per share of such class on the last day of that period. For this purpose, net investment income is calculated in accordance with SEC regulations and may differ from net investment income as determined for financial reporting purposes. SEC regulations require that net investment income be calculated on a "yield-to-maturity" basis, which has the effect of amortizing any premiums or discounts in the current market value of fixed-income securities. The current dividend rate is based on net investment income as determined for tax purposes, which may not reflect amortization in the same manner. See "How objective is pursued -- - Investments in premium securities." Yield reflects the deduction of the maximum initial sales charge in the case of Class A shares, but does not reflect the deduction of any contingent deferred sales charge in the case of Class B shares. "Tax-equivalent" yield for each class of shares shows the effect on performance of the tax-exempt status of distributions received from the Fund. It reflects the approximate yield that a taxable investment must earn for shareholders at stated income levels to produce an after-tax yield equivalent to a class's tax-exempt yield .

"Total return" for the one- , five- and ten-year periods (or for the life of a class, if shorter) through the most recent calendar quarter represents the average annual compounded rate of return on an investment of $1,000 in the Fund invested at the maximum public offering price (in the case of Class A shares) or reflecting the deduction of any applicable contingent deferred sales charge (in the case of Class B shares). Total return may also be presented for other periods or based on investment at reduced sales charge levels . Any quotation of investment performance not reflecting the maximum initial sales charge or contingent deferred sales charge would be reduced if such sales charges were used.

ALL DATA IS BASED ON THE FUND'S PAST INVESTMENT RESULTS AND DOES NOT PREDICT FUTURE PERFORMANCE. Investment performance, which will vary, is based on many factors, including market conditions, the composition of the Fund's portfolio, the Fund's operating expenses and which class of shares you purchase. Investment performance also often reflects the risks associated with the Fund's investment objective and policies. These factors should be considered when comparing the Fund's investment results to those of other mutual funds and other investment vehicles. Quotations of investment performance for any period when an expense limitation was in effect will be greater than if the limitation had not been in effect. The Fund's performance may be compared to various indices. See the Statement of Additional Information.

HOW THE FUND IS MANAGED

THE TRUSTEES OF THE FUND ARE RESPONSIBLE FOR GENERALLY OVERSEEING THE CONDUCT OF THE FUND'S BUSINESS. Subject to such policies as the Trustees may determine, Putnam Management furnishes a continuing investment program for the Fund and makes investment decisions on its behalf. Subject to the control of the Trustees, Putnam Management also manages the Fund's other affairs and business. Howard K. Manning, Senior Vice President of Putnam Management and Vice President of the Fund, has had primary responsibility for the day-to-day management of the Fund's portfolio since 1993. Mr. Manning has been employed by Putnam Management since 1986.

The Fund pays all expenses not assumed by Putnam Management, including Trustees' fees, auditing, legal, custodial, investor servicing, and shareholder reporting expenses, and payments under its Distribution Plans (which are in turn allocated to the relevant class of shares). The Fund also 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 total reimbursement is determined annually by the Trustees.

Putnam Management places all orders for purchases and sales of the Fund's securities. In selecting broker-dealers, Putnam Management may consider research and brokerage services furnished to it and its affiliates. Subject to seeking the most favorable price and execution available, Putnam Management may consider sales of shares of the Fund (and, if permitted by law, of the other Putnam funds) as a factor in the selection of broker-dealers.

ORGANIZATION AND HISTORY

Putnam Arizona Tax Exempt Income Fund is a Massachusetts business trust organized on November 9, 1990. A copy of the Agreement and Declaration of Trust, which is governed by Massachusetts law, is on file with the Secretary of State of The Commonwealth of Massachusetts.

The Fund is an open-end, non-diversified management investment company with an unlimited number of authorized shares of beneficial interest. Shares of the Fund may, without shareholder approval, be divided into two or more series of shares representing separate investment portfolios. Any such series of shares may be divided without shareholder approval into two or more classes of shares having such preferences and special or relative rights and privileges as the Trustees determine. The Fund's shares are currently divided into two classes.

Each share has one vote, with fractional shares voting proportionally. Shares of each class will vote together as a single class except when required by law or as determined by the Trustees. Shares are freely transferable, are entitled to dividends as declared by the Trustees, and, if the Fund were liquidated, would receive the net assets of the Fund. The Fund may suspend the sale of shares at any time and may refuse any order to purchase shares. Although the Fund is not required to hold annual meetings of its shareholders, shareholders holding at least 10% of the outstanding shares entitled to vote have the right to call a meeting to elect or remove Trustees, or to take other actions as provided in the Agreement and Declaration of Trust.

If you own fewer shares than a minimum amount set by the Trustees (presently 20 shares), the Fund may choose to redeem your shares and pay you for them. You will receive at least 30 days' written notice before the Fund redeems your shares, and you may purchase additional shares at any time to avoid a redemption. The Fund may also redeem shares if you own shares above a maximum amount set by the Trustees. There is presently no maximum, but the Trustees may establish one at any time, which could apply to both present and future shareholders.

THE FUND'S TRUSTEES: GEORGE PUTNAM,* CHAIRMAN. President of the Putnam funds. Chairman and Director of Putnam Management and Putnam Mutual Funds Corp. ("Putnam Mutual Funds"). Director, Marsh & McLennan Companies, Inc.; WILLIAM F. POUNDS, VICE CHAIRMAN. Professor of Management, Alfred P. Sloan School of Management, M.I.T.; JAMESON ADKINS BAXTER, President, Baxter Associates, Inc.; HANS H. ESTIN, Vice Chairman, North American Management Corp.; JOHN A. HILL, Principal and Managing Director, First Reserve Corporation; ELIZABETH T. KENNAN, President, Mount Holyoke College; LAWRENCE J. LASSER,* Vice President of the Putnam funds. President, Chief Executive Officer and Director of Putnam Investments, Inc. and Putnam Management. Director, Marsh & McLennan Companies, Inc.; ROBERT E. PATTERSON, Executive Vice President, Cabot Partners Limited Partnership; DONALD S. PERKINS, Director of various corporations, including AT&T, K mart Corporation and Time Warner Inc.; GEORGE PUTNAM, III,* President, New Generation Research, Inc.; A.J.C. SMITH,* Chairman, Chief Executive Officer and Director, Marsh & McLennan Companies, Inc.; and W. NICHOLAS THORNDIKE, Director of various corporations and charitable organizations, including Providence Journal Co. Also, Trustee of Massachusetts General Hospital and Eastern Utilities Associates. The Fund's Trustees are also Trustees of the other Putnam funds.

Those marked with an asterisk (*) are "interested persons" of the Fund, Putnam Management or Putnam Mutual Funds.

ABOUT YOUR INVESTMENT

ALTERNATIVE SALES ARRANGEMENTS

This Prospectus offers investors two classes of shares which bear sales charges in different forms and amounts and which bear different levels of expenses:

CLASS A SHARES. An investor who purchases Class A shares pays a sales charge at the time of purchase. As a result, Class A shares are not subject to any charges when they are redeemed (except for sales at net asset value in excess of $1 million which are subject to a contingent deferred sales charge). Certain purchases of Class A shares qualify for reduced sales charges. Class A shares currently bear a 12b-1 fee at the annual rate of 0.20% of the Fund's average net assets attributable to Class A shares. See "How to buy shares -- Class A shares."

CLASS B SHARES. Class B shares are sold without an initial sales charge, but are subject to a contingent deferred sales charge of up to 5% if redeemed within six years. Class B shares also bear a higher 12b-1 fee than Class A shares, currently at the annual rate of 0.85% of the Fund's average net assets attributable to Class B shares. Class B shares will automatically convert into Class A shares, based on relative net asset value, approximately eight years after purchase. Class B shares provide an investor the benefit of putting all of the investor's dollars to work from the time the investment is made, but (until conversion) will have a higher expense ratio and pay lower dividends than Class A shares due to the higher 12b-1 fee. See "How to buy shares --Class B shares."

WHICH ARRANGEMENT IS BETTER FOR YOU? The decision as to which class of shares provides a more suitable investment for an investor depends on a number of factors, including the amount and intended length of the investment. Investors making investments that qualify for reduced sales charges might consider Class A shares. Investors who prefer not to pay an initial sales charge might consider Class B shares. Orders for Class B shares for $250,000 or more will be treated as orders for Class A shares or declined. For more information about these sales arrangements, consult your investment dealer or Putnam Investor Services. Sales personnel may receive different compensation depending on which class of shares they sell. Shares may only be exchanged for shares of the same class of another Putnam fund. See "How to exchange shares."

HOW TO BUY SHARES

You can open a Fund account with as little as $500 and make additional investments at any time with as little as $50. You can buy Fund shares three ways -- through most investment dealers, through Putnam Mutual Funds (at 1-800-225-1581), or through a systematic investment plan. If you do not have a dealer, Putnam Mutual Funds can refer you to one.

BUYING SHARES THROUGH PUTNAM MUTUAL FUNDS. Complete an order form and return it with a check payable to the Fund to Putnam Mutual Funds, which will act as your agent in purchasing shares through your designated investment dealer.

BUYING SHARES THROUGH SYSTEMATIC INVESTING. You can make regular investments of $25 or more per month through automatic deductions from your bank checking account. Application forms are available from your investment dealer or through Putnam Investor Services.

Shares are sold at the public offering price based on the net asset value next determined after Putnam Investor Services receives your order. In most cases, in order to receive that day's public offering price, Putnam Investor Services must receive your order before the close of regular trading on the New York Stock Exchange. If you buy shares through your investment dealer, the dealer must receive your order before the close of regular trading on the New York Stock Exchange to receive that day's public offering price.

CLASS A SHARES

The public offering price of Class A shares is the net asset value plus a sales charge. The Fund receives the net asset value. The sales charge varies depending on the size of your purchase and is allocated between your investment dealer and Putnam Mutual Funds. The current sales charges are:

<TABLE>
<CAPTION>

AMOUNT OF TRANSACTION AT OFFERING PRICE			SALES CHARGE AS A PERCENTAGE OF: NET AMOUNT INVESTED	OFFERING PRICE	AMOUNT OF SALES CHARGE REALLOWED TO DEALERS AS A PERCENTAGE OF OFFERING PRICE*
<C>	<C>	<C>	<C>	<C>	<C>
	Less than	$25,000	4.99%	4.75%	4.50%
$25,000	but less than	100,000		4.71	4.50 4.25
100,000	but less than	250,000	3.90	3.75	3.50
250,000	but less than	500,000	3.09	3.00	2.75
500,000	but less than	1,000,000	2.04	2.00	1.85

/TABLE

* At the discretion of Putnam Mutual Funds, however, the entire sales charge may at times be reallowed to dealers. The Staff of the Securities and Exchange Commission has indicated that dealers who receive more than 90% of the sales charge may be considered underwriters.

There is no initial sales charge on purchases of Class A shares of $1 million or more. However, a contingent deferred sales charge ("CDSC") of 1.00% or 0.50%, respectively, is imposed on redemptions of such shares within the first or second year after purchase, based on the lower of the shares' cost and current net asset value. Any shares acquired by reinvestment of distributions will be redeemed without a CDSC. In addition, shares purchased by certain investors investing $1 million or more that have made arrangements with Putnam Mutual Funds and whose dealer of record waived the commission described in the next paragraph are not subject to the CDSC. In determining whether a CDSC is payable, the Fund will first redeem shares not subject to any charge. Putnam Mutual Funds receives the entire amount of any CDSC you pay. See the Statement of Additional Information for more information about the CDSC.

Except as stated below, Putnam Mutual Funds pays investment dealers of record commissions on sales of Class A shares of $1 million or more based on an investor's cumulative purchases during the one-year period beginning with the date of the initial purchase at net asset value . Each subsequent one-year measuring period for these purposes will begin with the first net asset value purchase following the end of the prior period. Such commissions are paid at the rate of 1.00% of the amount under $3 million, 0.50% of the next $47 million and 0.25% thereafter. On sales at net asset value to a participant-directed qualified retirement plan initially investing less than $20 million in Putnam funds and other investments managed by Putnam Management or its affiliates (including a plan sponsored by an employer with more than 750 employees), Putnam Mutual Funds pays commissions on cumulative purchases during the life of the account at the rate of 1.00% of the amount under $3 million and 0.50% thereafter. On sales at net asset value to all other participant-directed qualified retirement plans, Putnam Mutual Funds pays commissions on the initial investment and on subsequent net quarterly sales at the rate of 0.15%.

YOU MAY BE ELIGIBLE TO BUY CLASS A SHARES AT REDUCED SALES CHARGES. Consult your investment dealer or Putnam Mutual Funds for details about Putnam's Combined Purchase Privilege, Cumulative Quantity Discount, Statement of Intention, Group Sales Plan, Employee Benefit Plans and other plans. Descriptions are also included in the order form and in the Statement of

Additional Information. Shares may be sold at net asset value to certain categories of investors, and the CDSC may be waived under certain circumstances. See "How to buy shares -- General" below.

CLASS B SHARES

Class B shares are sold without an initial sales charge, although a CDSC will be imposed if you redeem shares within six years of purchase. The following types of shares may be redeemed without charge at any time: (i) shares acquired by reinvestment of distributions and (ii) shares otherwise exempt from the CDSC, as described in "How to buy shares -- General" below. For other shares, the amount of the charge is determined as a percentage of the lesser of the current market value or the cost of the shares being redeemed. The amount of the CDSC will depend on the number of years since you invested and the dollar amount being redeemed, according to the following table:

YEARS SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE
0-1.................................	5.0%
1-2.................................	4.0%
2-3.................................	3.0%
3-4.................................	3.0%
4-5.................................	2.0%
5-6.................................	1.0%
6 and thereafter....................	NONE

In determining whether a CDSC is payable on any redemption, the Fund will first redeem shares not subject to any charge, and then shares held longest during the six-year period. For this purpose, the amount of any increase in a share's value above its initial purchase price is not regarded as a share exempt from the CDSC. Thus, when a share that has appreciated in value is redeemed during the six-year period, a CDSC is assessed on its initial purchase price. For information on how sales charges are calculated if you exchange your shares, see "How to exchange shares." Putnam Mutual Funds receives the entire amount of any CDSC you pay.

CONVERSION OF CLASS B SHARES. Class B shares will automatically convert into Class A shares at the end of the month eight years after the purchase date, except as noted below. Class B shares acquired by exchanging from Class B shares of another Putnam fund will convert into Class A shares based on the time of the initial purchase. Class B shares acquired through reinvestment of distributions will convert into Class A shares based on the date of the initial purchase to which such shares relate. For this purpose, Class B shares acquired through reinvestment of distributions will be attributed to particular purchases of Class B shares in accordance with such procedures as the Trustees may determine from time to time. The conversion of Class B shares to Class A shares is subject to the continuing availability of a ruling from the Internal Revenue Service or an opinion of counsel that such conversions will not constitute taxable events for Federal income tax purposes. There can be no assurance that such ruling or opinion will be available, and the conversion of Class B shares to Class A shares will not occur if such ruling or opinion is not available. In such event, Class B shares would continue to be subject to higher expenses than Class A shares for an indefinite period.

GENERAL

The Fund may sell Class A and Class B shares at net asset value without an initial sales charge or a CDSC to the Fund's current and retired Trustees (and their families), current and retired employees (and their families) of Putnam Management and affiliates, registered representatives and other employees (and their families) of broker-dealers having sales agreements with Putnam Mutual Funds, employees (and their families) of financial institutions having sales agreements with Putnam Mutual Funds (or otherwise having an arrangement with a broker-dealer or financial institution with respect to sales of Fund shares), financial institution trust departments investing an aggregate of $1 million or more in Putnam funds, clients of certain administrators of tax-qualified plans, employee benefit plans of companies with more than 750 employees, tax-qualified plans when proceeds from repayments of loans to participants are invested (or reinvested) in Putnam funds, "wrap accounts" for the benefit of clients of broker-dealers, financial institutions or financial planners adhering to certain standards established by Putnam Mutual Funds, and investors meeting certain requirements who sold shares of certain Putnam closed-end funds pursuant to a tender offer by the closed-end fund. In addition, the Fund may sell shares at net asset value without an initial sales charge or a CDSC in connection with the acquisition by the Fund of assets of an investment company or personal holding company, and the CDSC will be waived on redemptions of shares arising out of death or disability or in connection with certain withdrawals from IRA or other retirement plans. Up to 12% of the value of Class B shares subject to a Systematic Withdrawal Plan may also be redeemed each year without a CDSC. See the Statement of Additional Information.

Shareholders of other Putnam funds may be entitled to exchange their shares for, or reinvest distributions from their funds in, shares of the Fund at net asset value.

If you are considering redeeming or exchanging shares or transferring shares to another person shortly after purchase, you should pay for those shares with a certified check to avoid any delay in redemption, exchange or transfer. Otherwise the Fund may delay payment until the purchase price of those shares has been collected or, if you redeem by telephone, until 15 calendar days after the purchase date.

To eliminate the need for safekeeping, the Fund will not issue certificates for your shares unless you request them. Putnam Mutual Funds may, at its expense, provide additional promotional incentives or payments to dealers that sell shares of the Putnam funds. In some instances, these incentives or payments may be offered only to certain dealers who have sold or may sell significant amounts of shares. Certain dealers may not sell all classes of shares.

DISTRIBUTION PLANS

CLASS A DISTRIBUTION PLAN. The Class A Plan provides for payments by the Fund to Putnam Mutual Funds at the annual rate of up to 0.35% of the Fund's average net assets attributable to Class A shares . The Trustees currently limit payments under the Class A Plan to the annual rate of 0.20% of such assets . Should the Trustees decide in the future to approve payments in excess of this amount, shareholders will be notified and this Prospectus revised.

In order to compensate investment dealers (including, for this purpose, certain financial institutions) for services provided in connection with sales of Class A shares and the maintenance of shareholder accounts, Putnam Mutual Funds makes quarterly payments to qualifying dealers based on the average net asset value of Class A shares of the Fund which are attributable to shareholders for whom the dealers are designated as the dealer of record. This calculation excludes until one year after purchase shares purchased at net asset value by shareholders investing $1 million or more and by participant-directed qualified retirement plans sponsored by employers with more than 750 employees ("NAV Shares"), except for shares owned by certain investors investing $1 million or more that have made arrangements with Putnam Mutual Funds and whose dealer of record waived the sales commission. Except as stated below, Putnam Mutual Funds makes such payments at the annual rate of 0.15% of such average net asset value for Class A shares outstanding as of March 5, 1993 and 0.20% of such average net asset value of shares acquired after that date (including shares acquired through reinvestment of distributions). For participant-directed qualified retirement plans initially investing less than $20 million in Putnam funds and other investments managed by Putnam Management or its affiliates, Putnam Mutual Funds' payments to qualifying dealers on NAV Shares are 100% of the rate stated above if average plan assets in Putnam funds (excluding money market funds) during the quarter are less than $20 million, 60% of the stated rate if average plan assets are at least $20 million but less than $30 million, and 40% of the stated rate if average plan assets are $30 million or more. For all other participant-directed qualified retirement plans purchasing NAV Shares, Putnam Mutual Funds makes quarterly payments to qualifying dealers at the annual rate of 0.10% of the average net asset value of such shares.

CLASS B DISTRIBUTION PLAN. The Class B Plan provides for payments by the Fund to Putnam Mutual Funds at the annual rate of up to 1.00% of the Fund's average net assets attributable to Class B shares . The Trustees currently limit payments under the Class B Plan to the annual rate of 0.85% of such assets. Should the Trustees decide in the future to approve payments in excess of this amount, shareholders will be notified and this Prospectus will be revised.

Although Class B shares are sold without an initial sales charge, Putnam Mutual Funds pays a sales commission equal to 4.00% of the amount invested (including a prepaid service fee of 0.20% of the amount invested) to dealers who sell Class B shares. These commissions are not paid on exchanges from other Putnam funds and sales to investors exempt from the CDSC. In addition, in order to further compensate dealers (including, for this purpose, certain financial institutions) for services provided in connection with sales of Class B shares and the maintenance of shareholder accounts, Putnam Mutual Funds makes quarterly payments to qualifying dealers based on the average net asset value of Class B shares which are attributable to shareholders for whom the dealers are designated as the dealer of record, except for the first year's service fees, which are prepaid as described above. Putnam Mutual Funds makes such payments at an annual rate of 0.20% of such average net asset value of such shares.

GENERAL. Payments under the Plans are intended to compensate Putnam Mutual Funds for services provided and expenses incurred by it as principal underwriter of the Fund's shares, including the payments to dealers mentioned above. Putnam Mutual Funds may suspend or modify such payments to dealers . Such payments are also subject to the continuation of the relevant Distribution Plan , the terms of Service Agreements between dealers and Putnam Mutual Funds, and any applicable limits imposed by the National Association of Securities Dealers, Inc.

HOW TO SELL SHARES

You can sell your shares to the Fund any day the New York Stock Exchange is open, either directly to the Fund or through your investment dealer. The Fund will only redeem shares for which it has received payment.

SELLING SHARES DIRECTLY TO THE FUND. Send a signed letter of instruction or stock power form to Putnam Investor Services, along with any certificates that represent shares you want to sell. The price you will receive is the next net asset value calculated after the Fund receives your request in proper form less any applicable CDSC. In order to receive that day's net asset value, Putnam Investor Services must receive your request before the close of regular trading on the New York Stock Exchange. If you sell shares having a net asset value of $100,000 or more, the signatures of registered owners or their legal representatives must be guaranteed by a bank, broker-dealer or certain other financial institutions. See the Statement of Additional Information for more information about where to obtain a signature guarantee. Stock power forms are available from your investment dealer, Putnam Investor Services and many commercial banks. If you want your redemption proceeds sent to an address other than your address as it appears on Putnam's records, a signature guarantee is required. Putnam Investor Services usually requires additional documentation for the sale of shares by a corporation, partnership, agent or fiduciary, or a surviving joint owner. Contact Putnam Investor Services for details.

THE FUND GENERALLY SENDS YOU PAYMENT FOR YOUR SHARES THE BUSINESS DAY AFTER YOUR REQUEST IS RECEIVED. Under unusual circumstances, the Fund may suspend redemptions , or postpone payment for more than seven days, as permitted by federal securities law.

You may use Putnam's Telephone Redemption Privilege to redeem shares valued up to $100,000 from your account, unless you have notified Putnam Investor Services of an address change within the preceding 15 days. Unless an investor indicates otherwise on the Account Application, Putnam Investor Services will be authorized to act upon redemption and transfer instructions received by telephone from a shareholder, or any person claiming to act as his or her representative, who can provide Putnam Investor Services with his or her account registration and address as it appears on Putnam Investor Services' records. Putnam Investor Services will employ these and other reasonable procedures to confirm that instructions communicated by telephone are genuine; if it fails to employ reasonable procedures, Putnam Investor Services may be liable for any losses due to unauthorized or fraudulent instructions. For information, consult Putnam Investor Services. During periods of unusual market changes and shareholder activity, you may experience delays in contacting

Putnam Investor Services by telephone in which case you may wish to submit a written redemption request, as described above, or contact your investment dealer, as described below. The Telephone Redemption Privilege is not available if you were issued certificates for your shares which remain outstanding. The Telephone Redemption Privilege may be modified or terminated without notice.

SELLING SHARES THROUGH YOUR INVESTMENT DEALER. Your dealer must receive your request before the close of regular trading on the New York Stock Exchange to receive that day's net asset value. Your dealer will be responsible for furnishing all necessary documentation to Putnam Investor Services, and may charge you for its services.

HOW TO EXCHANGE SHARES

You can exchange your shares for shares of the same class of certain other Putnam funds at net asset value beginning 15 days after purchase. If you exchange shares subject to a CDSC, the transaction will not be subject to the CDSC. However, when you redeem the shares acquired through the exchange, the redemption may be subject to the CDSC, depending upon when you originally purchased the shares and using the schedule of any fund into or from which you have exchanged your shares that would result in your paying the highest CDSC applicable to your class of shares. For purposes of computing the CDSC, the length of time you have owned your shares will be measured from the date of original purchase and will not be affected by any exchange. The exchange of your shares for shares of another Putnam fund will be a taxable transaction and will generally give rise to capital gain or capital loss.

To exchange your shares, simply complete an Exchange Authorization Form and send it to Putnam Investor Services. Exchange Authorization Forms are available by calling or writing Putnam Investor Services. For federal income tax purposes, an exchange is treated as a sale of shares and generally results in a capital gain or loss. A Telephone Exchange Privilege is currently available for amounts up to $500,000. Putnam Investor Services' procedures for telephonic transactions are described above under "How to sell shares." The Telephone Exchange Privilege is not available if you were issued certificates for shares which remain outstanding. Ask your investment dealer or Putnam Investor Services for prospectuses of other Putnam funds. Shares of certain Putnam funds are not available to residents of all states.

The exchange privilege is not intended as a vehicle for short-term trading. Excessive exchange activity may interfere with portfolio management and have an adverse effect on all shareholders. In order to limit excessive exchange activity and in other circumstances where Putnam Management or the Trustees believe doing so would be in the best interests of the Fund, the Fund reserves the right to revise or terminate the exchange privilege, limit the amount or number of exchanges or reject any exchange. Shareholders would be notified of any such action to the extent required by law. Consult Putnam Investor Services before requesting an exchange. See the Statement of Additional Information to find out more about the exchange privilege.

HOW THE FUND VALUES ITS SHARES

THE FUND CALCULATES THE NET ASSET VALUE OF A SHARE OF EACH CLASS BY DIVIDING THE TOTAL VALUE OF ITS ASSETS, LESS LIABILITIES, BY THE NUMBER OF ITS SHARES OUTSTANDING. SHARES ARE VALUED AS OF THE CLOSE OF REGULAR TRADING ON THE NEW YORK STOCK EXCHANGE EACH DAY THE EXCHANGE IS OPEN. Tax exempt securities (including Arizona Tax Exempt Securities) are stated on the basis of valuations provided by a pricing service approved by the Trustees, which uses information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. The Fund believes that reliable market quotations are generally not readily available for purposes of valuing its portfolio securities. As a result, it is likely that most of the valuations provided by such pricing service will be based upon fair value determined on the basis of the factors listed above. Non-tax exempt securities for which market quotations are readily available are valued at market value. Short-term investments that will mature in 60 days or less are valued at amortized cost, which approximates market value. All other securities and assets are valued at their fair value following procedures approved by the Trustees.

HOW DISTRIBUTIONS ARE MADE; TAX INFORMATION

The Fund declares all of its net interest income as a distribution on each day it is open for business. Normally, the Fund pays distributions of net interest income monthly. The Fund will distribute at least annually all net realized capital gains, if any, after applying any available capital loss carryovers. Distributions paid by the Fund with respect to Class A shares will generally be greater than those paid with respect to Class B shares because expenses attributable to Class B shares will generally be higher.

You begin earning distributions on the business day after Putnam Mutual Funds receives payment for your shares. It is your responsibility to see that your dealer forwards payments promptly.

YOU CAN CHOOSE FROM THREE DISTRIBUTION OPTIONS: (1) reinvest all distributions in additional Fund shares without a sales charge; (2) receive distributions from net investment income in cash while reinvesting capital gains distributions in additional shares without a sales charge; or (3) receive all distributions in cash. You can change your distribution option by notifying Putnam Investor Services in writing. If you do not select an option when you open your account, all distributions will be reinvested. All distributions not paid in cash will be reinvested in shares of the class on which the distributions are paid. You will receive a statement confirming reinvestment of distributions in additional Fund shares (or in shares of other Putnam funds for Dividends Plus accounts) promptly following the quarter in which the reinvestment occurs.

If a check representing a Fund distribution is not cashed within a specified period, Putnam Investor Services will notify you that you have the option of requesting another check or reinvesting the distribution in the Fund or in another Putnam fund. If Putnam Investor Services does not receive your election, the distribution will be reinvested in the Fund. Similarly, if correspondence sent by the Fund or Putnam Investor Services is returned as "undeliverable," Fund distributions will automatically be reinvested in the Fund or in another Putnam fund.

FEDERAL TAXES

The Fund intends to qualify as a "regulated investment company" for federal income tax purposes and to meet all other requirements that are necessary for the Fund to be relieved of federal taxes on income and gains it distributes to shareholders. The Fund will distribute substantially all of its ordinary income and capital gain net income on a current basis.

Distributions designated by the Fund as "exempt-interest dividends" are not generally subject to federal income tax. However, if you receive Social Security or railroad retirement benefits, you should consult your tax adviser to determine what effect, if any, an investment in the Fund may have on the taxation of your benefits. In addition, an investment in the Fund may result in liability for federal alternative minimum tax and for state and local taxes, both for individual and corporate shareholders.

The Fund may at times purchase Arizona Tax Exempt Securities at a discount from the price at which they were originally issued, especially during periods of rising interest rates. For federal income tax purposes, some or all of this market discount will be included in the Fund's ordinary income and will be taxable to shareholders as such when it is distributed to them.

All Fund distributions other than exempt-interest dividends will be taxable to you as ordinary income, except that any distributions of net long-term capital gains will be taxable to you as such, regardless of how long you have held your shares. Distributions will be taxable as described above whether received in cash or in shares through reinvestment of distributions.

Early in each year the Fund will notify you of the amount and tax status of distributions paid to you by the Fund for the preceding year.

ARIZONA TAXES

To the extent distributions by the Fund are derived from interest income with respect to U.S. Treasury securities or, as described below, Arizona Tax Exempt Securities , such distributions will be exempt from Arizona state income tax. "Arizona Tax Exempt Securities " means obligations of the State of Arizona, its political subdivisions and their agencies or instrumentalities and other governmental units, the interest with respect to which, in the opinion of bond counsel rendered on the date of original issuance, is exempt from federal income tax and Arizona state income tax (other than Arizona minimum corporate income tax). In addition, it is the published position of the Arizona Department of Revenue that distributions by a regulated investment company derived from certain other governmental obligations as to which federal law specifically precludes state taxation of interest received by a direct investor in such obligations are exempt from Arizona state income tax.

Some Arizona Tax Exempt Securities of Arizona issuers have a direct income tax exemption under Arizona law, independent of federal tax treatment. However, in most cases, interest with respect to Arizona Tax Exempt Securities of Arizona issuers is exempt from Arizona state income tax only so long as that interest is excluded from gross income for federal income tax purposes. Therefore, if interest with respect to Arizona Tax Exempt Securities of Arizona issuers held by the Fund ceases to be exempt from federal income tax (or is retroactively determined to be taxable under federal law), then, unless that obligation has an independent statutory tax exemption under Arizona law, distributions by the Fund derived from interest on that obligation will cease to be exempt from state income taxes (and, if interest on the obligation is determined to be taxable under federal law retroactive to any date, then those distributions may be considered not to have been exempt from state income taxes from that date).

For Arizona income tax purposes, dividends by the Fund, other than dividends exempt from Arizona state income tax, will be taxable as ordinary income, whether paid in cash or reinvested in additional shares. Under current Arizona income tax law, distributions of net capital gains earned by the Fund are not exempt from taxation and are taxed at ordinary income tax rates.

GENERAL

The foregoing is a summary of certain federal and state tax consequences of investing in the Fund. You should consult your tax adviser to determine the precise effect of an investment in the Fund on your particular tax situation (including possible liability for alternative minimum tax and for state and local taxes).

ABOUT PUTNAM INVESTMENTS, INC.

PUTNAM MANAGEMENT HAS BEEN MANAGING MUTUAL FUNDS SINCE 1937. Putnam Mutual Funds is the principal underwriter of the Fund and of other Putnam funds. Putnam Fiduciary Trust Company is the Fund's custodian. Putnam Investor Services, a division of Putnam Fiduciary Trust Company, is the Fund's investor servicing and transfer agent.

Putnam Management, Putnam Mutual Funds and Putnam Fiduciary Trust Company are subsidiaries of Putnam Investments, Inc., which is wholly-owned by Marsh & McLennan Companies, Inc., a publicly owned holding company whose principal businesses are international insurance and reinsurance brokerage, employee benefit consulting and investment management.

APPENDIX

SECURITIES RATINGS

THE FOLLOWING RATING SERVICES DESCRIBE RATED SECURITIES AS FOLLOWS :

MOODY'S INVESTORS SERVICE, INC.

BONDS

Aaa -- Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa -- Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high - grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A -- Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa -- Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba -- Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B -- Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

STANDARD & POOR'S CORPORATION

BONDS

AAA -- Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA -- Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

A -- Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB -- Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB -B -- Debt rated BB or B is regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

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MAKE THE MOST OF YOUR PUTNAM PRIVILEGES

As a Putnam mutual fund shareholder, you have access to a number of services that can help you build a more effective and flexible financial program. Here are some of the ways you can use these privileges to make the most of your Putnam mutual fund investment

SYSTEMATIC INVESTMENT PLAN

Invest as much as you wish ($25 or more) on any day of the month except for the 29th, 30th, or 31st. The amount will be automatically transferred from your checking or savings account.

SYSTEMATIC WITHDRAWAL

Make regular withdrawals of $50 or more monthly, quarterly, or semiannually from an account valued at $10,000 or more. You may establish your withdrawal on any day of the month except for the 29th, 30th, or 31st.

SYSTEMATIC EXCHANGE

Transfer assets automatically from one Putnam account to another on a regular, prearranged basis. There is no additional charge for this service.

FREE EXCHANGE PRIVILEGE

Exchange money between Putnam funds in the same class of shares without charge. The exchange privilege allows you to adjust your investments as your objectives change. A signature guarantee is required for exchanges of more than $500,000.

DIVIDENDS PLUS

Diversify your portfolio by investing dividends and other distributions from one Putnam fund automatically into another at net asset value.

STATEMENT OF INTENTION

To reduce a front-end sales charge, you agree to invest a minimum dollar amount over 13 months. Depending on your fund, the minimum is $25,000, $50,000, or $100,000. Whenever you make an investment under this arrangement, you or your investment advisor should notify Putnam that a Statement of Intention is in effect.

Investors may not maintain, within the same fund, simultaneous plans for systematic investment or exchange and systematic withdrawal or exchange or termination. These privileges are subject to change or termination.

For more information about any of these services and privileges, call your investment advisor or a Putnam customer service representative toll free at 1-800-225-1581.

Putnam Family of Funds

PUTNAM GROWTH FUNDS

Putnam Asia Pacific Growth Fund
Putnam Capital Appreciation Fund
Putnam Diversified Equity Trust
Putnam Europe Growth Fund
Putnam Global Growth Fund
Putnam Health Sciences Trust
Putnam Investors Fund
Putnam Natural Resources Fund
Putnam New Opportunities Fund
Putnam OTC Emerging Growth Fund
Putnam Overseas Growth Fund
Putnam Vista Fund
Putnam Voyager Fund

PUTNAM GROWTH AND INCOME FUNDS

Putnam Convertible Income-Growth Trust
Putnam Dividend Growth Fund
Putnam Equity Income Fund
The George Putnam Fund of Boston
The Putnam Fund for Growth and Income
Putnam Managed Income Trust
Putnam Utilities Growth and Income Fund

PUTNAM INCOME FUNDS

Putnam Adjustable Rate U.S. Government Fund
Putnam American Government Income Fund
Putnam Balanced Government Fund
Putnam Corporate Asset Trust
Putnam Diversified Income Trust
Putnam Federal Income Trust
Putnam Global Governmental Income Trust
Putnam High Yield Advantage Fund
Putnam High Yield Trust

Putnam Income Fund
Putnam U.S. Government Income Trust

PUTNAM TAX-FREE INCOME FUNDS

Putnam Intermediate Tax Exempt Fund
Putnam Municipal Income Fund
Putnam Tax Exempt Income Fund
Putnam Tax-Free High Yield Fund
Putnam Tax-Free Insured Fund
Putnam State tax-free income funds*
Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania

LIFESTAGE(SM) FUNDS
Putnam Asset Allocation Funds -- three investment portfolios that spread your money across a variety of stocks, bonds, and money market investments seeking to help maximize your return and reduce your risk.

The three portfolios:
Balanced Portfolio
Conservative Portfolio
Growth Portfolio

PUTNAM MONEY MARKET FUNDS:
Putnam Money Market Fund+
Putnam California Tax Exempt Money Market Fund
Putnam New York Tax Exempt Money Market Fund
Putnam Tax Exempt Money Market Fund

*Not available in all states.
+Formerly Putnam Daily Dividend Trust.

Please call your financial advisor or Putnam to obtain a prospectus for any Putnam fund. It contains more complete information, including charges and expenses. Read it carefully before you invest or send money.

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PUTNAM ARIZONA TAX EXEMPT INCOME FUND

One Post Office Square
Boston, MA 02109

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

INVESTOR SERVICING AGENT

Putnam Investor Services
Mailing address:
P.O. Box 41203
Providence, RI 02940-1203

CUSTODIAN

Putnam Fiduciary Trust Company
One Post Office Square
Boston, MA 02109

LEGAL COUNSEL
Ropes & Gray
One International Place
Boston, MA 02110

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P.
One Post Office Square
Boston, MA 02109

PUTNAMINVESTMENTS
One Post Office Square
Boston, Massachusetts 02109
Toll-Free 1-800-225-1581

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

FORM N-1A
PART B

STATEMENT OF ADDITIONAL INFORMATION
JANUARY 1,

1995

This Statement of Additional Information is not a Prospectus and is only authorized for distribution when accompanied or preceded by the Prospectus of the Fund dated January 1, 1995 , as revised from time to time. This Statement contains information which may be useful to investors but which is not included in the Prospectus. If the Fund has more than one form of current Prospectus, each reference to the Prospectus in this Statement shall include all of the Fund's Prospectuses, unless otherwise noted. The Statement should be read together with the applicable Prospectus. Investors may obtain a free copy of the applicable Prospectus from Putnam Investor Services, Mailing address: P.O. Box 41203, Providence, RI 02940-1203.

Part I of this Statement contains specific information about the Fund. Part II includes information about the Fund and the other Putnam funds.

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PUTNAM ARIZONA TAX EXEMPT INCOME FUND
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PART I

ARIZONA TAX EXEMPT SECURITIES

GENERAL DESCRIPTION. As used in the Prospectus and in this Statement, the term "Arizona Tax Exempt Securities" includes obligations of the State of Arizona, its political subdivisions and their agencies, instrumentalities and other governmental units (for example, counties, cities, towns, special districts and authorities), the interest with respect to which is, in the opinion of bond counsel, exempt from federal income tax and Arizona state income tax (other than Arizona minimum corporate income tax and federal alternative minimum tax). Such obligations are issued to obtain funds for various public purposes, including the construction of a wide range of public facilities, such as airports, bridges, highways, housing, hospitals, mass transportation, schools, streets and water and sewer works. Other public purposes for which Arizona Tax Exempt Securities may be issued include the refunding of outstanding obligations or obtaining funds for general operating expenses. Short-term Arizona Tax Exempt Securities may be issued as interim financing in anticipation of tax collections, revenue receipts, or bond sales to finance such public purposes. In addition, certain types of "private activity" bonds may be issued by public authorities to finance such projects as privately operated housing facilities and certain local facilities for water supply, gas, electricity or sewage or solid waste disposal, student loans, or the obtaining of funds to lend to public or private institutions for the construction of facilities such as educational, hospital and housing facilities. Such obligations are included within the term Arizona Tax Exempt Securities if the interest paid thereon is, in the opinion of bond counsel, exempt from federal income tax (such interest may, however, be subject to federal alternative minimum tax and Arizona minimum corporate income tax.) Other types of private activity bonds, the proceeds of which are used for the construction, repair or improvement of, or to obtain equipment for, privately operated industrial or commercial facilities, may constitute Arizona Tax Exempt Securities, although the current federal tax laws place substantial limitations on the size of such issues. Arizona Tax Exempt Securities also include short-term notes, which are promissory notes issued by municipalities to enhance their cash flows.

STAND-BY COMMITMENTS. When the Fund purchases Arizona Tax Exempt Securities, it has the authority to acquire stand-by commitments from banks and broker-dealers with respect to those Arizona Tax Exempt Securities. A stand-by commitment may be considered a security independent of the Arizona Tax Exempt Security to which it relates. The amount payable by a bank or dealer during the time a stand-by commitment is exercisable, absent unusual circumstances, would be substantially the same as the market value of the underlying Arizona Tax Exempt Security to a third party at any time. The Fund expects that stand-by commitments generally will be available without the payment of direct or indirect consideration. The Fund does not expect to assign any value to stand-by commitments.

YIELDS. The yields on Arizona Tax Exempt Securities depend on a variety of factors, including general money market conditions, effective marginal tax rates, the financial condition of the issuer, general conditions of the Arizona Tax Exempt Security market, the size of a particular offering, the maturity of the obligation and the rating of the issue. The ratings of Moody's Investors Service, Inc., and Standard & Poor's Corporation represent their opinions as to the quality of the Arizona Tax Exempt Securities which they undertake to rate. It should be emphasized, however, that ratings are general and are not absolute standards of quality. Consequently, Arizona Tax Exempt Securities with the same maturity and interest rate but with different ratings may have the same yield. Yield disparities may occur for reasons not directly related to the investment quality of particular issues or the general movement of interest rates, due to such factors as changes in the overall demand or supply of various types of Arizona Tax Exempt Securities or changes in the investment objectives of investors. Subsequent to purchase by the Fund, an issue of Arizona Tax Exempt Securities or other investments may cease to be rated or its rating may be reduced below the minimum rating required for purchase by the Fund. Neither event will require the elimination of an investment from the Fund's portfolio, but Putnam Management will consider such an event in its determination of whether the Fund should continue to hold an investment in its portfolio.

ADDITIONAL RISKS. Securities in which the Fund may invest, including Arizona Tax Exempt Securities, are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the federal Bankruptcy Code, and laws, if any, which may be enacted by Congress or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of such obligations. There is also the possibility that as a result of litigation or other conditions the power or ability of issuers to meet their obligations for the payment of interest and principal on their Arizona Tax Exempt Securities may be materially affected.

From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on debt obligations issued by states and their political subdivisions and instrumentalities. Federal tax laws limit the types and amounts of tax-exempt bonds issuable for certain purposes, especially industrial development bonds and private activity bonds. Such limits may affect the future supply and yields of these types of Arizona Tax Exempt Securities. Further proposals limiting the issuance of tax-exempt bonds may well be introduced in the future. If it appeared that the availability of Arizona Tax Exempt Securities for investment by the Fund and the value of the Fund's portfolio could be materially affected by such changes in law, the Trustees of the Fund would reevaluate its investment objective and policies and consider changes in the structure of the Fund or its dissolution.

INVESTMENT RESTRICTIONS OF THE FUND

As fundamental investment restrictions, which may not be changed without a vote of a majority of the outstanding voting securities, the Fund may not and will not:

(1) Borrow money in excess of 10% of the value (taken at the lower of cost or current value) of its total assets (not including the amount borrowed) at the time the borrowing is made, and then only from banks as a temporary measure to facilitate the meeting of redemption requests (not for leverage) which might otherwise require the untimely disposition of portfolio investments or for extraordinary or emergency purposes. Such borrowings will be repaid before any additional investments are purchased.

(2) Pledge, hypothecate, mortgage, or otherwise encumber its assets in excess of 15% of its total assets (taken at the lower of cost or current value) in connection with borrowings permitted by restriction 1 above.

(3) Purchase securities on margin, except such short-term credits as may be necessary for the clearance of purchases and sales of securities, and except that it may make margin payments in connection with futures contracts and options.

(4) Make short sales of securities or maintain a short sale position for the account of the Fund unless at all times when a short position is open it owns an equal amount of such securities or owns securities which, without payment of any further consideration, are convertible into or exchangeable for securities of the same issue as, and equal in amount to, the securities sold short.

(5) Underwrite securities issued by other persons except to the extent that, in connection with the disposition of its portfolio investments, it may be deemed to be an underwriter under certain federal securities laws.

(6) Purchase or sell real estate, although it may purchase securities of issuers which deal in real estate, securities which are secured by interests in real estate, and securities which represent interests in real estate, and it may acquire and dispose of real estate or interests in real estate acquired through the exercise of its rights as a holder of debt obligations secured by real estate or interests therein.

(7) Purchase or sell commodities or commodity contracts, except

that the Fund may purchase and sell financial futures contracts and related options.

(8) Make loans, except by purchase of debt obligations in which the Fund may invest consistent with its investment policies, or by entering into repurchase agreements with respect to not more than 25% of its total assets (taken at current value) or through the lending of its portfolio securities with respect to not more than 25% of its assets.

(9) Invest in securities of any issuer if, to the knowledge of the Fund, officers and Trustees of the Fund and officers and directors of Putnam Management who beneficially own more than 0.5% of the shares or securities of that issuer together own more than 5%.

(10) With respect to 50% of its total assets, invest in securities of any issuer if, immediately after such investment, more than 5% of the total assets of the Fund (taken at current value) would be invested in the securities of such issuer; provided that this limitation does not apply to obligations issued or guaranteed as to interest or principal by the U.S. government or its agencies or instrumentalities.

(11) Acquire more than 10% of the voting securities of any issuer.

(12) Purchase securities (other than securities of the U.S. government, its agencies or instrumentalities or Arizona Tax Exempt Securities, except obligations backed only by the assets and revenues of nongovernmental issuers) if, as a result of such purchase, more than 25% of the Fund's total assets would be invested in any one industry.

(13) Invest in the securities of other registered investment companies, except by purchase in the open market including only customary brokers' commissions, and except as they may be acquired as part of a merger or consolidation or acquisition of assets.

(14) Purchase securities restricted as to resale, if, as a result, such investments would exceed 5% of the value of the Fund's net assets.

(15) Make investments for the purpose of gaining control of a company's management.

(16) Issue any class of securities which is senior to the Fund's shares of beneficial interest.

IT IS CONTRARY TO THE FUND'S PRESENT POLICY, WHICH MAY BE CHANGED WITHOUT SHAREHOLDER APPROVAL, TO:

(1) Invest in (a) securities which at the time of such investment are not readily marketable, (b) securities restricted as to resale (excluding securities determined by the Trustees of the Fund (or the person designated by the Trustees of the Fund to make such determinations) to be readily marketable), and (c) repurchase agreements maturing in more than seven days, if, as a result, more than 15% of the Fund's net assets (taken at current value) would be invested in securities described in (a), (b) and (c) above.

(2) Invest in securities of any issuer if the party responsible for payment, together with any predecessors, has been in operation for less than three consecutive years and, as a result of the investment, the aggregate of such investments would exceed 5% of the value of the Fund's net assets; provided, however, that this restriction shall not apply to any obligation of the United States or its agencies or instrumentalities, or to any general obligation for the payment of which is pledged the faith, credit and taxing power of any person authorized to issue Arizona Tax Exempt Securities.

Although certain of the Fund's fundamental investment restrictions permit the Fund to borrow money to a limited extent, the Fund does not currently intend to do so and did not do so last year.

All percentage limitations on investments will apply at the time of the making of an investment and shall not be considered violated unless an excess or deficiency occurs or exists immediately after and as a result of such investment.

The Investment Company Act of 1940 provides that a "vote of a majority of the outstanding voting securities" of the Fund 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 a meeting if more than 50% of the outstanding shares are represented at the meeting in person or by proxy.

FUND CHARGES AND EXPENSES

MANAGEMENT FEES

Under a Management Contract dated March 5, 1992, the Fund pays a quarterly fee to Putnam Management based on the average net assets of the Fund, as determined at the close of each business day during the quarter, at an annual rate of 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. For its 1992, 1993 and 1994 fiscal years, pursuant to the Management Contract (and a management contract in effect prior to March 5, 1992, under which the management fee payable to Putnam Management was paid at the rate of 0.60% of the first $100 million of average net assets, 0.50% of the next $100 million, 0.40% of the next $300 million, 0.325% of the next $500 million and 0.30% of any amount over $1 billion), the Fund incurred fees of $150,227 , $690,438 and $952,641 , respectively, reflecting a reduction of $257,680 in fiscal 1992 and $5,850 in fiscal 1993 pursuant to an expense limitation then in effect.

BROKERAGE COMMISSIONS

During fiscal 1994, the Fund did not incur any brokerage commissions with respect to agency transactions . During fiscal 1992 and 1993 the Fund incurred brokerage commissions aggregating $728 and $15,099, respectively, on agency transactions. In fiscal 1992 , 1993 and 1994 , the Fund incurred underwriting commissions aggregating $137,200 , $69,575 and $235,801 , respectively, on underwritten transactions.

ADMINISTRATIVE EXPENSE REIMBURSEMENT

The Fund reimbursed Putnam Management $7,845 for administrative services in fiscal 1994, including $7,265 for the compensation of certain officers of the Fund and their staff and contributions to the Putnam Investments, Inc. Profit Sharing Retirement Plan for their benefit.

TRUSTEE FEES

Each Trustee of the Fund receives an annual fee of $710 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 Fund incurred Trustees' fees aggregating $12,739 in fiscal 1994 .

OWNERSHIP OF FUND SHARES

At November 30, 1994 the officers and Trustees of the Fund as a group owned less than 1% of the outstanding shares of any class of the Fund, and to the knowledge of the Fund no person owned of record or beneficially 5% or more of shares of any class of the Fund, except that Merrill Lynch, Pierce, Fenner & Smith, Inc., P.O. Box 30561, New Brunswick, NJ 08989, owned of record 7.0% of the Class A shares and 5.9% of the Class B shares of the Fund.

CLASS A SALES CHARGES, CONTINGENT DEFERRED SALES CHARGES AND 12B-1 FEES

During fiscal 1992 , 1993 and 1994 , Putnam Mutual Funds received $1,735,290 , $1,896,011 and $894,004 , respectively, in sales charges on sales of Class A shares of the Fund, of which it retained $109,612 , $89,369 and $59,472 , respectively, after allowance of dealer concessions. During fiscal 1992 and 1993, Putnam Mutual Funds did not receive any contingent deferred sales charges upon redemptions of Class A shares of the Fund. During fiscal 1994, Putnam Mutual Funds received $1,639 in contingent deferred sales charges upon redemptions of Class A shares of the Fund. During fiscal 1994 , the Fund incurred

$298,388 in 12b-1 fees to Putnam Mutual Funds pursuant to the Fund's Class A Distribution Plan.

CLASS B CONTINGENT DEFERRED SALES CHARGES AND 12B-1 FEES

During fiscal 1993, Putnam Mutual Funds did not receive any contingent deferred sales charges upon redemptions of Class B shares of the Fund. During fiscal 1994, Putnam Mutual Funds received $309,154 in contingent deferred sales charges upon redemptions of Class B shares of the Fund. During fiscal 1994 , the Fund incurred $89,828 in 12b-1 fees to Putnam Mutual Funds pursuant to the Fund's Class B Distribution Plan.

INVESTOR SERVICING AND CUSTODY FEES AND EXPENSES

During the 1994 fiscal year the Fund incurred $150,973 in fees and out-of-pocket expenses for investor servicing and custody services provided by Putnam Fiduciary Trust Company.

INVESTMENT PERFORMANCE OF THE FUND

STANDARD PERFORMANCE MEASURES

The tax-exempt yield for Class A shares for the thirty-day period ended August 31, 1994 was 5.27% . A shareholder in a 43.77% combined federal and Arizona tax bracket would have to earn 9.37% from a taxable investment to produce an after-tax yield equal to a tax-exempt yield of 5.27%. The average annual total return (compounded annually) for Class A shares for the one-year period ended August 31, 1994 and for the life of the class through August 31, 1994 was -5.75% and +6.29% , respectively, adjusted to reflect deduction of the maximum sales charge of 4.75%. The tax-exempt yield for Class B shares for the thirty-day period ended August 31, 1994 was 4.82% . A shareholder in a 43.77% combined federal and Arizona tax bracket would have to earn 8.57% from a taxable investment to produce an after-tax yield equal to a tax-exempt yield of 4.82%. The average annual total return (compounded annually) for Class B shares for the one-year period ended August 31, 1994 and for the life of the class through August 31, 1994 was -6.46% and - -3.66%, respectively , adjusted to reflect the deduction of the applicable contingent deferred sales charge. The maximum contingent deferred sales charge is 5.0%. See "Other Performance Information" below for the inception date of each class . See "Standard Performance Measures" in Part II of this Statement for information on how the Fund's tax-exempt yield, total return, and tax-equivalent yield are calculated.

PERFORMANCE RATINGS

For the 1994 fiscal year, the Class A shares were ranked 12 of 20 Arizona municipal debt funds by Lipper Analytical Services, Inc . and 395 of 666 municipal single state funds by CDA/Wiesenberger's Management Results. As of the end of the fiscal year, Class A shares were given a 3-star rating (out of 5 stars) by Morningstar, Inc. For the 1994 fiscal year, the Class B shares were ranked 15 of 20 Arizona municipal debt funds by Lipper Analytical Services, Inc. and 486 of 666 municipal single state funds by CDA/Wiesenberger's Management Results . See "Comparison of Portfolio Performance" in Part II of this Statement for information about how these rankings and ratings are determined. Past performance is no guarantee of future results.

OTHER PERFORMANCE INFORMATION

The tables below show total return (capital changes plus reinvestment of all distributions) on a hypothetical investment in one share of the Fund during the life of the Fund. This was a period of fluctuating security prices. The tables do not project the future performance of the Fund.

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CLASS A SHARES

DISTRIBUTIONS CUMULATIVE
MAXIMUM NET ASSET ------------------ ------------------ ---
NET ASSET VALUE

FISCAL YEAR ENDED	OFFERING PRICE AT BEGINNING OF YEAR	VALUE BEGINNING OF YEAR	END OF YEAR	FROM INVESTMENT INCOME	FROM CAPITAL GAINS	IN EXCESS OF NET REALIZED GAIN ON INVESTMENTS	AT YEAR-END WITH ALL DISTRIBUTIONS REINVESTED
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
8/31/91(1)	$8.92	$8.50	$8.66	$0.33	--	--	$9.00
8/31/92	9.09	8.66	9.07	0.57	$0.013	--	10.06
8/31/93	9.52	9.07	9.47	0.55	0.057	--	11.22
8/31/94	9.94	9.47	8.84	0.50	--	$0.030	11.10
Total distributions				$1.95	$0.070	$0.030	

(1) Investment operations began January 30 , 1991.
</TABLE>

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PERCENTAGE CHANGES DURING LIFE OF CLASS A SHARES

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

FISCAL YEAR ENDED	MAXIMUM OFFERING PRICE TO NET ASSET VALUE ANNUAL	CUMULA-TIVE	NET ASSET VALUE TO NET ASSET VALUE ANNUAL	CUMULA-TIVE	LEHMAN BROTHERS MUNICIPAL BOND INDEX ANNUAL	CUMULA-TIVE	CONSUMER PRICE INDEX ANNUAL	CUMULA-TIVE				
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>				
8/31/91 (1)	-	--	+0.9%		-- -	+5.8%	- --		+5.7%	--	-	+1.5%
8/31/92	+6.6%	+12.8	+11.9%	+18.4	+11.2%	+17.5	+3.2%	+4.7				
8/31/93	+6.3	+25.8	+11.5	+32.1	+12.2	+31.8	+2.8	+7.6				
8/31/94	-5.8	+24.5	-1.1	+30.6	+0.1	+32.0	+2.9	+10.7				

(1) Investment operations began January 30 , 1991.
</TABLE>

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CLASS B SHARES

FISCAL YEAR ENDED	NET ASSET VALUE BEGINNING OF YEAR	END OF YEAR	DISTRIBUTIONS FROM INVESTMENT INCOME	FROM CAPITAL GAINS	IN EXCESS OF NET REALIZED GAIN ON INVESTMENTS	CUMULATIVE NET ASSET VALUE AT YEAR-END WITH ALL DISTRIBUTIONS REINVESTED
<C>	<C>	<C>	<C>	<C>	<C>	<C>
8/31/93 (1)	$9.39	$9.47	$0.056	$---	$---	$9.53
8/31/94	9.47	8.83	0.446	---	0.030	9.36
Total distributions			$0.502	$---	$0.030	

(1) Class B shares were offered beginning July 15, 1993.

</TABLE>

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PERCENTAGE CHANGES DURING LIFE OF CLASS B SHARES

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

FISCAL YEAR ENDED	NET ASSET VALUE TO NET ASSET VALUE ANNUAL	CUMULA-TIVE	LEHMAN BROTHERS MUNICIPAL BOND INDEX ANNUAL	CUMULA-TIVE	CONSUMER PRICE INDEX ANNUAL	CUMULA-TIVE
<C>	<C>	<C>	<C>	<C>	<C>	<C>
8/31/93(1)	--	+1.45%	--	+2.21%	--	+0.28%
8/31/94	-1.80	-0.37	0.14%	+2.36	+2.90%	+3.19

(1) Class B shares were offered beginning July 15, 1993.

/TABLE

The tables are not adjusted for any payments under the Fund's Class A Distribution Plan prior to its implementation in fiscal 1993 or taxes payable on reinvested distributions or for any contingent deferred sales charges which would be applied upon redemption of Class B shares . The total values for the Fund as of the end of each period reflect reinvestment of all distributions and all changes in net asset value.

The Lehman Brothers Municipal Bond Index is an unmanaged list of approximately 20,000 investment-grade, fixed-rate tax-exempt bonds. The average quality of bonds held in the index may differ from the average quality of those bonds in which the Fund invests. The index does not include bonds in certain of the lower-rating classifications in which the Fund may invest. The performance figures for the index reflect changes of market prices and reinvestment of all interest payments. Because the Fund is a managed portfolio investing primarily in Arizona Tax Exempt Securities, the tax-exempt securities it owns will not match those in the index.

The Consumer Price Index, prepared by the U.S. Bureau of Labor Statistics, is a commonly used measure of the rate of inflation. The index shows the average change in the cost of selected consumer goods and services and does not represent a return on an investment vehicle.

<TABLE>
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EQUIVALENT YIELDS: TAX-EXEMPT VERSUS TAXABLE SECURITIES

The table below shows the effect of the tax status of Arizona Tax Exempt Securities on the effective yield received by their individual holders under the federal income tax and Arizona state income tax laws expected to apply in 1995 . It gives the approximate yield a taxable security must earn at various income levels to produce after-tax yields equivalent to those of Arizona Tax Exempt Securities yielding from 2.0% to 9.0% .

Taxable Income*		1995 Combined Arizona and Federal Marginal	Tax-exempt yield:							
Single	Joint	Tax Rate**	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
			Equivalent taxable yield							
$ 0 - 10,000	$ 0 - 20,000	17.76%	2.43%	3.65%	4.86%	6.08%	7.30%	8.51%	9.73%	10.94%
10,001 - 23,350	20,001 - 39,000	18.40%	2.45%	3.68%	4.90%	6.13%	7.35%	8.58%	9.80%	11.03%
23,351 - 25,000	39,001 - 50,000	30.88%	2.89%	4.34%	5.79%	7.23%	8.68%	10.13%	11.57%	13.02%
25,001 - 50,000	50,001 - 94,250	31.64%	2.93%	4.39%	5.85%	7.31%	8.78%	10.24%	11.70%	13.16%
50,001 - 56,550		32.61%	2.97%	4.45%	5.94%	7.42%	8.90%	10.39%	11.87%	13.35%
	94,251 - 100,000	34.48%	3.05%	4.58%	6.11%	7.63%	9.16%	10.68%	12.21%	13.74%
56,551 - 117,950***	100,001 - 143,600***	35.42%	3.10%	4.65%	6.19%	7.74%	9.29%	10.84%	12.39%	13.94%
117,951 - 150,000***	143,601 - 256,500***	40.10%	3.34%	5.01%	6.68%	8.35%	10.02%	11.69%	13.35%	15.02%
150,001 - 256,500***		40.42%	3.36%	5.03%	6.71%	8.39%	10.07%	11.75%	13.43%	15.10%
	256,501 - 300,000***	43.47%	3.54%	5.31%	7.08%	8.84%	10.61%	12.38%	14.15%	15.92%
over 256,500** *	over 300,000***	43.77%	3.56%	5.34%	7.11%	8.89%	10.67%	%12.45%	14.23%	16.01%

/TABLE

* This amount represents taxable income as defined in the Internal Revenue Code . It is assumed that taxable income under Arizona law is the same as taxable income as defined under the Internal Revenue Code. However, Arizona taxable income is likely to differ due to differences in exemptions, itemized deductions, and other items.

** For federal income tax purposes, these combined rates reflect the applicable marginal rates on taxable income expected to apply in 1995. These rates include the effect of deducting state taxes on your Federal return.

*** The amount of taxable income in this bracket may be affected by the phase-out of personal exemptions and the limitation on itemized deductions under the Internal Revenue Code.

Of course, there is no assurance that the Fund will achieve any specific tax-exempt yield. While it is expected that the Fund will invest principally in obligations which pay interest exempt from federal income tax and Arizona income taxes, other income received by the Fund may be taxable to shareholders when distributed to them. The table does not take into account any state or local taxes except for Arizona state income tax.

ADDITIONAL OFFICERS OF THE FUND

In addition to the persons listed as officers of the Fund in Part II of this Statement, the following persons are also officers of the Fund. Officers of Putnam Management hold the same offices in Putnam Management's parent company, Putnam Investments, Inc.

JAMES E. ERICKSON, Vice President. Managing Director of Putnam Management. Vice President of certain of the Putnam funds.

HOWARD K. MANNING, Vice President. Senior Vice President of Putnam Management. Vice President of certain of the Putnam funds.

GARY N. COBURN, Vice President. Senior Managing Director of Putnam Management. Director, Putnam Investments, Inc. Vice President of certain of the Putnam funds.

INDEPENDENT ACCOUNTANTS AND FINANCIAL STATEMENTS

Coopers & Lybrand L.L.P. are the Fund's independent accountants, providing audit services, tax return review and other tax consulting services and assistance and consultation in connection with the review of various Securities and Exchange Commission filings. The Report of Independent Accountants and financial statements included in the Fund's Annual Report for the fiscal year ended August 31, 1994 , filed electronically on November 3, 1994 (811-6258), are incorporated by reference into this Statement of Additional Information. The financial highlights in the Prospectus and the financial statements incorporated by reference into the Prospectus and the Statement of Additional Information have been so included and incorporated in reliance upon the report of the independent accountants, given on the authority as experts in auditing and accounting.

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THE PUTNAM FUNDS
STATEMENT OF ADDITIONAL INFORMATION
PART II

The following information applies generally to your Fund and to the other Putnam funds. In certain cases the discussion applies to some but not all of the funds or their shareholders, and you should refer to your Prospectus to determine whether the matter is applicable to you or your Fund. You will also be referred to Part I for certain information applicable to your particular Fund. Shareholders who purchase shares at net asset value through employer-sponsored defined contribution plans should also consult their employer for information about the extent to which the matters described below apply to them.

MISCELLANEOUS INVESTMENT PRACTICES

YOUR FUND'S PROSPECTUS STATES WHICH OF THE FOLLOWING INVESTMENT PRACTICES ARE AVAILABLE TO YOUR FUND. THE FACT THAT YOUR FUND IS AUTHORIZED TO ENGAGE IN A PARTICULAR PRACTICE DOES NOT NECESSARILY MEAN THAT IT WILL ACTUALLY DO SO. YOU SHOULD DISREGARD ANY PRACTICE DESCRIBED BELOW WHICH IS NOT MENTIONED IN THE PROSPECTUS.

SHORT-TERM TRADING

In seeking the Fund's objective, Putnam Management will buy or sell portfolio securities whenever Putnam Management believes it appropriate to do so. In deciding whether to sell a portfolio security, Putnam Management does not consider how long the Fund has owned the security. From time to time the Fund will buy securities intending to seek short-term trading profits. A change in the securities held by the Fund is known as "portfolio turnover" and generally involves some expense to the Fund. These expenses may include brokerage commissions or dealer mark-ups and other transaction costs on both the sale of securities and the reinvestment of the proceeds in other securities. If sales of portfolio securities cause the Fund to realize net short-term capital gains, such gains will be taxable as ordinary income. As a result of the Fund's investment policies, under certain market conditions the Fund's portfolio turnover rate may be higher than that of other mutual funds. Portfolio turnover rate for a fiscal year is the ratio of the lesser of purchases or sales of portfolio securities to the monthly average of the value of portfolio securities -- excluding securities whose maturities at acquisition were one year or less. The Fund's portfolio turnover rate is not a limiting factor when Putnam Management considers a change in the Fund's portfolio.

LOWER-RATED SECURITIES

The Fund may invest in lower-rated fixed-income securities (commonly known as "junk bonds"), to the extent described in the Prospectus. The lower ratings of certain securities held by the Fund reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions, or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of interest and principal. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of securities held by the Fund more volatile and could limit the Fund's ability to sell its securities at prices approximating the values the Fund had placed on such securities. In the absence of a liquid trading market for securities held by it, the Fund may be unable at times to establish the fair value of such securities. The rating assigned to a security by Moody's Investors Service, Inc. or Standard & Poor's Corporation (or by any other nationally recognized securities rating organization) does not reflect an assessment of the volatility of the security's market value or the liquidity of an investment in the security. See the Prospectus or Part I of this Statement for a description of security ratings.

Like those of other fixed-income securities, the values of lower-rated securities fluctuate in response to changes in interest rates. Thus, a decrease in interest rates will generally result in an increase in the value of the Fund's assets. Conversely, during periods of rising interest rates, the value of the Fund's assets will generally decline. In addition, the values of such securities are also affected by changes in general economic conditions and business conditions affecting the specific industries of their issuers. Changes by recognized rating services in their ratings of any fixed-income security and in the ability of an issuer to make payments of interest and principal may also affect the value of these investments. Changes in the value of portfolio securities generally will not affect cash income derived from such securities, but will affect the Fund's net asset value. The Fund will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase, although Putnam Management will monitor the investment to determine whether its retention will assist in meeting the Fund's investment objective.

At times, a substantial portion of the Fund's assets may be invested in securities as to which the Fund, by itself or together with other funds and accounts managed by Putnam Management and its affiliates, holds a major portion or all of such securities. Although Putnam Management generally considers such securities to be liquid because of the availability of an institutional market for such securities, it is possible that, under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund could find it more difficult to sell such securities when Putnam Management believes it advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. Under such circumstances, it may also be more difficult to determine the fair value of such securities for purposes of computing the Fund's net asset value. In order to enforce its rights in the event of a default under such securities, the Fund may be required to take possession of and manage assets securing the issuer's obligations on such securities, which may increase the Fund's operating expenses and adversely affect the Fund's net asset value. In the case of tax-exempt funds, any income derived from the Fund's ownership or operation of such assets would not be tax-exempt. In addition, the Fund's intention to qualify as a "regulated investment company" under the Internal Revenue Code may limit the extent to which the Fund may exercise its rights by taking possession of such assets.

Certain securities held by the Fund may permit the issuer at its option to "call", or redeem, its securities. If an issuer were to redeem securities held by the Fund during a time of declining interest rates, the Fund may not be able to reinvest the proceeds in securities providing the same investment return as the securities redeemed.

If the Fund's Prospectus describes so-called "zero-coupon" bonds and "payment-in-kind" bonds as possible investments, the Fund may invest without limit in such bonds unless otherwise specified in the Prospectus. Zero-coupon bonds are issued at a significant discount from their principal amount in lieu of paying interest periodically. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Because zero-coupon bonds do not pay current interest, their value is subject to greater fluctuation in response to changes in market interest rates than bonds which pay interest currently. Both zero-coupon and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently. Even though such bonds do not pay current interest in cash, the Fund is nonetheless required to accrue interest income on such investments and to distribute such amounts at least annually to shareholders. Thus, the Fund could be required at times to liquidate investments in order to satisfy its dividend requirements.

The amount of information about the financial condition of an issuer of tax exempt securities may not be as extensive as that which is made available by corporations whose securities are publicly traded. Therefore, to the extent the Fund invests in tax exempt securities in the lower rating categories, the achievement of the Fund's goals is more dependent on Putnam Management's investment analysis than would be the case if the Fund were investing in securities in the higher rating categories.

INVESTMENTS IN MISCELLANEOUS FIXED INCOME SECURITIES

Unless otherwise specified in the Prospectus or elsewhere in this Statement of Additional Information, if the Fund may invest in inverse floating obligations and premium securities, it may do so without limit. The Fund, however, currently does not intend to invest more than 15% of its assets in inverse floating obligations under normal market conditions.

SECURITIES LOANS

The Fund may make secured loans of its portfolio securities, on either a short-term or long-term basis, amounting to not more than 25% of its total assets, thereby realizing additional income. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. As a matter of policy, securities loans are made to broker-dealers pursuant to agreements requiring that loans be continuously secured by collateral consisting of cash or short-term debt obligations at least equal at all times to the value of the securities on loan, "marked-to-market" daily. The borrower pays to the Fund an amount equal to any dividends or interest received on securities lent. The Fund retains all or a portion of the interest received on investment of the cash collateral or receives a fee from the borrower. Although voting rights, or rights to consent, with respect to the loaned securities pass to the borrower, the Fund retains the right to call the loans at any time on reasonable notice, and it will do so to enable the Fund to exercise voting rights on any matters materially affecting the investment. The Fund may also call such loans in order to sell the securities.

FORWARD COMMITMENTS

The Fund may enter into contracts to purchase securities for a fixed price at a future date beyond customary settlement time ("forward commitments") if the Fund holds, and maintains until the settlement date in a segregated account, cash or high-grade debt obligations in an amount sufficient to meet the purchase price, or if the Fund enters into offsetting contracts for the forward sale of other securities it owns. In the case of to-be-announced ("TBA") purchase commitments, the unit price and the estimated principal amount are established when the Fund enters into a contract, with the actual principal amount being within a specified range of the estimate. Forward commitments may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to the settlement date, which risk is in addition to the risk of decline in the value of the Fund's other assets. Where such purchases are made through dealers, the Fund relies on the dealer to consummate the sale. The dealer's failure to do so may result in the loss to the Fund of an advantageous yield or price. Although the Fund will generally enter into forward commitments with the intention of acquiring securities for its portfolio or for delivery pursuant to options contracts it has entered into, the Fund may dispose of a commitment prior to settlement if Putnam Management deems it appropriate to do so. The Fund may realize short-term profits or losses upon the sale of forward commitments.

The Fund may enter into TBA sale commitments to hedge its portfolio positions or to sell mortgage-backed securities it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment deliverable on or before the sale commitment date, are held as "cover" for the transaction. Unsettled TBA sale commitments are valued at current market value of the underlying securities. If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the Fund realizes a gain or loss on the commitment without regard to any unrealized gain or loss on the underlying security. If the Fund delivers securities under the commitment, the Fund realizes a gain or loss from the sale of the securities based upon the unit price established at the date the commitment was entered into.

REPURCHASE AGREEMENTS

The Fund may enter into repurchase agreements up to the limit specified in the Prospectus. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). It is the Fund's present intention to enter into repurchase agreements only with commercial banks and registered broker-dealers and only with respect to obligations of the U.S. government or its agencies or instrumentalities. Repurchase agreements may also be viewed as loans made by the Fund which are collateralized by the securities subject to repurchase. Putnam Management will monitor such transactions to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. If the seller defaults, the Fund could realize a loss on the sale of the underlying security to the extent that the proceeds of sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Fund is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

Pursuant to an exemptive order issued by the Securities and Exchange Commission, the Fund may transfer uninvested cash balances into a joint account, along with cash of other Putnam funds and certain other accounts. These balances may be invested in one or more repurchase agreements and/or short-term money market instruments.

OPTIONS ON SECURITIES

WRITING COVERED OPTIONS. The Fund may write covered call options and covered put options on optionable securities held in its portfolio, when in the opinion of Putnam Management such transactions are consistent with the Fund's investment objectives and policies. Call options written by the Fund give the purchaser the right to buy the underlying securities from the Fund at a stated exercise price; put options give the purchaser the right to sell the underlying securities to the Fund at a stated price.

The Fund may write only covered options, which means that, so long as the Fund is obligated as the writer of a call option, it will own the underlying securities subject to the option (or comparable securities satisfying the cover requirements of securities exchanges). In the case of put options, the Fund will hold cash and/or high-grade short-term debt obligations equal to the price to be paid if the option is exercised. In addition, the Fund will be considered to have covered a put or call option if and to the extent that it holds an option that offsets some or all of the risk of the option it has written. The Fund may write combinations of covered puts and calls on the same underlying security.

The Fund will receive a premium from writing a put or call option, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. The amount of the premium reflects, among other things, the relationship between the exercise price and the current market value of the underlying security, the volatility of the underlying security, the amount of time remaining until expiration, current interest rates, and the effect of supply and demand in the options market and in the market for the underlying security. By writing a call option, the Fund limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option but continues to bear the risk of a decline in the value of the underlying security. By writing a put option, the Fund assumes the risk that it may be required to purchase the underlying security for an exercise price higher than its then-current market value, resulting in a potential capital loss unless the security subsequently appreciates in value.

The Fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction, in which it purchases an offsetting option. The Fund realizes a profit or loss from a closing transaction if the cost of the transaction (option premium plus transaction costs) is less or more than the premium received from writing the option. Because increases in the market price of a call option generally reflect increases in the market price of the security underlying the option, any loss resulting from a closing purchase transaction may be offset in whole or in part by unrealized appreciation of the underlying security owned by the Fund.

If the Fund writes a call option but does not own the underlying security, and when it writes a put option, the Fund may be required to deposit cash or securities with its broker as "margin", or collateral, for its obligation to buy or sell the underlying security. As the value of the underlying security varies, the Fund may have to deposit additional margin with the broker. Margin requirements are complex and are fixed by individual brokers, subject to minimum requirements currently imposed by the Federal Reserve Board and by stock exchanges and other self-regulatory organizations.

PURCHASING PUT OPTIONS. The Fund may purchase put options to protect its portfolio holdings in an underlying security against a decline in market value. Such protection is provided during the life of the put option since the Fund, as holder of the option, is able to sell the underlying security at the put exercise price regardless of any decline in the underlying security's market price. In order for a put option to be profitable, the market price of the underlying security must decline sufficiently below the exercise price to cover the premium and transaction costs. By using put options in this manner, the Fund will reduce any profit it might otherwise have realized from appreciation of the underlying security by the premium paid for the put option and by transaction costs.

PURCHASING CALL OPTIONS. The Fund may purchase call options to hedge against an increase in the price of securities that the Fund wants ultimately to buy. Such hedge protection is provided during the life of the call option since the Fund, as holder of the call option, is able to buy the underlying security at the exercise price regardless of any increase in the underlying security's market price. In order for a call option to be profitable, the market price of the underlying security must rise sufficiently above the exercise price to cover the premium and transaction costs.

RISK FACTORS IN OPTIONS TRANSACTIONS

The successful use of the Fund's options strategies depends on the ability of Putnam Management to forecast correctly interest rate and market movements. For example, if the Fund were to write a call option based on Putnam Management's expectation that the price of the underlying security would fall, but the price were to rise instead, the Fund could be required to sell the security upon exercise at a price below the current market price. Similarly, if the Fund were to write a put option based on Putnam Management's expectation that the price of the underlying security would rise, but the price were to fall instead, the Fund could be required to purchase the security upon exercise at a price higher than the current market price.

When the Fund purchases an option, it runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the Fund exercises the option or enters into a closing sale transaction before the option's expiration. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the Fund will lose part or all of its investment in the option. This contrasts with an investment by the Fund in the underlying security, since the Fund will not realize a loss if the security's price does not change.

The effective use of options also depends on the Fund's ability to terminate option positions at times when Putnam Management deems it desirable to do so. There is no assurance that the Fund will be able to effect closing transactions at any particular time or at an acceptable price.

If a secondary market in options were to become unavailable, the Fund could no longer engage in closing transactions. Lack of investor interest might adversely affect the liquidity of the market for particular options or series of options. A market may discontinue trading of a particular option or options generally. In addition, a market could become temporarily unavailable if unusual events -- such as volume in excess of trading or clearing capability -- were to interrupt its normal operations.

A market may at times find it necessary to impose restrictions on particular types of options transactions, such as opening transactions. For example, if an underlying security ceases to meet qualifications imposed by the market or the Options Clearing Corporation, new series of options on that security will no longer be opened to replace expiring series, and opening transactions in existing series may be prohibited. If an options market were to become unavailable, the Fund as a holder of an option would be able to realize profits or limit losses only by exercising the option, and the Fund, as option writer, would remain obligated under the option until expiration or exercise.

Disruptions in the markets for the securities underlying options purchased or sold by the Fund could result in losses on the options. If trading is interrupted in an underlying security, the trading of options on that security is normally halted as well. As a result, the Fund as purchaser or writer of an option will be unable to close out its positions until options trading resumes, and it may be faced with considerable losses if trading in the security reopens at a substantially different price. In addition, the Options Clearing Corporation or other options markets may impose exercise restrictions. If a prohibition on exercise is imposed at the time when trading in the option has also been halted, the Fund as purchaser or writer of an option will be locked into its position until one of the two restrictions has been lifted. If the Options Clearing Corporation were to determine that the available supply of an underlying security appears insufficient to permit delivery by the writers of all outstanding calls in the event of exercise, it may prohibit indefinitely the exercise of put options. The Fund, as holder of such a put option, could lose its entire investment if the prohibition remained in effect until the put option's expiration.

Special risks are presented by internationally-traded options. Because of time differences between the United States and various foreign countries, and because different holidays are observed in different countries, foreign options markets may be open for trading during hours or on days when U.S. markets are closed. As a result, option premiums may not reflect the current prices of the underlying interest in the United States.

Over-the-counter ("OTC") options purchased by the Fund and assets held to cover OTC options written by the Fund may, under certain circumstances, be considered illiquid securities for purposes of any limitation on the Fund's ability to invest in illiquid securities.

FUTURES CONTRACTS AND RELATED OPTIONS

Subject to applicable law, and unless otherwise specified in the Prospectus, the Fund may invest without limit in the types of futures contracts and related options identified in the Prospectus. A financial futures contract sale creates an obligation by the seller to deliver the type of financial instrument called for in the contract in a specified delivery month for a stated price. A financial futures contract purchase creates an obligation by the purchaser to take delivery of the type of financial instrument called for in the contract in a specified delivery month at a stated price. The specific instruments delivered or taken, respectively, at settlement date are not determined until on or near that date. The determination is made in accordance with the rules of the exchange on which the futures contract sale or purchase was made. Futures contracts are traded in the United States only on commodity exchanges or boards of trade -- known as "contract markets" -- approved for such trading by the Commodity Futures Trading Commission (the "CFTC"), and must be executed through a futures commission merchant or brokerage firm which is a member of the relevant contract market.

Although futures contracts (other than index futures) by their terms call for actual delivery or acceptance of commodities or securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. Closing out a futures contract sale is effected by purchasing a futures contract for the same aggregate amount of the specific type of financial instrument or commodity with the same delivery date. If the price of the initial sale of the futures contract exceeds the price of the offsetting purchase, the seller is paid the difference and realizes a gain. Conversely, if the price of the offsetting purchase exceeds the price of the initial sale, the seller realizes a loss. Similarly, the closing out of a futures contract purchase is effected by the purchaser's entering into a futures contract sale. If the offsetting sale price exceeds the purchase price, the purchaser realizes a gain, and if the purchase price exceeds the offsetting sale price, he realizes a loss. In general 40% of the gain or loss arising from the closing out of a futures contract traded on an exchange approved by the CFTC is treated as short-term gain or loss, and 60% is treated as long-term gain or loss.

Unlike when the Fund purchases or sells a security, no price is paid or received by the Fund upon the purchase or sale of a futures contract. Upon entering into a contract, the Fund is required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash and/or U.S. Government Securities. This amount is known as "initial margin." The nature of initial margin in futures transactions is different from that of margin in security transactions in that futures contract margin does not involve the borrowing of funds to finance the transactions. Rather, initial margin is similar to a performance bond or good faith deposit which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied. Futures contracts also involve brokerage costs.

Subsequent payments, called "variation margin" or "maintenance margin", to and from the broker (or the custodian) are made on a daily basis as the price of the underlying security or commodity fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." For example, when the Fund has purchased a futures contract on a security and the price of the underlying security has risen, that position will have increased in value and the Fund will receive from the broker a variation margin payment based on that increase in value. Conversely, when the Fund has purchased a security futures contract and the price of the underlying security has declined, the position would be less valuable and the Fund would be required to make a variation margin payment to the broker.

The Fund may elect to close some or all of its futures positions at any time prior to their expiration in order to reduce or eliminate a hedge position then currently held by the Fund. The Fund may close its positions by taking opposite positions which will operate to terminate the Fund's position in the futures contracts. Final determinations of variation margin are then made, additional cash is required to be paid by or released to the Fund, and the Fund realizes a loss or a gain. Such closing transactions involve additional commission costs.

OPTIONS ON FUTURES CONTRACTS. The Fund may purchase and write call and put options on futures contracts it may buy or sell and enter into closing transactions with respect to such options to terminate existing positions. Options on future contracts give the purchaser the right in return for the premium paid to assume a position in a futures contract at the specified option exercise price at any time during the period of the option. The Fund may use options on futures contracts in lieu of writing or buying options directly on the underlying securities or purchasing and selling the underlying futures contracts. For example, to hedge against a possible decrease in the value of its portfolio securities, the Fund may purchase put options or write call options on futures contracts rather than selling futures contracts. Similarly, the Fund may purchase call options or write put options on futures contracts as a substitute for the purchase of futures contracts to hedge against a possible increase in the price of securities which the Fund expects to purchase. Such options generally operate in the same manner as options purchased or written directly on the underlying investments.

As with options on securities, the holder or writer of an option may terminate his position by selling or purchasing an offsetting option. There is no guarantee that such closing transactions can be effected.

The Fund will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those described above in connection with the discussion of futures contracts.

RISKS OF TRANSACTIONS IN FUTURES CONTRACTS AND RELATED OPTIONS. Successful use of futures contracts by the Fund is subject to Putnam Management's ability to predict movements in the direction of interest rates and other factors affecting securities markets. For example, if the Fund has hedged against the possibility of decline in the values of its investments and the values of its investments increase instead, the Fund will lose part or all of the benefit of the increase through payments of daily maintenance margin. The Fund may have to sell investments at a time when it may be disadvantageous to do so in order to meet margin requirements.

Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the Fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to the Fund when the purchase or sale of a futures contract would not, such as when there is no movement in the prices of the hedged investments. The writing of an option on a futures contract involves risks similar to those risks relating to the sale of futures contracts.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain market clearing facilities inadequate, and thereby result in the institution by exchanges of special procedures which may interfere with the timely execution of customer orders.

To reduce or eliminate a hedge position held by the Fund, the Fund may seek to close out a position. The ability to establish and close out positions will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or continue to exist for a particular futures contract or option. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain contracts or options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of contracts or options, or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of contracts or options (or a particular class or series of contracts or options), in which event the secondary market on that exchange for such contracts or options (or in the class or series of contracts or options) would cease to exist, although outstanding contracts or options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

U.S. TREASURY SECURITY FUTURES CONTRACTS AND OPTIONS. If the Fund invests in tax-exempt securities issued by a governmental entity, the Fund may purchase and sell futures contracts and related options on U.S. Treasury securities when, in the opinion of Putnam Management, price movements in Treasury security futures and related options will correlate closely with price movements in the tax-exempt securities which are the subject of the hedge. U.S. Treasury security futures contracts require the seller to deliver, or the purchaser to take delivery of, the type of U.S. Treasury security called for in the contract at a specified date and price. Options on U.S. Treasury security futures contracts give the purchaser the right in return for the premium paid to assume a position in a U.S. Treasury security futures contract at the specified option exercise price at any time during the period of the option.

Successful use of U.S. Treasury security futures contracts by the Fund is subject to Putnam Management's ability to predict movements in the direction of interest rates and other factors affecting markets for debt securities. For example, if the Fund has sold U.S. Treasury security futures contracts in order to hedge against the possibility of an increase in interest rates which would adversely affect tax-exempt securities held in its portfolio, and the prices of the Fund's tax-exempt securities increase instead as a result of a decline in interest rates, the Fund will lose part or all of the benefit of the increased value of its securities which it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily maintenance margin requirements at a time when it may be disadvantageous to do so.

There is also a risk that price movements in U.S. Treasury security futures contracts and related options will not correlate closely with price movements in markets for tax-exempt securities. For example, if the Fund has hedged against a decline in the values of tax-exempt securities held by it by selling Treasury security futures and the values of Treasury securities subsequently increase while the values of its tax-exempt securities decrease, the Fund would incur losses on both the Treasury security futures contracts written by it and the tax-exempt securities held in its portfolio. Putnam Management will seek to reduce this risk by monitoring movements in markets for U.S. Treasury security futures and options and for tax-exempt securities closely. The Fund will only purchase or sell Treasury security futures or related options when, in the opinion of Putnam Management, price movements in Treasury security futures and related options will correlate closely with price movements in tax-exempt securities in which the Fund invests.

INDEX FUTURES CONTRACTS. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. Entering into a contract to buy units of an index is commonly referred to as buying or purchasing a contract or holding a long position in the index. Entering into a contract to sell units of an index is commonly referred to as selling a contract or holding a short position. A unit is the current value of the index. The Fund may enter into stock index futures contracts, debt index futures contracts, or other index futures contracts appropriate to its objective. The Fund may also purchase and sell options on index futures contracts.

For example, the Standard & Poor's Composite 500 Stock Price Index ("S&P 500") is composed of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The S&P 500 assigns relative weightings to the common stocks included in the Index, and the value fluctuates with changes in the market values of those common stocks. In the case of the S&P 500, contracts are to buy or sell 500 units. Thus, if the value of the S&P 500 were $150, one contract would be worth $75,000 (500 units x $150). The stock index futures contract specifies that no delivery of the actual stocks making up the index will take place. Instead, settlement in cash must occur upon the termination of the contract, with the settlement being the difference between the contract price and the actual level of the stock index at the expiration of the contract. For example, if the Fund enters into a futures contract to buy 500 units of the S&P 500 at a specified future date at a contract price of $150 and the S&P 500 is at $154 on that future date, the Fund will gain $2,000 (500 units x gain of $4). If the Fund enters into a futures contract to sell 500 units of the stock index at a specified future date at a contract price of $150 and the S&P 500 is at $152 on that future date, the Fund will lose $1,000 (500 units x loss of $2).

There are several risks in connection with the use by the Fund of index futures as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the index futures and movements in the prices of securities which are the subject of the hedge. Putnam Management will, however, attempt to reduce this risk by buying or selling, to the extent possible, futures on indices the movements of which will, in its judgment, have a significant correlation with movements in the prices of the securities sought to be hedged.

Successful use of index futures by the Fund for hedging purposes is also subject to Putnam Management's ability to predict movements in the direction of the market. It is possible that, where the Fund has sold futures to hedge its portfolio against a decline in the market, the index on which the futures are written may advance and the value of securities held in the Fund's portfolio may decline. If this occurred, the Fund would lose money on the futures and also experience a decline in value in its portfolio securities. It is also possible that, if the Fund has hedged against the possibility of a decline in the market adversely affecting securities held in its portfolio and securities prices increase instead, the Fund will lose part or all of the benefit of the increased value of those securities it has hedged because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash, it may have to sell securities to meet daily variation margin requirements at a time when it is disadvantageous to do so.

In addition to the possibility that there may be an imperfect correlation, or no correlation at all, between movements in the index futures and the portion of the portfolio being hedged, the prices of index futures may not correlate perfectly with movements in the underlying index due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the index and futures markets. Second, margin requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the securities market does. Increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortions in the futures market and also because of the imperfect correlation between movements in the index and movements in the prices of index futures, even a correct forecast of general market trends by Putnam Management may still not result in a successful hedging transaction over a short time period.

OPTIONS ON STOCK INDEX FUTURES. Options on index futures are similar to options on securities except that options on index futures give the purchaser the right, in return for the premium paid, to assume a position in an index futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the index futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the index future. If an option is exercised on the last trading day prior to its expiration date, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the index on which the future is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

OPTIONS ON INDICES

As an alternative to purchasing call and put options on index futures, the Fund may purchase and sell call and put options on the underlying indices themselves. Such options would be used in a manner identical to the use of options on index futures.

INDEX WARRANTS

The Fund may purchase put warrants and call warrants whose values vary depending on the change in the value of one or more specified securities indices ("index warrants"). Index warrants are generally issued by banks or other financial institutions and give the holder the right, at any time during the term of the warrant, to receive upon exercise of the warrant a cash payment from the issuer based on the value of the underlying index at the time of exercise. In general, if the value of the underlying index rises above the exercise price of the index warrant, the holder of a call warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the value of the index and the exercise price of the warrant; if the value of the underlying index falls, the holder of a put warrant will be entitled to receive a cash payment from the issuer upon exercise based on the difference between the exercise price of the warrant and the value of the index. The holder of a warrant would not be entitled to any payments from the issuer at any time when, in the case of a call warrant, the exercise price is greater than the value of the underlying index, or, in the case of a put warrant, the exercise price is less than the value of the underlying index. If the Fund were not to exercise an index warrant prior to its expiration, then the Fund would lose the amount of the purchase price paid by it for the warrant.

The Fund will normally use index warrants in a manner similar to its use of options on securities indices. The risks of the Fund's use of index warrants are generally similar to those relating to its use of index options. Unlike most index options, however, index warrants are issued in limited amounts and are not obligations of a regulated clearing agency, but are backed only by the credit of the bank or other institution which issues the warrant. Also, index warrants generally have longer terms than index options. Although the Fund will normally invest only in exchange-listed warrants, index warrants are not likely to be as liquid as certain index options backed by a recognized clearing agency. In addition, the terms of index warrants may limit the Fund's ability to exercise the warrants at such time, or in such quantities, as the Fund would otherwise wish to do.

FOREIGN SECURITIES

Under its current policy, which may be changed without shareholder approval, the Fund may invest up to the limit of its total assets specified in its Prospectus in securities principally traded in markets outside the United States. Eurodollar certificates of deposit are excluded for purposes of this limitation. Foreign investments can be affected favorably or unfavorably by changes in currency exchange rates and in exchange control regulations. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those applicable to U.S. companies. Securities of some foreign companies are less liquid or more volatile than securities of U.S. companies, and foreign brokerage commissions and custodian fees are generally higher than in the United States. Investments in foreign securities can involve other risks different from those affecting U.S. investments, including local political or economic developments, expropriation or nationalization of assets and imposition of withholding taxes on dividend or interest payments. To hedge against possible variations in foreign exchange rates, the Fund may purchase and sell forward foreign currency contracts. These represent agreements to purchase or sell specified currencies at specified dates and prices. The Fund will only purchase and sell forward foreign currency contracts in amounts Putnam Management deems appropriate to hedge existing or anticipated portfolio positions and will not use such forward contracts for speculative purposes. Foreign securities, like other assets of the Fund, will be held by the Fund's custodian or by a subcustodian.

FOREIGN CURRENCY TRANSACTIONS

Unless otherwise specified in the Prospectus, the Fund may engage without limit in currency exchange transactions, as well as foreign currency forward and futures contracts, to protect against uncertainty in the level of future currency exchange rates. In addition, the Fund may write covered call and put options on foreign currencies for the purpose of increasing its current return.

Generally, the Fund may engage in both "transaction hedging" and "position hedging". When it engages in transaction hedging, the Fund enters into foreign currency transactions with respect to specific receivables or payables, generally arising in connection with the purchase or sale of portfolio securities. The Fund will engage in transaction hedging when it desires to "lock in" the U.S. dollar price of a security it has agreed to purchase or sell, or the U.S. dollar equivalent of a dividend or interest payment in a foreign currency. By transaction hedging the Fund will attempt to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the applicable foreign currency during the period between the date on which the security is purchased or sold, or on which the dividend or interest payment is earned, and the date on which such payments are made or received.

The Fund may purchase or sell a foreign currency on a spot (or cash) basis at the prevailing spot rate in connection with the settlement of transactions in portfolio securities denominated in that foreign currency. The Fund may also enter into contracts to purchase or sell foreign currencies at a future date ("forward contracts") and purchase and sell foreign currency futures contracts.

For transaction hedging purposes the Fund may also purchase exchange-listed and over-the-counter call and put options on foreign currency futures contracts and on foreign currencies. A put option on a futures contract gives the Fund the right to assume a short position in the futures contract until the expiration of the option. A put option on a currency gives the Fund the right to sell the currency at an exercise price until the expiration of the option. A call option on a futures contract gives the Fund the right to assume a long position in the futures contract until the expiration of the option. A call option on a currency gives the Fund the right to purchase the currency at the exercise price until the expiration of the option.

When it engages in position hedging, the Fund enters into foreign currency exchange transactions to protect against a decline in the values of the foreign currencies in which its portfolio securities are denominated (or an increase in the value of currency for securities which the Fund expects to purchase, when the Fund holds cash or short-term investments). In connection with position hedging, the Fund may purchase put or call options on foreign currency and on foreign currency futures contracts and buy or sell forward contracts and foreign currency futures contracts. The Fund may also purchase or sell foreign currency on a spot basis.

The precise matching of the amounts of foreign currency exchange transactions and the value of the portfolio securities involved will not generally be possible since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the dates the currency exchange transactions are entered into and the dates they mature.

It is impossible to forecast with precision the market value of portfolio securities at the expiration or maturity of a forward or futures contract. Accordingly, it may be necessary for the Fund to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security or securities being hedged is less than the amount of foreign currency the Fund is obligated to deliver and a decision is made to sell the security or securities and make delivery of the foreign currency. Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security or securities if the market value of such security or securities exceeds the amount of foreign currency the Fund is obligated to deliver.

Transaction and position hedging do not eliminate fluctuations in the underlying prices of the securities which the Fund owns or intends to purchase or sell. They simply establish a rate of exchange which one can achieve at some future point in time. Additionally, although these techniques tend to minimize the risk of loss due to a decline in the value of the hedged currency, they tend to limit any potential gain which might result from the increase in value of such currency.

The Fund may seek to increase its current return or to offset some of the costs of hedging against fluctuations in current exchange rates by writing covered call options and covered put options on foreign currencies. The Fund receives a premium from writing a call or put option, which increases the Fund's current return if the option expires unexercised or is closed out at a net profit. The Fund may terminate an option that it has written prior to its expiration by entering into a closing purchase transaction in which it purchases an option having the same terms as the option written.

The Fund's currency hedging transactions may call for the delivery of one foreign currency in exchange for another foreign currency and may at times not involve currencies in which its portfolio securities are then denominated. Putnam Management will engage in such "cross hedging" activities when it believes that such transactions provide significant hedging opportunities for the Fund. Cross hedging transactions by the Fund involve the risk of imperfect correlation between changes in the values of the currencies to which such transactions relate and changes in the value of the currency or other asset or liability which is the subject of the hedge.

CURRENCY FORWARD AND FUTURES CONTRACTS. A forward foreign currency contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract as agreed by the parties, at a price set at the time of the contract. In the case of a cancelable forward contract, the holder has the unilateral right to cancel the contract at maturity by paying a specified fee. The contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades. A foreign currency futures contract is a standardized contract for the future delivery of a specified amount of a foreign currency at a future date at a price set at the time of the contract. Foreign currency futures contracts traded in the United States are designed by and traded on exchanges regulated by the CFTC, such as the New York Mercantile Exchange.

Forward foreign currency exchange contracts differ from foreign currency futures contracts in certain respects. For example, the maturity date of a forward contract may be any fixed number of days from the date of the contract agreed upon by the parties, rather than a predetermined date in a given month. Forward contracts may be in any amounts agreed upon by the parties rather than predetermined amounts. Also, forward foreign exchange contracts are traded directly between currency traders so that no intermediary is required. A forward contract generally requires no margin or other deposit.

At the maturity of a forward or futures contract, the Fund either may accept or make delivery of the currency specified in the contract, or at or prior to maturity enter into a closing transaction involving the purchase or sale of an offsetting contract. Closing transactions with respect to forward contracts are usually effected with the currency trader who is a party to the original forward contract. Closing transactions with respect to futures contracts are effected on a commodities exchange; a clearing corporation associated with the exchange assumes responsibility for closing out such contracts.

Positions in the foreign currency futures contracts may be closed out only on an exchange or board of trade which provides a secondary market in such contracts. Although the Fund intends to purchase or sell foreign currency futures contracts only on exchanges or boards of trade where there appears to be an active secondary market, there is no assurance that a secondary market on an exchange or board of trade will exist for any particular contract or at any particular time. In such event, it may not be possible to close a futures position and, in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin.

FOREIGN CURRENCY OPTIONS. In general, options on foreign currencies operate similarly to options on securities and are subject to many similar risks. Foreign currency options are traded primarily in the over-the-counter market, although options on foreign currencies have recently been listed on several exchanges. Options are traded not only on the currencies of individual nations, but also on the European Currency Unit ("ECU"). The ECU is composed of amounts of a number of currencies, and is the official medium of exchange of the European Community's European Monetary System.

The Fund will only purchase or write foreign currency options when Putnam Management believes that a liquid secondary market exists for such options. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. Options on foreign currencies are affected by all of those factors which influence foreign exchange rates and investments generally.

The value of any currency, including U.S. dollars and foreign currencies, may be affected by complex political and economic factors applicable to the issuing country. In addition, the exchange rates of foreign currencies (and therefore the values of foreign currency options) may be affected significantly, fixed, or supported directly or indirectly by U.S. and foreign government actions. Government intervention may increase risks involved in purchasing or selling foreign currency options, since exchange rates may not be free to fluctuate in response to other market forces.

The value of a foreign currency option reflects the value of an exchange rate, which in turn reflects relative values of two currencies, the U.S. dollar and the foreign currency in question. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the exercise of foreign currency options, investors may be disadvantaged by having to deal in an odd lot market for the underlying foreign currencies in connection with options at prices that are less favorable than for round lots. Foreign governmental restrictions or taxes could result in adverse changes in the cost of acquiring or disposing of foreign currencies.

There is no systematic reporting of last sale information for foreign currencies and there is no regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis. Available quotation information is generally representative of very large round-lot transactions in the interbank market and thus may not reflect exchange rates for smaller odd-lot transactions (less than $1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that options markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets.

SETTLEMENT PROCEDURES. Settlement procedures relating to the Fund's investments in foreign securities and to the Fund's foreign currency exchange transactions may be more complex than settlements with respect to investments in debt or equity securities of U.S. issuers, and may involve certain risks not present in the Fund's domestic investments. For example, settlement of transactions involving foreign securities or foreign currency may occur within a foreign country, and the Fund may be required to accept or make delivery of the underlying securities or currency in conformity with any applicable U.S. or foreign restrictions or regulations, and may be required to pay any fees, taxes or charges associated with such delivery. Such investments may also involve the risk that an entity involved in the settlement may not meet its obligations.

FOREIGN CURRENCY CONVERSION. Although foreign exchange dealers do not charge a fee for currency conversion, they do realize a profit based on the difference (the "spread") between prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

RESTRICTED SECURITIES

The SEC Staff currently takes the view that any designation by the Trustees of the authority to determine that a restricted security is readily marketable (as described in the investment restrictions of the Funds) must be pursuant to written procedures established by the Trustees. It is the present intention of the Funds' Trustees that, if the Trustees decide to delegate such determinations to Putnam Management or another person, they would do so pursuant to written procedures, consistent with the Staff's position. Should the Staff modify its position in the future, the Trustees would consider what action would be appropriate in light of the Staff's position at that time.

TAXES

TAXATION OF THE FUND. The Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). In order so to qualify and to qualify for the special tax treatment accorded regulated investment companies and their shareholders, the Fund must, among other things:

(a) Derive at least 90% of its gross income from dividends, interest, payments with respect to certain securities loans, and gains from the sale of stock, securities and foreign currencies, or other income (including but not limited to gains from options, futures, or forward contracts) derived with respect to its business of investing in such stock, securities, or currencies;

(b) derive less than 30% of its gross income from the sale or other disposition of certain assets (including stock or securities and certain options, futures contracts, forward contracts and foreign currencies) held for less than three months;

(c) distribute with respect to each taxable year at least 90% of the sum of its taxable net investment income, its net tax-exempt income, and the excess, if any, of net short-term capital gains over net long-term capital losses for such year; and

(d) diversify its holdings so that, at the end of each fiscal quarter, (i) at least 50% of the market value of the Fund's assets is represented by cash and cash items, U.S. Government securities, securities of other regulated investment companies, and other securities limited in respect of any one issuer to a value not greater than 5% of the value of the Fund's total assets and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities (other than those of the U.S. Government or other regulated investment companies) of any one issuer or of two or more issuers which the Fund controls and which are engaged in the same, similar, or related trades or businesses.

If the Fund qualifies as a regulated investment company that is accorded special tax treatment, the Fund will not be subject to federal income tax on income paid to its shareholders in the form of dividends (including capital gain dividends).

If the Fund failed to qualify as a regulated investment company accorded special tax treatment in any taxable year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to shareholders as ordinary income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a regulated investment company that is accorded special tax treatment.

If the Fund fails to distribute in a calendar year substantially all of its ordinary income for such year and substantially all of its capital gain net income for the one-year period ending October 31 (or later if the Fund is permitted so to elect and so elects), plus any retained amount from the prior year, the Fund will be subject to a 4% excise tax on the undistributed amounts. A dividend paid to shareholders by the Fund in January of a year generally is deemed to have been paid by the Fund on December 31 of the preceding year, if the dividend was declared and payable to shareholders of record on a date in October, November or December of that preceding year. The Fund intends generally to make distributions sufficient to avoid imposition of the 4% excise tax.

EXEMPT-INTEREST DIVIDENDS. The Fund will be qualified to pay exempt-interest dividends to its shareholders only if, at the close of each quarter of the Fund's taxable year, at least 50% of the total value of the Fund's assets consists of obligations the interest on which is exempt from federal income tax. Distributions that the Fund properly designates as exempt-interest dividends are treated by shareholders as interest excludable from their gross income for federal income tax purposes but may be taxable for federal alternative minimum tax purposes and for state and local purposes. If the Fund intends to be qualified to pay exempt-interest dividends, the Fund may be limited in its ability to enter into taxable transactions involving forward commitments, repurchase agreements, financial futures, and options contracts on financial futures, tax-exempt bond indices, and other assets.

Part or all of the interest on indebtedness, if any, incurred or continued by a shareholder to purchase or carry shares of a Fund paying exempt-interest dividends is not deductible. The portion of interest that is not deductible is equal to the total interest paid or accrued on the indebtedness, multiplied by the percentage of the Fund's total distributions (not including distributions from net long-term capital gains) paid to the shareholder that are exempt-interest dividends. Under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of shares may be considered to have been made with borrowed funds even though such funds are not directly traceable to the purchase of shares.

In general, exempt-interest dividends, if any, attributable to interest received on certain private activity obligations and certain industrial development bonds will not be tax-exempt to any shareholders who are "substantial users" of the facilities financed by such obligations or bonds or who are "related persons" of such substantial users.

A Fund which is qualified to pay exempt-interest dividends will inform investors within 60 days of the Fund's fiscal year-end of the percentage of its income distributions designated as tax-exempt. The percentage is applied uniformly to all distributions made during the year. The percentage of income designated as tax-exempt for any particular distribution may be substantially different from the percentage of the Fund's income that was tax-exempt during the period covered by the distribution.

HEDGING TRANSACTIONS. If the Fund engages in transactions, including hedging transactions in options, futures contracts, and straddles, or other similar transactions, it will be subject to special tax rules (including mark-to-market, straddle, wash sale, and short sale rules), the effect of which may be to accelerate income to the Fund, defer losses to the Fund, cause adjustments in the holding periods of the Fund's securities, or convert short-term capital losses into long-term capital losses. These rules could therefore affect the amount, timing and character of distributions to shareholders. The Fund will endeavor to make any available elections pertaining to such transactions in a manner believed to be in the best interests of the Fund.

Under the 30% of gross income test described above (see "Taxation of the Fund"), the Fund will be restricted in selling assets held or considered under Code rules to have been held for less than three months, and in engaging in certain hedging transactions (including hedging transactions in options and futures) that in some circumstances could cause certain Fund assets to be treated as held for less than three months.

Certain of the Fund's hedging activities (including its transactions, if any, in foreign currencies or foreign currency-denominated instruments) are likely to produce a difference between its book income and its taxable income. If the Fund's book income exceeds its taxable income, the distribution (if any) of such excess will be treated as a dividend to the extent of the Fund's remaining earnings and profits (including earnings and profits arising from tax-exempt income), and thereafter as a return of capital or as gain from the sale or exchange of a capital asset, as the case may be. If the Fund's book income is less than its taxable income, the Fund could be required to make distributions exceeding book income to qualify as a regulated investment company that is accorded special tax treatment.

RETURN OF CAPITAL DISTRIBUTIONS. If the Fund makes a distribution to you in excess of its current and accumulated "earnings and profits" in any taxable year, the excess distribution will be treated as a return of capital to the extent of your tax basis in your shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces your tax basis in your shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by you of your shares.

SECURITIES ISSUED OR PURCHASED AT A DISCOUNT. The Fund's investment in securities issued at a discount and certain other obligations will (and investments in securities purchased at a discount may) require the Fund to accrue and distribute income not yet received. In order to generate sufficient cash to make the requisite distributions, the Fund may be required to sell securities in its portfolio that it otherwise would have continued to hold.

CAPITAL LOSS CARRYOVER. The amounts and expiration dates of any capital loss carryovers available to the Fund are shown in Note 1 (Federal income taxes) to the financial statements included in Part I of this Statement or incorporated by reference into this Statement.

FOREIGN CURRENCY-DENOMINATED SECURITIES AND RELATED HEDGING TRANSACTIONS. The Fund's transactions in foreign currencies, foreign currency-denominated debt securities and certain foreign currency options, futures contracts, and forward contracts (and similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned.

If more than 50% of the Fund's assets at year end consists of the debt and equity securities of foreign corporations, the Fund may elect to permit shareholders to claim a credit or deduction on their income tax returns for their pro rata portion of qualified taxes paid by the Fund to foreign countries. In such a case, shareholders will include in gross income from foreign sources their pro rata shares of such taxes. A shareholder's ability to claim a foreign tax credit or deduction in respect of foreign taxes paid by the Fund may be subject to certain limitations imposed by the Code, as a result of which a shareholder may not get a full credit or deduction for the amount of such taxes. Shareholders who do not itemize on their federal income tax returns may claim a credit (but no deduction) for such foreign taxes.

Investment by the Fund in certain "passive foreign investment companies" could subject the Fund to a U.S. federal income tax or other charge on the proceeds from the sale of its investment in such a company; however, this tax can be avoided by making an election to mark such investments to market annually or to treat the passive foreign investment company as a "qualified electing fund."

SALE OR REDEMPTION OF SHARES. The sale, exchange or redemption of Fund shares may give rise to a gain or loss. In general, any gain or loss realized upon a taxable disposition of shares will be treated as long-term capital gain or loss if the shares have been held for more than 12 months, and otherwise as short-term capital gain or loss. However, if a shareholder sells shares at a loss within six months of purchase, any loss will be disallowed for Federal income tax purposes to the extent of any exempt-interest dividends received on such shares. In addition, any loss (not already disallowed as provided in the preceding sentence) realized upon a taxable disposition of shares held for six months or less will be treated as long-term, rather than short-term, to the extent of any long-term capital gain distributions received by the shareholder with respect to the shares. All or a portion of any loss realized upon a taxable disposition of Fund shares will be disallowed if other Fund shares are purchased within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

SHARES PURCHASED THROUGH TAX-QUALIFIED PLANS. Special tax rules apply to investments though defined contribution plans and other tax-qualified plans. Shareholders should consult their tax adviser to determine the suitability of shares of a fund as an investment through such plans and the precise effect of an investment on their particular tax situation.

BACKUP WITHHOLDING. The Fund generally is required to withhold and remit to the U.S. Treasury 31% of the taxable dividends and other distributions paid to any individual shareholder who fails to furnish the Fund with a correct taxpayer identification number (TIN), who has underreported dividends or interest income, or who fails to certify to the Fund that he or she is not subject to such withholding. Shareholders who fail to furnish their currect TIN are subject to a penalty of $50 for each such failure unless the failure is due to reasonable cause and not wilful neglect. An individual's taxpayer identification number is his or her social security number.

MANAGEMENT OF THE FUND

TRUSTEES

*+GEORGE PUTNAM, Chairman and President. Chairman and Director of Putnam Management and Putnam Mutual Funds. 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.

+WILLIAM F. POUNDS, Vice Chairman. Professor of Management, Alfred P. Sloan School of Management, Massachusetts Institute of Technology. Director of EG&G, Inc., Fisher Price, Inc., IDEXX, M/A-COM, Inc., and Sun Company, Inc.

JAMESON A. BAXTER, Trustee. President, Baxter Associates, Inc. (consultants to management). Director of Avondale Federal Savings Bank, ASHTA Chemicals, Inc. and Banta Corporation. Chairman of the Board of Trustees, Mount Holyoke College.

+HANS H. ESTIN, Trustee. Vice Chairman, North American Management Corp. (a registered investment adviser). Director of The Boston Company, Inc. and Boston Safe Deposit and Trust Company.

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

*LAWRENCE J. LASSER, Trustee and Vice President. President, Chief Executive Officer and Director of Putnam Investments, Inc. and Putnam Investment Management, Inc. Director of Marsh & McLennan Companies, Inc. Vice President of the Putnam funds.

JOHN A. HILL, Trustee. Chairman and Managing Director, First Reserve Corporation (a registered investment adviser). Director, Lantana Corporation, Maverick Tube Corporation, Snyder Oil Corporation and various First Reserve Funds.

+ROBERT E. PATTERSON, Trustee. Executive Vice President, Cabot Partners Limited Partnership (a registered investment adviser).

DONALD S. PERKINS, Trustee. Director of various corporations, including American Telephone & Telegraph Company, AON Corp., Cummins Engine Company, Inc., Illinois Power Company, Inland Steel Industries, Inc., K mart Corporation, LaSalle Street Fund, Inc., Springs Industries, Inc., TBG, Inc. and Time Warner Inc.

*#GEORGE PUTNAM, III, Trustee. President, New Generation Research, Inc. (publisher of bankruptcy information). Director, World Environment Center.

*A.J.C. SMITH, Trustee. Chairman, Chief Executive Officer and Director, Marsh & McLennan Companies, Inc.

W. NICHOLAS THORNDIKE, Trustee. Director of various corporations and charitable organizations, including Courier Corporation and Providence Journal Co. Also, Trustee and President of Massachusetts General Hospital and Trustee of Bradley Real Estate Trust and Eastern Utilities Associates.

OFFICERS

CHARLES E. PORTER, Executive Vice President. Managing Director of Putnam Investments, Inc. and Putnam Investment Management, Inc. Executive Vice President of the Putnam funds.

PATRICIA C. FLAHERTY, Senior Vice President. Senior Vice President of Putnam Investments, Inc. and Putnam Investment Management, Inc.

WILLIAM N. SHIEBLER, Vice President. Director and Senior Managing Director of Putnam Investments, Inc. President, Chief Operating Officer and Director of Putnam Mutual Funds. Vice President of the Putnam funds.

GORDON H. SILVER, Vice President. Senior Managing Director of Putnam Investments, Inc. and Putnam Investment Management, Inc. Director, Putnam Investments, Inc. and Putnam Investment Management, Inc. Vice President of the Putnam funds.

JOHN R. VERANI, Vice President. Senior Vice President of Putnam Investments, Inc. and Putnam Investment Management, Inc. Vice President of the Putnam funds.

PAUL M. O'NEIL, Vice President. Vice President of Putnam Investments, Inc. and Putnam Investment Management, Inc. Vice President of the Putnam funds.

JOHN D. HUGHES, Vice President and Treasurer. Vice President and Treasurer of the Putnam funds.

KATHERINE HOWARD, Assistant Vice President. Assistant Vice President of the Putnam funds.

BEVERLY MARCUS, Clerk and Assistant Treasurer. Clerk and Assistant Treasurer of the Putnam funds.

*Trustees who are "interested persons" (as defined in the Investment Company Act of 1940) of the Fund, Putnam Management or Putnam Mutual Funds.

+Members of the Executive Committee of the Trustees. The Executive Committee meets between regular meetings of the Trustees as may be required to review investment matters and other affairs of the Fund and may exercise all of the powers of the Trustees.

#George Putnam, III is the son of George Putnam.

Certain other officers of Putnam Management are officers of your Fund. SEE "ADDITIONAL OFFICERS OF THE FUND" IN PART I OF THIS STATEMENT. The mailing address of each of the officers and Trustees is One Post Office Square, Boston, Massachusetts 02109.

Except as stated below, the principal occupations of the officers and Trustees for the last five years have been with the employers as shown above, although in some cases they have held different positions with such employers. Also, prior to January, 1992, Ms. Baxter was Vice President and Principal, Regency Group, Inc. and Consultant, The First Boston Corporation. Prior to May, 1991, Mr. Pounds was Senior Advisor to the Rockefeller Family and Associates, Chairman of Rockefeller Trust Company and Director of Rockefeller Group, Inc. Prior to November, 1990, Mr. Shiebler was President and Chief Operating Officer of the Intercapital Division of Dean Witter Reynolds, Inc., Vice President of the Dean Witter Funds and Director of Dean Witter Trust Company.

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 and for special services rendered in that connection. All of the Trustees are Trustees of all the Putnam funds and each receives fees for his or her services. FOR DETAILS OF TRUSTEES' FEES PAID BY THE FUND, SEE "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT.

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 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.

Putnam Management, Putnam Mutual Funds and Putnam Fiduciary Trust Company are subsidiaries of Putnam Investments, Inc., a holding company which is in turn wholly owned by Marsh & McLennan Companies, Inc., a publicly owned holding company whose principal operating subsidiaries are international insurance and reinsurance brokers, investment managers and management consultants.

Trustees and officers of the Fund who are also officers of Putnam Management or its affiliates or who are stockholders of Marsh & McLennan Companies, Inc. will benefit from the advisory fees, sales commissions, distribution fees (if any), custodian fees and transfer agency fees paid or allowed by the Fund.

PUTNAM MANAGEMENT

Putnam Management is one of America's oldest and largest money management firms. Putnam Management's staff of experienced portfolio managers and research analysts selects securities and constantly supervises the Fund's portfolio. By pooling an investor's money with that of other investors, a greater variety of securities can be purchased than would be the case individually; the resulting diversification helps reduce investment risk. Putnam Management has been managing mutual funds since 1937. Today, the firm serves as the investment manager for the funds in the Putnam Family, with over $65 billion in assets in over 4.0 million shareholder accounts at June 30, 1994. An affiliate, The Putnam Advisory Company, Inc., manages domestic and foreign institutional accounts and mutual funds, including the accounts of many Fortune 500 companies. Another affiliate, Putnam Fiduciary Trust Company, provides investment advice to institutional clients under its banking and fiduciary powers. At June 30, 1994, Putnam Management and its affiliates managed over $92 billion in assets, including nearly $52 billion in tax exempt securities and over $32 billion in retirement plan assets.

THE MANAGEMENT CONTRACT

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

FOR DETAILS OF PUTNAM MANAGEMENT'S COMPENSATION UNDER THE MANAGEMENT CONTRACT, SEE "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT. Putnam Management's compensation under the Management Contract may be reduced in any year if the Fund's expenses exceed the limits 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 term "expenses" is defined in the statutes or regulations of such jurisdictions, and generally, excludes brokerage commissions, taxes, interest, extraordinary expenses and, if the Fund has a Distribution Plan, payments made under such Plan. The only such limitation as of the date of this Statement (applicable to any Fund registered for sale in California) was 2.5% of the first $30 million of average net assets, 2% of the next $70 million and 1.5% of any excess over $100 million.

Under the Management Contract, Putnam Management may reduce its compensation to the extent that the Fund's expenses exceed such lower expense limitation as Putnam Management may, by notice to the Fund, declare to be effective. The expenses subject to this limitation are exclusive of brokerage commissions, interest, taxes, deferred organizational and extraordinary expenses and, if the Fund has a Distribution Plan, payments required under such Plan. THE TERMS OF ANY EXPENSE LIMITATION FROM TIME TO TIME IN EFFECT ARE DESCRIBED IN EITHER THE PROSPECTUS OR PART I OF THIS STATEMENT.

In addition to the fee paid to Putnam Management, the Fund reimburses Putnam Management for the compensation and related expenses of certain officers of the Fund and their assistants who provide certain administrative services for the Fund and the other funds in the Putnam Family, each of which bears an allocated share of the foregoing costs. The aggregate amount of all such payments and reimbursements is determined annually by the Trustees. THE AMOUNT OF THIS REIMBURSEMENT FOR THE FUND'S MOST RECENT FISCAL YEAR IS INCLUDED IN "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT. Putnam Management pays all other salaries of officers of the Fund. The Fund pays all expenses not assumed by Putnam Management including, without limitation, auditing, legal, custodial, investor servicing and shareholder reporting expenses. The Fund pays the cost of typesetting for its Prospectuses and the cost of printing and mailing any Prospectuses sent to its shareholders. Putnam Mutual Funds pays the cost of printing and distributing all other Prospectuses.

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

The Management Contract may be terminated without penalty by vote of the Trustees or the shareholders of the Fund, or by Putnam Management, on 30 days' written notice. It may be amended only by a vote of the shareholders of the Fund. The Management Contract also terminates without payment of any penalty in the event of its assignment. The Management Contract provides that it will continue in effect only so long as such continuance is approved at least annually by vote of either the Trustees or the shareholders, and, in either case, by a majority of the Trustees who are not "interested persons" of Putnam Management or the Fund. In each of the foregoing cases, the vote of the shareholders is the affirmative vote of a "majority of the outstanding voting securities" as defined in the Investment Company Act of 1940.

PORTFOLIO TRANSACTIONS

INVESTMENT DECISIONS. Investment decisions for the Fund and for the other investment advisory clients of Putnam Management and its affiliates are made with a view to achieving their 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 or sold for certain 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 one or more clients when one or more other clients are selling the security. In some instances, one client may sell a particular security to another client. It also sometimes happens that two or more clients simultaneously purchase or sell the same security, in which event each day's transactions in such security are, insofar as possible, averaged as to price and allocated between such clients in a manner which in Putnam Management's opinion is equitable to each and in accordance with the amount being purchased or sold by each. There may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients.

BROKERAGE AND RESEARCH SERVICES. Transactions on U.S. stock exchanges, commodities markets and futures markets and other agency transactions involve the payment by the Fund of negotiated brokerage commissions. Such commissions vary among different brokers. A particular broker may charge different commissions according to such factors as the difficulty and size of the transaction. Transactions in foreign investments often involve the payment of fixed brokerage commissions, which may be higher than those in the United States. There is generally no stated commission in the case of securities traded in the over-the-counter markets, but the price paid by the Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by the Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer. It is anticipated that most purchases and sales of securities by funds investing primarily in tax-exempt securities and certain other 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. SEE "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT FOR INFORMATION CONCERNING COMMISSIONS PAID BY THE FUND.

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

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

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

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

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

PRINCIPAL UNDERWRITER

Putnam Mutual Funds is the principal underwriter of shares of the Fund and the other continuously offered Putnam funds. Putnam Mutual Funds is not obligated to sell any specific amount of shares of the Fund and will purchase shares for resale only against orders for shares. SEE "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT FOR INFORMATION ON SALES CHARGES AND OTHER PAYMENTS RECEIVED BY PUTNAM MUTUAL FUNDS.

INVESTOR SERVICING AGENT AND CUSTODIAN

Putnam Investor Services, a division of Putnam Fiduciary Trust Company ("PFTC"), is the Fund's investor servicing agent (transfer, plan and dividend disbursing agent), for which it receives fees which are paid monthly by the Fund as an expense of all its shareholders. The fee paid to Putnam Investor Services is determined by the Trustees taking into account the number of shareholder accounts and transactions. Putnam Investor Services has won the DALBAR Quality Tested Service Seal every year since the award's 1990 inception. Over 10,000 tests of 38 separate shareholders service components demonstrated that Putnam Investor Services exceeded the industry standard in all categories.

PFTC is the custodian of the Fund's assets. In carrying out its duties under its custodian contract, PFTC may employ one or more subcustodians whose responsibilities will include safeguarding and controlling the Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on the Fund's investments. PFTC and any subcustodians employed by it have a lien on the securities of the Fund (to the extent permitted by the Fund's investment restrictions) to secure charges and any advances made by such subcustodians at the end of any day for the purpose of paying for securities purchased by the Fund. The Fund expects that such advances will exist only in unusual circumstances. Neither PFTC nor any subcustodian determines the investment policies of the Fund or decides which securities the Fund will buy or sell. PFTC pays the fees and other charges of any subcustodians employed by it. The Fund may from time to time pay custodial expenses in full or in part through the placement by Putnam Management of the Fund's portfolio transactions with the subcustodians or with a third-party broker having an agreement with the subcustodians. The Fund pays PFTC an annual fee based on the Fund's assets, securities transactions and securities holdings and reimburses PFTC for certain out-of-pocket expenses incurred by it or any subcustodian employed by it in performing custodial services.

SEE "FUND CHARGES AND EXPENSES" IN PART I OF THIS STATEMENT FOR INFORMATION ON FEES AND REIMBURSEMENTS FOR INVESTOR SERVICING AND CUSTODY RECEIVED BY PFTC. THE FEES MAY BE REDUCED BY CREDITS ALLOWED BY PFTC.

DETERMINATION OF NET ASSET VALUE

The Fund determines the net asset value per share of each class of shares once each day the New York Stock Exchange (the "Exchange") is open. Currently, the Exchange is closed Saturdays, Sundays and the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, the Fourth of July, Labor Day, Thanksgiving and Christmas. The Fund determines net asset value as of the close of regular trading on the Exchange, currently 4:00 p.m. However, equity options held by the Fund are priced as of the close of trading at 4:10 p.m., and futures contracts on U.S. Government securities and index options held by the Fund are priced as of their close of trading at 4:15 p.m.

Securities for which market quotations are readily available are valued at prices which, in the opinion of the Trustees or Putnam Management, most nearly represent the market values of such securities. Currently, such prices are determined using the last reported sale price or, if no sales are reported (as in the case of some securities traded over-the-counter), the last reported bid price, except that certain U.S. Government securities are stated at the mean between the last reported bid and asked prices. Short-term investments having remaining maturities of 60 days or less are stated at amortized cost, which approximates market value. All other securities and assets are valued at their fair value following procedures approved by the Trustees. Liabilities are deducted from the total, and the resulting amount is divided by the number of shares of the class outstanding.

Reliable market quotations are not considered to be readily available for long-term corporate bonds and notes, certain preferred stocks, tax-exempt securities, and certain foreign securities. These investments are stated at fair value on the basis of valuations furnished by pricing services approved by the Trustees, which determine valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders.

If any securities held by the Fund are restricted as to resale, Putnam Management determines their fair value following procedures approved by the Trustees. The fair value of such securities is generally determined as the amount which the Fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. The valuation procedures applied in any specific instance are likely to vary from case to case. However, consideration is generally given to the financial position of the issuer and other fundamental analytical data relating to the investment and to the nature of the restrictions on disposition of the securities (including any registration expenses that might be borne by the Fund in connection with such disposition). In addition, specific factors are also generally considered, such as the cost of the investment, the market value of any unrestricted securities of the same class, the size of the holding, the prices of any recent transactions or offers with respect to such securities and any available analysts' reports regarding the issuer.

Generally, trading in certain securities (such as foreign securities) is substantially completed each day at various times prior to the close of the Exchange. The values of these securities used in determining the net asset value of the Fund's shares are computed as of such times. Also, because of the amount of time required to collect and process trading information as to large numbers of securities issues, the values of certain securities (such as convertible bonds, U.S. Government securities, and tax-exempt securities) are determined based on market quotations collected earlier in the day at the latest practicable time prior to the close of the Exchange. Occasionally, events affecting the value of such securities may occur between such times and the close of the Exchange which will not be reflected in the computation of the Fund's net asset value. If events materially affecting the value of such securities occur during such period, then these securities will be valued at their fair value following procedures approved by the Trustees.

Money market funds generally value their portfolio securities at amortized cost according to Rule 2a-7 under the Investment Company Act of 1940.

HOW TO BUY SHARES

General

The Prospectus contains a general description of how investors may buy shares of the Fund and states whether the Fund offers more than one class of shares. This Statement contains additional information which may be of interest to investors.

Class A shares and Class M shares are sold with a sales charge payable at the time of purchase (except for Class A shares and Class M shares of money market funds). As used in this Statement and unless the context requires otherwise, the term "Class A shares" includes shares of Funds that offer only one class of shares. The Prospectus contains a table of applicable sales charges. For information about how to purchase Class A shares of a Putnam fund at net asset value through an employer's defined contribution plan, please consult your employer. Certain purchases of Class A shares and Class M shares may be exempt from a sales charge or, in the case of Class A shares, may be subject to a contingent deferred sales charge ("CDSC"). See "General--Sales without sales charges or contingent deferred sales charges", "Additional Information About Class A and Class M Shares", and "Contingent Deferred Sales Charges--Class A shares".

Class B shares and Class C shares are sold subject to a CDSC payable upon redemption within a specified period after purchase. The Prospectus contains a table of applicable CDSCs.

Class Y shares, which are available only to employer-sponsored defined contribution plans initially investing at least $250 million in a combination of Putnam funds and other investments managed by Putnam Management or its affiliates, are not subject to sales charges or a CDSC.

Certain purchase programs described below are not available to defined contribution plans. Consult your employer for information on how to purchase shares through your plan.

The Fund is currently making a continuous offering of its shares. The Fund receives the entire net asset value of shares sold. The Fund will accept unconditional orders for shares to be executed at the public offering price based on the net asset value per share next determined after the order is placed. In the case of Class A shares and Class M shares, the public offering price is the net asset value plus the applicable sales charge, if any. No sales charge is included in the public offering price of other classes of shares. In the case of orders for purchase of shares placed through dealers, the public offering price will be based on the net asset value determined on the day the order is placed, but only if the dealer receives the order before the close of regular trading on the Exchange. If the dealer receives the order after the close of the Exchange, the price will be based on the net asset value next determined. If funds for the purchase of shares are sent directly to Putnam Investor Services, they will be invested at the public offering price based on the net asset value next determined after receipt. Payment for shares of the Fund must be in U.S. dollars; if made by check, the check must be drawn on a U.S. bank.

Initial and subsequent purchases must satisfy the minimums stated in the Prospectus, except that (i) individual investments under certain employee benefit plans or Tax Qualified Retirement Plans may be lower, (ii) persons who are already shareholders may make additional purchases of $50 or more by sending funds directly to Putnam Investor Services (see "Your Investing Account" below), and (iii) for investors participating in systematic investment plans and military allotment plans, the initial and subsequent purchases must be $25 or more. Information about these plans is available from investment dealers or from Putnam Mutual Funds.

As a convenience to investors, shares may be purchased through a systematic investment plan. Preauthorized monthly bank drafts for a fixed amount (at least $25) are used to purchase Fund shares at the applicable public offering price next determined after Putnam Mutual Funds receives the proceeds from the draft (normally the 20th of each month, or the next business day thereafter). Further information and application forms are available from investment dealers or from Putnam Mutual Funds.

Except for Putnam funds that declare a distribution daily, distributions to be reinvested are reinvested without a sales charge in shares of the same class as of the ex-dividend date using the net asset value determined on that date, and are credited to a shareholder's account on the payment date. Dividends for Putnam money market funds are credited to a shareholder's account on the payment date. Distributions for Putnam Tax-Free Income Trust and Putnam Corporate Asset Trust are reinvested without a sales charge as of the last day of the period for which distributions are paid using the net asset value determined on that date, and are credited to a shareholder's account on the payment date. Distributions for all other Putnam funds that declare a distribution daily are reinvested without a sales charge as of the next day following the period for which distributions are paid using the net asset value determined on that date, and are credited to a shareholder's account on the payment date.

PAYMENT IN SECURITIES. In addition to cash, the Fund may accept securities as payment for Fund shares at the applicable net asset value. Generally, the Fund will only consider accepting securities to increase its holdings in a portfolio security, or if Putnam Management determines that the offered securities are a suitable investment for the Fund and in a sufficient amount for efficient management.

While no minimum has been established, it is expected that the Fund would not accept securities with a value of less than $100,000 per issue as payment for shares. The Fund may reject in whole or in part any or all offers to pay for purchases of Fund shares with securities, may require partial payment in cash for such purchases to provide funds for applicable sales charges, and may discontinue accepting securities as payment for Fund shares at any time without notice. The Fund will value accepted securities in the manner described in the section "Determination of Net Asset Value" for valuing shares of the Fund. The Fund will only accept securities which are delivered in proper form. The Fund will not accept options or restricted securities as payment for shares. The acceptance of securities by certain Funds in exchange for Fund shares are subject to additional requirements. In the case of Putnam Capital Appreciation Fund, Putnam Diversified Equity Trust, Putnam Equity Income Fund, Putnam Europe Growth Fund, The Putnamn Fund for Growth & Income, Putnam Growth and Income Fund II, Putnam High Yield Advantage Fund, Putnam Intermediate Tax Exempt Fund, Putnam Municipal Income Fund, Putnam OTC Emerging Growth Fund, Putnam Overseas Growth Fund and Putnam Total Return Bond Funds, transactions involving the issuance of Fund shares for securities or assets other than cash will be limited to a bona-fide re-organization or statutory merger and to other acquisitions of portfolio securities that meet all the following conditions: (a) such securities meet the investment objectives and policies of the Fund; (b) such securities are acquired for investment and not for resale; (c) such securities are liquid securities which are not restricted as to transfer either by law or liquidity of market; and (d) such securities have a value which is readily ascertainable, as evidenced by a listing on the American Stock Exchange, the New York Stock Exchange or NASDAQ. In addition, Putnam Global Governmental Income Trust may accept only investment grade bonds with prices regularly stated in publications generally accepted by investors, such as the London Financial Times and the Association of International Bond Dealers manual, or securities listed on the New York or American Stock Exchanges or with NASDAQ, and Putnam Diversified Income Trust may accept only bonds with prices regularly stated in publications generally accepted by investors. For federal income tax purposes, a purchase of Fund shares with securities will be treated as a sale or exchange of such securities on which the investor will realize a taxable gain or loss. The processing of a purchase of Fund shares with securities involves certain delays while the Fund considers the suitability of such securities and while other requirements are satisfied. For information regarding procedures for payment in securities, contact Putnam Mutual Funds. Investors should not send securities to the Fund except when authorized to do so and in accordance with specific instructions received from Putnam Mutual Funds.

SALES WITHOUT SALES CHARGES OR CONTINGENT DEFERRED SALES CHARGES. The Fund may sell shares without a sales charge or CDSC to:

(i) current and retired Trustees of the Fund; officers of the Fund; directors and current and retired U.S. full-time employees of Putnam Management, Putnam Mutual Funds, their parent corporations and certain corporate affiliates; family members of and employee benefit plans for the foregoing; and partnerships, trusts or other entities in which any of the foregoing has a substantial interest;

(ii) employee benefit plans, for the repurchase of shares in connection with repayment of plan loans made to plan participants (if the sum loaned was obtained by redeeming shares of a Putnam fund sold with a sales charge) (not offered by tax-exempt funds);

(iii) clients of administrators of tax-qualified employee benefit plans which have entered into agreements with Putnam Mutual Funds (not offered by tax-exempt funds);

(iv) registered representatives and other employees of broker-dealers having sales agreements with Putnam Mutual Funds; employees of financial institutions having sales agreements with Putnam Mutual Funds or otherwise having an arrangement with any such broker-dealer or financial institution with respect to sales of Fund shares; and their spouses and children under age 21 (Putnam Mutual Funds is regarded as the dealer of record for all such accounts);

(v) investors meeting certain requirements who sold shares of certain Putnam closed-end funds pursuant to a tender offer by such closed-end fund;

(vi) a trust department of any financial institution purchasing shares of the Fund in its capacity as trustee of any trust, if the value of the shares of the Fund and other Putnam funds purchased or held by all such trusts exceeds $1 million in the aggregate; and

(vii) "wrap accounts" maintained for clients of broker-dealers, financial institutions or financial planners who have entered into agreements with Putnam Mutual Funds with respect to such accounts.

In addition, the Fund may issue its shares at net asset value in connection with the acquisition of substantially all of the securities owned by other investment companies or personal holding companies.

PAYMENTS TO DEALERS. Putnam Mutual Funds may, at its expense, pay concessions in addition to the payments disclosed in the Prospectus to dealers which satisfy certain criteria established from time to time by Putnam Mutual Funds relating to increasing net sales of shares of the Putnam funds over prior periods, and certain other factors.

ADDITIONAL INFORMATION ABOUT CLASS A AND CLASS M SHARES

The underwriter's commission is the sales charge shown in the Prospectus less any applicable dealer discount. Putnam Mutual Funds will give dealers ten days' notice of any changes in the dealer discount. Putnam Mutual Funds retains the entire sales charge on any retail sales made by it.

Putnam Mutual Funds offers several plans by which an investor may obtain reduced sales charges on purchases of Class A shares and Class M shares. The variations in sales charges reflect the varying efforts required to sell shares to separate categories of purchasers. These plans may be altered or discontinued at any time.

COMBINED PURCHASE PRIVILEGE. The following persons may qualify for the sales charge reductions or eliminations shown in the Prospectus by combining into a single transaction the purchase of Class A shares or Class M shares with other purchases of any class of shares:

(i) an individual, or a "company" as defined in Section 2(a)(8) of the Investment Company Act of 1940 (which includes corporations which are corporate affiliates of each other);

(ii) an individual, his or her spouse and their children under twenty-one, purchasing for his, her or their own account;

(iii) a trustee or other fiduciary purchasing for a single trust estate or single fiduciary account (including a pension, profit-sharing, or other employee benefit trust created pursuant to a plan qualified under Section 401 of the Internal Revenue Code);

(iv) tax-exempt organizations qualifying under Section 501(c)(3) of the Internal Revenue Code (not including 403(b) plans); and

(v) employee benefit plans of a single employer or of affiliated employers, other than 403(b) plans.

A combined purchase currently may also include shares of any class of other continuously offered Putnam funds (other than money market funds) purchased at the same time through a single investment dealer, if the dealer places the order for such shares directly with Putnam Mutual Funds.

CUMULATIVE QUANTITY DISCOUNT (RIGHT OF ACCUMULATION). A purchaser of Class A shares or Class M shares may qualify for a cumulative quantity discount by combining a current purchase (or combined purchases as described above) with certain other shares of any class of Putnam funds already owned. The applicable sales charge is based on the total of:

(i) the investor's current purchase; and

(ii) the maximum public offering price (at the close of business on the previous day) of:

(a) all shares held by the investor in all of the Putnam funds (except money market funds); and

(b) any shares of money market funds acquired by exchange from other Putnam funds; and

(iii) the maximum public offering price of all shares described in paragraph (ii) owned by another shareholder eligible to participate with the investor in a "combined purchase" (see above).

To qualify for the combined purchase privilege or to obtain the cumulative quantity discount on a purchase through an investment dealer, when each purchase is made the investor or dealer must provide Putnam Mutual Funds with sufficient information to verify that the purchase qualifies for the privilege or discount. The shareholder must furnish this information to Putnam Investor Services when making direct cash investments.

STATEMENT OF INTENTION. Investors may also obtain the reduced sales charges for Class A shares or Class M shares shown in the Prospectus for investments of a particular amount by means of a written Statement of Intention, which expresses the investor's intention to invest that amount (including certain "credits," as described below) within a period of 13 months in shares of any class of the Fund or any other continuously offered Putnam fund (excluding money market funds). Each purchase of Class A shares or Class M shares under a Statement of Intention will be made at the public offering price applicable at the time of such purchase to a single transaction of the total dollar amount indicated in the Statement. A Statement of Intention may include purchases of shares made not more than 90 days prior to the date that an investor signs a Statement; however, the 13-month period during which the Statement is in effect will begin on the date of the earliest purchase to be included.

An investor may receive a credit toward the amount indicated in the Statement equal to the maximum public offering price as of the close of business on the previous day of all shares he or she owns on the date of the Statement which are eligible for purchase under a Statement (plus any shares of money market funds acquired by exchange of such eligible shares). Investors do not receive credit for shares purchased by the reinvestment of distributions. Investors qualifying for the "combined purchase privilege" (see above) may purchase shares under a single Statement of Intention.

The Statement of Intention is not a binding obligation upon the investor to purchase the full amount indicated. The minimum initial investment under a Statement of Intention is 5% of such amount, and must be invested immediately. Class A shares or Class M shares purchased with the first 5% of such amount will be held in escrow to secure payment of the higher sales charge applicable to the shares actually purchased if the full amount indicated is not purchased. When the full amount indicated has been purchased, the escrow will be released. If an investor desires to redeem escrowed shares before the full amount has been purchased, the shares will be released from escrow only if the investor pays the sales charge that, without regard to the Statement of Intention, would apply to the total investment made to date.

To the extent that an investor purchases more than the dollar amount indicated on the Statement of Intention and qualifies for a further reduced sales charge, the sales charge will be adjusted for the entire amount purchased at the end of the 13-month period, upon recovery from the investor's dealer of its portion of the sales charge adjustment. Once received from the dealer, which may take a period of time or may never occur, the sales charge adjustment will be used to purchase additional shares at the then current offering price applicable to the actual amount of the aggregate purchases. These additional shares will not be considered as part of the total investment for the purpose of determining the applicable sales charge pursuant to the Statement of Intention. No sales charge adjustment will be made unless and until the investor's dealer returns any excess commissions previously received.

To the extent that an investor purchases less than the dollar amount indicated on the Statement of Intention within the 13-month period, the sales charge will be adjusted upward for the entire amount purchased at the end of the 13-month period. This adjustment will be made by redeeming shares from the account to cover the additional sales charge, the proceeds of which will be paid to the investor's dealer and Putnam Mutual Funds in accordance with the Prospectus. If the account exceeds an amount that would otherwise qualify for a reduced sales charge, that reduced sales charge will be applied.

Statements of Intention are not available for certain employee benefit plans.

Statement of Intention forms may be obtained from Putnam Mutual Funds or from investment dealers. Interested investors should read the Statement of Intention carefully.

REDUCED SALES CHARGE FOR GROUP PURCHASES OF CLASS A SHARES. Members of qualified groups may purchase Class A shares of the Fund at a group sales charge rate of 4.5% of the public offering price (4.71% of the net amount invested). The dealer discount on such sales is 3.75% of the offering price.

To receive the group rate, group members must purchase Class A shares through a single investment dealer designated by the group. The designated dealer must transmit each member's initial purchase to Putnam Mutual Funds, together with payment and completed application forms. After the initial purchase, a member may send funds for the purchase of Class A shares directly to Putnam Investor Services. Purchases of Class A shares are made at the public offering price based on the net asset value next determined after Putnam Mutual Funds or Putnam Investor Services receives payment for the shares. The minimum investment requirements described above apply to purchases by any group member. Only Class A shares are included in calculating the purchased amount.

Qualified groups include the employees of a corporation or a sole proprietorship, members and employees of a partnership or association, or other organized groups of persons (the members of which may include other qualified groups) provided that: (i) the group has at least 25 members of which at least 10 members participate in the initial purchase; (ii) the group has been in existence for at least six months; (iii) the group has some purpose in addition to the purchase of investment company shares at a reduced sales charge; (iv) the group's sole organizational nexus or connection is not that the members are credit card holders of a company, policy holders of an insurance company, customers of a bank or broker-dealer, clients of an investment adviser or security holders of a company; (v) the group agrees to provide its designated investment dealer access to the group's membership by means of written communication or direct presentation to the membership at a meeting on not less frequently than an annual basis; (vi) the group or its investment dealer will provide annual certification in form satisfactory to Putnam Investor Services that the group then has at least 25 members and that at least ten members participated in group purchases during the immediately preceding 12 calendar months; and (vii) the group or its investment dealer will provide periodic certification in form satisfactory to Putnam Investor Services as to the eligibility of the purchasing members of the group.

Members of a qualified group include: (i) any group which meets the requirements stated above and which is a constituent member of a qualified group; (ii) any individual purchasing for his or her own account who is carried on the records of the group or on the records of any constituent member of the group as being a good standing employee, partner, member or person of like status of the group or constituent member; or (iii) any fiduciary purchasing shares for the account of a member of a qualified group or a member's beneficiary. For example, a qualified group could consist of a trade association which would have as its members individuals, sole proprietors, partnerships and corporations. The members of the group would then consist of the individuals, the sole proprietors and their employees, the members of the partnerships and their employees, and the corporations and their employees, as well as the trustees of employee benefit trusts acquiring Class A shares for the benefit of any of the foregoing.

A member of a qualified group may, depending upon the value of Class A shares of the Fund owned or proposed to be purchased by the member, be entitled to purchase Class A shares of the Fund at non-group sales charge rates shown in the Prospectus which may be lower than the group sales charge rate, if the member qualifies as a person entitled to reduced non-group sales charges. Such a group member will be entitled to purchase at the lower rate if, at the time of purchase, the member or his or her investment dealer furnishes sufficient information for Putnam Mutual Funds or Putnam Investor Services to verify that the purchase qualifies for the lower rate.

Interested groups should contact their investment dealer or Putnam Mutual Funds. The Fund reserves the right to revise the terms of or to suspend or discontinue group sales at any time.

EMPLOYEE BENEFIT PLANS; INDIVIDUAL ACCOUNT PLANS. The term "employee benefit plan" means any plan or arrangement, whether or not tax-qualified, which provides for the purchase of Class A shares. The term "affiliated employer" means employers who are affiliated with each other within the meaning of Section 2(a)(3)(C) of the Investment Company Act of 1940. The term "individual account plan" means any employee benefit plan whereby (i) Class A shares are purchased through payroll deductions or otherwise by a fiduciary or other person for the account of participants who are employees (or their spouses) of an employer, or of affiliated employers, and (ii) a separate Investing Account is maintained in the name of such fiduciary or other person for the account of each participant in the plan.

The table of sales charges in the Prospectus applies to sales to employee benefit plans, except that the Fund may sell Class A shares at net asset value to employee benefit plans, including individual account plans, of employers or of affiliated employers which have at least 750 employees to whom such plan is made available, in connection with a payroll deduction system of plan funding (or other system acceptable to Putnam Investor Services) by which contributions or account information for plan participation are transmitted to Putnam Investor Services by methods acceptable to Putnam Investor Services. The Fund may also sell Class A shares at net asset value to employee benefit plans of employers or of affiliated employers which have at least 750 employees, if such plans are qualified under Section 401 of the Internal Revenue Code.

Additional information about employee benefit plans and individual account plans is available from investment dealers or from Putnam Mutual Funds.

CONTINGENT DEFERRED SALES CHARGES

CLASS A SHARES. Class A shares purchased at net asset value by shareholders investing $1 million or more, including purchases pursuant to any Combined Purchase Privilege, Right of Accumulation or Statement of Intention, are subject to a CDSC of 1.00% or 0.50%, respectively, if redeemed within the first or second year after purchase. The Class A CDSC is imposed on the lower of the cost and the current net asset value of the shares redeemed. The CDSC does not apply to shares sold without a sales charge through participant-directed qualified retirement plans and shares purchased by certain investors investing $1 million or more that have made arrangements with Putnam Mutual Funds and whose dealer of record waived the commission described in the next paragraph.

Except as stated below, Putnam Mutual Funds pays investment dealers of record commissions on sales of Class A shares of $1 million or more based on an investor's cumulative purchases of such shares, including purchases pursuant to any Combined Purchase Privilege, Right of Accumulation or Statement of Intention, during the one-year period beginning with the date of the initial purchase at net asset value and each subsequent one-year period beginning with the first net asset value purchase following the end of the prior period. Such commissions are paid at the rate of 1.00% of the amount under $3 million, 0.50% of the next $47 million and 0.25% thereafter. On sales at net asset value to a participant-directed qualified retirement plan initially investing less than $20 million in Putnam funds and other investments managed by Putnam Management or its affiliates (including a plan sponsored by an employer with more than 750 employees), Putnam Mutual Funds pays commissions on cumulative purchases during the life of the account at the rate of 1.00% of the amount under $3 million and 0.50% thereafter. On sales at net asset value to all other participant-directed qualified retirement plans, Putnam Mutual Funds pays commissions on the initial investment and on subsequent net quarterly sales (gross sales minus gross redemptions during the quarter) at the rate of 0.15%. Money market fund shares are excluded from all commission calculations, except for determining the amount initially invested by a participant-directed qualified retirement plan. Commissions on sales at net asset value to such plans are subject to Putnam Mutual Funds' right to reclaim such commissions if the shares are redeemed within two years.

Different CDSC and commission rates may apply to shares purchased before April 1, 1994.

CLASS B AND CLASS C SHARES. Investors who set up an Automatic Cash Withdrawal Plan (ACWP) for a Class B and Class C share account (see "Plans Available To Shareholders -- Automatic Cash

Withdrawal Plan") may withdraw through the ACWP up to 12% of the net asset value of the account (calculated as set forth below) each year without incurring any CDSC. Shares not subject to a CDSC (such as shares representing reinvestment of distributions) will be redeemed first and will count toward the 12% limitation. If there are insufficient shares not subject to a CDSC, shares subject to the lowest CDSC liability will be redeemed next until the 12% limit is reached. The 12% figure is calculated on a pro rata basis at the time of the first payment made pursuant to a ACWP and recalculated thereafter on a pro rata basis at the time of each ACWP payment. Therefore, shareholders who have chosen a ACWP based on a percentage of the net asset value of their account of up to 12% will be able to receive ACWP payments without incurring a CDSC. However, shareholders who have chosen a specific dollar amount (for example, $100 per month from a fund that pays income distributions monthly) for their periodic ACWP payment should be aware that the amount of that payment not subject to a CDSC may vary over time depending on the net asset value of their account. For example, if the net asset value of the account is $10,000 at the time of payment, the shareholder will receive $100 free of the CDSC (12% of $10,000 divided by 12 monthly payments). However, if at the time of the next payment the net asset value of the account has fallen to $9,400, the shareholder will receive $94 free of any CDSC (12% of $9,400 divided by 12 monthly payments) and $6 subject to the lowest applicable CDSC. This ACWP privilege may be revised or terminated at any time.

ALL SHARES. No CDSC is imposed on shares of any class subject to a CDSC ("CDSC Shares") to the extent that the CDSC Shares redeemed (i) are no longer subject to the holding period therefor, (ii) resulted from reinvestment of distributions on CDSC Shares, or (iii) were exchanged for shares of another Putnam fund, provided that the shares acquired in such exchange or subsequent exchanges (including shares of a Putnam money market fund) will continue to remain subject to the CDSC, if applicable, until the applicable holding period expires. In determining whether the CDSC applies to each redemption of CDSC Shares, CDSC Shares not subject to a CDSC are redeemed first.

The Fund will waive any CDSC on redemptions, in the case of individual or Uniform Transfers to Minors Act accounts, in case of death or disability or for the purpose of paying benefits pursuant to tax-qualified retirement plans. Such payments currently include, without limitation, (1) distributions from an IRA due to death or disability, (2) a return of excess contributions to an IRA or 401(k) plan, and (3) distributions from retirement plans qualified under section 401(a) or section 403(b)(7) (a "403(b) plan") of the Internal Revenue Code of 1986, as amended (the "Code"), due to death, disability, retirement or separation from service. The Fund will also waive any CDSC in the case of the death of one joint tenant. These waivers may be changed at any time. Additional waivers may apply to IRA accounts opened prior to February 1, 1994.

DISTRIBUTION PLAN

If the Fund or a class of shares of the Fund has adopted a Distribution Plan, the Prospectus describes the principal features of the Plan. This Statement contains additional information which may be of interest to investors.

Continuance of a Plan is subject to annual approval by a vote of the Trustees, including a majority of the Trustees who are not interested persons of the Fund and who have no direct or indirect interest in the Plan or related arrangements (the "Qualified Trustees"), cast in person at a meeting called for that purpose. All material amendments to a Plan must be likewise approved by the Trustees and the Qualified Trustees. No Plan may be amended in order to increase materially the costs which the Fund may bear for distribution pursuant to such Plan without also being approved by a majority of the outstanding voting securities of the Fund or the relevant class of the Fund, as the case may be. A Plan terminates automatically in the event of its assignment and may be terminated without penalty, at any time, by a vote of a majority of the Qualified Trustees or by a vote of a majority of the outstanding voting securities of the Fund or the relevant class of the Fund, as the case may be.

If Plan payments are made to reimburse Putnam Mutual Funds for payments to dealers based on the average net asset value of Fund shares attributable to shareholders for whom the dealers are designated as the dealer of record, "average net asset value" attributable to a shareholder account means the product of (i) the Fund's average daily share balance of the account and (ii) the Fund's average daily net asset value per share (or the average daily net asset value per share of the class, if applicable). For administrative reasons, Putnam Mutual Funds may enter into agreements with certain dealers providing for the calculation of "average net asset value" on the basis of assets of the accounts of the dealer's customers on an established day in each quarter.

Financial institutions receiving payments from Putnam Mutual Funds as described above may be required to comply with various state and federal regulatory requirements, including among others those regulating the activities of securities brokers or dealers.

INVESTOR SERVICES

SHAREHOLDER INFORMATION

Each time shareholders buy or sell shares, they will receive a statement confirming the transaction and listing their current share balance. (Under certain investment plans, a statement may only be sent quarterly.) Shareholders will receive a statement confirming reinvestment of distributions in additional Fund shares (or in shares of other Putnam funds for Dividends Plus accounts) promptly following the quarter in which the reinvestment occurs. To help shareholders take full advantage of their Putnam investment, they will receive a Welcome Kit and a periodic publication covering many topics of interest to investors. The Fund also sends annual and semiannual reports that keep shareholders informed about its portfolio and performance, and year-end tax information to simplify their recordkeeping. Easy-to-read, free booklets on special subjects such as the Exchange Privilege and IRAs are available from Putnam Investor Services. Shareholders may call Putnam Investor Services toll-free weekdays at 1-800-225-1581 between 8:30 a.m. and 7:00 p.m. Boston time for more information, including account balances.

YOUR INVESTING ACCOUNT

The following information provides more detail concerning the operation of a Putnam Investing Account. For further information or assistance, investors should consult Putnam Investor Services. Shareholders who purchase shares through a defined contribution plan should note that not all of the services or features described below may be available to them, and they should contact their employer for details.

A shareholder may reinvest a recent cash distribution without a front-end sales charge or without the reinvested shares being subject to a CDSC, as the case may be, by delivering to Putnam Investor Services the uncashed distribution check, endorsed to the order of the Fund. Putnam Investor Services must receive the properly endorsed check within 30 days after the date of the check. Upon written notice to shareholders, the Fund may permit shareholders who receive cash distributions to reinvest amounts representing returns of capital without a sales charge or without being subject to the CDSC.

The Investing Account also provides a way to accumulate shares of the Fund. In most cases, after an initial investment of $500, a shareholder may send checks to Putnam Investor Services for $50 or more, made payable to the Fund, to purchase additional shares at the applicable public offering price next determined after Putnam Investor Services receives the check. For Putnam Corporate Asset Trust, the minimum initial investment is $25,000 and the minimum subsequent investment is $5,000. Checks must be drawn on a U.S. bank and must be payable in U.S. dollars.

Putnam Investor Services acts as the shareholder's agent whenever it receives instructions to carry out a transaction on the shareholder's account. Upon receipt of instructions that shares are to be purchased for a shareholder's account, shares will be purchased through the investment dealer designated by the shareholder. Shareholders may change investment dealers at any time by written notice to Putnam Investor Services, provided the new dealer has a sales agreement with Putnam Mutual Funds.

Shares credited to an account are transferable upon written instructions in good order to Putnam Investor Services and may be sold to the Fund as described under "How to buy shares, sell shares and exchange shares" in the Prospectus. Money market funds and certain other funds will not issue share certificates. A shareholder may send any certificates which have been previously issued to Putnam Investor Services for safekeeping at no charge to the shareholder.

Putnam Mutual Funds, at its expense, may provide certain additional reports and administrative material to qualifying institutional investors with fiduciary responsibilities to assist these investors in discharging their responsibilities. Institutions seeking further information about this service should contact Putnam Mutual Funds, which may modify or terminate this service at any time.

Putnam Investor Services may make special services available to shareholders with investments exceeding $1,000,000. Contact Putnam Investor Services for details.

The Fund pays Putnam Investor Services' fees for maintaining Investing Accounts.

REINSTATEMENT PRIVILEGE

An investor who has redeemed shares to the Fund may reinvest (within 1 year) the proceeds of such sale in shares of the same class of the Fund, or may be able to reinvest (within 1 year) the proceeds in shares of the same class of one of the other continuously offered Putnam funds (through the Exchange Privilege described in the Prospectus), including, in the case of shares subject to a CDSC, the amount of CDSC charged on the redemption. Any such reinvestment would be at the net asset value of the shares of the fund(s) the investor selects, next determined after Putnam Mutual Funds receives a Reinstatement Authorization. The time that the previous investment was held will be included in determining any applicable CDSC due upon redemptions and, in the case of Class B shares, the eight-year period for conversion to Class A shares. Shareholders will receive from Putnam Mutual Funds the amount of any CDSC paid at the time of redemption as part of the reinstated investment, which may be treated as capital gains to the shareholder for tax purposes. Exercise of the Reinstatement Privilege does not alter the federal income tax treatment of any capital gains realized on a sale of Fund shares, but to the extent that any shares are sold at a loss and the proceeds are reinvested in shares of the Fund, some or all of the loss may be disallowed as a deduction. Consult your tax adviser. Investors who desire to exercise this Privilege should contact their investment dealer or Putnam Investor Services.

EXCHANGE PRIVILEGE

Except as otherwise set forth in this section, by calling Putnam Investor Services, investors may exchange shares valued up to $500,000 between accounts with identical registrations, provided that no certificates are outstanding for such shares and no address change has been made within the preceding 15 days. During periods of unusual market changes and shareholder activity, shareholders may experience delays in contacting Putnam Investor Services by telephone to exercise the Telephone Exchange Privilege.

Putnam Investor Services also makes exchanges promptly after receiving a properly completed Exchange Authorization Form and, if issued, share certificates. If the shareholder is a corporation, partnership, agent, or surviving joint owner, Putnam Investor Services will require additional documentation of a customary nature. Because an exchange of shares involves the redemption of Fund shares and reinvestment of the proceeds in shares of another Putnam fund, completion of an exchange may be delayed under unusual circumstances if the Fund were to suspend redemptions or postpone payment for the Fund shares being exchanged, in accordance with federal securities laws. Exchange Authorization Forms and prospectuses of the other Putnam funds are available from Putnam Mutual Funds or investment dealers having sales contracts with Putnam Mutual Funds. The prospectus of each fund describes its investment objective(s) and policies, and shareholders should obtain a prospectus and consider these objectives and policies carefully before requesting an exchange. Shares of certain Putnam funds are not available to residents of all states. The Fund reserves the right to change or suspend the Exchange Privilege at any time. Shareholders would be notified of any change or suspension. Additional information is available from Putnam Investor Services.

Shares of the Fund must be held at least 15 days by the shareholder requesting an exchange. There is no holding period if the shareholder acquired the shares to be exchanged through reinvestment of distributions, transfer from another shareholder, prior exchange or certain employer-sponsored defined contribution plans. In all cases, the shares to be exchanged must be registered on the records of the Fund in the name of the shareholder requesting the exchange.

Shareholders of other Putnam funds may also exchange their shares at net asset value for shares of the Fund, as set forth in the current prospectus of each fund.

For federal income tax purposes, an exchange is a sale on which the investor generally will realize a capital gain or loss depending on whether the net asset value at the time of the exchange is more or less than the investor's basis. The Exchange Privilege may be revised or terminated at any time. Shareholders would be notified of any such change or suspension.

DIVIDENDS PLUS

Shareholders may invest the Fund's distributions of net investment income or distributions combining net investment income and short-term capital gains in shares of the same class of another continuously offered Putnam fund (the "receiving fund") using the net asset value per share of the receiving fund determined on the date the Fund's distribution is payable. No sales charge or CDSC will apply to the purchased shares unless the Fund is a money market fund. The prospectus of each fund describes its investment objective(s) and policies, and shareholders should obtain a prospectus and consider these objective(s) and policies carefully before investing their distributions in the receiving fund. Shares of certain Putnam funds are not available to residents of all states.

The minimum account size requirement for the receiving fund will not apply if the current value of your account in this Fund is more than $5,000.

Shareholders of other Putnam funds (except for money market funds, whose shareholders must pay a sales charge or become subject to a CDSC) may also use their distributions to purchase shares of the Fund at net asset value.

For federal tax purposes, distributions from the Fund which are reinvested in another fund are treated as paid by the Fund to the shareholder and invested by the shareholder in the receiving fund and thus, to the extent comprised of taxable income and deemed paid to a taxable shareholder, are taxable.

The Dividends PLUS program may be revised or terminated at any time.

PLANS AVAILABLE TO SHAREHOLDERS

The Plans described below are fully voluntary and may be terminated at any time without the imposition by the Fund or Putnam Investor Services of any penalty. All Plans provide for automatic reinvestment of all distributions in additional shares of the Fund at net asset value. The Fund, Putnam Mutual Funds or Putnam Investor Services may modify or cease offering these Plans at any time.

AUTOMATIC CASH WITHDRAWAL PLAN. An investor who owns or buys shares of the Fund valued at $10,000 or more at the current public offering price may open a Withdrawal Plan and have a designated sum of money ($50 or more) paid monthly, quarterly, semi-annually or annually to the investor or another person. (Payments from the Fund can be combined with payments from other Putnam funds into a single check through a Designated Payment Plan.) Shares are deposited in a Plan account, and all distributions are reinvested in additional shares of the Fund at net asset value (except where the Plan is utilized in connection with a charitable remainder trust). Shares in a Plan account are then redeemed at net asset value to make each withdrawal payment. Payment will be made to any person the investor designates; however, if shares are registered in the name of a trustee or other fiduciary, payment will be made only to the fiduciary, except in the case of a profit-sharing or pension plan where payment will be made to a designee. As withdrawal payments may include a return of principal, they cannot be considered a guaranteed annuity or actual yield of income to the investor. The redemption of shares in connection with a Withdrawal Plan generally will result in a gain or loss for tax purposes. Some or all of the losses realized upon redemption may be disallowed pursuant to the so-called wash sale rules if shares of the same fund from which shares were redeemed are purchased (including through the reinvestment of fund distributions) within a period beginning 30 days before, and ending 30 days after, such redemption. In such a case, the basis of the replacement shares will be increased to reflect the disallowed loss. Continued withdrawals in excess of income will reduce and possibly exhaust invested principal, especially in the event of a market decline. The maintenance of a Withdrawal Plan concurrently with purchases of additional shares of the Fund would be disadvantageous to the investor because of the sales charge payable on such purchases. For this reason, the minimum investment accepted while a Withdrawal Plan is in effect is $1,000, and an investor may not maintain a Plan for the accumulation of shares of the Fund (other than through reinvestment of distributions) and a Withdrawal Plan at the same time. The cost of administering these Plans for the benefit of those shareholders participating in them is borne by the Fund as an expense of all shareholders. The Fund, Putnam Mutual Funds or Putnam Investor Services may terminate or change the terms of the Withdrawal Plan at any time. A Withdrawal Plan will be terminated if communications mailed to the shareholder are returned as undeliverable.

Investors should consider carefully with their own financial advisers whether the Plan and the specified amounts to be withdrawn are appropriate in their circumstances. The Fund and Putnam Investor Services make no recommendations or representations in this regard.

TAX QUALIFIED RETIREMENT PLANS; 403(B) AND SEP PLANS. (NOT OFFERED BY FUNDS INVESTING PRIMARILY IN TAX-EXEMPT SECURITIES.) Investors may purchase shares of the Fund through the following Tax Qualified Retirement Plans, available to qualified individuals or organizations:

Standard and variable profit-sharing (including 401(k)) and money purchase pension plans; and

Individual Retirement Account Plans (IRAs).

Each of these Plans has been qualified as a prototype plan by the Internal Revenue Service. Putnam Investor Services will furnish services under each plan at a specified annual cost. Putnam Fiduciary Trust Company serves as trustee under each of these Plans.

Forms and further information on these Plans are available from investment dealers or from Putnam Mutual Funds. In addition, specialized professional plan administration services are available on an optional basis; contact Putnam Defined Contribution Plan Services at 1-800-225-2465, extension 8600.

A 403(b) Retirement Plan is available for employees of public school systems and organizations which meet the requirements of Section 501(c)(3) of the Internal Revenue Code. Forms and further information on the 403(b) Plan are also available from investment dealers or from Putnam Mutual Funds. Shares of the Fund may also be used in simplified employee pension (SEP) plans. For further information on the Putnam prototype SEP plan, contact an investment dealer or Putnam Mutual Funds.

Consultation with a competent financial and tax adviser regarding these Plans and consideration of the suitability of Fund shares as an investment under the Employee Retirement Income Security Act of 1974, or otherwise, is recommended.

SIGNATURE GUARANTEES

Redemption requests for shares having a net asset value of $100,000 or more must be signed by the registered owners or their legal representatives and must be guaranteed by a bank, broker/dealer, municipal securities dealer or broker, government securities dealer or broker, credit union, national securities exchange, registered securities association, clearing agency, savings association or trust company, provided such institution is acceptable under and conforms with Putnam Fiduciary Trust Company's signature guarantee procedures. A copy of such procedures is available upon request. If you want your redemption proceeds sent to an address other than your address as it appears on Putnam's records, you must provide a signature guarantee. Putnam Investor Services usually requires additional documentation for the sale of shares by a corporation, partnership, agent or fiduciary, or a surviving joint owner. Contact Putnam Investor Services for details.

SUSPENSION OF REDEMPTIONS

The Fund may not suspend shareholders' right of redemption, or postpone payment for more than seven days, unless the New York Stock Exchange is closed for other than customary weekends or holidays, or if permitted by the rules of the Securities and

Exchange Commission during periods when trading on the Exchange is restricted or during any emergency which makes it impracticable for the Fund to dispose of its securities or to determine fairly the value of its net assets, or during any other period permitted by order of the Commission for protection of investors.

SHAREHOLDER LIABILITY

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Agreement and Declaration of Trust disclaims shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each agreement, obligation, or instrument entered into or executed by the Fund or the Trustees. The Agreement and Declaration of Trust provides for indemnification out of Fund property for all loss and expense of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which the Fund would be unable to meet its obligations. The likelihood of such circumstances is remote.

STANDARD PERFORMANCE MEASURES

Yield and total return data for the Fund may from time to time be presented in Part I of this Statement and in advertisements. In the case of funds with more than one class of shares, all performance information is calculated separately for each class. The data is calculated as follows.

Total return for one-, five- and ten-year periods (or for such shorter periods as the Fund has been in operation or shares of the relevant class have been outstanding) is determined by calculating the actual dollar amount of investment return on a $1,000 investment in the Fund made at the beginning of the period, at the maximum public offering price for Class A shares and Class M shares and net asset value for other classes of shares, and then calculating the annual compounded rate of return which would produce that amount. Total return for a period of one year is equal to the actual return of the Fund during that period. Total return calculations assume deduction of the Fund's maximum sales charge or CDSC, if applicable, and reinvestment of all Fund distributions at net asset value on their respective reinvestment dates.

The Fund's yield is presented for a specified thirty-day period (the "base period"). Yield is based on the amount determined by (i) calculating the aggregate amount of dividends and interest earned by the Fund during the base period less expenses accrued for that period, and (ii) dividing that amount by the product of (A) the average daily number of shares of the Fund outstanding during the base period and entitled to receive dividends and (B) the per share maximum public offering price for Class A shares or Class M shares, as appropriate and net asset value for other classes of shares on the last day of the base period. The result is annualized on a compounding basis to determine the yield. For this calculation, interest earned on debt obligations held by the Fund is generally calculated using the yield to maturity (or first expected call date) of such obligations based on their market values (or, in the case of receivables-backed securities such as GNMA's, based on cost). Dividends on equity securities are accrued daily at their stated dividend rates.

If the Fund is a money market fund, yield is computed by determining the percentage net change, excluding capital changes, in the value of an investment in one share over the seven-day period for which yield is presented (the "base period"), and multiplying the net change by 365/7 (or approximately 52 weeks). Effective yield represents a compounding of the yield by adding 1 to the number representing the percentage change in value of the investment during the base period, raising that sum to a power equal to 365/7, and subtracting 1 from the result.

If the Fund is a tax-exempt fund, the tax-equivalent yield during the base period may be presented for shareholders in one or more stated tax brackets. Tax-equivalent yield is calculated by adjusting the tax-exempt yield by a factor designed to show the approximate yield that a taxable investment would have to earn to produce an after-tax yield equal, for that shareholder, to the tax-exempt yield. The tax-equivalent yield will differ for shareholders in other tax brackets.

At times, Putnam Management may reduce its compensation or assume expenses of the Fund in order to reduce the Fund's expenses. The per share amount of any such fee reduction or assumption of expenses during the Fund's past ten fiscal years (or for the life of the Fund, if shorter) is reflected in the table in the section entitled "Financial history" in the Prospectus. Any such fee reduction or assumption of expenses would increase the Fund's yield and total return during the period of the fee reduction or assumption of expenses.

All data are based on past performance and do not predict future results.

COMPARISON OF PORTFOLIO PERFORMANCE

Independent statistical agencies measure the Fund's investment performance and publish comparative information showing how the Fund, and other investment companies, performed in specified time periods. Three agencies whose reports are commonly used for such comparisons are set forth below. From time to time, the Fund may distribute these comparisons to its shareholders or to potential investors. THE AGENCIES LISTED BELOW MEASURE PERFORMANCE BASED ON THEIR OWN CRITERIA RATHER THAN ON THE STANDARDIZED PERFORMANCE MEASURES DESCRIBED IN THE PRECEDING SECTION.

LIPPER ANALYTICAL SERVICES, INC. distributes mutual fund rankings monthly. The rankings are based on total return performance calculated by Lipper, reflecting generally changes in net asset value adjusted for reinvestment of capital gains and income dividends. They do not reflect deduction of any sales charges. Lipper rankings cover a variety of performance periods, for example year-to-date, 1-year, 5-year, and 10-year performance. Lipper classifies mutual funds by investment objective and asset category.

MORNINGSTAR, INC. distributes mutual fund ratings twice a month. The ratings are divided into five groups: highest, above average, neutral, below average and lowest. They represent a fund's historical risk/reward ratio relative to other funds with similar objectives. The performance factor is a weighted-average assessment of the Fund's 3-year, 5-year, and 10-year total return performance (if available) reflecting deduction of expenses and sales charges. Performance is adjusted using quantitative techniques to reflect the risk profile of the fund. The ratings are derived from a purely quantitative system that does not utilize the subjective criteria customarily employed by rating agencies such as Standard & Poor's Corporation and Moody's Investor Service, Inc.

CDA/WIESENBERGER'S MANAGEMENT RESULTS publishes mutual fund rankings and is distributed monthly. The rankings are based entirely on total return calculated by Weisenberger for periods such as year-to-date, 1-year, 3-year, 5-year and 10-year. Mutual funds are ranked in general categories (e.g., international bond, international equity, municipal bond, and maximum capital gain). Weisenberger rankings do not reflect deduction of sales charges or fees.

Independent publications may also evaluate the Fund's performance. Certain of those publications are listed below, at the request of Putnam Mutual Funds, which bears full responsibility for their use and the descriptions appearing below. From time to time the Fund may distribute evaluations by or excerpts from these publications to its shareholders or to potential investors. The following illustrates the types of information provided by these publications.

BUSINESS WEEK publishes mutual fund rankings in its Investment Figures of the Week column. The rankings are based on 4-week and 52-week total return reflecting changes in net asset value and the reinvestment of all distributions. They do not reflect deduction of any sales charges. Funds are not categorized; they compete in a large universe of over 2000 funds. The source for rankings is data generated by Morningstar, Inc.

INVESTOR'S BUSINESS DAILY publishes mutual fund rankings on a daily basis. The rankings are depicted as the top 25 funds in a given category. The categories are based loosely on the type of fund, e.g., growth funds, balanced funds, U.S. government funds, GNMA funds, growth and income funds, corporate bond funds, etc. Performance periods for sector equity funds can vary from 4 weeks to

39 weeks; performance periods for other fund groups vary from 1 year to 3 years. Total return performance reflects changes in net asset value and reinvestment of dividends and capital gains. The rankings are based strictly on total return. They do not reflect deduction of any sales charges. Performance grades are conferred from A+ to E. An A+ rating means that the fund has performed within the top 5% of a general universe of over 2000 funds; an A rating denotes the top 10%; an A- is given to the top 15%, etc.

BARRON'S periodically publishes mutual fund rankings. The rankings are based on total return performance provided by Lipper Analytical Services. The Lipper total return data reflects changes in net asset value and reinvestment of distributions, but does not reflect deduction of any sales charges. The performance periods vary from short-term intervals (current quarter or year-to-date, for example) to long-term periods (five-year or ten-year performance, for example). Barron's classifies the funds using the Lipper mutual fund categories, such as Capital Appreciation Funds, Growth Funds, U.S. Government Funds, Equity Income Funds, Global Funds, etc. Occasionally, Barron's modifies the Lipper information by ranking the funds in asset classes. "Large funds" may be those with assets in excess of $25 million; "small funds" may be those with less than $25 million in assets.

THE WALL STREET JOURNAL publishes its Mutual Fund Scorecard on a daily basis. Each Scorecard is a ranking of the top-15 funds in a given Lipper Analytical Services category. Lipper provides the rankings based on its total return data reflecting changes in net asset value and reinvestment of distributions and not reflecting any sales charges. The Scorecard portrays 4-week, year-to-date, one-year and 5-year performance; however, the ranking is based on the one-year results. The rankings for any given category appear approximately once per month.

FORTUNE magazine periodically publishes mutual fund rankings that have been compiled for the magazine by Morningstar, Inc. Funds are placed in stock or bond fund categories (for example, aggressive growth stock funds, growth stock funds, small company stock funds, junk bond funds, Treasury bond funds, etc.), with the top-10 stock funds and the top-5 bond funds appearing in the rankings. The rankings are based on 3-year annualized total return reflecting changes in net asset value and reinvestment of distributions and not reflecting sales charges. Performance is adjusted using quantitative techniques to reflect the risk profile of the fund.

MONEY magazine periodically publishes mutual fund rankings on a database of funds tracked for performance by Lipper Analytical Services. The funds are placed in 23 stock or bond fund categories and analyzed for five-year risk adjusted return. Total return reflects changes in net asset value and reinvestment of all dividends and capital gains distributions and does not reflect deduction of any sales charges. Grades are conferred (from A to E): the top 20% in each category receive an A, the next 20% a B, etc. To be ranked, a fund must be at least one year old, accept a minimum investment of $25,000 or less and have had assets of at least $25 million as of a given date.

FINANCIAL WORLD publishes its monthly Independent Appraisals of Mutual Funds, a survey of approximately 1000 mutual funds. Funds are categorized as to type, e.g., balanced funds, corporate bond funds, global bond funds, growth and income funds, U.S. government bond funds, etc. To compete, funds must be over one year old, have over $1 million in assets, require a maximum of $10,000 initial investment, and should be available in at least 10 states in the United States. The funds receive a composite past performance rating, which weighs the intermediate- and long-term past performance of each fund versus its category, as well as taking into account its risk, reward to risk, and fees. An A+ rated fund is one of the best, while a D-rated fund is one of the worst. The source for Financial World rating is Schabacker investment management in Rockville, MD.

FORBES magazine periodically publishes mutual fund ratings based on performance over at least two bull and bear market cycles. The funds are categorized by type, including stock and balanced funds, taxable bond funds, municipal bond funds, etc. Data sources include Lipper Analytical Services and CDA Investment Technologies. The ratings are based strictly on performance at net asset value over the given cycles. Funds performing in the top 5% receive an A+ rating; the top 15% receive an A rating; and so on until the bottom 5% receive an F rating. Each fund exhibits two ratings, one for performance in "up" markets and another for performance in "down" markets.

KIPLINGER'S PERSONAL FINANCE MAGAZINE (formerly Changing Times), periodically publishes rankings of mutual funds based on one-, three- and five-year total return performance reflecting changes in net asset value and reinvestment of dividends and capital gains and not reflecting deduction of any sales charges. Funds are ranked by tenths: a rank of 1 means that a fund was among the highest 10% in total return for the period; a rank of 10 denotes the bottom 10%. Funds compete in categories of similar funds--aggressive growth funds, growth and income funds, sector funds, corporate bond funds, global governmental bond funds, mortgage-backed securities funds, etc. Kiplinger's also provides a risk-adjusted grade in both rising and falling markets. Funds are graded against others with the same objective. The average weekly total return over two years is calculated. Performance is adjusted using quantitative techniques to reflect the risk profile of the fund.

U.S. NEWS AND WORLD REPORT periodically publishes mutual fund rankings based on an overall performance index (OPI) devised by Kanon Bloch Carre & Co., a Boston research firm. Over 2000 funds are tracked and divided into 10 equity, taxable bond and tax-free bond categories. Funds compete within the 10 groups and three broad categories. The OPI is a number from 0-100 that measures the relative performance of funds at least three years old over the last 1, 3, 5 and 10 years and the last six bear markets. Total return reflects changes in net asset value and the reinvestment of any dividends and capital gains distributions and does not reflect deduction of any sales charges. Results for the longer periods receive the most weight.

THE 100 BEST MUTUAL FUNDS YOU CAN BUY (1992), authored by Gordon K. Williamson. The author's list of funds is divided into 12 equity and bond fund categories, and the 100 funds are determined by applying four criteria. First, equity funds whose current management teams have been in place for less than five years are eliminated. (The standard for bond funds is three years.) Second, the author excludes any fund that ranks in the bottom 20 percent of its category's risk level. Risk is determined by analyzing how many months over the past three years the fund has underperformed a bank CD or a U.S. Treasury bill. Third, a fund must have demonstrated strong results for current three-year and five-year performance. Fourth, the fund must either possess, in Mr. Williamson's judgment, "excellent" risk-adjusted return or "superior" return with low levels of risk. Each of the 100 funds is ranked in five categories: total return, risk/volatility, management, current income and expenses. The rankings follow a five-point system: zero designates "poor"; one point means "fair"; two points denote "good"; three points qualify as a "very good"; four points rank as "superior"; and five points mean "excellent."

In addition, Putnam Mutual Funds may distribute to shareholders or prospective investors illustrations of the benefits of reinvesting tax-exempt or tax-deferred distributions over specified time periods, which may include comparisons to fully taxable distributions. These illustrations use hypothetical rates of tax-advantaged and taxable returns and are not intended to indicate the past or future performance of any fund.

DEFINITIONS

"Putnam Management"	--	Putnam Investment Management, Inc., the Fund's investment manager.
"Putnam Mutual Funds"	--	Putnam Mutual Funds Corp., the Fund's principal underwriter.
"Putnam Fiduciary Trust	--	Putnam Fiduciary Trust Company,

Company" the Fund's custodian.

"Putnam Investor Services" -- Putnam Investor Services, a division of Putnam Fiduciary Trust Company, the Fund's investor servicing agent.

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

FORM N-1A
PART C

OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS

(a) Index to Financial Statements and Supporting Schedules:

(1) Financial Statements:

Statement of assets and liabilities -- August 31,

1994(a) .
Statement of operations -- year ended August 31, 1994(a) .
Statement of changes in net assets -- years ended August 31, 1993 and August 31, 1994 (a).
Financial highlights (a)(b).
Notes to financial statements (a).

(2) Supporting Schedules:

Schedule I -- Portfolio of investments owned -- August 31, 1994(a) .
Schedules II through IX omitted because the required matter is not present.

(a) Incorporated by reference into Parts A and B.
(b) Included in Part A.

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(b) Exhibits:

1. Agreement and Declaration of Trust -- Incorporated by reference to the Registrant's Initial Registration Statement.
2. By-Laws, as amended through February 1, 1994 -- Exhibit 1.
3. Not applicable.
4a. Class A Specimen share certificate -- Incorporated by reference to the Post-Effective Amendment No. 4 to the Registrant's Registration Statement.

4b. Class B Specimen share certificate -- Incorporated by reference to the Post-Effective Amendment No. 4 to the Registrant's Registration Statement.
4c. Portions of Agreement and Declaration of Trust Relating to Shareholder's Rights -- Incorporated by reference to the Post-Effective Amendment No. 4 to the Registrant's Registration Statement.
4d. Portions of By-Laws Relating to Shareholders' Rights -- Exhibit 2 .
5. Copy of Management Contract dated March 5, 1992 -- Incorporated by reference to Post-Effective Amendment No. 3 to the Registrant's Registration Statement.
6a. Copy of Distributor's Contract dated May 6, 1994 -- Exhibit 3 .
6b. Copy of Specimen Dealer Sales Contract -- Incorporated by reference to Post-Effective Amendment No. 4 to the Registrant's Registration Statement.
6c. Copy of Specimen Financial Institution Sales Contract -- Incorporated by reference to Post-Effective Amendment No. 4 to the

Registrant's Registration Statement.

7. Not applicable.
8. Copy of Custodian Agreement with Putnam Fiduciary Trust Company dated May 3, 1991, as amended July 13, 1992 -- Incorporated by reference to Post-Effective Amendment No. 4 to the Registrant's Registration Statement.
9. Copy of Investor Servicing Agreement dated June 3, 1991 with Putnam Fiduciary Trust Company -- Incorporated by reference to Post-Effective Amendment No. 1 to the Registrant's Registration Statement.
10. Opinion of Ropes & Gray, including consent -- Incorporated by reference to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement.
11. Not applicable.
12. Not applicable.

13a. Investment Letter from The Putnam Companies, Inc. to the Registrant for Class A shares -- Incorporated by reference to Pre-Effective Amendment No. 1 to the Registrant's Registration Statement.

13b. Investment Letter from Putnam Investments, Inc. to the Registrant for Class B shares -- Incorporated by reference to Post-Effective Amendment No. 4 to the Registrant's Registration Statement.

14. Not applicable.

15a. Copy of Class A Distribution Plan and Agreement dated March 5, 1992, as amended July 15, 1993 -- Incorporated by reference to Post-Effective Amendment No. 4 to the Registrant's Registration Statement.

15b. Copy of Class B Distribution Plan and Agreement dated July 15, 1993 -- Incorporated by reference to Post-Effective Amendment No. 4 to the Registrant's Registration Statement.

15c. Copy of Specimen Dealer Service Agreement -- Exhibit 4 .

15d. Copy of Specimen Financial Institution Service Agreement -- Exhibit 5 .

16. Schedules for computation of performance quotations -- Exhibit 6 .

17a. Financial Data Schedule for Class A shares --Exhibit 7.

17b. Financial Data Schedule for Class B shares -- Exhibit 8.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT

None.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES

As of November 30, 1994 there were 3,393 and 531, holders , respectively, of the Registrant's Class A and Class B shares of beneficial interest.

ITEM 27. INDEMNIFICATION

The information required by this item is incorporated by reference to Registrant's Initial Registration Statement on Form N-1A under the Investment Company Act of 1990 (File No. 811-6258).

Item 28. Business and Other Connections of Investment Adviser

Except as set forth below, the directors and officers of the Registrant's investment adviser have been engaged during the past two fiscal years in no business, vocation or employment of a substantial nature other than as directors or officers of the investment adviser or certain of its corporate affiliates. Certain officers of the investment adviser serve as officers of some or all of the Putnam funds. The address of the investment adviser, its corporate affiliates and the Putnam Funds is One Post Office Square, Boston, Massachusetts 02109.

NAME NON-PUTNAM BUSINESS AND OTHER CONNECTIONS

John V. Adduci Assistant Vice President	Prior to July, 1993, Human Resources Manager, First Security Services, 80 Main St., Reading, MA 01867
Gail S. Attridge Vice President	Prior to November, 1993, International Analyst, Keystone Custodian Funds, 200 Berkley Street, Boston, MA 02116
James E. Babcock Assistant Vice President	Prior to June, 1994, Interest Supervisor, Salomon Brothers, Inc. 7 World Trade Center, New York, NY 10048 Prior to June, 1993, Audit Manager, Coopers & Lybrand, One Sylvan Way, Parsipanny, NJ 07054
Robert K. Baumbach Vice President	Prior to August, 1994, Vice President and Analyst, Keystone Custodian funds, 200 Berkely St., Boston, MA 02110
Sharon A. Berka Vice President	Prior to January, 1994, Vice President - Compensation Manager, BayBanks, Inc., 175 Federal Street, Boston, MA 02110
Edward P. Bousa Senior Vice President	Prior to October, 1992, Vice President and Portfolio Manager, Fidelity Investments, 82 Devonshire St., Boston, MA 02109
Michael F. Bouscaren Senior Vice President	Prior to May, 1994, President and Chairman of the Board of Directors at Salomon Series Funds, Inc. and a Director of Salomon Brothers Asset Management, 7 World Trade Center, New York, NY 10048
Brett Browchuk Managing Director	Prior to April, 1994, Managing Director, Fidelity Investments, 82 Devonshire St., Boston, MA 02109
Carolyn S. Bunten Assistant Vice President	Prior to July, 1993, Assistant Trader, Scudder Stevens & Clark, Inc., 175 Federal St., Boston, MA 02110
Andrea Burke Vice President	Prior to August, 1994, Vice President and Portfolio Manager, Back Bay Advisors, 399 Boylston St., Boston, MA 02116
John M. Burton Assistant Vice President	Prior to June, 1994, Manager -- Marketing Asset Management Pension Services, The Travelers, Inc., 1 Tower Square, Hartford, CT 06183
Patricia A. Carey Assistant Vice President	Prior to May, 1993, Research Analyst, John Hancock Financial Services, 100 Clarendon St., Boston, MA 02116
Peter Carman Senior Managing Director	Prior to August, 1993, Chief Investment Officer, Chairman, U.S. Equity Investment Policy Committee, Member of Board of Directors, Sanford C. Bernstein & Co., Inc., 767 Fifth Avenue, New York, NY 10153
Steven Cheshire Vice President	Prior to January, 1994, Assistant Vice President, Wellington Management, 75 State Street, Boston, MA 02109
Anna Coppola Assistant Vice President	Prior to May, 1993, Associate, Heidrick & Struggles, One Post Office Square, Boston, MA 02109
Kathleen Crews Assistant Vice President	Prior to February, 1993, Assistant Vice President, Alliance Capital Management, L.P., 1345 Avenue of the Americas, New York, NY 10105 York, NY
Kenneth L. Daly	Prior to September, 1993, Vice

Senior Vice President	President, Fidelity Investments, 82 Devonshire St., Boston, MA 02109
John A. DeTore Managing Director	Prior to January, 1994, Director of Quantitative Portfolio Management, Wellington Management, 75 State Street, Boston, Ma 02109
Michael G. Dolan Assistant Vice President	Prior to February, 1994, Senior Financial Analyst, General Electric Company, 1000 Western Ave., Lynn, MA 01905
Joseph Eagleeye Assistant Vice President	Prior to August, 1994, Associate, David Taussig & Associates, 424 University Ave., Sacremento, CA 95813
Richard B. England Senior Vice President	Prior to December, 1992, Investment Officer, Aetna Equity Investors, 151 Farmington Avenue, Hartford, CT, 06156
Jonathan H. Francis Senior Vice President	Prior to March, 1993, President, J.H. Francis & Co., N. Pheasant Lane, Westport, CT 06880
James F. Giblin Senior Vice President	Prior to April, 1993, Managing Director, CIGNA Corp. Investments, Inc., 900 Cottage Grove Rd. Bloomfield, CT 06152
Thomas C. Goggins Vice President	Prior to June, 1993, Portfolio Manager, Transamerica Investment Services, 1150 South Olive Street, Los Angeles, CA 90015
Mark D. Goodwin Assistant Vice President	Prior to May, 1994, Manager, Audit & Operations Analysis, Mitre Corporation, 202 Burlington Rd., Bedford, MA 01730
Stephen Gorman Assistant Vice President	Prior to July, 1994, Financial Analyst, Boston Harbor Trust Company, 100 Federal St., Boston, MA 02110
Daniel J. Grim Vice President	Prior to May 1993, Consultant, Connie Lee, 2445 M Street N.W., Washington, D.C. 20037; Chief Operating Officer, Boardwalk, Inc., Minocqua, WI 54548
Billy P. Han Vice President	Prior to December, 1992, Vice President, Scudder, Stevens & Clark, Inc., 160 Federal Street, Boston, MA 02110
Deborah R. Healy Senior Vice President	Prior to June, 1994, Senior Equity Trader, Fidelity Management & Research Company, 82 Devonshire St., Boston, MA 02109
Lisa Heitman	Prior to July, 1994, Securities Analyst, Lord, Abbett & Company, 767 Fifth Ave., New York, NY 10153
Michael F. Hotchkiss Vice President	Prior to May, 1994, Vice President, Massachusetts Financial Services, 500 Boylston St., Boston, MA 02116
Walter Hunnewell, Jr. Vice President	Prior to April, 1994, Managing Director, Veronis, Suhler & Associates, 350 Park Avenue, New York, NY 10022
Stephon A. Jackson Assistant Vice President	Prior to December, 1992, nalyst, Arco Investment Management Co., 515 South Flower Street, Los Angeles, CA 91030
Jeffrey L. Knight Vice President	Prior to March, 1993, Teacher, Greater Newburyport Educational Collaborative, Newburyport, MA 01950

Jeffrey J. Kobylarz Vice President	Prior to May, 1993, Credit Analyst, Dean Witter Reynolds, Inc., Two World Trade Center, New York, NY 10048
D. William Kohli Senior Vice President	Prior to September, 1994, Executive Vice President and Co-Director of Global Bond Managment; Prior to 1993, Portfolio Manager, Franklin Advisors/Templeton Investment Counsel, 777 Mariners Island Blvd., San Mateo, CA 94404
Karen R. Korn Vice President	Prior to June, 1994, Vice President, Assistant to the President, Designs, Inc. 1244 Boylston St., Chestnut Hill, MA 02167 Prior to March, 1993, Vice President, Paine Webber, Inc., 265 Franklin St., Boston, MA 02110
Bruce M. Landers Assistant Vice President	Prior to February, 1993, Manager, Purchasing, Vicor Coproration, 23 Frontage Road, Andover, MA 01810
Lawrence J. Lasser President, Director and Chief Executive Officer	Director, Marsh & McLennan Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020 Director, INROADS/Central New England, Inc., 99 Bedford St., Boston, MA 02111
John A. Libertine, Jr. Assistant Vice President	Prior to December, 1992, Tax Manager, Coopers & Lybrand, One Post Office Square, Boston, MA 02109
Jeff Lindsay Vice President	Prior to April, 1994, Vice President and Board Member, Strategic Portfolio Management, 900 Ashwood Parkway, Suite 290, Atlanta, GA 30338
Robert A. Madore Vice President	Prior to October, 1992, Senior Vice President and Portfolio Manager, Fiduciary Captial Management, Inc. 51 Sherman Hill Rd., Woodbury, CT 06798
Frederick S. Marius Assistant Vice President Associate Counsel	Prior to September, 1992, Associate Attorney at Skadden Arps, One Beacon St., Boston, MA 02109
Michael Martino Senior Vice President	Prior to January, 1994, Executive Vice President and Chief Investment Officer until 1992; Senior Vice President and Portfolio Manager from 1990 to 1992, Back Bay Advisors, 399 Boylston St, Boston, MA 02116
Andrew S. Matteis Vice President	Prior to March, 1993, Vice President, Fitch Investors Service, One State Street Plaza, New York, NY 10004
Susan McCormack Vice President	Prior to May, 1994, Associate Investment Banker, Merrill Lynch & Co., 350 South Grand Ave., Suite 2830, Los Angeles, CA 90071
Michael J. Mufson Vice President	Prior to June, 1993, Senior Equity Analyst, Stein Roe & Farnham, One South Wacker Drive, Chicago, Il 60606
Warren S. Naphtal Senior Vice President	Prior to January, 1994, Managing Director, Continental Bank, 231 So. Lasalle St., Chicago, IL 60697
Jeffrey W. Netols Senior Vice President	Prior to February, 1993, Portfolio Analyst, Associated Bank, 200 N. Adams, Greenbay, WI 54307
Patrick C. O'Donnell, Jr. Managing Director	Prior to May, 1994, President, Exeter Research, Inc., 163 Water Street, Exeter, New Hampshire, 03833

Brian O'Keefe Vice President	Prior to December, 1993, Vice President - Foreign Exchange Trader, Bank of Boston, 100 Federal Street, Boston, MA 02109
Pat G. Patel Vice President	Prior to April, 1993, Regional Manager, Zacks Investment Research, 155 N. Wacker Drive, Chicago, IL 60606
Margaret Pietropaolo Assistant Vice President	Prior to January, 1994, Data Base/ Production Analyst, Wellington Management, 75 State Street, Boston, MA 02109
George Putnam Chairman and Director	Chairman and Director, Putnam Mutual Funds Corp.
	Director, The Boston Company, Inc., One Boston Place, Boston, MA 02108
	Director, Boston Safe Deposit and Trust Company, One Boston Place, Boston, MA 02108
	Director, Freeport-McMoRan, Inc., 200 Park Avenue, New York, NY 10166
	Director, General Mills, Inc., 9200 Wayzata Boulevard, Minneapolis, MN 55440
	Director, Houghton Mifflin Company, One Beacon Street, Boston, MA 02108
	Director, Marsh & McLennan Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020
	Director, Rockefeller Group, Inc., 1230 Avenue of the Americas, New York, NY 10020
Christopher A. Ray Vice President	Prior to December, 1992, Vice President and Portfolio Manager at Scudder, Stevens & Clark, Inc., 160 Federal Street, Boston, MA 02110
Mark J. Siegel Vice President	Prior to June, 1993, Vice President, Salomon Brothers International, Ltd., Victoria Plaza, 111 Buckingham Palace Road, London SW1W 0SB, England
Joanne Soja Senior Vice President	Prior to June, 1993, Managing Director/Portfolio Manager, Chancellor Capital Management, 153 East 53rd Street, New York, NY 10002
George W. Stairs Vice President	Prior to July, 1994, Equity Research Analyst, ValueQuest Limited, Roundy's Hill, Marblehead, MA 01945
Hillary F. Till Vice President	Prior to May, 1994, Fixed-Income Deritive Trader, Bank of Boston, 100 Federal Street, Boston, MA 02109
	Prior to December, 1993, Equity Analyst, Harvard Management Company, 600 Atlantic St., Boston, MA 02109
Bonnie L. Troped Vice President	Prior to May, 1993, Assistant Vice President/Director of Corporate Events, The Boston Company, One Boston Place, Boston, MA 02108
Elizabeth A. Underhill Vice President	Prior to August, 1994, Vice President and Senior Equity Analyst, State Street Bank and Trust Company, 225 Franklin St., Boston, MA 02110
Charles C. Van Vleet Senior Vice President	Prior to August, 1994, Vice President and Fixed-Income Manager, Alliance Capital Management, 1345 Avenue of the Americas, New York, NY 10105
Michael R. Weinstein Vice President	Prior to March, 1994, Management Consultant, Arthur D. Little, Acorn Park, Cambridge, MA 02140

Item 29. Principal Underwriter

(a) Putnam Mutual Funds Corp. is the principal underwriter for each of the following investment companies, including the Registrant:

Putnam Adjustable Rate U.S. Government Fund, Putnam American Government Income Fund, Putnam Arizona Tax Exempt Income Fund, Putnam Asia Pacific Growth Fund, Putnam Asset Allocation Funds, Putnam Balanced Government Fund, Putnam California Tax Exempt Income Trust, Putnam California Tax Exempt Money Market Fund, Putnam Capital Appreciation Fund, Putnam Capital Growth and Income Fund, Putnam Capital Manager Trust, Putnam Convertible Income-Growth Trust, Putnam Corporate Asset Trust, Putnam Diversified Equity Trust, Putnam Diversified Income Trust, Putnam Dividend Growth Fund, Putnam Equity Income Fund, Putnam Europe Growth Fund, Putnam Federal Income Trust, Putnam Florida Tax Exempt Income Fund, The George Putnam Fund of Boston, Putnam Global Governmental Income Trust, Putnam Global Growth Fund, Putnam Growth Fund, The Putnam Fund for Growth and Income, Putnam Health Sciences Trust, Putnam High Yield Trust, Putnam High Yield Advantage Fund, Putnam Income Fund, Putnam Intermediate Tax Exempt Income Fund, Putnam Investors Fund, Putnam Managed Income Trust, Putnam Massachusetts Tax Exempt Income Fund II, Putnam Michigan Tax Exempt Income Fund II, Putnam Minnesota Tax Exempt Income Fund II, Putnam Money Market Fund, Putnam Municipal Income Fund, Putnam Natural Resources Fund, Putnam New Jersey Tax Exempt Income Fund, Putnam New Opportunities Fund, Putnam New York Tax Exempt Income Fund, Putnam New York Tax Exempt Money Market Fund, Putnam New York Tax Exempt Opportunities Fund, Putnam Ohio Tax Exempt Income Fund II, Putnam OTC Emerging Growth Fund, Putnam Overseas Growth Fund, Putnam Pennsylvania Tax Exempt Income Fund, Putnam Research Analyst Fund, Putnam Tax-Free Income Trust, Putnam Tax Exempt Income Fund, Putnam Tax Exempt Money Market Fund, Putnam U.S. Government Income Trust, Putnam Utilities Growth and Income Fund, Putnam Vista Fund, Putnam Voyager Fund

(b) The directors and officers of the Registrant's principal underwriter are:

<TABLE>
<CAPTION>

Name	Positions and Offices with Underwriter	Positions and Offices with Registrant
<C>	<C>	<C>
John V. Adduci	Assistant Vice President	None
Christopher S. Alpaugh	Vice President	None
Paulette C. Amisano	Vice President	None
Ronald J. Anwar	Vice President	None
Karen M. Apatow	Assistant Vice President	None
Steven E. Asher	Senior Vice President	None
Georgette M. Bacca	Vice President	None
Ira G. Baron	Senior Vice President	None
John L. Bartlett	Senior Vice President	None
Steven M. Beatty	Vice President	None
Matthew F. Beaudry	Vice President	None
Robert A. Benish	Vice President	None
John J. Bent	Vice President	None
Sharon A. Berka	Vice President	None
James R. Besher	Vice President	None
Suzanne J. Bessett	Vice President	None
Maureen L. Boisvert	Vice President	None
Keith R. Bouchard	Vice President	None
Leslee R. Bresnahan	Vice President	None
James D. Brockelman	Senior Vice President	None
Scott C. Brown	Vice President	None
Gail Buckner	Senior Vice President	None
Robert W. Burke	Senior Managing Director	None
Richard P. Busher	Vice President	None
Ellen S. Callahan	Assistant Vice President	None
William A. Campagna	Senior Vice President	None
Charles A. Carey	Assistant Vice President	None
Patricia A. Cartwright	Assistant Vice President	None
Christopher D. Caton	Assistant Vice President	None
Stephen J. Chaput	Assisant Vice President	None
Daniel J. Church	Vice President	None
James E. Clinton	Assistant Vice President	None
Kathleen M. Collman	Managing Director	None
Mark L. Coneeny	Vice President	None
Donald A. Connelly	Senior Vice President	None
Anna Coppola	Assistant Vice President	None
F. Nicholas Corvinus	Senior Vice President	None
Kenneth L. Daly	Senior Vice President	None
Edward H. Dane	Assistant Vice President	None
Nancy M. Days	Assistant Vice President	None

Daniel J. Delianedis	Vice President	None
J. Thomas Depres	Senior Vice President	None
Michael G. Dolan	Assistant Vice President	None
Scott M. Donaldson	Vice President	None
Emily J. Durbin	Assistant Vice President	None
David B. Edlin	Senior Vice President	None
James M. English	Senior Vice President	None
Vincent Esposito	Senior Vice President	None
Mary K. Farrell	Assistant Vice President	None
Susan H. Feldman	Vice President	None
Michael J. Fetcher	Assistant Vice President	None
Paul F. Fichera	Senior Vice President	None
C. Nancy Fisher	Senior Vice President	None
Mitchell B. Fishman	Vice President	None
Joseph C. Fiumara	Vice President	None
Patricia C. Flaherty	Senior Vice President	None
Judy P. Frodigh	Vice President	None
Samuel F. Gagliardi	Vice President	None
Judy S. Gates	Vice President	None
Richard W. Gauger	Assistant Vice President	None
Joseph P. Gennaco	Vice President	None
Steven E. Gibson	Managing Director	None
Mark D. Goodwin	Assistant Vice President	None
Robert Goodman	Managing Director	None
Robert G. Greenly	Vice President	None
Thomas W. Halloran	Vice President	None
Marilyn M. Hausammann	Senior Vice President	None
Howard W. Hawkins, III	Vice President	None
Deanna R. Hayes-Castro	Assistant Vice President	None
Paul P. Heffernan	Vice President	None
Susan M. Heimanson	Vice President	None
Bradley J. Hilsabeck	Vice President	None
Bess J.M. Hochstein	Vice President	None
Maureen A. Holmes	Assistant Vice President	None
William J. Hurley	Senior Vice President	None
Gregory E. Hyde	Vice President	None
Dwight D. Jacobsen	Senior Vice President	None
Douglas B. Jamieson	Director and Senior Managing Director	None
Jay M. Johnson	Vice President	None
Kevin M. Joyce	Senior Vice President	None
John P. Keating	Vice President	None
James J. Kilbane	Vice President	None
Deborah H. Kirk	Senior Vice President	None
Jill A. Koontz	Assistant Vice President	None
Howard H. Kreutzberg	Senior Vice President	None
Edward V. Lewandowski	Senior Vice President	None
Edward V. Lewandowski, Jr.	Vice President	None
Samuel L. Lieberman	Vice President	None
Rufino R. Lomba	Vice President	None
Maura A. Lockwood	Assistant Vice President	None
Robert F. Lucey	Senior Managing Director	None
Philip J. Lussier	Managing Director	None
Ann Malatos	Assistant Vice President	None
Renee L. Maloof	Assistant Vice President	None
Frederick S. Marius	Assistant Vice President	None
Karen E. Marotta	Vice President	None
Jill Maserian	Vice President	None
Kathleen M. McAnulty	Assistant Vice President	None
Anne B. McCarthy	Assistant Vice President	None
Mark J. McKenna	Vice President	None
Marla J. McDougall	Assistant Vice President	None
Walter S. McFarland	Vice President	None
Greg J. McMillan	Assistant Vice President	None
Robert E. McMurtrie	Vice President	None
Claye A. Metelmann	Assistant Vice President	None
J. Chris Meyer	Senior Vice President	None
Douglas W. Miller	Vice President	None
Ronald K. Mills	Vice President	None
Mitchell L. Moret	Vice President	None
Donald E. Mullen	Vice President	None
Brendan R. Murray	Vice President	None
Robert Nadherny	Vice President	None
Alexander L. Nelson	Managing Director	None
Jane M. Nickodemus	Vice President	None
John P. Nickodemus	Vice President	None
Michael C. Noonis	Assistant Vice President	None
Peter A. Nyhus	Vice President	None
Kristen P. O'Brien	Vice President	None
Lorie C. O'Malley	Senior Vice President	None
Kevin L. O'Shea	Vice President	None
Philip G. Padgett, Jr.	Vice President	None
Richard N. Pallan	Senior Managing Director	None
Scott A. Papes	Vice President	None
Cynthia O. Parr	Vice President	None
John D. Pataccoli	Vice President	None

Joseph Phoenix	Vice President	None
Jeffrey E. Place	Senior Vice President	None
Keith Plapinger	Vice President	None
Douglas H. Powell	Vice President	None
George Putnam	Director	Chairman & President
Susannah Psomas	Vice President	None
Robert B. Rowe	Vice President	None
Kevin A. Rowell	Senior Vice President	None
Thomas C. Rowley	Vice President	None
Deborah A. Ryan	Assistant Vice President	None
Charles Ruys de Perez	Vice President	None
Catherine A. Saunders	Senior Vice President	None
Robbin L. Saunders	Assistant Vice President	None
Karl W. Saur	Vice President	None
Christine A. Scordato	Vice President	None
Joseph W. Scott	Assistant Vice President	None
Kathleen G. Sharpless	Senior Vice President	None
John F. Sharry	Managing Director	None
John B. Shamburg	Vice President	None
Vincent P. Sheehan	Vice President	None
William N. Shiebler	Director, Chief Executive Officer and President	Vice President
Daniel S. Shore	Vice President	None
Mark J. Siebold	Assistant Vice President	None
Gordon H. Silver	Senior Managing Director	Vice President
Barry Sommers	Vice President	None
Nicholas T. Stanojev	Vice President	None
Brian L. Sullivan	Vice President	None
Kevin J. Sullivan	Vice President	None
Moira A. Sullivan	Vice President	None
Janet C. Sweeney	Vice President	None
Edward M. Syring, Jr.	Vice President	None
James S. Tambone	Senior Vice President	None
B. Iris Tanner	Assistant Vice President	None
Louis Tasiopoulos	Senior Vice President	None
David S. Taylor	Vice President	None
John R. Telling	Vice President	None
Richard B. Tibbetts	Senior Vice President	None
Patrice M. Tirado	Vice President	None
Janet E. Tosi	Assistant Vice President	None
John C. Tredinnick	Vice President	None
Bonnie L. Troped	Vice President	None
Larry R. Unger	Vice President	None
Douglas J. Vander Linde	Vice President	None
John F. Wallin	Senior Vice President	None
Edward F. Whalen	Vice President	None
Robert J. Wheeler	Senior Vice President	None
John B. White	Vice President	None
Kirk E. Williamson	Senior Vice President	None
Leigh T. Williamson	Vice President	None
Benjamin Woloshin	Vice President	None
William H. Woolverton	Senior Vice President and Clerk	None
Timothy R. Young	Vice President	None
SooHee L. Zebedee	Assistant Vice President	None

</TABLE>

The principal business address of each person listed above is One Post Office Square, Boston, MA 02109, except for:

Mr. Alpaugh, 5980 Richmond Highway, Alexandria, VA 22303
Mr. Anwar, 25-49 86th St. Jackson Heights, NY 11369
Mr. Baron, 31 Cala Moreya, Laguna Niguel, CA 92667
Mr. Bartlett, 7 Farifield St., Boston, MA 02116
Mr. Besher, 14000 Margaux, Town & Country, MO 63017
Ms. Besset, 1140 North LaSalle Blvd, Chicago, IL 60610
Mr. Bouchard, 18 Brice Rd., Annapolis, MD 21401
Mr. Brown, 221 East Mallord Drive, Boise, ID 83706
Ms. Buckner, 8338 Timber Trail, Pittsburgh, PA 15237
Mr. Busher, 12005 Ridge Knoll Drive, Fairfax, VA 22033
Mr. Campagna, 2179-D Lake Park Drive, Smyrna, GA 30080
Mr. Church, 4504 Sir Winston Place, Charlotte, NC 28211
Mr. Connelly, 4634 Mirada Way, Sarasota, FL 34238
Mr. Corvinus, 208 Water St., Newburyport, MA 01950
Mr. Deliandis, 206 Promontory Drive, Newport Beach, CA 92660
Mr. Edlin, 7 River Road, 305 Palmer Point, Cos Cob, CT 06807
Mr. English, 1184 Pintail Circle, Boulder, CO 80303
Mr. Goodman, 14 Clover Place, Cos Cob, CT 06807
Mr. Halloran, 978 W. Creek Lane, Westlake Village, CA 91362
Mr. Hyde, 3305 Sulky, Marietta, GA 30067
Mr. Jacobsen, 2744 Joyce Ridge Drive, Chesterfield, MO 63017
Mr. Johnson, 200 Clock Tower Place, Carmel, CA 93923
Mr. Keating, 5521 Greenville Avenue, Dallas, TX 75206
Ms. Kirk, 124 Rivermist Dr., Buffalo, NY 14202
Mr. Lewandowski, 805 Darrell Road, Hillsborough, CA 94010
Mr. Lewandowski, Jr., 2120 The Strand, Manhattan Beach, CA 90266

Mr. Lieberman, 200 Roy St., Seattle, WA 98199
Mr. McFarland, 8012 Dancing Fern Trail, Chattanooga, TN 37421
Mr. McMillan, 203 D. Zigler St., Zelienople, PA 16063
Mr. McMurtrie, 14529 Glastonbury, Detroit, MI 48223
Mr. Miller, 260 West 72nd St., New York, NY 10023
Mr. Moret, 4519 Lawn Avenue, Western Springs, IL 60558
Mr. Murray, 13 Ridge Court, Saratoga Springs, NY 12866
Mr. Nadherny, 9714 Marmount Drive, Seattle, WA 98117
Mr. and Mrs. Nickodemus, 1232 B Louden St., Cincinnati, OH 45202
Mr. Nyhus, 7203 Oak Pointe Curve, Bloomington, MN 55438
Mr. Padgett, Jr., 7709 Charleston Drive, Bethesda, MD 20817
Mr. Papes, 3102 Wood View Bridge Drive, Kansas City, KS 66103
Mr. Pataccoli, 125 41st Street, Manhattan Beach, Ca 90266
Mr. Phoenix, 1426 Asbury Avenue, Hubbard Woods, IL 60093
Mr. Place, 4211 Loch Highland Parkway, Roswell, GA 30075
Mr. Powell, 1508 Ruth Lane, Newport Beach, CA 92660
Mr. Rowe, 109 Shore Drive, Longwood, FL 32779
Mr. Rowell, 1508 Ruth Lane, Newport Beach, CA 92660
Mr. Rowley, 237 Peeke Avenue, Kirkwood, MO 63122
Ms. Saunders, 39939 Stevenson Common, Freemont, CA 94538
Mr. Shamburg, 10603 N. 100th Street, Scottsdale, AZ 85260
Mr. Sheehan, Parkway Center, 1150 Galapago, Denver, CO 80204
Mr. Shore, 2870 Pharr Court South, N.W., Atlanta, BA 30305
Mr. Sommers, 397 North Little Pour, New City, NY 10956
Mr. B. Sullivan, 777 Pinoake Road, Mt. Lebanon, PA 15243
Ms. M. Sullivan, 493 Zinfandel Lane, St. Helena, CA 94574
Ms. Sweeney, 8 Surf Street, Marblehead, MA 01945
Mr. Syring, 7540 Mandarian Dr., Boca Raton, FL 33433
Mr. Tambone, 10 Commercial Wharf, Boston, MA 02110
Mr. Tredinnick, 2995 Glenwood Drive, Boulder, CO 80301
Mr. Telling, 1995 Delaware Ave., Buffalo, NY 14216
Mr. Unger, 212 E. Broadway, New York, NY 10002
Mr. Vessels, 7 Riverview Drive, Norwalk, CT 06850
Mr. Williamson, 32 Kramer Place, Mandeville, LA 70448
Mr. White, 23 Wellington St., Arlington, MA 02174
Mr. Woloshin, 730 North Bundy Drive, Los Angeles, CA 90049

ITEM 30. LOCATION OF ACCOUNTS AND RECORDS

Persons maintaining physical possession of accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940 and the Rules promulgated thereunder are Registrant's Clerk, Beverly Marcus; Registrant's investment adviser, Putnam Investment Management, Inc.; Registrant's principal underwriter, Putnam Mutual Funds Corp.; Registrant's custodian, Putnam Fiduciary Trust Company ("PFTC"); and Registrant's transfer and dividend disbursing agent, Putnam Investor Services, a division of PFTC. The address of the Clerk, investment adviser, principal underwriter, custodian and transfer and dividend disbursing agent is One Post Office Square, Boston, Massachusetts 02109.

ITEM 31. MANAGEMENT SERVICES

None.

ITEM 32. UNDERTAKINGS

The Registrant undertakes to furnish to each person to whom a prospectus of the Registrant is delivered a copy of the Registrant's latest annual report to shareholders, upon request and without charge.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Post-Effective Amendment No. 5 to the Registration Statement of Putnam Arizona Tax Exempt Income Fund on Form N-1A (File No. 33-37992) of our report dated October 18, 1994, on our audits of the financial statements and "Financial highlights" of the Fund, which report is included in the Annual Report for Putnam Arizona Tax Exempt Income Fund for the year ended August 31, 1994, which is incorporated by reference in the Registration Statement.

We also consent to the reference to our firm under the caption "Independent Accountants and Financial Statements" in the Statement of Additional Information.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
December 22, 1994

POWER OF ATTORNEY

I, the undersigned Trustee of Putnam Arizona Tax Exempt Income Fund, hereby severally constitute and appoint George Putnam, Charles E. Porter, Gordon H. Silver, Edward A. Benjamin, Timothy W. Diggins and John W. Gerstmayr, and each of them singly, my true and lawful attorneys, with full power to them and each of them, to sign for me, and in my name and in the capacity indicated below, the Registration Statement on Form N-1A of Putnam Arizona Tax Exempt Income Fund and any and all amendments (including post-effective amendments) to said Registration Statement and to file the same with all exhibits thereto, and other documents in connection thereunder, with the Securities and Exchange Commission, granting unto my said attorneys, and each of them acting alone, full power and authority to do and perform each and every act and thing requisite or necessary to be done in the premises, as fully to all intents and purposes as he or she might or could do in person, and hereby ratify and confirm all that said attorneys or any of them may lawfully do or cause to be done by virtue thereof.

WITNESS my hand and seal on the date set forth below.

SIGNATURE	TITLE	DATE
/s/ Jameson A. Baxter - --------------------- JAMESON A. BAXTER	Trustee	January 17, 1994

NOTICE

A copy of the Agreement and Declaration of Trust of Putnam Arizona Tax Exempt Income Fund is on file with the Secretary of State of The Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees, officers or shareholders individually but are binding only upon the assets and property of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Amendment to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boston, and The Commonwealth of Massachusetts, on the 23rd day of December, 1994 .

PUTNAM ARIZONA TAX EXEMPT INCOME FUND

By: Gordon H. Silver, Vice President

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement of Putnam Arizona Tax Exempt Income Fund has been signed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE
George Putnam	President and Chairman of the Board; Principal Executive Officer; Trustee
William F. Pounds	Vice Chairman; Trustee
John D. Hughes	Vice President; Treasurer and Principal Financial Officer
Paul G. Bucuvalas	Assistant Treasurer and Principal Accounting

	Officer
Jameson Adkins Baxter	Trustee
Hans H. Estin	Trustee
John A. Hill	Trustee
Elizabeth T. Kennan	Trustee
Lawrence J. Lasser	Trustee
Robert E. Patterson	Trustee
Donald S. Perkins	Trustee
George Putnam, III	Trustee
A.J.C. Smith	Trustee
W. Nicholas Thorndike	Trustee

By: Gordon H. Silver, as Attorney-in-Fact
December 23, 1994

BYLAWS
OF
PUTNAM ADJUSTABLE RATE U.S. GOVERNMENT FUND,
PUTNAM AMERICAN GOVERNMENT INCOME FUND,
PUTNAM ARIZONA TAX EXEMPT INCOME FUND,
PUTNAM ASIA PACIFIC GROWTH FUND,
PUTNAM ASSET ALLOCATION FUNDS,
PUTNAM BALANCED GOVERNMENT FUND,
PUTNAM CALIFORNIA TAX EXEMPT MONEY MARKET FUND,
PUTNAM CONVERTIBLE INCOME-GROWTH TRUST,
PUTNAM DIVERSIFIED INCOME TRUST,
PUTNAM DIVIDEND GROWTH FUND,
PUTNAM EQUITY INCOME FUND,
PUTNAM EUROPE GROWTH FUND,
PUTNAM FLORIDA TAX EXEMPT INCOME FUND,
THE GEORGE PUTNAM FUND OF BOSTON,
PUTNAM GLOBAL GOVERNMENTAL INCOME TRUST,
PUTNAM GLOBAL GROWTH FUND,
PUTNAM HEALTH SCIENCES TRUST,
PUTNAM HIGH YIELD TRUST,
PUTNAM INCOME FUND,
PUTNAM INVESTORS FUND,
PUTNAM MANAGED INCOME TRUST,
PUTNAM MASSACHUSETTS TAX EXEMPT INCOME FUND II,
PUTNAM MICHIGAN TAX EXEMPT INCOME FUND II,
PUTNAM MINNESOTA TAX EXEMPT INCOME FUND II,
PUTNAM MONEY MARKET FUND,
PUTNAM MUNICIPAL INCOME FUND,
PUTNAM NEW JERSEY TAX EXEMPT INCOME FUND,
PUTNAM NEW OPPORTUNITIES FUND,
PUTNAM NEW YORK TAX EXEMPT MONEY MARKET FUND,
PUTNAM NEW YORK TAX EXEMPT OPPORTUNITIES FUND,
PUTNAM OHIO TAX EXEMPT INCOME FUND II,
PUTNAM OTC EMERGING GROWTH FUND,
PUTNAM PENNSYLVANIA TAX EXEMPT INCOME FUND,
PUTNAM RESEARCH ANALYSTS FUND,
PUTNAM TAX EXEMPT INCOME FUND,
PUTNAM TAX EXEMPT MONEY MARKET FUND,
PUTNAM TAX-FREE INCOME TRUST,
PUTNAM U.S. GOVERNMENT INCOME TRUST,
PUTNAM UTILITIES GROWTH AND INCOME FUND,
PUTNAM VISTA FUND,
PUTNAM VOYAGER FUND
(AS AMENDED THROUGH FEBRUARY 1, 1994),
PUTNAM INTERMEDIATE TAX EXEMPT FUND
(AS AMENDED THROUGH MARCH 7, 1994),
PUTNAM CALIFORNIA TAX EXEMPT INCOME TRUST,
PUTNAM NEW YORK TAX EXEMPT INCOME TRUST
(AS AMENDED THROUGH APRIL 8, 1994),

PUTNAM DIVERSIFIED EQUITY TRUST
(AS APPROVED APRIL 13, 1994)
PUTNAM HIGH YIELD ADVANTAGE FUND,
PUTNAM OVERSEAS GROWTH FUND
(AS AMENDED THROUGH JUNE 1, 1994),
PUTNAM FEDERAL INCOME TRUST
(AS AMENDED THROUGH JUNE 6, 1994),
PUTNAM NATURAL RESOURCES FUND
(AS AMENDED THROUGH JULY 1, 1994),
THE PUTNAM FUND FOR GROWTH AND INCOME
(AS AMENDED THROUGH JULY 7, 1994),

PUTNAM TOTAL RETURN BOND FUNDS,
PUTNAM GROWTH AND INCOME FUND II,
(AS AMENDED THROUGH OCTOBER 5, 1994) AND
PUTNAM EQUITY FUNDS
(AS AMENDED THROUGH OCTOBER 30, 1994)

ARTICLE 1
Agreement and Declaration of Trust and Principal Office

1.1 AGREEMENT AND DECLARATION OF TRUST. These Bylaws shall be subject to the Agreement and Declaration of Trust, as from time to time in effect (the "Declaration of Trust"), of the Massachusetts business trust established by the Declaration of Trust (the "Trust").

1.2 PRINCIPAL OFFICE OF THE TRUST. The principal office of the Trust shall be located in Boston, Massachusetts.

ARTICLE 2
MEETINGS OF TRUSTEES

2.1 REGULAR MEETINGS. Regular meetings of the Trustees may be held without call or notice at such places and at such times as the Trustees may from time to time determine, provided that notice of the first regular meeting following any such determination shall be given to absent Trustees.

2.2 SPECIAL MEETINGS. Special meetings of the Trustees may be held at any time and at any place designated in the call of the meeting when called by the Chairman of the Trustees, the President or the Treasurer or by two or more Trustees, sufficient notice thereof being given to each Trustee by the Clerk or an Assistant Clerk or by the officer or the Trustees calling the meeting.

2.3 NOTICE OF SPECIAL MEETINGS. It shall be sufficient notice to a Trustee of a special meeting to send notice by mail at least forty-eight hours or by telegram at least twenty-four hours before the meeting addressed to the Trustee at his or her usual or last known business or residence address or to give notice to him or her in person or by telephone at least twenty-four hours before the meeting. Notice of a special meeting need not be given to any Trustee if a written waiver of notice, executed by him or her before or after the meeting, is filed with the records of the meeting, or to any Trustee who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him or her. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

2.4 QUORUM. At any meeting of the Trustees a majority of the Trustees then in office shall constitute a quorum. Any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

2.5 NOTICE OF CERTAIN ACTIONS BY CONSENT. If in accordance with the provisions of the Declaration of Trust any action is taken by the Trustees by a written consent of less than all of the Trustees, then prompt notice of any such action shall be furnished to each Trustee who did not execute such written consent, provided that the effectiveness of such action shall not be impaired by any delay or failure to furnish such notice.

ARTICLE 3
OFFICERS

3.1 ENUMERATION; QUALIFICATION. The officers of the Trust shall be a Chairman of the Trustees, a President, a Treasurer, a Clerk and such other officers, if any, as the Trustees from time to time may in their discretion elect. The Trust may also have such agents as the Trustees from time to time may in their discretion appoint. The Chairman of the Trustees and the President shall be a Trustee and may but need not be a shareholder; and any other officer may but need not be a Trustee or a shareholder. Any two or more offices may be held by the same person. A Trustee may but need not be a shareholder.

3.2 ELECTION. The Chairman of the Trustees, the President, the Treasurer and the Clerk shall be elected by the Trustees upon the occurrence of any vacancy in any such office. Other officers, if any, may be elected or appointed by the Trustees at any time. Vacancies in any such other office may be filled at any time.

3.3 TENURE. The Chairman of the Trustees, the President, the Treasurer and the Clerk shall hold office in each case until he or she dies, resigns, is removed or becomes disqualified. Each other officer shall hold office and each agent shall retain authority at the pleasure of the Trustees.

3.4 POWERS. Subject to the other provisions of these Bylaws, each officer shall have, in addition to the duties and powers herein and in the Declaration of Trust set forth, such duties and powers as are commonly incident to the office occupied by him or her as if the Trust were organized as a Massachusetts business corporation and such other duties and powers as the Trustees may from time to time designate.

3.5 CHAIRMAN; PRESIDENT. Unless the Trustees otherwise provide, the Chairman of the Trustees or, if there is none or in the absence of the Chairman of the Trustees, the President shall preside at all meetings of the shareholders and of the Trustees. Unless the Trustees otherwise provide, the President shall be the chief executive officer.

3.6 TREASURER. Unless the Trustees shall provide otherwise, the Treasurer shall be the chief financial and accounting officer of the Trust, and shall, subject to the provisions of the Declaration of Trust and to any arrangement made by the Trustees with a custodian, investment adviser or manager, or transfer, shareholder servicing or similar agent, be in charge of the valuable papers, books of account and accounting records of the Trust, and shall have such other duties and powers as may be designated from time to time by the Trustees or by the President.

3.7 CLERK. The Clerk shall record all proceedings of the shareholders and the Trustees in books to be kept therefor, which books or a copy thereof shall be kept at the principal office of the Trust. In the absence of the Clerk from any meeting of the shareholders or Trustees, an Assistant Clerk, or if there be none or if he or she is absent, a temporary Clerk chosen at such meeting shall record the proceedings thereof in the aforesaid books.

3.8 RESIGNATIONS AND REMOVALS. Any Trustee or officer may resign at any time by written instrument signed by him or her and delivered to the Chairman of the Trustees, the President or the Clerk or to a meeting of the Trustees. Such resignation shall be effective upon receipt unless specified to be effective at some other time. The Trustees may remove any officer elected by them with or without cause. Except to the extent expressly provided in a written agreement with the Trust, no Trustee or officer resigning and no officer removed shall have any right to any compensation for any period following his or her resignation or removal, or any right to damages on account of such removal.

ARTICLE 4
COMMITTEES

4.1 QUORUM; VOTING. A majority of the members of any Committee of the Trustees shall constitute a quorum for the transaction of business, and any action of such a Committee may be taken at a meeting by a vote of a majority of the members present (a quorum being present) or evidenced by one or more writings signed by such a majority. Members of a Committee may participate in a meeting of such Committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

ARTICLE 5
REPORTS

5.1 GENERAL. The Trustees and officers shall render reports at the time and in the manner required by the Declaration of Trust or any applicable law. Officers and Committees shall render such additional reports as they may deem desirable or as may from time to time be required by the Trustees.

ARTICLE 6
FISCAL YEAR

6.1 GENERAL. Except as from time to time otherwise provided by the Trustees, the initial fiscal year of the Trust shall end on such date as is determined in advance or in arrears by the Treasurer, and subsequent fiscal years shall end on such date in subsequent years.

ARTICLE 7
SEAL

7.1 GENERAL. The seal of the Trust shall consist of a flat-faced die with the word "Massachusetts", together with the name of the Trust and the year of its organization cut or engraved thereon but, unless otherwise required by the Trustees, the seal shall not be necessary to be placed on and its absence shall not impair the validity of, any document, instrument or other paper executed and delivered by or on behalf of the Trust.

ARTICLE 8
EXECUTION OF PAPERS

8.1 GENERAL. Except as the Trustees may generally or in particular cases authorize the execution thereof in some other manner, all deeds, leases, contracts, notes and other obligations made by the Trustees shall be signed by the President, the Vice Chairman, a Vice President or the Treasurer and need not bear the seal of the Trust.

ARTICLE 9
ISSUANCE OF SHARES AND SHARE CERTIFICATES

9.1 SALE OF SHARES. Except as otherwise determined by the Trustees, the Trust will issue and sell for cash or securities from time to time, full and fractional shares of its shares of beneficial interest, such shares to be issued and sold at a price of not less than the par value per share, if any, and not less than the net asset value per share as from time to time determined in accordance with the Declaration of Trust and these Bylaws and, in the case of fractional shares, at a proportionate reduction in such price. In the case of shares sold for securities, such securities shall be valued in accordance with the provisions for determining the value of the assets of the Trust as stated in the Declaration of Trust and these Bylaws. The officers of the Trust are severally authorized to take all such actions as may be necessary or desirable to carry out this Section 9.1.

9.2 SHARE CERTIFICATES. In lieu of issuing certificates for shares, the Trustees or the transfer agent may either issue receipts therefor or may keep accounts upon the books of the Trust for the record holders of such shares, who shall in either case be deemed, for all purposes hereunder, to be the holders of certificates for such shares as if they had accepted such certificates and shall be held to have expressly assented and agreed to the terms hereof.

The Trustees may at any time authorize the issuance of share certificates. In that event, each shareholder shall be entitled to a certificate stating the number of shares of each class owned by him, in such form as shall be prescribed from time to time by the Trustees. Such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer. Such signatures may be facsimile if the certificate is signed by a transfer agent or by a registrar. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall cease to be such officer before such certificate is issued, it may be issued by the Trust with the same effect as if he were such officer at the time of its issue.

9.3 LOSS OF CERTIFICATES. The transfer agent of the Trust, with the approval of any two officers of the Trust, is authorized to issue and countersign replacement certificates for the shares of the Trust which have been lost, stolen or destroyed upon (i) receipt of an affidavit or affidavits of loss or non-receipt and of an indemnity agreement executed by the registered holder or his legal representative and supported by an open penalty surety bond, said agreement and said bond in all cases to be in form and content satisfactory to and approved by the President or the Treasurer, or (ii) receipt of such other documents as may be approved by the Trustees.

9.4 ISSUANCE OF NEW CERTIFICATE TO PLEDGEE. A pledgee of shares transferred as collateral security shall be entitled to a new certificate if the instrument of transfer substantially describes the debt or duty that is intended to be secured thereby. Such new certificate shall express on its face that it is held as collateral security, and the name of the pledgor shall be stated thereon, who alone shall be liable as a shareholder and entitled to vote thereon.

9.5 DISCONTINUANCE OF ISSUANCE OF CERTIFICATES. The Trustees may at any time discontinue the issuance of share certificates and may, by written notice to each shareholder, require the surrender of share certificates to the Trust for cancellation. Such surrender and cancellation shall not affect the ownership of shares in the Trust.

ARTICLE 10
PROVISIONS RELATING TO THE CONDUCT OF THE TRUST'S BUSINESS

10.1 CERTAIN DEFINITIONS. When used herein the following words shall have the following meanings: "Distributor" shall mean any one or more corporations, firms or associations which have distributor's or principal underwriter's contracts in effect with the Trust providing that redeemable shares issued by the Trust shall be offered and sold by such Distributor. "Manager" shall mean any corporation, firm or association which may at the time have an advisory or management contract with the Trust.

10.2 LIMITATIONS ON DEALINGS WITH OFFICERS OR TRUSTEES. The Trust will not lend any of its assets to the Distributor or Manager or to any officer or director of the Distributor or Manager or any officer or Trustee of the Trust, and shall not permit any officer or Trustee or any officer or director of the Distributor or Manager to deal for or on behalf of the Trust with himself or herself as principal or agent, or with any partnership, association or corporation in which he or she has a financial interest; provided that the foregoing provisions shall not prevent (a) officers and Trustees of the Trust or officers and directors of the Distributor or Manager from buying, holding or selling shares in the Trust or from being partners, officers or directors of or otherwise financially interested in the Distributor or the Manager; (b) purchases or sales of securities or other property if such transaction is permitted by or is exempt or exempted from the provisions of the Investment Company Act of 1940 or any Rule or Regulation thereunder and if such transaction does not involve any commission or profit to any security dealer who is, or one or more of whose partners, shareholders, officers or directors is, an officer or Trustee of the Trust or an officer or director of the Distributor or Manager; (c) employment of legal counsel, registrar, transfer agent, shareholder servicing agent, dividend disbursing agent or custodian who is, or has a partner, shareholder, officer or director who is, an officer or Trustee of the Trust or an officer or director of the Distributor or Manager; (d) sharing statistical, research, legal and management expenses and office hire and expenses with any other investment company in which an officer or Trustee of the Trust or an officer or director of the Distributor or Manager is an officer or director or otherwise financially interested.

10.3 SECURITIES AND CASH OF THE TRUST TO BE HELD BY CUSTODIAN SUBJECT TO CERTAIN TERMS AND CONDITIONS.

(a) All securities and cash owned by the Trust shall be held by or deposited with one or more banks or trust companies having (according to its last published report) not less than $1,000,000 aggregate capital, surplus and undivided profits (any such bank or trust company being hereby designated as "Custodian"), provided such a Custodian can be found ready and willing to act; subject to such rules, regulations and orders, if any, as the Securities and Exchange Commission may adopt, the Trust may, or may permit any Custodian to, deposit all or any part of the securities owned by the Trust in a system for the central handling of securities pursuant to which all securities of any particular class or series of any issue deposited within the system may be transferred or pledged by bookkeeping entry, without physical delivery. The

Custodian may appoint, subject to the approval of the Trustees, one or more subcustodians.

(b) The Trust shall enter into a written contract with each Custodian regarding the powers, duties and compensation of such Custodian with respect to the cash and securities of the Trust held by such Custodian. Said contract and all amendments thereto shall be approved by the Trustees.

(c) The Trust shall upon the resignation or inability to serve of any Custodian or upon change of any Custodian:

(i) in case of such resignation or inability to serve, use its best efforts to obtain a successor

Custodian;

(ii) require that the cash and securities owned by the Trust be delivered directly to the successor Custodian; and

(iii) in the event that no successor Custodian can be found, submit to the shareholders, before permitting delivery of the cash and securities owned by the Trust otherwise than to a successor Custodian, the question whether the Trust shall be liquidated or shall function without a Custodian.

10.4 REPORTS TO SHAREHOLDERS. The Trust shall send to each shareholder of record at least semi-annually a statement of the condition of the Trust and of the results of its operations, containing all information required by applicable laws or regulations.

10.5 DETERMINATION OF NET ASSET VALUE PER SHARE. Net asset value per share of each class or series of shares of the Trust shall mean: (i) the value of all the assets properly allocable to such class or series; (ii) less total liabilities properly allocable to such class or series; (iii) divided by the number of shares of such class or series outstanding, in each case at the time of each determination. Except as otherwise determined by the Trustees, the net asset value per share of each class or series shall be determined no less frequently than once daily, Monday through Friday, on days on which the New York Stock Exchange is open for trading, at such time or times that the Trustees set at least annually.

In valuing the portfolio investments of any class or series of shares for the determination of the net asset value per share of such class or series, securities for which market quotations are readily available shall be valued at prices which, in the opinion of the Trustees or the person designated by the Trustees to make the determination, most nearly represent the market value of such securities, and other securities and assets shall be valued at their fair value as determined by or pursuant to the direction of the Trustees, which in the case of debt obligations, commercial paper and repurchase agreements may, but need not, be on the basis of yields for securities of comparable maturity, quality and type, or on the basis of amortized cost. Expenses and liabilities of the Trust shall be accrued each day. Liabilities may include such reserves for taxes, estimated accrued expenses and contingencies as the Trustees or their designates may in their sole discretion deem fair and reasonable under the circumstances. No accruals shall be made in respect of taxes on unrealized appreciation of securities owned unless the Trustees shall otherwise determine.

ARTICLE 11
SHAREHOLDERS

11.1 MEETINGS. A meeting of the shareholders shall be called by the Clerk whenever ordered by the Trustees, the Chairman of the Trustees or requested in writing by the holder or holders of at least one-tenth of the outstanding shares entitled to vote at such meeting. If the Clerk, when so ordered or requested, refuses or neglects for more than two days to call such meeting, the Trustees, Chairman of the Trustees or the shareholders so requesting may, in the name of the Clerk, call the meeting by giving notice thereof in the manner required when notice is given by the Clerk.

11.2 ACCESS TO SHAREHOLDER LIST. Shareholders of record may apply to the Trustees for assistance in communicating with other shareholders for the purpose of calling a meeting in order to vote upon the question of removal of a Trustee. When ten or more shareholders of record who have been such for at least six months preceding the date of application and who hold in the aggregate shares having a net asset value of at least $25,000 so apply, the Trustees shall within five business days either:

(i) afford to such applicants access to a list of names and addresses of all shareholders as recorded on the books of the Trust; or

(ii) inform such applicants of the approximate number of shareholders of record and the approximate cost of mailing material to them, and, within a reasonable time thereafter, mail, at the applicants' expense, materials submitted by the applicants, to all such shareholders of record. The Trustees shall not be obligated to mail materials which they believe to be misleading or in violation of applicable law.

11.3 RECORD DATES. For the purpose of determining the shareholders of any class or series of shares of the Trust who are entitled to vote or act at any meeting or any adjournment thereof, or who are entitled to receive payment of any dividend or of any other distribution, the Trustees may from time to time fix a time, which shall be not more than 90 days before the date of any meeting of shareholders or more than 60 days before the date of payment of any dividend or of any other distribution, as the record date for determining the shareholders of such class or series having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution, and in such case only shareholders of record on such record date shall have such right notwithstanding any transfer of shares on the books of the Trust after the record date; or without fixing such record date the Trustees may for any such purposes close the register or transfer books for all or part of such period.

11.4 PROXIES. The placing of a shareholder's name on a proxy pursuant to telephone or electronically transmitted instructions obtained pursuant to procedures reasonably designed to verify that such instructions have been authorized by such shareholder shall constitute execution of such proxy by or on behalf of such shareholder.

ARTICLE 12
PREFERENCES, RIGHTS AND PRIVILEGES OF THE
TRUST'S CLASSES OF SHARES

12.1 GENERAL. Each class of shares of the Trust or of a particular series of the Trust, as the case may be, will represent interests in the same portfolio of investments of the Trust (or that series) and be identical in all respects, except as set forth below: (a) each class of shares shall be charged with the expense of any Distribution Plan adopted by the Trust pursuant to Rule 12b-1 under the Investment Company Act of 1940 with respect to such class of shares, (b) each class of shares will be charged with any incremental shareholder servicing expense attributable solely to such class, as determined by the Trustees, (c) each class of shares shall be charged with any other expenses properly allocated to such class, as determined by the Trustees and approved by the Securities and Exchange Commission, (d) each class of shares shall vote as a separate class on matters which pertain to any Rule 12b-1 Distribution Plan pertaining to such class of shares, (e) each class of shares will have only such exchange privileges as may from time to time be described in the Trust's prospectus with respect to such class, (f) each class of shares shall bear such designation as may be approved from time to time by the Trustees and (g) reinvestments of distributions from the Trust paid with respect to the shares of a particular class will be paid in additional shares of such class.

12.2. CONVERSION OF CLASS B SHARES. Except as hereinafter provided with respect to shares acquired by exchange or reinvestment of distributions, Class B shares of the Trust will automatically convert into Class A shares of the Trust at the end of the month eight years after the month of purchase, or at such earlier time as the Trustees may in their sole discretion determine from time to time as to all Class B shares purchased on or before such date as the Trustees may specify. Class B shares acquired by exchange from Class B shares of another Putnam Fund will convert into Class A shares based on the date of the initial purchase of the Class B shares of such other Fund. Class B shares acquired through reinvestment of distributions will convert into Class A shares based on the date of the initial purchase of Class B shares to which such reinvestment shares relate. For this purpose, Class B shares acquired through reinvestment of distributions will be attributed to particular purchases of Class B shares in accordance with such procedures, which may include without limitation methods of proration or approximation, as the Trustees may in their sole discretion determine from time to time.

ARTICLE 13
AMENDMENTS TO THE BYLAWS

13.1 GENERAL. These Bylaws may be amended or repealed, in whole or in part, by a majority of the Trustees then in office at any meeting of the Trustees, or by one or more writings signed by such a majority.

NF-04F

(PORTIONS OF BYLAWS OF PUTNAM ARIZONA TAX EXEMPT INCOME FUND RELATING TO SHAREHOLDER RIGHTS)

ARTICLE 9
ISSUANCE OF SHARES AND SHARE CERTIFICATES

9.1 SALE OF SHARES. Except as otherwise determined by the Trustees, the Trust will issue and sell for cash or securities from time to time, full and fractional shares of its shares of beneficial interest, such shares to be issued and sold at a price of not less than the par value per share, if any, and not less than the net asset value per share as from time to time determined in accordance with the Declaration of Trust and these Bylaws and, in the case of fractional shares, at a proportionate reduction in such price. In the case of shares sold for securities, such securities shall be valued in accordance with the provisions for determining the value of the assets of the Trust as stated in the Declaration of Trust and these Bylaws. The officers of the Trust are severally authorized to take all such actions as may be necessary or desirable to carry out this Section 9.1.

9.2 SHARE CERTIFICATES. In lieu of issuing certificates for shares, the Trustees or the transfer agent may either issue receipts therefor or may keep accounts upon the books of the Trust for the record holders of such shares, who shall in either case be deemed, for all purposes hereunder, to be the holders of certificates for such shares as if they had accepted such certificates and shall be held to have expressly assented and agreed to the terms hereof.

The Trustees may at any time authorize the issuance of share certificates. In that event, each shareholder shall be entitled to a certificate stating the number of shares owned by him, in such form as shall be prescribed from time to time by the Trustees. Such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer. Such signatures may be facsimile if the certificate is signed by a transfer agent or by a registrar. In case any officer who has signed or whose facsimile signature has been placed on such certificate shall cease to be such officer before such certificate is issued, it may be issued by the Trust with the same effect as if he were such officer at the time of its issue.

9.3 LOSS OF CERTIFICATES. The transfer agent of the Trust, with the approval of any two officers of the Trust, is authorized to issue and countersign replacement certificates for the shares of the Trust which have been lost, stolen or destroyed upon (i) receipt of an affidavit or affidavits of loss or non-receipt and of an indemnity agreement executed by the registered holder or his legal representative and supported by an open penalty surety bond, said agreement and said bond in all cases to be in form and content satisfactory to and approved by the President or the Treasurer, or (ii) receipt of such other documents as may be approved by the Trustees.

9.4 ISSUANCE OF NEW CERTIFICATE TO PLEDGEE. A pledgee of shares transferred as collateral security shall be entitled to a new certificate if the instrument of transfer substantially describes the debt or duty that is intended to be secured thereby. Such new certificate shall express on its face that it is held as collateral security, and the name of the pledgor shall be stated thereon, who alone shall be liable as a shareholder and entitled to vote thereon.

9.5 DISCONTINUANCE OF ISSUANCE OF CERTIFICATES. The Trustees may at any time discontinue the issuance of share certificates and may, by written notice to each shareholder, require the surrender of share certificates to the Trust for cancellation. Such surrender and cancellation shall not affect the ownership of shares in the Trust.

ARTICLE 10
PROVISIONS RELATING TO THE CONDUCT OF THE TRUST'S BUSINESS

10.4 REPORTS TO SHAREHOLDERS. The Trust shall send to each shareholder of record at least semi-annually a statement of the condition of the Trust and of the results of its operations, containing all information required by applicable laws or regulations.

ARTICLE 11
SHAREHOLDERS

11.1 MEETINGS. A meeting of the shareholders shall be called by the Clerk whenever ordered by the Trustees, the Chairman of the Trustees or requested in writing by the holder or holders of at least one-tenth of the outstanding shares entitled to vote at such meeting. If the Clerk, when so ordered or requested, refuses or neglects for more than two days to call such meeting, the Trustees, Chairman of the Trustees or the shareholders so requesting may, in the name of the Clerk, call the meeting by giving notice thereof in the manner required when notice is given by the Clerk.

11.2 ACCESS TO SHAREHOLDER LIST. Shareholders of record may apply to the Trustees for assistance in communicating with other shareholders for the purpose of calling a meeting in order to vote upon the question of removal of a Trustee. When ten or more shareholders of record who have been such for at least six months preceding the date of application and who hold in the aggregate shares having a net asset value of at least $25,000 so apply, the Trustees shall within five business days either:

(i) afford to such applicants access to a list of names and addresses of all shareholders as recorded on the books of the Trust; or

(ii) inform such applicants of the approximate number of shareholders of record and the approximate cost of mailing material to them, and, within a reasonable time thereafter, mail, at the applicants' expense, materials submitted by the applicants, to all such shareholders of record. The Trustees shall not be obligated to mail materials which they believe to be misleading or in violation of applicable law.

11.3 RECORD DATES. For the purpose of determining the shareholders of any class or series of shares of the Trust who are entitled to vote or act at any meeting or any adjournment thereof, or who are entitled to receive payment of any dividend or of any other distribution, the Trustees may from time to time fix a time, which shall be not more than 90 days before the date of any meeting of shareholders or more than 60 days before the date of payment of any dividend or of any other distribution, as the record date for determining the shareholders of such class or series having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution, and in such case only shareholders of record on such record date shall have such right notwithstanding any transfer of shares on the books of the Trust after the record date; or without fixing such record date the Trustees may for any such purposes close the register or transfer books for all or part of such period.

11.4 PROXIES. The placing of a shareholder's name on a proxy pursuant to telephone or electronically transmitted instructions obtained pursuant to procedures reasonably designed to verify that such instructions have been authorized by such shareholder shall constitute execution of such proxy by or on behalf of such shareholder.

ARTICLE 12
AMENDMENTS TO THE BYLAWS

12.1 GENERAL. These Bylaws may be amended or repealed, in whole or in part, by a majority of the Trustees then in office at any meeting of the Trustees, or by one or more writings signed by such a majority.

PUTNAM ARIZONA TAX EXEMPT INCOME FUND
DISTRIBUTOR'S CONTRACT

Distributor's Contract dated May 6, 1994, by and between PUTNAM ARIZONA TAX EXEMPT INCOME FUND, a Massachusetts business trust (the "Fund"), and PUTNAM MUTUAL FUNDS CORP., a Massachusetts corporation ("Putnam").

WHEREAS, the Fund and Putnam are desirous of entering into this agreement to provide for the distribution by Putnam of shares of the Fund;

NOW, THEREFORE, in consideration of the mutual agreements contained in the Terms and Conditions of Distributor's Contract attached to and forming a part of this Contract (the "Terms and Conditions"), the Fund hereby appoints Putnam as a distributor of shares of the Fund, and Putnam hereby accepts such appointment, all as set forth in the Terms and Conditions.

A copy of the Agreement and Declaration of Trust of the Fund is on file with the Secretary of State 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 ARIZONA TAX EXEMPT INCOME FUND and PUTNAM MUTUAL FUNDS CORP. have each caused this Distributor's Contract to be signed in duplicate in its behalf, all as of the day and year first above written.

PUTNAM ARIZONA TAX EXEMPT
INCOME FUND

/s/ Charles E. Porter
By: -----------------------------
Executive Vice President

PUTNAM MUTUAL FUNDS CORP.

/s/ William N. Shiebler
By: -----------------------------
President

TERMS AND CONDITIONS
OF
DISTRIBUTOR'S CONTRACT

1. RESERVATION OF RIGHT NOT TO SELL. The Fund reserves the right to refuse at any time or times to sell any of its shares of beneficial interest ("shares") hereunder for any reason deemed adequate by it.

2. PAYMENTS TO PUTNAM. In connection with the distribution of shares of the Fund, Putnam will be entitled to receive: (a) payments pursuant to any Distribution Plan and Agreement from time to time in effect between the Fund and Putnam with respect to the Fund or any particular class of shares of the Fund, (b) any contingent deferred sales charges applicable to the redemption of shares of the Fund or of any particular class of shares of the Fund, determined in the manner set forth in the then current Prospectus and Statement of Additional Information of the Fund and (c) subject to the provisions of Section 3 below, any front-end sales charges applicable to the sale of shares of the Fund or of any particular class of shares of the Fund, less any applicable dealer discount.

3. SALES OF SHARES TO PUTNAM AND SALES BY PUTNAM. Putnam will have the right, as principal, to sell shares of the Fund to investment dealers against orders therefor (a) at the public offering price (calculated as described below) less a discount determined by Putnam, which discount shall not exceed the amount of the sales charge referred to below, or (b) at net asset value. Upon receipt of an order to purchase Fund shares from an investment dealer with whom Putnam has a Sales Contract, Putnam will promptly purchase shares from the Fund to fill such order. The public offering price of a class of shares shall be the net asset value of such shares then in effect, plus any applicable front-end sales charge determined in the manner set forth in the then current Prospectus and Statement of Additional Information of the Fund or as permitted by the Investment Company Act of 1940, as amended, and the Rules and Regulations of the Securities and Exchange Commission promulgated thereunder. In no event shall the public offering price exceed 1000/915ths of such net asset value, and in no event shall any applicable sales charge exceed 8 1/2% of the public offering price. The net asset value of the shares shall be determined in the manner provided in the Agreement and Declaration of Trust of the Fund as then amended and when determined shall be applicable to transactions as provided for in the then current Prospectus and Statement of Additional Information of the Fund.

Putnam will also have the right, as principal, to purchase shares from the Fund at their net asset value and to sell such shares to the public against orders therefor at the public offering price or at net asset value.

Putnam will also have the right, as principal, to sell shares at their net asset value and not subject to a contingent deferred sales charge to such persons as may be approved by the Trustees of the Fund, all such sales to comply with the provisions of the Investment Company Act of 1940, as amended, and the Rules and Regulations of the Securities and Exchange Commission promulgated thereunder.

Putnam will also have the right, as agent for the Fund, to sell shares at the public offering price or at net asset value to such persons and upon such conditions as the Trustees of the Fund may from time to time determine.

On every sale the Fund shall receive the applicable net asset value of the shares. Putnam will reimburse the Fund for any increased issue tax paid on account of sales charges. Upon receipt of registration instructions in proper form and payment for shares, Putnam will transmit such instructions to the Fund or its agent for registration of the shares purchased.

4. SALES OF SHARES BY THE FUND. The Fund reserves the right to issue shares at any time directly to its shareholders as a stock dividend or stock split and to sell shares to its shareholders or to other persons approved by Putnam at not less than net asset value.

5. REPURCHASE OF SHARES. Putnam will act as agent for the Fund in connection with the repurchase of shares by the Fund upon the terms and conditions set forth in the then current Prospectus and Statement of Additional Information of the Fund.

6. BASIS OF PURCHASES AND SALES OF SHARES. Putnam will use its best efforts to place shares sold by it on an investment basis. Putnam does not agree to sell any specific number of shares. Shares will be sold by Putnam only against orders therefor. Putnam will not purchase shares from anyone other than the Fund except in accordance with Section 5, and will not take "long" or "short" positions in shares contrary to the Agreement and Declaration of Trust of the Fund.

7. RULES OF NASD, ETC. Putnam will conform to the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and the sale of securities laws of any jurisdiction in which it sells, directly or indirectly, any shares. Putnam also agrees to furnish to the Fund sufficient copies of any agreements or plans it intends to use in connection with any sales of shares in adequate time for the Fund to file and clear them with the proper

authorities before they are put in use, and not to use them until so filed and cleared.

8. PUTNAM INDEPENDENT CONTRACTOR. Putnam shall be an independent contractor and neither Putnam nor any of its officers or employees as such is or shall be an employee of the Fund. Putnam is responsible for its own conduct and the employment, control and conduct of its agents and employees and for injury to such agents or employees or to others through its agents or employees. Putnam assumes full responsibility for its agents and employees under applicable statutes and agrees to pay all employer taxes thereunder.

Putnam will maintain at its own expense insurance against public liability in such an amount as the Trustees of the Fund may from time to time reasonably request.

9. EXPENSES. Putnam will pay all expenses of qualifying shares of the Fund for sale under the so-called "Blue Sky" laws of any state (except expenses of any action by the Fund relating to its Agreement and Declaration of Trust or other matters in which the Fund has a direct concern), and expenses of preparing, printing and distributing advertising and sales literature (apart from expenses of registering shares under the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, and the preparation and printing of Prospectuses and Statements of Additional Information and reports as required by said Acts and the direct expenses of the issue of shares, except that Putnam will pay the cost of the preparation and printing of Prospectuses and Statements of Additional Information and shareholders' reports used by it and by others in the sale of Fund shares to the extent such cost is not paid by others).

10. INDEMNIFICATION OF FUND. Putnam agrees to indemnify and hold harmless the Fund and each person who has been, is, or may hereafter be a Trustee of the Fund against expenses reasonably incurred by any of them in connection with any claim or in connection with any action, suit or proceeding to which any of them may be a party, which arises out of or is alleged to arise out of any misrepresentation or omission to state a material fact, or out of any alleged misrepresentation or omission to state a material fact, on the part of Putnam or any agent or employee of Putnam or any other person for whose acts Putnam is responsible or is alleged to be responsible unless such misrepresentation or omission was made in reliance upon written information furnished by the Fund. Putnam also agrees likewise to indemnify and hold harmless the Fund and each such person in connection with any claim or in connection with any action, suit or proceeding which arises out of or is alleged to arise out of Putnam's (or an affiliate of Putnam's) failure to exercise reasonable care and diligence with respect to its services

rendered in connection with investment, reinvestment, automatic withdrawal and other plans for shares. The term "expenses" includes amounts paid in satisfaction of judgments or in settlements which are made with Putnam's consent. The foregoing rights of indemnification shall be in addition to any other rights to which the Fund or a Trustee may be entitled as a matter of law.

11. 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. This Contract may be amended only if such amendment be approved either by action of the Trustees of the Fund or at a meeting of the shareholders of the Fund by the affirmative vote of a majority of the outstanding shares of the Fund, and by a majority of the Trustees of the Fund who are not interested persons of the Fund or of Putnam by vote cast in person at a meeting called for the purpose of voting on such approval.

12. EFFECTIVE PERIOD AND TERMINATION OF THIS CONTRACT. This Contract shall take effect upon the date first above written and shall remain in full force and effect continuously (unless terminated automatically as set forth in Section 11) until terminated:

(a) Either by the Fund or Putnam by not more than sixty (60) days' nor less than ten (10) days' written notice delivered or mailed by registered mail, postage prepaid, to the other party; or

(b) If the continuance of this Contract after January 31, 1995 is not specifically approved at least annually by the Trustees of the Fund or the shareholders of the Fund by the affirmative vote of a majority of the outstanding shares of the Fund, and by a majority of the Trustees of the Fund who are not interested persons of the Fund or of Putnam by vote cast in person at a meeting called for the purpose of voting on such approval.

Action by the Fund under (a) above may be taken either (i) by vote of its Trustees or (ii) by the affirmative vote of a majority of the outstanding shares of the Fund. The requirement under (b) above that continuance of this Contract be "specifically approved at least annually" shall be construed in a manner consistent with the Investment Company Act of 1940, as amended, and the Rules and Regulations thereunder.

Termination of this Contract pursuant to this Section 12 shall be without the payment of any penalty.

13. CERTAIN DEFINITIONS. For the purposes of this Contract, the "affirmative vote of a majority of the outstanding shares of the Fund" means the affirmative vote, at a duly called and held meeting of shareholders of the Fund, (a) of the holders of 67% or more of the shares of the Fund 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 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 entitled to vote at such meeting, whichever is less.

For the purposes of this Contract, the terms "interested person" and "assignment" shall have the meanings defined in the Investment Company Act of 1940, as amended, subject, however, to such exemptions as may be granted by the Securities and Exchange Commission under said Act.

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DEALER SERVICE AGREEMENT

Between: and

PUTNAM MUTUAL FUNDS CORP.
General Distributor of
The Putnam Family of Mutual Funds
P.O. Box 2701
Boston, MA 02208

We are pleased to inform you that, pursuant to the terms of this Dealer Service Agreement, we are authorized to pay you service fees in connection with the accounts of your customers that hold shares of certain Putnam funds listed in SCHEDULE 1 that have adopted distribution plans pursuant to Rule 12b-1 (the "12b-1 Funds"). Payment of the service fees is subject to your initial and continuing satisfaction of the following terms and conditions which may be revised by us from time to time:

1. QUALIFICATION REQUIREMENTS

(a) You have entered into a Sales Contract with us with respect to the Putnam Family of Mutual Funds (the "Putnam Funds").

(b) You are the dealer of record for accounts in Putnam Funds having an aggregate average net asset value of at least the minimum amount set forth in SCHEDULE 2 (DEALER FIRM REQUIREMENTS) during the period for which a service fee is to be paid. Putnam Fund accounts are accounts in any open-end Putnam Fund, but excluding any accounts for your firm's own retirement plans.

(c) One or more of your current employees must be the designated registered representative(s) on accounts in Putnam Funds having an aggregate average net asset value of at least the minimum amount set forth in SCHEDULE 2 (REGISTERED REPRESENTATIVE REQUIREMENTS) during the period for which a service fee is to be paid.

(d) You will provide the following information and agree that we will be entitled to rely on the accuracy of such information in updating our records for determining the levels of service fees payable to you under the terms of this Agreement. You understand that such payments will be based solely on Putnam's records.

(i) For each Putnam Fund account registered in the name of one of your customers, you will advise us, preferably by electronic means, before the end of the second month in each calendar quarter, of the Putnam Fund account number and the registered representative's identification, social security and branch number.

(ii) For each Putnam Fund account registered in your name (street name accounts), you will use your best efforts to advise us, preferably by electronic means, before the end of the second month in each calendar quarter, of the Putnam Fund account number, net asset value of the account, date of valuation, and, for each registered representative assigned to assets in the account: the representative's identification number, social security number, branch number, and the net asset value of assigned assets in the account.

2. SERVICE FEES

(a) If you meet the qualification requirements set forth above in Paragraph 1, you will be paid a service fee on assets in the 12b-1 Funds for which you are the dealer of record and which are serviced by a registered representative of your firm meeting the Registered Representative Requirements, if any, at the annual rates specified in SCHEDULE 3 (excluding any accounts for your firm's own retirement plans).

(b) You understand and agree that:

(i) all service fee payments are subject to the limitations contained in each 12b-1 Fund's Distribution Plan, which may be varied or discontinued at any time;

(ii) your failure to provide the services described in Paragraph 4 below as may be amended by us from time to time, or otherwise comply with the terms of this Agreement, will render you ineligible to receive service fees; and

(iii) failure of an assigned registered representative to provide services required by this Agreement will render that representative's accounts ineligible as accounts on which service fees are paid.

3. PAYMENTS AND COMMUNICATIONS TO REGISTERED REPRESENTATIVES

(a) You will pass through to your registered representatives a significant share of the service fees paid to you pursuant to this Agreement.

(b) You will assist us in distributing to your registered representatives periodic statements which we will have prepared showing the aggregate average net asset value of shares in Putnam Funds with which they are credited on our records.

4. REQUIRED SERVICES

(a) You will assign one of your registered representatives to each Putnam Fund account on your records and reassign the Putnam Fund account should that representative leave your firm.

(b) You and your registered representatives will assist us and our affiliates in providing the following services to shareholders of the Putnam Funds:

(i) Maintain regular contact with shareholders in assigned accounts and assist in answering inquiries concerning the Putnam Funds.

(ii) Assist in distributing sales and service literature provided by us, particularly to the beneficial owners of accounts registered in your name (street name accounts).

(iii) Assist us and our affiliates in the establishment and maintenance of shareholder accounts and records.

(iv) Assist shareholders in effecting administrative changes, such as changing dividend options, account designations, address, automatic investment programs or systematic investment plans.

(v) Assist in processing purchase and redemption transactions.

(vi) Provide any other information or services as the customer or we may reasonably request.

(c) You will support our marketing efforts by granting reasonable requests for visits to your offices by our wholesalers and by including all Putnam Funds on your "approved" list.

(d) Your compliance with the service requirements set forth in this Agreement will be evaluated by us from time to time by surveying shareholder satisfaction with service, by monitoring redemption levels of shareholder accounts assigned to you and by such other methods as we deem appropriate.

(e) The provisions of this Paragraph 4 may be amended by us from time to time upon notice to you.

5. AMENDMENT

This Agreement, including any Schedule hereto, shall be deemed amended as provided in any written notice delivered by us to you.

6. EFFECTIVE PERIOD AND TERMINATION

The provisions of this Agreement shall remain in effect for not more than one year from the date of its execution or adoption and thereafter for successive annual periods only so long as such continuance is specifically approved at least annually by the Trustees of each of the 12b-1 Funds in conformity with Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act"). This Agreement shall automatically terminate in the event of its assignment (as defined by the 1940 Act). In addition, this Agreement may be terminated at any time, without the payment of any penalty, by either party upon written notice delivered or mailed by registered mail, postage prepaid, to the other party, or, as provided in Rule 12b-1 under the 1940 Act, by the Trustees of any 12b-1 Fund or by the vote of the holders of the outstanding voting securities of any 12b-1 Fund.

7. WRITTEN REPORTS

Putnam Mutual Funds Corp. shall provide the Trustees of each of the 12b-1 Funds, and such Trustees shall review at least quarterly, a written report of the amounts paid to you under this Agreement and the purposes for which such expenditures were made.

8. MISCELLANEOUS

(a) All communications mailed to us should be sent to the above address. Any notice to you shall be duly given if mailed or delivered to you at the address specified by you below.

(b) The provisions of this Agreement shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts.

Very truly yours,

PUTNAM MUTUAL FUNDS CORP.

By: ------------------------------
William N. Shiebler, President
and Chief Executive Officer

We accept and agree to the foregoing Agreement as of the date set forth below.

Dealer: -------------------------

By: ----------------------------
Authorized Signature, Title

Address

Dated: -------------------------

Please return the signed Putnam copy of this Agreement to Putnam Mutual Funds Corp., P.O. Box 2701, Boston, MA 02208.

SCHEDULE 1: THE 12B-1 FUNDS

CATEGORY A

Putnam Convertible Income-Growth Trust (Class A)
Putnam Equity Income Fund (Class A)
Putnam Global Growth Fund (Class A)
Putnam Health Sciences Trust (Class A)
Putnam Investors Fund (Class A)
Putnam Managed Income Trust (Class A)
Putnam Natural Resources Fund (Class A)
Putnam Vista Fund (Class A)
Putnam Voyager Fund (Class A)
The George Putnam Fund of Boston (Class A)
The Putnam Fund for Growth and Income (Class A)

CATEGORY B

Putnam High Yield Trust (Class A)
Putnam Tax-Free High Yield Fund (Class B)
Putnam Tax-Free Insured Fund (Class B)
Putnam U.S. Government Income Trust (Class A)

CATEGORY C

Putnam Income Fund (Class A)

CATEGORY D

Putnam Michigan Tax Exempt Income Fund II (Class A)
Putnam Minnesota Tax Exempt Income Fund II (Class A)
Putnam Ohio Tax Exempt Income Fund II (Class A)

CATEGORY E

Putnam Municipal Income Fund (Class A)

CATEGORY F

Putnam Massachusetts Tax Exempt Income Fund II (Class A)

CATEGORY G

Putnam New York Tax Exempt Opportunities Fund (Class A)

CATEGORY H

Putnam California Tax Exempt Income Fund (Class A)
Putnam New Jersey Tax Exempt Income Fund (Class A)
Putnam New York Tax Exempt Income Fund (Class A)
Putnam Tax Exempt Income Fund (Class A)

CATEGORY I

Putnam Arizona Tax Exempt Income Fund (Class A)

CATEGORY J

Putnam Florida Tax Exempt Income Fund (Class A)
Putnam Pennsylvania Tax Exempt Income Fund (Class A)

CATEGORY K

Putnam California Intermediate Tax Exempt Fund (Class A and B)
Putnam Intermediate Tax Exempt Fund (Class A and B)
Putnam New York Intermediate Tax Exempt Fund (Class A and B)

CATEGORY L

Putnam Arizona Tax Exempt Income Fund (Class B)
Putnam California Tax Exempt Income Fund (Class B)
Putnam Equity Income Fund (Class B)
Putnam Florida Tax Exempt Income Fund (Class B)
Putnam Massachusetts Tax Exempt Income Fund II (Class B)
Putnam Michigan Tax Exempt Income Fund II (Class B)
Putnam Minnesota Tax Exempt Income Fund II (Class B)
Putnam New Jersey Tax Exempt Income Fund (Class B)
Putnam New York Tax Exempt Income Fund (Class B)
Putnam New York Tax Exempt Opportunities Fund (Class B)
Putnam Ohio Tax Exempt Income Fund II (Class B)
Putnam Pennsylvania Tax Exempt Income Fund (Class B)
Putnam Tax Exempt Income Fund (Class B)
Putnam Tax-Free High Yield Fund (Class A)
Putnam Tax-Free Insured Fund (Class A)

CATEGORY M

Putnam Adjustable Rate U.S. Government Fund (Class A and B)

Putnam American Government Income Fund (Class A and B)
Putnam Asset Allocation: Balanced Portfolio (Class A, B and C)
Putnam Asset Allocation: Conservative Portfolio (Class A,B and C)
Putnam Asset Allocation: Growth Portfolio (Class A, B and C)
Putnam Asia Pacific Growth Fund (Class A and B)
Putnam Balanced Government Fund (Class A and B)
Putnam Convertible Income-Growth Trust (Class B)
Putnam Diversified Income Trust (Class A and B)
Putnam Dividend Growth Fund (Class A and B)
Putnam Equity Income Fund (Class B)
Putnam Europe Growth Fund (Class A and B)
Putnam Federal Income Trust (Class A and B)
The George Putnam Fund of Boston (Class B)
Putnam Global Governmental Income Trust (Class A and B)
Putnam Global Growth Fund (Class B)
The Putnam Fund for Growth and Income (Class B)
Putnam Health Sciences Trust (Class B)
Putnam High Yield Advantage Fund (Class A and B)
Putnam High Yield Trust (Class B)
Putnam Income Fund (Class B)
Putnam Investors Fund (Class B)
Putnam Managed Income Trust (Class B)
Putnam Municipal Income Fund (Class B)
Putnam Natural Resources Fund (Class B)
Putnam New Opportunities Fund (Class A and B)
Putnam OTC Emerging Growth Fund (Class A and B)
Putnam Overseas Growth Fund (Class A and B)
Putnam U.S. Government Income Trust (Class B)
Putnam Utilities Growth and Income Fund (Class A and B)
Putnam Vista Fund (Class B)
Putnam Voyager Fund (Class B)

SCHEDULE 2: MINIMUM ASSETS

DEALER FIRM REQUIREMENTS. The minimum aggregate average net asset value of all accounts in Putnam Funds specified by Paragraph 1(b) is $250,000. We will review this requirement prior to the start of each year and inform you of any changes.

REGISTERED REPRESENTATIVE REQUIREMENTS. With respect to Paragraph 1(c), there is no minimum asset qualification requirement in the Putnam Funds applicable to each of your representatives. We will review this requirement prior to the start of each year and inform you of any changes.

SCHEDULE 3: ANNUAL SERVICE FEE RATES

Category A: 0.20% on shares acquired through December 31, 1989 (including capital appreciation on such shares) and 0.25% on shares acquired after December 31, 1989 (including shares purchased after December

31, 1989 with reinvested distributions on any shares).

Category B: 0.20% on shares acquired through March 31, 1990 (including capital appreciation on such shares) and 0.25% on shares acquired after March 31, 1990 (including shares purchased after March 31, 1990 with reinvested distributions on any shares).

Category C: 0.20% on shares acquired through March 31, 1991 (including capital appreciation on such shares) and 0.25% on shares acquired after March 31, 1991 (including shares purchased after March 31, 1991 with reinvested distributions on any shares).

Category D: 0.15% on shares outstanding as of March 9, 1992 and 0.20% on shares acquired after March 9, 1992.

Category E: 0.20% on shares outstanding as of May 7, 1992 and 0.25% on shares acquired after May 7, 1992.

Category F: 0.15% on shares outstanding as of May 11, 1992 and 0.20% on shares acquired after May 11, 1992.

Category G: 0.15% on shares outstanding as of July 13, 1992 and 0.20% on shares acquired after July 13, 1992.

Category H: 0.15% on shares outstanding as of December 31, 1992 and 0.20% on shares acquired after December 31, 1992.

Category I: 0.15% on shares outstanding as of March 5, 1993 and 0.20% on shares acquired after March 5, 1993.

Category J: 0.15% on shares outstanding as of July 8, 1993 and 0.20% on shares acquired after July 8, 1993.

Category K: 0.15% on all shares.

Category L: 0.20% on all shares.

Category M: 0.25% on all shares.

These calculations exclude until one year after purchase shares purchased at net asset value by shareholders investing $1 million or more and by participant-directed qualified retirement plans sponsored by employers with more than 750 employees ("NAV Shares"), except for shares owned by certain investors investing $1 million or more that have made arrangements with Putnam Mutual Funds and for whom you have waived the sales commission.

For participant-directed qualified retirement plans initially investing less than $20 million in Putnam funds and other investments managed by Putnam Management or its affiliates, Putnam Mutual Funds' payments to you on NAV Shares will be 100% of the rate stated above if average plan assets in Putnam funds (excluding money market funds) during the quarter are less than $20 million, 60% of the rate stated above if average plan assets are at least $20 million but less than $30 million, and 40% of the rate stated above if average plan assets are $30 million or more. For all other participant-directed qualified retirement plans purchasing NAV Shares, Putnam Mutual Funds will make quarterly payments to you at the annual rate of 0.10% of the average net asset value of such shares.

NF-57
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FINANCIAL INSTITUTION SERVICE AGREEMENT

Between: and

PUTNAM MUTUAL FUNDS CORP.
General Distributor of
The Putnam Family of Mutual Funds
P.O. Box 2701
Boston, MA 02208

We are pleased to inform you that, pursuant to the terms of this FINANCIAL INSTITUTION SERVICE AGREEMENT, we are authorized to pay you service fees in connection with the accounts of your customers that hold shares of certain Putnam funds listed in SCHEDULE 1 that have adopted distribution plans pursuant to Rule 12b-1 (the "12b-1 Funds"). Payment of the service fees is subject to your initial and continuing satisfaction of the following terms and conditions which may be revised by us from time to time:

1. QUALIFICATION REQUIREMENTS

(a) You have entered into a Financial Institution Sales Contract with us with respect to the Putnam Family of Mutual Funds (the "Putnam Funds"), whose shares you have agreed to make available to your customers on an agency basis.

(b) You are the financial institution of record for accounts in Putnam Funds having an aggregate average net asset value of at least the minimum amount set forth in SCHEDULE 2 (FINANCIAL INSTITUTION REQUIREMENTS) during the period for which a service fee is to be paid. Putnam Fund accounts are accounts in any open-end Putnam Fund but excluding any accounts for your organization's own retirement plans.

(c) One or more of your current employees must be the designated registered representative(s) in the case of a bank affiliated dealer, or agent representative(s) in the case of a bank (both referred to as "representatives"), on accounts in Putnam Funds having an aggregate average net asset value of at least the minimum amount set forth in SCHEDULE 2 (REPRESENTATIVE REQUIREMENTS) during the period for which a service fee is to be paid.

(d) You will provide the following information and agree that we will be entitled to rely on the accuracy of such information in updating our records for determining the levels of service fees payable to you under the terms of this Agreement. You understand that such payments will be based solely on Putnam's records:

(i) For each Putnam Fund account registered in the name of one of your customers, you will advise us, preferably by electronic means, before the end of the second month in each calendar quarter, of the Putnam Fund account number and the representative's identification number, social security number and branch number.

(ii) For each Putnam Fund account registered in your name (nominee name accounts), you will use your best efforts to advise us, preferably by electronic means, before the end of the second month in each calendar quarter, of the Putnam Fund account number, net asset value of the account, date of valuation, and, for each representative assigned to assets in the account: the representative's identification number, social security number, branch number, and net asset value of assigned assets in the account.

2. SERVICE FEES

(a) If you meet the qualification requirements set forth above in Paragraph 1, you will be paid, at the end of each calendar quarter, a service fee on assets of your customers in the 12b-1 Funds for which you are the financial institution of record and which are serviced by a representative of your organization meeting the Representative Requirements, if any, at the annual rates specified in SCHEDULE 3 (excluding any accounts for your organization's own retirement plans), provided that you have evaluated such service fees and have concluded that it is consistent with applicable laws, rules, regulations and regulatory interpretations for you to receive such service fees.

(b) You understand and agree that:

(i) all service fee payments are subject to the limitations contained in each 12b-1 Fund's Distribution Plan, which may be varied or discontinued at any time;

(ii) your failure to provide the services described in Paragraph 4 below as may be amended by us from time to time, or otherwise comply with the terms of this Agreement, will render you ineligible to receive service fees; and

(iii) failure of an assigned representative to provide services required by this Agreement will render that representative's accounts ineligible as accounts on which service fees are paid.

3. PAYMENTS AND COMMUNICATIONS TO REPRESENTATIVES

(a) Where consistent with applicable laws, rules, regulations and regulatory interpretations, you will pass through to your representatives a significant share of the service fees paid to you pursuant to this Agreement, or you will otherwise use the payments of service fees to advance the objective of providing and improving service to shareholders of the Putnam Funds in a manner specifically approved by Putnam Mutual Funds (for example, via training courses for representatives or shareholder seminars).

(b) You will assist us in distributing to your representatives periodic statements which we will have prepared showing the aggregate average net asset value of shares in Putnam Funds with which they are credited on our records.

4. REQUIRED SERVICES

(a) You will assign one of your representatives to each Putnam Fund account on your records and reassign the Putnam Fund account should that representative leave your organization.

(b) You and your representatives will assist us and our affiliates in providing the following services to shareholders of the Putnam Funds:

(i) Maintain regular contact with shareholders in assigned accounts and assist in answering inquiries concerning the Putnam Funds.

(ii) Assist in distributing sales and service literature provided by us, particularly to the beneficial owners of accounts registered in your name (nominee name accounts).

(iii) Assist us and our affiliates in the establishment and maintenance of shareholder accounts and records.

(iv) Assist shareholders in effecting administrative changes, such as changing dividend options, account designations, address, automatic investment programs or systematic investment plans.

(v) Assist in processing purchase and redemption transactions.

(vi) Provide any other information or services as the customer or we may reasonably request.

(c) You will grant reasonable requests for visits to your offices by our wholesalers and include all Putnam Funds on your menu or list of investments made available by you to your customers.

(d) Your compliance with the service requirements set forth in this Agreement will be evaluated by us from time to time by surveying shareholder satisfaction with service, by monitoring redemption levels of shareholder accounts assigned to you and by such other methods as we deem appropriate.

(e) The provisions of this Paragraph 4 may be amended by us from time to time upon notice to you.

5. AMENDMENT

This Agreement, including any Schedule hereto, shall be deemed amended as provided in any written notice delivered by us to you.

6. EFFECTIVE PERIOD AND TERMINATION

The provisions of this Agreement shall remain in effect for one year from the date of its execution or adoption and thereafter for successive annual periods only so long as such continuance is specifically approved at least annually by the Trustees of each of the 12b-1 Funds in conformity with Rule 12b-1 under the Investment Company Act of 1940 (the "1940 Act"). This Agreement shall automatically terminate in the event of its assignment (as defined by the 1940 Act). In addition, this Agreement may be terminated at any time, without the payment of any penalty, by either party upon written notice to the other party, or, as provided in Rule 12b-1 under the 1940 Act, by the Trustees of any 12b-1 Fund or by the vote of the holders of the outstanding voting securities of any 12b-1 Fund.

7. WRITTEN REPORTS

Putnam Mutual Funds Corp. shall provide the Trustees of each of the 12b-1 Funds, and such Trustees shall review at least quarterly, a written report of the amounts paid to you under this Agreement and the purposes for which such expenditures were made.

8. COMPLIANCE WITH LAWS

With respect to the receipt of service fees under the terms of this Agreement, you will comply with all applicable federal and state laws and rules, and all applicable regulations and interpretations of regulatory agencies or authorities, which may affect your business practices, including any requirement of written authorization or consent by your customers to your receipt of service fees, and any requirement to provide disclosure to your customers of such service fees.

9. MISCELLANEOUS

(a) All communications mailed to us should be sent to the above address. Any notice to you shall be duly given if mailed or delivered to you at the address specified by you below.

(b) The provisions of this Agreement shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts.

Very truly yours,

PUTNAM MUTUAL FUNDS CORP.

By: --------------------------
William N. Shiebler,
President and
Chief Executive Officer

We accept and agree to the foregoing Agreement as of the date set forth below.

Financial Institution: --------------------------

By: --------------------------
Authorized Signature, Title

Address

Dated: --------------------------

Please return the signed Putnam copy of this Agreement to Putnam Mutual Funds Corp., P.O. Box 2701, Boston, MA 02208.

SCHEDULE 1: THE 12B-1 FUNDS

CATEGORY A

Putnam Convertible Income-Growth Trust (Class A)
Putnam Equity Income Fund (Class A)
Putnam Global Growth Fund (Class A)
Putnam Health Sciences Trust (Class A)
Putnam Investors Fund (Class A)
Putnam Managed Income Trust (Class A)
Putnam Natural Resources Fund (Class A)
Putnam Vista Fund (Class A)
Putnam Voyager Fund (Class A)

The George Putnam Fund of Boston (Class A)
The Putnam Fund for Growth and Income (Class A)

CATEGORY B

Putnam High Yield Trust (Class A)
Putnam Tax-Free High Yield Fund (Class B)
Putnam Tax-Free Insured Fund (Class B)
Putnam U.S. Government Income Trust (Class A)

CATEGORY C

Putnam Income Fund (Class A)

CATEGORY D

Putnam Michigan Tax Exempt Income Fund II (Class A)
Putnam Minnesota Tax Exempt Income Fund II (Class A)
Putnam Ohio Tax Exempt Income Fund II (Class A)

CATEGORY E

Putnam Municipal Income Fund (Class A)

CATEGORY F

Putnam Massachusetts Tax Exempt Income Fund II (Class A)

CATEGORY G

Putnam New York Tax Exempt Opportunities Fund (Class A)

CATEGORY H

Putnam California Tax Exempt Income Fund (Class A)
Putnam New Jersey Tax Exempt Income Fund (Class A)
Putnam New York Tax Exempt Income Fund (Class A)
Putnam Tax Exempt Income Fund (Class A)

CATEGORY I

Putnam Arizona Tax Exempt Income Fund (Class A)

CATEGORY J

Putnam Florida Tax Exempt Income Fund (Class A)
Putnam Pennsylvania Tax Exempt Income Fund (Class A)

CATEGORY K

Putnam California Intermediate Tax Exempt Fund (Class A and B)

Putnam Intermediate Tax Exempt Fund (Class A and B)
Putnam New York Intermediate Tax Exempt Fund (Class A and B)

CATEGORY L

Putnam Arizona Tax Exempt Income Fund (Class B)
Putnam California Tax Exempt Income Fund (Class B)
Putnam Equity Income Fund (Class B)
Putnam Florida Tax Exempt Income Fund (Class B)
Putnam Massachusetts Tax Exempt Income Fund II (Class B)
Putnam Michigan Tax Exempt Income Fund II (Class B)
Putnam Minnesota Tax Exempt Income Fund II (Class B)
Putnam New Jersey Tax Exempt Income Fund (Class B)
Putnam New York Tax Exempt Income Fund (Class B)
Putnam New York Tax Exempt Opportunities Fund (Class B)
Putnam Ohio Tax Exempt Income Fund II (Class B)
Putnam Pennsylvania Tax Exempt Income Fund (Class B)
Putnam Tax Exempt Income Fund (Class B)
Putnam Tax-Free High Yield Fund (Class A)
Putnam Tax-Free Insured Fund (Class A)

CATEGORY M

Putnam Adjustable Rate U.S. Government Fund (Class A and B)
Putnam American Government Income Fund (Class A and B)
Putnam Asset Allocation: Balanced Portfolio (Class A, B and C)
Putnam Asset Allocation: Conservative Portfolio (Class A,B and C)
Putnam Asset Allocation: Growth Portfolio (Class A, B and C)
Putnam Asia Pacific Growth Fund (Class A and B)
Putnam Balanced Government Fund (Class A and B)
Putnam Convertible Income-Growth Trust (Class B)
Putnam Diversified Income Trust (Class A and B)
Putnam Dividend Growth Fund (Class A and B)
Putnam Equity Income Fund (Class B)
Putnam Europe Growth Fund (Class A and B)
Putnam Federal Income Trust (Class A and B)
The George Putnam Fund of Boston (Class B)
Putnam Global Governmental Income Trust (Class A and B)
Putnam Global Growth Fund (Class B)
The Putnam Fund for Growth and Income (Class B)
Putnam Health Sciences Trust (Class B)
Putnam High Yield Advantage Fund (Class A and B)
Putnam High Yield Trust (Class B)
Putnam Income Fund (Class B)
Putnam Investors Fund (Class B)
Putnam Managed Income Trust (Class B)
Putnam Municipal Income Fund (Class B)
Putnam Natural Resources Fund (Class B)
Putnam New Opportunities Fund (Class A and B)
Putnam OTC Emerging Growth Fund (Class A and B)
Putnam Overseas Growth Fund (Class A and B)

Putnam U.S. Government Income Trust (Class B)
Putnam Utilities Growth and Income Fund (Class A and B)
Putnam Vista Fund (Class B)
Putnam Voyager Fund (Class B)

SCHEDULE 2: MINIMUM ASSETS

FINANCIAL INSTITUTION REQUIREMENTS. The minimum aggregate average net asset value of all accounts in Putnam Funds specified by Paragraph 1(b) is $250,000. We will review this requirement prior to the start of each year and inform you of any changes.

REPRESENTATIVE REQUIREMENTS. With respect to Paragraph 1(c), there is no minimum asset qualification requirement in the Putnam Funds applicable to each of your representatives. We will review this requirement prior to the start of each year and inform you of any changes. We reserve the right to set a minimum at any time.

SCHEDULE 3: ANNUAL SERVICE FEE RATES

Category A: 0.20% on shares acquired through December 31, 1989 (including capital appreciation on such shares) and 0.25% on shares acquired after December 31, 1989 (including shares purchased after December 31, 1989 with reinvested distributions on any shares).

Category B: 0.20% on shares acquired through March 31, 1990 (including capital appreciation on such shares) and 0.25% on shares acquired after March 31, 1990 (including shares purchased after March 31, 1990 with reinvested distributions on any shares).

Category C: 0.20% on shares acquired through March 31, 1991 (including capital appreciation on such shares) and 0.25% on shares acquired after March 31, 1991 (including shares purchased after March 31, 1991 with reinvested distributions on any shares).

Category D: 0.15% on shares outstanding as of March 9, 1992 and 0.20% on shares acquired after March 9, 1992.

Category E: 0.20% on shares outstanding as of May 7, 1992 and 0.25% on shares acquired after May 7, 1992.

Category F: 0.15% on shares outstanding as of May 11, 1992 and 0.20% on shares acquired after May 11, 1992.

Category G: 0.15% on shares outstanding as of July 13, 1992 and 0.20% on shares acquired after July 13, 1992.

Category H: 0.15% on shares outstanding as of December 31, 1992 and 0.20% on shares acquired after December 31, 1992.

Category I: 0.15% on shares outstanding as of March 5, 1993 and 0.20% on shares acquired after March 5, 1993.

Category J: 0.15% on shares outstanding as of July 8, 1993 and 0.20% on shares acquired after July 8, 1993.

Category K: 0.20% on all shares.

Category L: 0.25% on all shares.

These calculations exclude until one year after purchase, shares purchased at net asset value by shareholders investing $1 million or more and by participant-directed qualified retirement plans sponsored by employers with more than 750 employees ("NAV Shares"), except for shares owned by certain investors investing $1 million or more that have made arrangements with Putnam Mutual Funds and for whom you have waived the sales commission.

For participant-directed qualified retirement plans initially investing less than $20 million in Putnam funds and other investments managed by Putnam Management or its affiliates, Putnam Mutual Funds' payments to you on NAV Shares will be 100% of the rate stated above if average plan assets in Putnam funds (excluding money market funds) during the quarter are less than $20 million, 60% of the rate stated above if average plan assets are at least $20 million but less than $30 million, and 40% of the rate stated above if average plan assets are $30 million or more. For all other participant-directed qualified retirement plans purchasing NAV Shares, Putnan Mutual Funds will make quarterly payments to you at the annual rate of 0.10% of the average net asset value of such shares.

NF-58

9/1/94

SCHEDULES FOR COMPUTATION OF PERFORMANCE QUOTATIONS

Fund name: Putnam Arizona Tax Exempt Income Fund -- Class A Shares
Fiscal period ending: August 31, 1994
Inception date (if less than 10 years of performance): 1/25/91

TOTAL RETURN

Formula -- Average Annual Total Return: ERV = P(1+T)^n

	1 Year	5 Years	10 Years*
n = Number of Time Periods	1 Year	5 Years	10 Years*
P = Initial Investment	$1,000	N/A	$1,000
ERV = Ending Redeemable Value	$943	N/A	$1,245
T = Average Annual Total Return	-5.75%	N/A	+6.29%*

*Life of fund, if less than 10 years

YIELD

Formula:

$$2\left(\frac{\text{Interest + Dividends - Expenses}}{\text{POP x Average shares}} +1\right)^{(6)} -1$$

Interest and Dividends	$766,770
Expenses	$113,443
Reimbursement	$0
Average shares	16,203,015
NAV	$8.84
Sales Charge	4.75%
POP	$9.28
Yield at POP	5.27%

TAX-EXEMPT EQUIVALENT YIELD

Formula:

$$\frac{\text{30 day yield}}{\text{1-(Highest Individual Tax Rate)}} = \text{TAX EQUIVALENT YIELD}$$

$$\frac{5.27\%}{1-43.83\%} = \frac{5.27\%}{.5617\%} = 9.38\%$$

SCHEDULES FOR COMPUTATION OF PERFORMANCE QUOTATIONS

Fund name: Putnam Arizona Tax Exempt Income
Fund -- Class B Shares
Fiscal period ending: August 31, 1994
Inception date (if less than 10 years of performance): 7/15/93

TOTAL RETURN

Formula -- Average Annual Total Return: ERV = P(1+T)^n

	1 Year	5 Years	10 Years*
n = Number of Time Periods	1 Year	5 Years	10 Years*
P = Initial Investment	$1,000	N/A	$1,000
ERV = Ending Redeemable Value	$935	N/A	$959
T = Average Annual Total Return	-6.46%	N/A	-3.66%*

*Life of fund, if less than 10 years

YIELD

Formula:

$$2\left(\frac{\text{Interest + Dividends - Expenses}}{\text{POP x Average shares}} +1\right)(6) -1$$

Interest and Dividends	$83,026
Expenses	$20,766
Reimbursement	$0
Average shares	1,769,644

NAV	$8.84
Maximum Contingent Deferred Sales Charge	5.0%
Yield at NAV	4.82%

TAX-EXEMPT EQUIVALENT YIELD

Formula:

$$\frac{\text{30 day yield}}{\text{1-(Highest Individual Tax Rate)}} = \text{TAX EQUIVALENT YIELD}$$

$$\frac{4.82\%}{1-43.83\%} = \frac{4.82\%}{.5617\%} = 8.58\%$$

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PUTNAM ARIZONA TAX EXEMPT INCOME FUND CLASS A AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PUTNAM ARIZONA TAX EXEMPT INCOME FUND CLASS B AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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