

PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form N-CSRS
December 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: (811- 07626)

Exact name of registrant as specified in charter: Putnam Municipal Opportunities Trust

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

Name and address of agent for service: Beth S. Mazor, Vice President
One Post Office Square
Boston, Massachusetts 02109

Copy to: John W. Gerstmayr, Esq.
Ropes & Gray LLP
One International Place
Boston, Massachusetts 02110

Registrant's telephone number, including area code: (617) 292-1000

Date of fiscal year end: April 30, 2008

Date of reporting period: May 1, 2007 - October 31, 2007

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

What makes Putnam different?

In 1830, Massachusetts Supreme Judicial Court Justice Samuel Putnam established The Prudent Man Rule, a legal foundation for responsible money management.

THE PRUDENT MAN RULE

All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

A time-honored tradition in money management

Since 1937, our values have been rooted in a profound sense of responsibility for the money entrusted to us.

A prudent approach to investing

We use a research-driven team approach to seek consistent, dependable, superior investment results over time, although there is no guarantee a fund will meet its objectives.

Funds for every investment goal

We offer a broad range of mutual funds and other financial products so investors and their financial representatives can build diversified portfolios.

A commitment to doing what's right for investors

With a focus on investment performance and in-depth information about our funds, we put the interests of investors first and seek to set the standard for integrity and service.

Industry-leading service

We help investors, along with their financial representatives, make informed investment decisions with confidence.

Putnam Municipal Opportunities Trust 10|31|07

Semiannual Report

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Message from the Trustees

Dear Fellow Shareholder

In November, Putnam Investments celebrated its 70th anniversary. From modest beginnings in Boston, Massachusetts, Putnam has grown into a global asset manager that serves millions of investors worldwide. Coincident with this anniversary, we are pleased to announce that Great-West Lifeco Inc. recently completed its purchase of Putnam Investments from Marsh & McLennan Companies, Inc. Great-West Lifeco is a financial services holding company with operations in Canada, the United States, and Europe, and is a member of the Power Financial Corporation group of companies. With this change, Putnam becomes part of a successful organization with a long-standing commitment to high-quality investment management and financial services. The change in ownership is not expected to affect the Putnam funds, the way Putnam manages money, or the funds' management teams.

We would like to take this opportunity to announce that Putnam President and Chief Executive Officer Ed Haldeman, one of your fund's Trustees since 2004, was named President of the Funds, assuming this role from George Putnam, III. This change, together with the completion of the transaction with Great-West Lifeco, has enabled George Putnam to become an independent Trustee of the funds. Both George and Ed will continue serving on the Board of Trustees in our collective role of overseeing the Putnam funds on your behalf.

We are also pleased to announce that a new independent Trustee, Robert J. Darretta, has joined your fund's Board of Trustees. Mr. Darretta brings extensive leadership experience in corporate finance and accounting. He is a former Vice Chairman of the Board of Directors of Johnson & Johnson, one of the leading U.S. health-care and consumer products companies, where he also served as Chief Financial Officer, Executive Vice President, and Treasurer.

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Finally, as you may already be aware, in February of this year Putnam Management and the Board of the Trustees proposed that two other Putnam closed-end funds, Putnam Municipal Bond Fund and Putnam Investment Grade Municipal Trust, be merged into your fund. We believe this merger, if approved, will be in the best interests of shareholders of all funds. Please see page 11 of this report for more details concerning this proposal. As always, we thank you for your support of the Putnam funds.

Putnam Municipal Opportunities Trust: potential for high current income exempt from federal income tax

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One of the most significant challenges of fixed-income investing is taxes on income. Investing in municipal bonds through a fund such as Putnam Municipal Opportunities Trust can help address this challenge. While the stated yields on municipal bonds are usually lower than those of taxable bonds, the income most of these bonds pay has the advantage of being exempt from federal tax.

Municipal bonds are typically issued by states and local municipalities to raise funds for building and maintaining public facilities. The bonds are backed by either the issuing city or town, by revenues collected from usage fees, or by state tax revenues. Depending on the type of backing, the bonds will have varying degrees of credit risk, which is the risk that the issuer will not be able to repay the bond.

Many municipal bonds are not rated by independent rating agencies such as Standard & Poor's and Moody's. This is primarily because many issuers decide not to pursue a rating that might be below investment grade. As a result, investment managers must do additional research to determine whether these bonds are prudent investments.

Evaluating a bond's credit risk is one area in which Putnam has particular expertise. Putnam's municipal bond research team analyzes each issue in depth and assigns non-rated bonds an agency-equivalent Putnam rating. This analysis helps the team identify bonds with attractive risk/return profiles among the large number of bonds not rated by agencies.

Once the fund has invested in a bond, the fund's management team continues to monitor developments that affect the overall bond market, the specific sector, and the issuer of the bond. Typically, higher-risk, lower-rated bonds are reviewed more frequently because of their greater potential risk.

The goal of the team's research and active management is to stay a step ahead of the industry and pinpoint opportunities to adjust the fund's holdings for the benefit of the fund and its shareholders.

Lower-rated bonds may offer higher yields in return for more risk. Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Please consult with your tax advisor for more information. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value. The fund's shares trade on a stock exchange at market prices, which may be higher or lower than the fund's net asset value.

How do closed-end funds differ from open-end funds?

More assets at work While open-end funds need to maintain a cash position to meet redemptions, closed-end funds are not subject to redemptions and can keep more of their assets invested in the market.

Traded like stocks Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

Market price vs. net asset value Like an open-end fund's net asset value (NAV) per share, the NAV of a closed-end fund share equals the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

Strategies for higher income Closed-end funds have greater flexibility to use strategies such as leverage—for example, issuing preferred shares to raise capital, then seeking to invest it at higher rates to enhance return for common shareholders.

Municipal bonds may finance a range of projects in your community and thus play a key role in its development.

Identified project areas are not necessarily represented in your fund's portfolio as of the date of this report, and your fund may invest in securities representing projects not shown here. Your fund's holdings will vary over time. For more information on current fund holdings, see pages 9 and 27.

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Performance snapshot

Putnam Municipal Opportunities Trust

Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return and net asset value will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Fund returns in the bar chart are at NAV. See pages 13-15 for additional performance information, including fund returns at market price. Index and Lipper results should be compared to fund performance at NAV. Lipper calculates performance differently than the closed-end funds it ranks, due to varying methods for determining a fund's monthly reinvestment NAV.

** Returns for the six-month period are not annualized, but cumulative.*

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Report from the fund managers

The period in review

As the fiscal period began in May 2007, the fund's portfolio maintained a relatively short duration—a defensive tactic that limits the fund's sensitivity to changes in interest rates—as investors became increasingly anxious about the economy in general and the financial markets in particular. We shifted to a more neutral stance—or longer duration—in the fall. Our defensive strategy had a positive effect on the fund's portfolio performance during the market sell-off in the spring, and our subsequent shift to a somewhat longer duration allowed the fund to participate in the price rally as the fiscal period ended. In general, our duration strategy helped the fund outperform the average for its Lipper peer group for the six months ended October 31, 2007. The fund trailed its benchmark for the period, however, which we attribute to the fund's allocation to tobacco settlement bonds, a sector that experienced weak performance during the period. Relative to its benchmark, the fund was overweight in bonds rated Baa and below by Moody's, which detracted moderately from results as credit spreads widened during the period. However, the fund benefited from its emphasis on municipal bonds related to single-family housing and power companies.

Market overview

A crisis in the subprime mortgage lending market and a resulting credit crunch weighed on the performance of many fixed-income sectors including municipal bonds during the six-month period ended October 31, 2007. While the fund did not own any securities that were directly affected by problems in the subprime mortgage market, the subprime crisis caused bond investors to reevaluate risk across all types of

fixed-income portfolios. Yield spreads which represent the yield premium for investing in bonds that are riskier than U.S. Treasuries, which carry virtually no credit risk rose dramatically as investors demanded more return on riskier

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bonds. Consequently, the risk rally that persisted in the tax-exempt bond market during the past two years, in which low-quality bonds traded at historically tight yield premiums to U.S. Treasuries, came to an abrupt end. Market liquidity effectively dried up as issuers discovered they would need to offer substantially higher yields on new bond issues to attract sufficient investor interest.

During July and August, when the impact of the subprime crisis was most acutely felt in the municipal bond market, the yield curve a graphical representation of differences in yield for bonds of comparable quality and different maturities steepened as demand for longer-maturity bonds weakened. Long-term bond prices declined, and yields rose, as investors reassessed the slim yield advantage offered in exchange for the increased inflation risk associated with holding longer-dated securities.

Strategy overview

We maintained a short (defensive) portfolio duration relative to the average duration for the fund's Lipper peer group because we expected interest rates to rise. This strategy helped effect relatively positive results when the prices of longer-term tax-exempt bonds declined and their yields rose. Duration is a measure of a fund's sensitivity to changes in interest rates. Having a shorter-duration portfolio may help

Market sector and fund performance

This comparison shows your fund's performance in the context of different market sectors for the six months ended 10/31/07. See page 6 and pages 13-15 for additional fund performance information. Index descriptions can be found on page 18.

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protect principal when interest rates rise, but it can reduce the potential for appreciation when rates fall. By the end of the period, we had extended the fund's duration to a more neutral positioning relative to the fund's benchmark and Lipper peer group.

The fund's greater relative exposure to investment-grade and lower-rated bonds detracted moderately from results relative to its peer group, as higher-rated bonds performed slightly better. Given the liquidity constraints present in the marketplace, higher-rated bonds under-performed lower-quality bonds because price discovery in these securities occurred more quickly, as investors who needed to raise cash were unable to sell lower-rated securities.

Relative to the fund's peer group average, we maintained an overweight position in single-family housing bonds. This strategy proved helpful to results, as reduced mortgage-prepayment volatility and solid investor demand continued to support bonds in this sector.

Your fund's holdings

Your fund's emphasis on **tobacco settlement** bonds, whose payments are secured by income promised to various states through legal settlements with tobacco companies, has been a positive contributor to performance in the past. But during the six months ended October 31, 2007, these bonds experienced poor performance. The combination of heavy upcoming supply

Comparison of the fund's maturity and duration

This chart compares changes in the fund's average effective maturity (a weighted average of the holdings' maturities) and its average effective duration (a measure of its sensitivity to interest-rate changes).

Average effective duration and average effective maturity take into account put and call features, where applicable, and reflect prepayments for mortgage-backed securities. Duration is usually shorter than maturity because it reflects interest payments on a bond prior to its maturity. Duration may be higher for funds that use leverage, which magnifies the effects of interest-rate changes.

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and investor aversion to riskier bonds weighed on the sector. However, because tobacco settlement bonds were trading at what we believed to be attractive levels, we viewed this as an opportunity to add to the fund's position during the period. For example, we recently purchased some BBB-rated **Ohio Tobacco Settlement Financing Authority** bonds. These were part of a \$5 billion new issue, which came to market at the beginning of October when the sector as a whole was soft.

Offsetting the weakness in the fund's tobacco settlement bonds was our emphasis on **single family housing** bonds, which proved helpful as reduced mortgage-prepayment volatility and solid investor demand continued to support bonds in this sector. The fund also benefited from its holdings in municipal bonds issued to benefit **power companies**. For example, the fund holds BBB-rated municipal bonds issued in Texas for **Valero Energy**, which refines low-cost, cleaner-burning fuel products, including diesel. Both the single-family and power company sectors performed well during the period as investor demand mounted.

Diversification has always been an important feature of your fund's investment policy, and as the fiscal period drew to a close, we were beginning to build a position in an area that is new to this fund: **prepaid gas** bonds. Each one of these complex transactions is unique. Typically, a municipal utility contracts with a

Credit quality overview

Credit qualities shown as a percentage of portfolio value as of 10/31/07. A bond rated Baa or higher (MIG3/VMIG3 or higher, for short-term debt) is considered investment grade. The chart reflects Moody's ratings; percentages may include bonds not rated by Moody's but considered by Putnam Management to be of comparable quality. Ratings will vary over time.

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natural gas supplier to provide a stated amount of gas at a predetermined price over periods of up to 30 years. The utility issues tax-exempt bonds in an amount sufficient to pay the gas supplier, and bond holders are repaid from the revenues generated when the utility sells the gas to its customers. An example is **Main Street Natural Gas** in Georgia, which we added to the fund's portfolio in October. The rating on these issues primarily reflects the credit strength of Merrill Lynch (A1 by Moody's), which guaranteed that the supplier will provide the gas as agreed. Since the ratings of even the most prestigious financial companies have been impacted by the turmoil in the mortgage markets, the price of these bonds declined to a level we felt provided us with an attractive opportunity to broaden the fund's diversification in a market area we believe is promising.

Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the fund's investment strategy and may vary in the future.

Of special interest

Tender offer results

In June 2007, Putnam Investments announced the launch of separate tender offers for shares of eight Putnam closed-end funds, including shares of Putnam Municipal Opportunities Trust. As a result, in July the fund repurchased approximately 10% of its outstanding common shares, the maximum number of shares covered by the offer. For additional information about share repurchases under the offer and in connection with a share repurchase program, see page 49 of this report.

In approving the tender offer for the funds, the Trustees considered that tender offers would give shareholders an opportunity to sell at least some of their shares at a price close to NAV, and that the tender offer price of 98% of NAV would help offset the costs that shareholders who

retain their shares would otherwise bear in connection with the tender offer.

Merger with another Putnam closed-end fund proposed

In February 2007, Putnam Investments and the Board of Trustees of the Putnam Funds announced a comprehensive initiative intended to concentrate the lineup of closed-end funds managed by Putnam Investments. The initiative includes a proposal to merge two other Putnam closed-end funds, Putnam Investment Grade Municipal Trust and Putnam Municipal Bond Fund, into your fund. This merger must be approved by the common and preferred shareholders of all three funds. The Trustees believe the merger is in the best interests of shareholders of each fund because it would significantly increase the size of the combined fund. A larger asset size could potentially reduce fund expenses and increase the liquidity in the trading market for fund shares. Proxy statements, which include additional pertinent information to enable you to make an informed decision about the merger, were mailed in recent months. If approved by shareholders, the merger is expected to take place in early 2008.

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The outlook for your fund

The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.

We are encouraged by the fact that the liquidity crisis that has affected the fixed-income markets is being addressed by the Federal Reserve (the Fed) and other regulatory and legislative bodies. In September, the Fed reduced the federal funds rate—the benchmark rate for overnight loans between banks—by 0.50%, and lowered the rate by an additional 0.25% in October. These actions helped both the taxable and tax-exempt markets to stabilize by restoring a level of confidence that the central bank is prepared to step in when extreme events disrupt the bond market's normal balance of supply and demand.

While we expect to see continued volatility in the coming months, the silver lining in any market downturn is that many securities may become available at attractive prices. We believe that is now the case among bonds that are at the lower end of the investment-grade credit spectrum. The selling pressure that caused investment-grade bonds—those rated Baa and above—to lag lower-rated bonds during the period has created what we consider to be compelling values among these securities. As a result, we currently plan to add to the fund's holdings in this area over the next several months.

Relative to the peer group, we also currently plan to maintain the fund's underweight exposure to non-investment-grade bonds. It appears that market participants are reaching the conclusion that lower-quality securities are unlikely to rally significantly from current levels over the near term. Against that backdrop, we believe the risks of emphasizing lower-rated bonds outweigh the return potential in the current market environment.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.

Lower-rated bonds may offer higher yields in return for more risk. Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Please consult with your tax advisor for more information. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

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Your fund's performance

This section shows your fund's performance for periods ended October 31, 2007, the end of the first half of its current fiscal year. In accordance with regulatory requirements for mutual funds, we also include performance as of the most recent calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

Fund performance

Total return for periods ended 10/31/07

| | NAV | Market price | Lehman Municipal Bond Index | Lipper General Municipal Debt Funds (leveraged closed-end) category average* |
|------------------------------|-------|--------------|-----------------------------|------------------------------------------------------------------------------|
| Annual average | | | | |
| Life of fund (since 5/28/93) | 6.24% | 4.90% | 5.69% | 6.11% |
| 10 years | 75.92 | 51.77 | 67.51 | 75.16 |
| Annual average | 5.81 | 4.26 | 5.29 | 5.76 |
| 5 years | 37.67 | 28.27 | 24.37 | 35.99 |
| Annual average | 6.60 | 5.11 | 4.46 | 6.31 |
| 3 years | 15.81 | 6.83 | 11.58 | 15.15 |
| Annual average | 5.01 | 2.23 | 3.72 | 4.79 |
| 1 year | 1.44 | 1.53 | 2.91 | 0.70 |
| 6 months | 0.24 | 4.24 | 1.30 | 0.97 |

Performance assumes reinvestment of distributions and does not account for taxes.

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculates performance differently than the closed-end funds it ranks, due to varying methods for determining a fund's monthly reinvestment NAV.

* Over the 6-month, 1-year, 3-year, 5-year, 10-year, and life-of-fund periods ended 10/31/07, there were 54, 54, 54, 52, 38, and 33 funds respectively, in this Lipper category.

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Fund price and distribution information

For the six-month period ended 10/31/07

Distributions common shares*

| | |
|---------------------|----------|
| Number | 6 |
| Income ¹ | \$0.2874 |

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Capital gains²

| | | | |
|------------------------------------|--------------------------|----------------------------|----------------------------|
| <hr/> | | | |
| Total | | \$0.2874 | |
| Distributions preferred shares* | Series A (800 shares) | Series B (1,620 shares) | Series C (1,620 shares) |
| <hr/> | | | |
| Income ¹ | \$965.62 | \$475.17 | \$477.68 |
| <hr/> | | | |
| Capital gains ² | | | |
| <hr/> | | | |
| Total | \$965.62 | \$475.17 | \$477.68 |
| Share value: | | NAV | Market price |
| <hr/> | | | |
| 4/30/07 | | \$13.19 | \$12.20 |
| <hr/> | | | |
| 10/31/07 | | 12.84 | 11.40 |
| <hr/> | | | |
| Current yield (end of period) | | | |
| <hr/> | | | |
| Current dividend rate ³ | | 4.48% | 5.04% |
| <hr/> | | | |
| Taxable equivalent ⁴ | | 6.89 | 7.75 |
| <hr/> | | | |

* Dividend sources are estimated and may vary based on final tax calculations after the fund's fiscal year-end.

¹ For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

² Capital gains, if any, are taxable for federal and, in most cases, state purposes.

³ Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

⁴ Assumes maximum 35% federal tax rate for 2007. Results for investors subject to lower tax rates would not be as advantageous.

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Fund performance as of most recent calendar quarter

Total return for periods ended 9/30/07

| | | |
|----------------|-----|--------------|
| | NAV | Market price |
| <hr/> | | |
| Annual average | | |

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| | | |
|------------------------------|-------|-------|
| Life of fund (since 5/28/93) | 6.24% | 5.00% |
| 10 years | 76.07 | 52.62 |
| Annual average | 5.82 | 4.32 |
| 5 years | 32.63 | 20.68 |
| Annual average | 5.81 | 3.83 |
| 3 years | 16.70 | 7.46 |
| Annual average | 5.28 | 2.43 |
| 1 year | 1.80 | 4.00 |
| 6 months | 0.58 | 3.72 |

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Your fund's management

Your fund is managed by the members of the Putnam Tax Exempt Fixed-Income Team. Thalia Meehan is the Portfolio Leader, and Paul Drury, Brad Libby, and Susan McCormack are Portfolio Members, of your fund. The Portfolio Leader and Portfolio Members coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Tax Exempt Fixed-Income Team, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at www.putnam.com.

Investment team fund ownership

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund and in all Putnam mutual funds (in dollar ranges). Information shown is as of October 31, 2007, and October 31, 2006.

Trustee and Putnam employee fund ownership

As of October 31, 2007, 12 of the 13 Trustees of the Putnam funds owned fund shares. The table below shows the approximate value of investments in the fund and all Putnam funds as of that date by the Trustees and Putnam employees. These amounts include investments by the Trustees and employees' immediate family members and investments through retirement and deferred compensation plans.

| | Assets in the fund | Total assets in all Putnam funds |
|------------------|--------------------|-------------------------------------|
| Trustees | \$33,000 | \$ 92,000,000 |
| Putnam employees | \$ 3,000 | \$777,000,000 |

Other Putnam funds managed by the Portfolio Leader and Portfolio Members

Thalia Meehan is the Portfolio Leader, and Paul Drury, Brad Libby, and Susan McCormack are Portfolio Members, of Putnam's open-end tax-exempt funds for the following states: Arizona, California, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania. The same group also manages Putnam AMT-Free Insured Municipal Fund and Putnam Tax Exempt Income Fund.

Paul Drury is the Portfolio Leader, and Brad Libby, Susan McCormack, and Thalia Meehan are Portfolio Members, of Putnam High Yield Municipal Trust, Putnam Managed Municipal Income Trust, and Putnam Tax-Free High Yield Fund.

Thalia Meehan, Paul Drury, Brad Libby, and Susan McCormack may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

Changes in your fund's Portfolio Leader and Portfolio Members

Your fund's Portfolio Leader and Portfolio Members did not change during the year ended October 31, 2007.

Terms and definitions

Important terms

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities and the net assets allocated to any outstanding preferred shares, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on exchanges such as the New York Stock Exchange.

Current yield is the annual rate of return earned from dividends or interest of an investment. Current yield is expressed as a percentage of the price of a security, fund share, or principal investment.

Comparative indexes

Lehman Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities.

Lehman Municipal Bond Index is an unmanaged index of long-term fixed-rate investment-grade tax-exempt bonds.

Merrill Lynch 91-Day Treasury Bill Index is an unmanaged index that seeks to measure the performance of U.S. Treasury bills available in the marketplace.

S&P 500 Index is an unmanaged index of common stock performance.

Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

Lipper is a third-party industry-ranking entity that ranks mutual funds. Its rankings do not reflect sales charges. Lipper rankings are based on total return at net asset value relative to other funds that have similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

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Trustee approval of management contract

General conclusions

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Investment Management (Putnam Management). In this regard, the Board of Trustees, with the assistance of its Contract Committee consisting solely of Trustees who are not interested persons (as such term is defined in the Investment Company Act of 1940, as amended) of the Putnam funds (the Independent Trustees), requests and evaluates all information it deems reasonably necessary under the circumstances. Over the course of several months ending in June 2007, the Contract Committee met several times to consider the information provided by Putnam Management and other information developed with the assistance of the Board's independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. The Contract Committee recommended, and the Independent Trustees approved, the continuance of your fund's management contract, effective July 1, 2007.

In addition, in anticipation of the sale of Putnam Investments to Great-West Lifeco, at a series of meetings ending in March 2007, the Trustees reviewed and approved new management and distribution arrangements to take effect upon the change of control. Shareholders of all funds approved the management contracts in May 2007, and the change of control transaction was completed on August 3, 2007. Upon the change of control, the management contracts that were approved by the Trustees in June 2007 automatically terminated and were replaced by new contracts that had been approved by shareholders. In connection with their review for the June 2007 continuance of the Putnam funds' management contracts, the Trustees did not identify any facts or circumstances that would alter the substance of the conclusions and recommendations they made in their review of the contracts to take effect upon the change of control.

The Independent Trustees' approval was based on the following conclusions:

That the fee schedule in effect for your fund represented reasonable compensation in light of the nature and quality of the services being provided to the fund, the fees paid by competitive funds and the costs incurred by Putnam Management in providing such services, and

That this fee schedule represented an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the fund at current asset levels.

These conclusions were based on a comprehensive consideration of all information provided to the Trustees and were not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations and how the Trustees considered these factors are described below, although individual Trustees may have evaluated the information presented differently, giving different weights to various factors. It is also important to recognize that the fee arrangements for your fund and the other Putnam funds are the result of many years of review and discussion between the Independent Trustees and Putnam Management, that

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certain aspects of such arrangements may receive greater scrutiny in some years than others, and that the Trustees' conclusions may be based, in part, on their consideration of these same arrangements in prior years.

Management fee schedules and categories; total expenses

The Trustees reviewed the management fee schedules in effect for all Putnam funds, including fee levels and breakpoints, and the assignment of funds to particular fee categories. In reviewing fees and expenses, the Trustees generally focused their attention on material changes in circumstances—for example, changes in a fund's size or investment style, changes in Putnam Management's operating costs or responsibilities, or changes in competitive practices in the mutual fund industry—that suggest that consideration of fee changes might be warranted. The Trustees concluded that the circumstances did not warrant changes to the management fee structure of your fund, which had been carefully developed over the years, re-examined on many occasions and adjusted where appropriate. The Trustees focused on two areas of particular interest, as discussed further below:

Competitiveness. The Trustees reviewed comparative fee and expense information for competitive funds, which indicated that, in a custom peer group of competitive funds selected by Lipper Inc., your fund ranked in the 67th percentile in management fees and in the 53rd percentile in total expenses as of December 31, 2006 (the first percentile being the least expensive funds and the 100th percentile being the most expensive funds). The Trustees expressed their intention to monitor this information closely to ensure that fees and expenses of your fund continue to meet evolving competitive standards.

Economies of scale. The Trustees considered that most Putnam funds currently have the benefit of breakpoints in their management fees that provide shareholders with significant economies of scale, which means that the effective management fee rate of a fund (as a percentage of fund assets) declines as a fund grows in size and crosses specified asset thresholds. Conversely, as a fund shrinks in size—as has been the case for many Putnam funds in recent years—these breakpoints result in increasing fee levels. In recent years, the Trustees have examined the operation of the existing breakpoint structure during periods of both growth and decline in asset levels. The Trustees concluded that the fee schedules in effect for the funds represented an appropriate sharing of economies of scale at current asset levels. In reaching this conclusion, the Trustees considered the Contract Committee's stated intent to continue to work with Putnam Management to plan for an eventual resumption in the growth of assets, and to consider the potential economies that might be produced under various growth assumptions.

In connection with their review of the management fees and total expenses of the Putnam funds, the Trustees also reviewed the costs of the services to be provided and profits to be realized by Putnam Management and its affiliates from the relationship with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management and distribution services provided to the

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funds. In this regard, the Trustees also reviewed an analysis of Putnam Management's revenues, expenses and profitability with respect to the funds' management contracts, allocated on a fund-by-fund basis.

Investment performance

The quality of the investment process provided by Putnam Management represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under your fund's management contract. The Trustees were assisted in their review of the Putnam funds' investment process and performance by the work of the Investment Process Committee of the Trustees and the Investment Oversight Committees of the Trustees, which had met on a regular monthly basis with the funds' portfolio teams throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process—as measured by the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to such personnel, and in general the ability of Putnam Management to attract and retain high-quality personnel—but also recognized that this does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing each fund's performance with various benchmarks and with the performance of competitive funds.

The Trustees noted the satisfactory investment performance of many Putnam funds. They also noted the disappointing investment performance of certain funds in recent years and discussed with senior management of Putnam Management the factors contributing to such underperformance and actions being taken to improve performance. The Trustees recognized that, in recent years, Putnam Management has made significant changes in its investment personnel and processes and in the fund product line to address areas of underperformance. In particular, they noted the important contributions of Putnam Management's leadership in attracting, retaining and supporting high-quality investment professionals and in systematically implementing an investment process that seeks to merge the best features of fundamental and quantitative analysis. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional changes to address areas of underperformance are warranted.

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In the case of your fund, the Trustees considered that your fund's common share cumulative total return performance at net asset value was in the following percentiles of its Lipper Inc. peer group (Lipper General Municipal Debt Funds (leveraged closed-end)) (compared using tax-adjusted performance to recognize the different federal income tax treatment for capital gains distributions and exempt-interest distributions) for the one-, three- and five-year periods ended March 31, 2007 (the first percentile being the best-performing funds and the 100th percentile being the worst-performing funds):

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| One-year period | Three-year period | Five-year period |
|-----------------|-------------------|------------------|
| 63rd | 49th | 62nd |

(Because of the passage of time, these performance results may differ from the performance results for more recent periods shown elsewhere in this report. Over the one-, three- and five-year periods ended March 31, 2007, there were 56, 56 and 50 funds, respectively, in your fund's Lipper peer group.* Past performance is no guarantee of future returns.)

As a general matter, the Trustees concluded that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees noted that investors in the Putnam funds have, in effect, placed their trust in the Putnam organization, under the oversight of the funds' Trustees, to make appropriate decisions regarding the management of the funds. Based on the responsiveness of Putnam Management in the recent past to Trustee concerns about investment performance, the Trustees concluded that it is preferable to seek change within Putnam Management to address performance shortcomings. In the Trustees' view, the alternative of terminating a management contract and engaging a new investment adviser for an underperforming fund would entail significant disruptions and would not provide any greater assurance of improved investment performance.

Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the management contract with your fund. These include benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage may be used to acquire research services that may be useful to Putnam Management in managing the assets of the fund and of other clients. The Trustees indicated their continued intent to monitor the potential benefits associated with the allocation of fund brokerage to ensure that the principle of seeking best price and execution remains paramount in the portfolio trading process.

The Trustees' annual review of your fund's management contract also included the review of your fund's custodian agreement and investor servicing agreement with Putnam Fiduciary Trust Company (PFTC), which provide benefits to affiliates of Putnam Management. In the case of the custodian agreement, the Trustees considered that, effective January 1, 2007, the Putnam funds had engaged State Street Bank and Trust Company as custodian and began to transition the responsibility for providing custody services away from PFTC.

** The percentile rankings for your fund's common share annualized total return performance in the Lipper General Municipal Debt Funds (leveraged closed-end) category for the one-, five- and ten-year periods ended September 30, 2007 were 55%, 43% and 59%, respectively. Over the one-, five- and ten-year periods ended September 30, 2007, the fund ranked 30th out of 54, 22nd out of 51 and 23rd out of 38, respectively. Unlike the information above, these rankings reflect performance before taxes. Note that this more recent information was not available when the Trustees approved the continuance of your fund's management contract.*

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Comparison of retail and institutional fee schedules

The information examined by the Trustees as part of their annual contract review has included for many years information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, etc. This information included comparison of such fees with fees charged to the funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and the funds are by no means uniform when examined by individual asset sectors, suggesting that differences in the pricing of investment management services to these types of clients reflect to a

substantial degree historical competitive forces operating in separate market places. The Trustees considered the fact that fee rates across all asset sectors are higher on average for funds than for institutional clients, as well as the differences between the services that Putnam Management provides to the Putnam funds and those that it provides to institutional clients of the firm, but did not rely on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

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Other information for shareholders

Important notice regarding share repurchase program

In September 2007, the Trustees of your fund approved the renewal of a share repurchase program that had been in effect since 2005. This renewal will allow your fund to repurchase, in the 12 months beginning October 8, 2007, up to 10% of the fund's common shares outstanding as of October 5, 2007.

Important notice regarding delivery of shareholder documents

In accordance with SEC regulations, Putnam sends a single copy of annual and semiannual shareholder reports, prospectuses, and proxy statements to Putnam shareholders who share the same address, unless a shareholder requests otherwise. If you prefer to receive your own copy of these documents, please call Putnam at 1-800-225-1581, and Putnam will begin sending individual copies within 30 days.

Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2007, are available on the Putnam Individual Investor Web site, www.putnam.com/individual, and on the SEC's Web site, www.sec.gov. If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at www.sec.gov. In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the Public Reference Room.

Amendment to your fund's bylaws

The fund is required to comply with asset coverage tests and other investment restrictions set forth in your fund's Bylaws. These requirements are imposed by the rating agencies that rate the fund's preferred shares. In December, 2007, the fund's Bylaws were amended to expand the categories of investments that may be counted toward meeting the asset coverage tests and to liberalize the calculations applied to those investments. The amendment effectively increases the fund's ability to invest in various derivative and lower-rated instruments. Specifically, (a) zero coupon bonds and

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swaps (including total return swaps, interest rate swaps, currency swaps and credit default swaps) may now be included when performing asset coverage tests; (b) the minimum original issue size of a qualified municipal obligation has been reduced; (c) pre-refunded bonds will now be discounted like AAA/Aaa-rated bonds even if they are not re-rated; and (d) the discount factors assigned to investments will be reduced, making it easier for the fund to satisfy the asset coverage tests. This additional investment flexibility may increase the fund's exposure to credit risk and to risks associated with derivatives, some of which are described

below.

Credit risk Investors normally expect to be compensated in proportion to the risk they are assuming. Thus, debt of issuers with poor credit prospects usually offers higher yields than debt of issuers with more secure credit. Higher-rated investments generally have lower credit risk. Investments rated below BBB by Standard & Poor's Rating Group Inc. (S&P) or its equivalent are below investment grade. A below investment grade rating reflects a greater possibility that the issuers may be unable to make timely payments of interest and principal and thus default. If this happens, or is perceived as likely to happen, the values of those investments will be more volatile and are likely to fall. A default or expected default could also make it difficult for Putnam Management to sell investments at prices approximating the values Putnam Management had previously placed on them. Tax-exempt debt, particularly lower-rated tax-exempt debt, usually has a more limited market than taxable debt, which may at times make it difficult for to buy or sell certain tax-exempt investments or to establish their fair value. Credit risk is generally greater for investments that are issued at less than face value and that are required to make interest payments only at maturity rather than at intervals during the life of the investment.

Derivatives Derivatives are financial instruments whose value depends upon, or is derived from, the value of something else, such as one or more underlying investments, pools of investments or indexes. The fund may use derivatives both for hedging and non-hedging purposes or as a substitute for direct investments in the securities of one or more issuers.

Derivatives involve special risks and may result in losses. The successful use of derivatives depends on Putnam Management's ability to manage these sophisticated instruments. Some derivatives are leveraged, which means that they provide a fund with investment exposure greater than the value of the fund's investment in the derivatives and may magnify or otherwise increase investment losses to the fund. The risk of loss from a short derivatives position—a derivative the value of which moves in the opposite direction from the price of the underlying investments, pools of investments or indexes—is theoretically unlimited. The prices of derivatives may move in unexpected ways due to the use of leverage or other factors, especially in unusual market conditions, and may result in increased volatility. The use of derivatives may also increase the amount of taxes payable by shareholders. Other risks arise from the potential inability to terminate or sell derivatives positions. A liquid secondary market may not always exist for the fund's derivatives positions at any time. In fact, many over-the-counter instruments (instruments not traded on an exchange) will not be liquid. Over-the-counter instruments also involve the risk that the other party to the transaction will not meet its obligations.

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Financial statements

A guide to financial statements

These sections of the report, as well as the accompanying Notes, constitute the fund's financial statements.

The fund's portfolio lists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of preferred shares.)

Statement of operations shows the fund's net investment gain or loss. This is done by first adding up all the fund's earnings from dividends and interest income and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings as well as any unrealized gains or losses over the period is added to or subtracted from the net investment result to determine the fund's net gain or loss for the fiscal period.

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned. Dividend sources are estimated at the time of

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declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year.

Financial highlights provide an overview of the fund's investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlight table also includes the current reporting period.

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The fund's portfolio 10/31/07 (Unaudited)

Key to abbreviations

AMBAC AMBAC Indemnity Corporation

BAN Bond Anticipation Notes

COP Certificate of Participation

FGIC Financial Guaranty Insurance Company

FHA Insd. Federal Housing Administration Insured

FHLMC Coll. Federal Home Loan Mortgage Corporation Collateralized

FNMA Coll. Federal National Mortgage Association Collateralized

FSA Financial Security Assurance

GNMA Coll. Government National Mortgage Association Collateralized

G.O. Bonds General Obligation Bonds

MBIA MBIA Insurance Company

PSFG Permanent School Fund Guaranteed

Radian Insd. Radian Group Insured

U.S. Govt. Coll. U.S. Government Collateralized

VRDN Variable Rate Demand Notes

XLCA XL Capital Assurance

MUNICIPAL BONDS AND NOTES (168.7%)*

Rating**

Principal amount

Value

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Alabama (0.2%)

| | | | | | |
|----------------------------------------------------------------------------------------|-----|----|---------|----|---------|
| Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa Valley Med. Ctr.), Ser. A, 6s, 8/1/25 | B/P | \$ | 400,000 | \$ | 408,388 |
|----------------------------------------------------------------------------------------|-----|----|---------|----|---------|

Arizona (4.7%)

| | | | | | |
|-----------------------------------------------------------------------------------------------------------------|-------|--|-----------|--|-----------|
| AZ Hlth. Fac. Auth. Rev. Bonds (Banner Hlth.), Ser. A, 5s, 1/1/15 # | AA | | 3,890,000 | | 4,092,669 |
| AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds (John C. Lincoln Hlth. Network), 6 3/8s, 12/1/37 (Prerefunded) | BBB | | 750,000 | | 849,698 |
| Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29 | BB /P | | 950,000 | | 1,008,891 |
| Cochise Cnty., Indl. Dev. Auth. Rev. Bonds (Sierra Vista Cmnty. Hosp.), Ser. A, 6 3/4s, 12/1/26 | BB+/P | | 455,000 | | 462,198 |
| Glendale, Indl. Dev. Auth. Rev. Bonds (Midwestern U.), 5s, 5/15/26 | A | | 800,000 | | 820,808 |
| Marana, Impt. Dist. Special Assmt. Bonds (Tangerine Farms Road), 4.6s, 1/1/26 | Baa1 | | 570,000 | | 540,708 |
| Pima Cnty., Indl. Dev. Auth. Rev. Bonds (Horizon Cmnty. Learning Ctr.), 5.05s, 6/1/25 | BBB | | 500,000 | | 487,475 |
| | | | | | 8,262,447 |

Arkansas (1.1%)

| | | | | | |
|--------------------------------------------------------------------------------|---|--|-----------|--|-----------|
| Independence Cnty., Poll. Control Rev. Bonds (Entergy AR, Inc.), 5s, 1/1/21 | A | | 1,000,000 | | 1,003,880 |
| Jefferson Cnty., Poll. Control Rev. Bonds (Entergy AR, Inc.), 4.6s, 10/1/17 | A | | 200,000 | | 201,510 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | | Principal amount | | Value |
|-----------------------------------------------------------------------------|----------|----|------------------|----|-----------|
| <i>Arkansas continued</i> | | | | | |
| Springdale, Sales & Use Tax Rev. Bonds, FSA, 4.05s, 7/1/26 | Aaa | \$ | 500,000 | \$ | 502,780 |
| Washington Cnty., Hosp. Rev. Bonds (Regl. Med. Ctr.), Ser. B, 5s, 2/1/25 | Baa2 | | 250,000 | | 246,290 |
| | | | | | 1,954,460 |

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California (24.7%)

| | | | |
|------------------------------------------------------------------------------------------------------------------|-------|-----------|-----------|
| Anaheim, City School Dist. G.O. Bonds (Election of 2002), MBIA, zero %, 8/1/26 | Aaa | 1,195,000 | 503,131 |
| Anaheim, Pub. Fin. Auth. Lease Rev. Bonds (Pub. Impt.), Ser. C, FSA, zero %, 9/1/28 | Aaa | 6,000,000 | 2,221,080 |
| Burbank, Unified School Dist. G.O. Bonds (Election of 1997), Ser. C, FGIC, zero %, 8/1/23 | Aaa | 1,000,000 | 490,310 |
| CA Edl. Fac. Auth. Rev. Bonds (U. of the Pacific), 5s, 11/1/21 | A2 | 450,000 | 464,958 |
| CA State G.O. Bonds 5 1/8s, 4/1/23 | A1 | 500,000 | 521,155 |
| 5s, 11/1/32 | A1 | 1,000,000 | 1,018,100 |
| CA State Econ. Recvy. G.O. Bonds, Ser. A, 5s, 7/1/16 | AA+ | 1,000,000 | 1,045,410 |
| CA State Pub. Wks. Board Rev. Bonds (Dept. of Hlth. Svcs. Richmond Laboratory), Ser. B, XLCA, 5s, 11/1/22 | Aaa | 1,810,000 | 1,887,432 |
| CA Statewide Cmnty., Dev. Auth. Rev. Bonds (Huntington Memorial Hosp.), 5s, 7/1/21 | A+ | 250,000 | 256,378 |
| CA Statewide Cmnty., Dev. Auth. COP (The Internext Group), 5 3/8s, 4/1/30 | BBB | 1,750,000 | 1,753,413 |
| Cathedral City, Impt. Board Act of 1915 Special Assmt. Bonds (Cove Impt. Dist.), Ser. 04-02, 5.05s, 9/2/35 | BB+/P | 250,000 | 234,045 |
| Chula Vista COP, MBIA, 5s, 8/1/32 | Aaa | 4,000,000 | 4,137,400 |
| Chula Vista, Indl. Dev. Rev. Bonds (San Diego Gas), Ser. B, 5s, 12/1/27 | A1 | 635,000 | 647,059 |
| Garvey, School Dist. G.O. Bonds (Election of 2004), FSA, zero %, 8/1/24 | Aaa | 1,400,000 | 647,514 |
| Gilroy, Rev. Bonds (Bonfante Gardens Park), 8s, 11/1/25 | B /P | 576,000 | 536,412 |
| Golden State Tobacco Securitization Corp. Rev. Bonds Ser. A-1, 5s, 6/1/33 | BBB | 1,250,000 | 1,125,163 |
| Ser. A-1, 4 1/2s, 6/1/27 | BBB | 625,000 | 581,819 |
| Ser. 03 A-1, 5s, 6/1/21 (Prerefunded) | AAA | 85,000 | 85,830 |
| Metro. Wtr. Dist. Rev. Bonds (Southern CA Wtr. Wks.), 5 3/4s, 8/10/18 | AAA | 6,000,000 | 6,814,440 |
| Redwood City, Elementary School Dist. G.O. Bonds, FGIC, zero %, 8/1/21 | Aaa | 1,990,000 | 1,081,207 |
| Rocklin, Unified School Dist. G.O. Bonds, FGIC, zero %, 8/1/27 | Aaa | 2,000,000 | 807,180 |

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| | Rating** | Principal amount | Value |
|------------------------------------------------------------------------------------------------------------------|----------|------------------|--------------|
| <i>California continued</i> | | | |
| Sacramento, Special Tax (North Natomas Cmnty. Fac.), Ser. 97-01, 5s, 9/1/29 | BB/P | \$ 1,185,000 | \$ 1,128,950 |
| Sacramento, City Unified School Dist. G.O. Bonds (Election 1999), Ser. D, FSA, 5s, 7/1/28 | Aaa | 2,000,000 | 2,072,560 |
| San Bernardino Cnty., COP (Med. Ctr. Fin.), Ser. A, MBIA, 6 1/2s, 8/1/17 | Aaa | 5,000,000 | 5,799,650 |
| San Diego Cnty., COP, AMBAC, 5 5/8s, 9/1/12 | Aaa | 6,000,000 | 6,247,740 |
| Silicon Valley, Tobacco Securitization Auth. Rev. Bonds (Santa Clara), Ser. A, zero %, 6/1/36 | BBB/P | 750,000 | 112,223 |
| Sunnyvale, Cmnty. Fac. Dist. Special Tax Rev. Bonds, 7.65s, 8/1/21 | BB /P | 715,000 | 755,948 |
| | | | 42,976,507 |
| <i>Colorado (0.6%)</i> | | | |
| CO Hlth. Fac. Auth. Rev. Bonds (Christian Living Cmntys.), Ser. A, 5 3/4s, 1/1/26 | BB /P | 100,000 | 101,055 |
| (Evangelical Lutheran), 5 1/4s, 6/1/21 | A3 | 535,000 | 553,254 |
| (Evangelical Lutheran), 5s, 6/1/29 | A3 | 340,000 | 337,770 |
| | | | 992,079 |
| <i>Delaware (1.0%)</i> | | | |
| GMAC Muni. Mtge. Trust 144A sub. notes, Ser. A1-2, 4.9s, 10/31/39 | A3 | 1,500,000 | 1,510,575 |
| New Castle Cnty., Rev. Bonds (Newark Charter School, Inc.), 5s, 9/1/30 | BBB | 200,000 | 188,810 |
| | | | 1,699,385 |
| <i>District of Columbia (3.3%)</i> | | | |
| DC Wtr. & Swr. Auth. Pub. Util. Rev. Bonds, FGIC, 5s, 10/1/28 | Aaa | 5,550,000 | 5,715,501 |
| <i>Florida (5.0%)</i> | | | |
| FL Hsg. Fin. Corp. Rev. Bonds (Homeowner Mtge.), Ser. 5, 5s, 7/1/34 | Aa1 | 695,000 | 701,137 |
| Halifax, Hosp. Med. Ctr. Rev. Bonds, Ser. A, 5 1/4s, 6/1/20 | BBB+ | 2,000,000 | 2,069,680 |
| Lee Cnty., Incl. Dev. Auth. Hlth. Care Fac. Rev. Bonds (Alliance Cmnty.), Ser. C, 5 1/2s, 11/15/29 (Prerefunded) | AAA | 1,000,000 | 1,048,130 |

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| | | | |
|------------------------------------------------------------------------------------------------------|-------|---------|---------|
| Miami Beach, Hlth. Fac. Auth. Hosp. Rev. Bonds (Mount Sinai Med. Ctr.), Ser. A, 6.8s, 11/15/31 | Ba1 | 500,000 | 532,980 |
| Reunion West, Cmnty. Dev. Dist. Special Assmt. Bonds, 6 1/4s, 5/1/36 | BB /P | 790,000 | 795,814 |
| South Bay, Cmnty. Dev. Dist. Rev. Bonds, Ser. B-1, 5 1/8s, 11/1/09 | BB /P | 630,000 | 612,933 |
| Split Pine, Cmnty. Dev. Dist. Special Assmt. Bonds, Ser. A, 5 1/4s, 5/1/39 | BB /P | 500,000 | 424,290 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|---------------------------------------------------------------------------------------|----------|------------------|--------------|
| <i>Florida continued</i> | | | |
| St. Lucie Cnty., School Board COP (Master Lease), Ser. A, FSA, 5s, 7/1/26 | Aaa | \$ 1,965,000 | \$ 2,025,404 |
| Tolomato, Cmnty. Dev. Dist. Special Assmt. Bonds, 5.4s, 5/1/37 | BB /P | 150,000 | 130,752 |
| Wentworth Estates, Cmnty. Dev. Dist. Special Assmt. Bonds, Ser. B, 5 1/8s, 11/1/12 | BB /P | 340,000 | 318,012 |
| | | | 8,659,132 |

Georgia (7.7%)

| | | | |
|------------------------------------------------------------------------------------------------|-------|-----------|------------|
| Atlanta, Arpt. Rev. Bonds, Ser. B, FGIC, 5 5/8s, 1/1/30 | Aaa | 3,000,000 | 3,093,780 |
| Atlanta, Wtr. & Waste Wtr. Rev. Bonds, FSA, 5s, 11/1/24 | Aaa | 4,000,000 | 4,187,120 |
| Atlanta, Wtr. & Waste Wtr. VRDN, Ser. C, FSA, 3 5/8s, 11/1/41 | VMIG1 | 2,100,000 | 2,100,000 |
| Effingham Cnty., Indl. Dev. Auth. Rev. Bonds (Pacific Corp.), 6 1/2s, 6/1/31 | B2 | 900,000 | 919,872 |
| Main St. Natural Gas, Inc. Rev. Bonds (GA Gas), Ser. B 5s, 3/15/21 | A1 | 1,000,000 | 995,120 |
| 5s, 3/15/11 | A1 | 1,000,000 | 1,024,150 |
| Savannah, Econ. Dev. Auth. Poll. Control Rev. Bonds (Intl. Paper Co.), Ser. A, 5.1s, 8/1/14 | BBB | 1,000,000 | 1,029,790 |
| | | | 13,349,832 |

Hawaii (0.2%)

| | | | |
|-----------------------------------------------------------------------------------|-----|---------|---------|
| HI State Hsg. Fin. & Dev. Corp. Rev. Bonds, Ser. A, FNMA Coll., 5 3/4s, 7/1/30 | Aaa | 280,000 | 286,938 |
|-----------------------------------------------------------------------------------|-----|---------|---------|

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Idaho (0.3%)

| | | | |
|-----------------------------------------------------------------------------------------|-----|---------|---------|
| ID Hsg. & Fin. Assn. Rev. Bonds (Single Fam. Mtge.), Ser. C-2, FHA Insd., 5.15s, 7/1/29 | Aaa | 505,000 | 505,934 |
|-----------------------------------------------------------------------------------------|-----|---------|---------|

Illinois (2.6%)

| | | | |
|---------------------------------------------------------------------------------------------------------|-----|-----------|-----------|
| Lake Cnty., Cmnty. Construction G.O. Bonds (School Dist. No. 073 Hawthorn), FGIC, zero %, 12/1/20 | Aaa | 1,650,000 | 923,423 |
| Metropolitan Pier & Exposition Auth. Rev. Bonds (McCormack Place Expansion Project), MBIA, 5s, 12/15/28 | Aaa | 1,770,000 | 1,815,135 |
| Montgomery, Special Assmt. Bonds (Lakewood Creek), Radian Insd., 4.7s, 3/1/30 | AA | 600,000 | 570,492 |
| Southern IL U. Rev. Bonds (Hsg. & Auxiliary), Ser. A, MBIA, zero %, 4/1/21 | Aaa | 2,230,000 | 1,232,900 |
| | | | 4,541,950 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|-------------------------------------------------------------------------------|----------|------------------|------------|
| Indiana (8.4%) | | | |
| Anderson, Econ. Dev. Rev. Bonds (Anderson U.), 5s, 10/1/24 | BBB /F | \$ 120,000 | \$ 118,111 |
| Carmel Clay, Incl. Parks Bldg. Corp. Rev. Bonds, MBIA, 5s, 1/15/26 | Aaa | 2,000,000 | 2,076,940 |
| Fairfield, School Bldg. Corp. Ind. Rev. Bonds, FGIC, 5s, 7/15/24 | Aaa | 3,000,000 | 3,111,300 |
| GCS School Bldg. Corp. Rev. Bonds (First Mtg.), FSA, 5s, 7/15/26 | Aaa | 1,000,000 | 1,032,240 |
| IN Bk. Special Program Gas Rev. Bonds, Ser. A 5 1/4s, 10/15/21 | Aa2 | 180,000 | 186,305 |
| 5 1/4s, 10/15/18 | Aa2 | 550,000 | 577,561 |
| IN Hlth. Fac. Fin. Auth. Rev. Bonds (Cmnty. Hosp.), Ser. A, AMBAC, 5s, 5/1/24 | Aaa | 2,695,000 | 2,795,470 |
| IN State Dev. Fin. Auth. Env. Impt. Rev. Bonds (USX Corp.), 5.6s, 12/1/32 | Baa1 | 2,100,000 | 2,135,994 |
| Indianapolis, Arpt. Auth. Rev. Bonds (Federal Express Corp.), 5.1s, 1/15/17 | Baa2 | 2,500,000 | 2,558,775 |
| | | | 14,592,696 |

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Iowa (1.3%)

| | | | |
|----------------------------------------------------------------------------------------------|--------|---------|-----------|
| IA Fin. Auth. Hlth. Care Fac. Rev. Bonds (Care Initiatives), 9 1/4s, 7/1/25 (Prerefunded) | AAA | 840,000 | 1,008,470 |
| IA State Higher Ed. Loan Auth. Rev. Bonds 5s, 10/1/22 | BBB /F | 605,000 | 594,987 |
| (Wartburg), Ser. A, 5s, 10/1/21 | BBB /F | 605,000 | 597,220 |
| | | | 2,200,677 |

Kansas (0.5%)

| | | | |
|-------------------------------------------------------------------------|----|---------|---------|
| Lawrence, Hosp. Rev. Bonds (Lawrence Memorial Hosp.), 5 1/4s, 7/1/21 | A3 | 500,000 | 523,320 |
| Salina, Hosp. Rev. Bonds (Salina Regl. Hlth.), 5s, 10/1/16 | A1 | 300,000 | 316,185 |
| | | | 839,505 |

Louisiana (4.0%)

| | | | |
|------------------------------------------------------------------------------------------------------------------|-------|-----------|-----------|
| LA Local Govt. Env. Fac. Cmnty. Dev. Auth. Rev. Bonds (St. James Place), Ser. A, 7s, 11/1/20 (Prerefunded) | AAA/P | 950,000 | 1,032,033 |
| LA Pub. Fac. Auth. Rev. Bonds (Pennington Med. Foundation), 5s, 7/1/16 | A3 | 350,000 | 362,751 |
| LA State Office Fac. Corp. Lease Rev. Bonds (Capitol Complex), Ser. A, MBIA 5 1/2s, 3/1/13 | Aaa | 2,000,000 | 2,069,180 |
| 5 1/2s, 3/1/12 | Aaa | 3,440,000 | 3,558,990 |
| | | | 7,022,954 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|-----------------------------------------------------------------------------------|----------|------------------|------------|
| Maine (0.3%) | | | |
| Rumford, Solid Waste Disp. Rev. Bonds (Boise Cascade Corp.), 6 7/8s, 10/1/26 | Ba3 | \$ 600,000 | \$ 626,370 |
| Maryland (0.2%) | | | |
| Baltimore Cnty., Rev. Bonds (Oak Crest Village, Inc. Fac.), Ser. A, 5s, 1/1/22 | BBB+ | 425,000 | 426,211 |
| Massachusetts (3.4%) | | | |
| MA State Dev. Fin. Agcy. Rev. Bonds (Linden | | | |

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| | | | |
|---------------------------------------------|------|-----------|-----------|
| Ponds, Inc.), Ser. A, 5 1/2s, 11/15/22 | BB/P | 510,000 | 509,475 |
| MA State Dev. Fin. Agcy. Higher Ed. Rev. | | | |
| Bonds (Emerson College), Ser. A, 5s, 1/1/19 | A | 140,000 | 145,944 |
| MA State Hlth. & Edl. Fac. Auth. Rev. Bonds | | | |
| (UMass Memorial), Ser. C, 6 1/2s, 7/1/21 | Baa2 | 1,875,000 | 1,974,150 |
| (Berkshire Hlth. Syst.), Ser. E, | | | |
| 6 1/4s, 10/1/31 | BBB+ | 1,300,000 | 1,354,977 |
| (Hlth. Care Syst. Covenant Hlth.), Ser. E, | | | |
| 6s, 7/1/31 | A | 1,800,000 | 1,902,114 |
| | | | 5,886,660 |

Michigan (6.2%)

| | | | |
|-----------------------------------------------|-------|-----------|------------|
| Detroit, G.O. Bonds, Ser. A, FGIC, 5s, 7/1/30 | Aaa | 4,505,000 | 4,605,777 |
| MI Higher Ed. Fac. Auth. Rev. Bonds | | | |
| (Kalamazoo College), 5 1/2s, 12/1/18 | A1 | 500,000 | 530,570 |
| MI State Hosp. Fin. Auth. Rev. Bonds | | | |
| (Oakwood Hosp.), Ser. A, 5 3/4s, 4/1/32 | A2 | 1,000,000 | 1,038,930 |
| (Hosp. Sparrow), 5s, 11/15/23 | A1 | 1,370,000 | 1,395,962 |
| MI State Hsg. Dev. Auth. Rev. Bonds, Ser. A, | | | |
| 3.9s, 6/1/30 | AA+ | 1,200,000 | 1,198,344 |
| MI State Strategic Fund, Ltd. Rev. Bonds | | | |
| (Worthington Armstrong Venture), U.S. Govt. | | | |
| Coll., 5 3/4s, 10/1/22 (Prerefunded) | AAA/P | 1,650,000 | 1,862,537 |
| MI Tobacco Settlement Fin. Auth. Rev. Bonds, | | | |
| Ser. A, 6s, 6/1/34 | BBB | 175,000 | 175,495 |
| | | | 10,807,615 |

Minnesota (1.1%)

| | | | |
|------------------------------------------------|------|---------|-----------|
| MN State Higher Ed. Fac. Auth. Rev. Bonds | | | |
| (U. of St. Thomas), Ser. 6-1, 5s, 4/1/23 | A2 | 500,000 | 520,870 |
| MN State Hsg. Fin. Agcy. Rev. Bonds | | | |
| (Res. Hsg.), Ser. B, 5s, 7/1/34 | AA+ | 555,000 | 567,349 |
| North Oaks, Sr. Hsg. Rev. Bonds (Presbyterian | | | |
| Homes), 6 1/8s, 10/1/39 | BB/P | 315,000 | 321,183 |
| St. Paul, Hsg. & Redev. Auth. Hosp. Rev. Bonds | | | |
| (Healtheast), 6s, 11/15/25 | Baa3 | 450,000 | 472,770 |
| | | | 1,882,172 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|--|----------|------------------|-------|
|--|----------|------------------|-------|

Mississippi (1.2%)

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MS Bus. Fin. Corp. Poll. Control Rev. Bonds
(Syst. Energy Resources, Inc.)

| | | | | | |
|------------------------------------------------------------------------------------------------------|-----|----|-----------|----|-----------|
| 5.9s, 5/1/22 | BBB | \$ | 1,000,000 | \$ | 1,003,180 |
| 5 7/8s, 4/1/22 | BBB | | 580,000 | | 581,421 |
| MS Home Corp. Rev. Bonds (Single Fam. Mtge.), Ser. B-2, GNMA Coll., FNMA Coll., 6.45s, 12/1/33 | Aaa | | 465,000 | | 475,342 |
| | | | | | 2,059,943 |

Missouri (4.0%)

| | | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|--|-----------|--|-----------|
| Cape Girardeau Cnty., Indl. Dev. Auth. Hlth. Care Fac. Rev. Bonds (St. Francis Med. Ctr.), Ser. A, 5 1/2s, 6/1/16 | A+ | | 1,750,000 | | 1,854,790 |
| MO State Hlth. & Edl. Fac. Auth. Rev. Bonds (Washington U.), Ser. A, 5s, 2/15/33 | Aaa | | 2,500,000 | | 2,570,975 |
| MO State Hlth. & Edl. Fac. Auth. VRDN (Cox Hlth. Syst.), AMBAC, 3.64s, 6/1/22 | VMIG1 | | 1,370,000 | | 1,370,000 |
| MO State Hsg. Dev. Comm. Mtge. Rev. Bonds (Single Fam. Homeowner Loan), Ser. C-1, GNMA Coll., FNMA Coll., 7.15s, 3/1/32 (Single Fam. Home Ownership Loan), Ser. C, GNMA Coll., FNMA Coll., 5.6s, 9/1/35 | AAA | | 540,000 | | 571,590 |
| | AAA | | 515,000 | | 540,163 |
| | | | | | 6,907,518 |

Nevada (5.8%)

| | | | | | |
|--------------------------------------------------------------------------------------------|-------|--|-----------|--|------------|
| Clark Cnty., G.O. Bonds (Pk. & Regl. Justice Ctr.), FGIC, 5 5/8s, 11/1/19 (Prerefunded) | Aaa | | 3,505,000 | | 3,655,119 |
| Clark Cnty., Arpt. Rev. Bonds, Ser. A-2, FGIC, 5 1/8s, 7/1/26 | Aaa | | 5,000,000 | | 5,189,350 |
| Clark Cnty., Impt. Dist. Special Assmt. Bonds (Summerlin No. 151), 5s, 8/1/25 | BB/P | | 700,000 | | 663,649 |
| Henderson, Local Impt. Dist. Special Assmt. Bonds (No. T-16), 5 1/8s, 3/1/25 | BB/P | | 195,000 | | 181,728 |
| (No. T-16), 5.1s, 3/1/21 | BB/P | | 305,000 | | 288,872 |
| (No. T-17), 5s, 9/1/25 | BB /P | | 175,000 | | 159,560 |
| | | | | | 10,138,278 |

New Hampshire (0.4%)

| | | | | | |
|---------------------------------------------------------------------------------------------|---|--|---------|--|---------|
| NH Hlth. & Ed. Fac. Auth. Rev. Bonds (Southern NH Med. Ctr.), Ser. A, 5 1/4s, 10/1/28 | A | | 675,000 | | 688,554 |
|---------------------------------------------------------------------------------------------|---|--|---------|--|---------|

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|-------------------------------------------------------------------------------------------------------|----------|------------------|--------------|
| New Jersey (5.4%) | | | |
| Newark, Hsg. Auth. Rev. Bonds (Port Auth. Newark Marine Terminal), MBIA, 5 1/4s, 1/1/20 (Prerefunded) | | | |
| | Aaa | \$ 1,000,000 | \$ 1,086,870 |
| NJ Econ. Dev. Auth. Rev. Bonds (Cigarette Tax), 5 3/4s, 6/15/29 | | | |
| | Baa2 | 1,500,000 | 1,572,030 |
| (Motor Vehicle), Ser. A, MBIA, 5s, 7/1/27 | | | |
| | Aaa | 2,000,000 | 2,090,780 |
| NJ Hlth. Care Fac. Fin. Auth. Rev. Bonds (Hunterdon Med. Ctr.), Ser. B | | | |
| 5s, 7/1/20 | | | |
| | A | 575,000 | 593,308 |
| 5s, 7/1/18 | | | |
| | A | 520,000 | 540,327 |
| NJ State Rev. Bonds (Trans. Syst.), Ser. C, AMBAC, zero %, 12/15/24 | | | |
| | Aaa | 4,200,000 | 1,935,234 |
| Tobacco Settlement Fin. Corp. Rev. Bonds Ser. 1A, 5s, 6/1/29 | | | |
| | BBB | 350,000 | 317,615 |
| 6 3/4s, 6/1/39 (Prerefunded) | | | |
| | AAA | 1,150,000 | 1,326,997 |
| | | | 9,463,161 |
| New Mexico (0.7%) | | | |
| NM Mtge. Fin. Auth. Rev. Bonds (Single Fam. Mtge.) | | | |
| Ser. C, GNMA Coll., FNMA Coll., FHLMC Coll., 5.82s, 9/1/33 | | | |
| | AAA | 650,000 | 674,921 |
| Ser. F2, Class I, GNMA Coll., FNMA Coll., FHLMC Coll., 5.6s, 7/1/38 | | | |
| | AAA | 500,000 | 533,905 |
| | | | 1,208,826 |
| New York (9.5%) | | | |
| Buffalo, G.O. Bonds, Ser. D, FGIC, 5 1/2s, 12/15/13 | | | |
| | Aaa | 1,000,000 | 1,071,960 |
| Niagara Cnty., Indl. Dev. Agcy. Rev. Bonds, Mandatory Put Bonds, Ser. C, 5 5/8s, 11/15/14 | | | |
| | Baa2 | 500,000 | 511,725 |
| NY City, G.O. Bonds, Ser. J/J-1, 5s, 6/1/21 | | | |
| | AA | 1,000,000 | 1,051,910 |
| NY City, City Transitional Fin. Auth. Rev. Bonds, AMBAC, 5 1/4s, 8/1/15 | | | |
| | Aaa | 1,000,000 | 1,068,540 |
| NY City, Hsg. Dev. Corp. Rev. Bonds, Ser. A, FGIC, 5s, 7/1/25 | | | |
| | Aaa | 500,000 | 523,925 |
| NY City, Indl. Dev. Agcy. Rev. Bonds (Liberty-7 World Trade Ctr.), Ser. A, | | | |

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| | | | |
|---------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| 6 1/4s, 3/1/15 (Brooklyn Navy Yard Cogen. Partners), | B /P | 400,000 | 418,196 |
| 6.2s, 10/1/22 NY City, Incl. Dev. Agcy. Special Arpt. Fac. Rev. Bonds (Airis JFK I, LLC), Ser. A, | BBB | 770,000 | 819,526 |
| 5 1/2s, 7/1/28 NY City, Incl. Dev. Agcy. Special Fac. Rev. Bonds | Baa3 | 2,100,000 | 2,097,270 |
| (JFK Intl. Arpt.), Ser. A, 8s, 8/1/12 | B | 600,000 | 661,230 |
| (British Airways PLC), 5 1/4s, 12/1/32 | Ba1 | 200,000 | 183,818 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|----------------------------------------------------------------------------------------------------------------------------|----------|------------------|--------------|
| <i>New York continued</i> | | | |
| NY Cntys., Tobacco Trust III Rev. Bonds (Tobacco Settlement), 6s, 6/1/43 | BBB | \$ 1,500,000 | \$ 1,542,015 |
| NY State Energy Research & Dev. Auth. Gas Fac. Rev. Bonds (Brooklyn Union Gas), 6.952s, 7/1/26 | A+ | 2,000,000 | 2,029,760 |
| Onondaga Cnty., Incl. Dev. Agcy. Rev. Bonds (Solvay Paperboard, LLC), 7s, 11/1/30 (acquired 6/30/04, cost \$827,862) | BB/P | 800,000 | 823,664 |
| Port. Auth. NY & NJ Special Oblig. Rev. Bonds (JFK Intl. Air Term. 6), MBIA, 5.9s, 12/1/17 | Aaa | 1,500,000 | 1,532,370 |
| Triborough Bridge & Tunnel Auth. Rev. Bonds, Ser. A, 5s, 1/1/32 (Prerefunded) | AAA | 2,125,000 | 2,249,716 |
| | | | 16,585,625 |

North Carolina (1.3%)

| | | | |
|-------------------------------------------------------------------------------------------|------|-----------|-----------|
| NC Med. Care Cmnty. Hlth. Care Fac. Rev. Bonds (Pines at Davidson), Ser. A, 5s, 1/1/15 | A /F | 635,000 | 659,714 |
| NC State Muni. Pwr. Agcy. Rev. Bonds (No. 1, Catawba Elec.), Ser. B, 6 1/2s, 1/1/20 | A3 | 1,500,000 | 1,584,315 |
| | | | 2,244,029 |

Ohio (9.3%)

| | | | |
|--------------------------------------------------------------------------------|-----|-----------|-----------|
| Buckeye, Tobacco Settlement Fin. Auth. Rev. Bonds, Ser. A-2, 5 3/4s, 6/1/34 | BBB | 3,500,000 | 3,379,810 |
| Cleveland, Muni. School Dist. G.O. Bonds, FSA, 5s, 12/1/27 | Aaa | 5,700,000 | 5,939,400 |
| Coshocton Cnty., Env. 144A Rev. Bonds | | | |

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| | | | |
|---------------------------------------------------------------------------------------------------|------|-----------|------------|
| (Smurfit-Stone Container Corp.), 5 1/8s, 8/1/13 | CCC+ | 500,000 | 495,190 |
| Field, Local School Dist. G.O. Bonds (School Fac. Construction & Impt.), AMBAC, 5s, 12/1/25 | Aaa | 1,000,000 | 1,048,760 |
| Montgomery Cnty., Rev. Bonds (Catholic Hlth. Initiatives), Ser. A, 5s, 5/1/30 | Aa2 | 2,025,000 | 2,038,365 |
| Montgomery Cnty., Hosp. Rev. Bonds (Kettering Med. Ctr.), 6 3/4s, 4/1/22 (Prerefunded) | A2 | 1,000,000 | 1,085,210 |
| Rickenbacker, Port Auth. Rev. Bonds (OASBO Expanded Asset Pooled), Ser. A, 5 3/8s, 1/1/32 | A2 | 2,165,000 | 2,303,170 |
| | | | 16,289,905 |

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|------------------------|
| Oklahoma (4.1%) OK Dev. Fin. Auth. Rev. Bonds (Hillcrest Hlth. Care Syst.), Ser. A, U.S. Govt. Coll., 5 5/8s, 8/15/29 (Prerefunded) | Aaa | 950,000 | 995,059 |
| OK Hsg. Fin. Agcy. Single Fam. Rev. Bonds (Homeownership Loan), Ser. C-2, GNMA Coll., FNMA Coll., 5.7s, 9/1/35 | Aaa | 5,915,000 | 6,237,604 7,232,663 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|--------------|
| Pennsylvania (9.5%) Allegheny Cnty., Hosp. Dev. Auth. Rev. Bonds (Pittsburgh Mercy Hlth. Syst.), AMBAC, 5 5/8s, 8/15/26 (Prerefunded) | Aaa | \$ 5,000,000 | \$ 5,079,700 |
| Bucks Cnty., Incl. Dev. Auth. Retirement Cmnty. Rev. Bonds (Ann s Choice, Inc.), Ser. A, 5.3s, 1/1/14 | BB/P | 710,000 | 716,624 |
| Carbon Cnty., Incl. Dev. Auth. Rev. Bonds (Panther Creek Partners), 6.65s, 5/1/10 | BBB | 575,000 | 585,919 |
| Hempfield, Area School Dist. G.O. Bonds (Westmoreland Cnty.), Ser. A, FGIC, 5 1/4s, 3/15/21 (Prerefunded) | Aaa | 4,000,000 | 4,382,640 |
| Lancaster Cnty., Hosp. Auth. Rev. Bonds (Gen. Hosp.), 5 1/2s, 3/15/26 (Prerefunded) | AA | 1,500,000 | 1,643,505 |
| Lehigh Cnty., Gen. Purpose Auth. Rev. Bonds (Lehigh Valley Hosp. Hlth. Network), Ser. A, 5 1/4s, 7/1/32 | A1 | 1,000,000 | 1,012,500 |

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| | | | |
|---------------------------------------------|------|-----------|------------|
| PA State Econ. Dev. Fin. Auth. Resource | | | |
| Recvy. Rev. Bonds (Northampton Generating), | | | |
| Ser. A, 6.6s, 1/1/19 | B+ | 700,000 | 700,763 |
| PA State Higher Edl. Fac. Auth. Rev. Bonds | | | |
| (Philadelphia U.) | | | |
| 5s, 6/1/30 | Baa2 | 690,000 | 679,878 |
| 5s, 6/1/22 | Baa2 | 260,000 | 262,155 |
| Sayre, Hlth. Care Fac. Auth. Rev. Bonds | | | |
| (Guthrie Hlth.), Ser. A | | | |
| 5 7/8s, 12/1/31 | A | 330,000 | 345,437 |
| 5 7/8s, 12/1/31 (Prerefunded) | AAA | 1,120,000 | 1,224,922 |
| | | | 16,634,043 |

| | | | |
|--------------------------------------------|------|-----------|-----------|
| Puerto Rico (1.3%) | | | |
| Cmnwth. of PR, G.O. Bonds, Ser. A, | | | |
| 5 1/4s, 7/1/14 | Baa3 | 2,000,000 | 2,136,280 |
| Cmnwth. of PR, Govt. Dev. Bank Rev. Bonds, | | | |
| Ser. AA, 5s, 12/1/16 | Baa3 | 200,000 | 211,342 |
| | | | 2,347,622 |

| | | | |
|-------------------------------------------|-----|---------|---------|
| Rhode Island (0.1%) | | | |
| Tobacco Settlement Fin. Corp. Rev. Bonds, | | | |
| Ser. A, 6 1/4s, 6/1/42 | BBB | 200,000 | 201,962 |

| | | | |
|----------------------------------------------|----|---------|---------|
| South Carolina (7.6%) | | | |
| Greenwood Cnty., Hosp. Rev. Bonds | | | |
| (Memorial Hosp.), 5 1/2s, 10/1/26 | A2 | 500,000 | 515,535 |
| Lexington Cnty. Hlth. Svcs. Dist. Inc. Hosp. | | | |
| Rev. Bonds, 5 1/2s, 5/1/37 (Prerefunded) | A+ | 750,000 | 825,878 |
| Lexington Cnty., Hlth. Svcs. Dist. Hosp. | | | |
| Rev. Bonds, 5s, 11/1/23 | A+ | 500,000 | 508,255 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|------------------------------------------------|----------|------------------|--------------|
| South Carolina <i>continued</i> | | | |
| SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev. Bonds | | | |
| (Palmetto Hlth.), Ser. C | | | |
| 6s, 8/1/20 (Prerefunded) | Baa1 | \$ 1,110,000 | \$ 1,239,626 |
| 6s, 8/1/20 (Prerefunded) | Baa1 | 140,000 | 156,349 |
| SC State Pub. Svcs. Auth. Rev. Bonds, Ser. A, | | | |

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| | | | |
|-------------------------------------------------------------------------------|-----|-----------|------------|
| AMBAC, 5s, 1/1/29 | Aaa | 5,000,000 | 5,168,100 |
| SC Tobacco Settlement Rev. Mgmt. Auth. Rev. Bonds, Ser. B, 6 3/8s, 5/15/30 | BBB | 2,135,000 | 2,225,054 |
| SC Trans. Infrastructure Bk. Rev. Bonds, Ser. A, AMBAC, 5s, 10/1/27 | Aaa | 2,460,000 | 2,570,823 |
| | | | 13,209,620 |

South Dakota (1.1%)

| | | | |
|------------------------------------------------------------------------------------|-----|---------|-----------|
| SD Edl. Enhancement Funding Corp. SD Tobacco Rev. Bonds, Ser. B, 6 1/2s, 6/1/32 | BBB | 450,000 | 463,500 |
| SD Hsg. Dev. Auth. Rev. Bonds (Home Ownership Mtge.), Ser. J, 4 1/2s, 5/1/17 | AAA | 500,000 | 502,665 |
| SD State Hlth. & Edl. Fac. Auth. Rev. Bonds (Sanford Hlth.) 5s, 11/1/21 | AA | 250,000 | 258,980 |
| 5s, 11/1/19 | AA | 595,000 | 620,573 |
| | | | 1,845,718 |

Tennessee (2.9%)

| | | | |
|--------------------------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| Johnson City, Hlth. & Edl. Fac. Board Hosp. Rev. Bonds (First Mtge. Mountain States Hlth.), Ser. A, 7 1/2s, 7/1/33 | Baa1 | 2,750,000 | 3,065,948 |
| Sullivan Cnty., Hlth. Edl. & Hsg. Hosp. Fac. Board Rev. Bonds (Wellmont Hlth. Syst.), Ser. C 5s, 9/1/22 | BBB+ | 430,000 | 430,576 |
| 5s, 9/1/19 | BBB+ | 1,460,000 | 1,476,513 |
| | | | 4,973,037 |

Texas (12.7%)

| | | | |
|-----------------------------------------------------------------------------------------------------------------|-----|-----------|-----------|
| Bexar Cnty., Hlth. Fac. Dev. Corp. Rev. Bonds (St. Luke s Hlth. Syst.), FSA, 6.1s, 11/15/23 (Prerefunded) | Aaa | 4,000,000 | 4,174,000 |
| Edgewood, Indpt. School Dist. Bexar Cnty. G.O. Bonds, Ser. A, PSFG, 5s, 2/15/26 | Aaa | 2,020,000 | 2,085,711 |
| El Paso, Indpt. School Dist. G.O. Bonds, Ser. A, PSFG, 5 1/4s, 8/15/21 | AAA | 2,345,000 | 2,505,890 |
| Gateway, Pub. Fac. Corp. Rev. Bonds (Stonegate Villas Apt.), FNMA Coll., 4.55s, 7/1/34 | Aaa | 750,000 | 771,255 |
| Leander, Indpt. School Dist. G.O. Bonds, PSFG, zero %, 8/15/15 | AAA | 6,650,000 | 4,849,845 |

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|------------------------------------------------------------------------------------------------------------|----------|------------------|------------|
| <i>Texas continued</i> | | | |
| Port Corpus Christi Indl. Dev. Corp. Rev. Bonds (Valero), Ser. C, 5.4s, 4/1/18 | BBB | \$ 720,000 | \$ 732,125 |
| Sabine River Auth. Rev. Bonds (TXU Electric), Ser. C, 5.2s, 5/1/28 | CCC | 500,000 | 448,840 |
| San Antonio Wtr. Rev. Bonds, Ser. A, FSA, 5s, 5/15/32 | Aaa | 2,000,000 | 2,047,100 |
| Snyder, Indpt. School Dist. G.O. Bonds (School Bldg.), AMBAC, 5 1/4s, 2/15/25 | AAA | 1,280,000 | 1,365,926 |
| Tomball, Hosp. Auth. Rev. Bonds (Tomball Regl. Hosp.), 6s, 7/1/29 | Baa3 | 2,000,000 | 2,038,500 |
| TX State Dept. of Hsg. & Cmnty. Affairs Rev. Bonds (Single Fam.), Ser. F, FHA Insd., 5 3/4s, 3/1/37 | AAA | 1,000,000 | 1,062,860 |
| | | | 22,082,052 |
| <i>Utah (1.2%)</i> | | | |
| Salt Lake City, Hosp. Rev. Bonds, AMBAC, 6 3/4s, 5/15/20 (Prerefunded) | AAA | 2,000,000 | 2,002,840 |
| <i>Virginia (2.4%)</i> | | | |
| Fredericksburg, Indl. Dev. Auth. Rev. Bonds (Medicorp Hlth. Syst.), Ser. B, 5 1/8s, 6/15/33 | A3 | 500,000 | 504,770 |
| Front Royal & Warren Cnty., Indl. Dev. Auth. Lease Rev. Bonds (School Cap. Impt.), Ser. B, FSA, 5s, 4/1/29 | Aaa | 2,500,000 | 2,589,900 |
| Henrico Cnty., Econ. Dev. Auth. Rev. Bonds (United Methodist), Ser. A, 6.7s, 6/1/27 | BB+/P | 1,000,000 | 1,047,060 |
| | | | 4,141,730 |
| <i>Washington (5.4%)</i> | | | |
| Chelan Cnty. Dev. Corp. Rev. Bonds (Alcoa), 5.85s, 12/1/31 | A2 | 4,000,000 | 4,001,120 |
| Tobacco Settlement Auth. of WA Rev. Bonds, 6 1/2s, 6/1/26 | BBB | 1,175,000 | 1,232,975 |
| WA State G.O. Bonds (Motor Vehicle Fuel), Ser. B, MBIA, 5s, 7/1/24 | Aaa | 4,000,000 | 4,160,360 |
| | | | 9,394,455 |

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West Virginia (1.4%)

Harrison Cnty., Cmnty. Solid Waste Disp.

Rev. Bonds (Allegheny Energy), Ser. D,

| | | | |
|------------------|------|-----------|-----------|
| 5 1/2s, 10/15/37 | Baa2 | 1,150,000 | 1,155,210 |
|------------------|------|-----------|-----------|

Princeton, Hosp. Rev. Bonds (Cmnty. Hosp.

| | | | |
|----------------------------|----|-----------|-----------|
| Assn., Inc.), 6.1s, 5/1/29 | B2 | 1,300,000 | 1,321,970 |
|----------------------------|----|-----------|-----------|

2,477,180

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MUNICIPAL BONDS AND NOTES (168.7%)* *continued*

| | Rating** | Principal amount | Value |
|------------------------------------------------|----------|------------------|--------------|
| Wisconsin (4.6%) | | | |
| Badger Tobacco Settlement Asset Securitization | | | |
| Corp. Rev. Bonds | | | |
| 7s, 6/1/28 | BBB | \$ 2,600,000 | \$ 2,755,636 |
| 6 3/8s, 6/1/32 | BBB | 2,500,000 | 2,597,475 |
| WI State Hlth. & Edl. Fac. Auth. Rev. Bonds | | | |
| (Wheaton Franciscan), 5 3/4s, 8/15/30 | | | |
| (Prerefunded) | A | 2,400,000 | 2,622,327 |
| | | | 7,975,438 |

TOTAL INVESTMENTS

| | |
|----------------------------------------|----------------|
| Total investments (cost \$283,698,502) | \$ 293,741,612 |
|----------------------------------------|----------------|

* Percentages indicated are based on net assets of \$174,123,617.

** The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at October 31, 2007 for the securities listed. Ratings are generally ascribed to securities at the time of issuance. While the agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings do not necessarily represent what the agencies would ascribe to these securities at October 31, 2007. Securities rated by Putnam are indicated by /P. Securities rated by Fitch are indicated by /F.

Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at October 31, 2007 was \$823,664 or 0.5% of net assets.

A portion of this security was pledged and segregated with the custodian to cover margin requirements for futures contracts at October 31, 2007.

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

The rates shown on VRDN and Mandatory Put Bonds are the current interest rates at October 31, 2007.

The dates shown on Mandatory Put Bonds are the next mandatory put dates.

The dates shown on debt obligations other than Mandatory Put Bonds are the original maturity dates.

The fund had the following sector concentrations greater than 10% at October 31, 2007 (as a percentage of net assets):

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| | |
|------------------|-------|
| Health care | 42.1% |
| Local government | 33.1 |
| Utilities | 23.8 |
| State government | 14.2 |
| Tobacco | 10.4 |

The fund had the following insurance concentrations greater than 10% at October 31, 2007 (as a percentage of net assets):

| | |
|-------|-------|
| FGIC | 19.9% |
| AMBAC | 17.6 |
| MBIA | 17.3 |
| FSA | 17.0 |

FUTURES CONTRACTS OUTSTANDING at 10/31/07 (Unaudited)

| | Number of contracts | Value | Expiration date | Unrealized depreciation |
|----------------------------------|------------------------|-------------|--------------------|----------------------------|
| U.S. Treasury Note 10 yr (Short) | 81 | \$8,911,266 | Dec-07 | \$(129,211) |

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

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Statement of assets and liabilities 10/31/07 (Unaudited)

ASSETS

| | |
|------------------------------------------------------|---------------|
| Investment in securities, at value (Note 1): | |
| Unaffiliated issuers (identified cost \$283,698,502) | \$293,741,612 |
| Cash | 48,728 |
| Interest and other receivables | 4,527,460 |
| Receivable for securities sold | 1,112,564 |
| Receivable from Manager (Note 2) | 81,954 |
| Receivable for variation margin (Note 1) | 144,940 |
| Total assets | 299,657,258 |

LIABILITIES

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| | |
|-----------------------------------------------------------------------------------------------------------------|---------------|
| Distributions payable to shareholders | 649,014 |
| Distributions payable to preferred shareholders (Note 1) | 110,670 |
| Payable for securities purchased | 2,894,121 |
| Payable for shares of the fund repurchased | 154,043 |
| Payable for compensation of Manager (Note 2) | 417,046 |
| Payable for investor servicing (Note 2) | 12,411 |
| Payable for Trustee compensation and expenses (Note 2) | 69,117 |
| Payable for administrative services (Note 2) | 1,141 |
| Other accrued expenses | 226,078 |
| Total liabilities | 4,533,641 |
| Series A remarketed preferred shares: (800 shares authorized and issued at \$50,000 per share) (Note 4) | 40,000,000 |
| Series B and C remarketed preferred shares: (3,240 shares authorized and issued at \$25,000 per share) (Note 4) | 81,000,000 |
| Net assets | \$174,123,617 |
| REPRESENTED BY | |
| Paid-in capital common shares (Unlimited shares authorized) (Notes 1 and 5) | \$187,074,549 |
| Distributions in excess of net investment income (Note 1) | (347,508) |
| Accumulated net realized loss on investments (Note 1) | (22,517,323) |
| Net unrealized appreciation of investments | 9,913,899 |
| Total Representing net assets applicable to common shares outstanding | \$174,123,617 |
| COMPUTATION OF NET ASSET VALUE | |
| Net asset value per common share (\$174,123,617 divided by 13,559,959 shares) | \$12.84 |

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

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Statement of operations Six months ended 10/31/07 (Unaudited)

| | |
|---------------------------------------------------------------------------------------|--------------|
| INTEREST INCOME | \$ 7,515,742 |
| <hr/> | |
| EXPENSES | |
| <hr/> | |
| Compensation of Manager (Note 2) | 854,641 |
| <hr/> | |
| Investor servicing fees (Note 2) | 45,889 |
| <hr/> | |
| Custodian fees (Note 2) | 3,869 |
| <hr/> | |
| Trustee compensation and expenses (Note 2) | 23,468 |
| <hr/> | |
| Administrative services (Note 2) | 7,624 |
| <hr/> | |
| Legal expense | 142,555 |
| <hr/> | |
| Preferred share remarketing agent fees | 156,287 |
| <hr/> | |
| Other | 217,408 |
| <hr/> | |
| Total expenses | 1,451,741 |
| <hr/> | |
| Expense reduction (Note 2) | (84,418) |
| <hr/> | |
| Net expenses | 1,367,323 |
| <hr/> | |
| Net investment income | 6,148,419 |
| <hr/> | |
| Net realized gain on investments (Notes 1 and 3) | 153,615 |
| <hr/> | |
| Net realized loss on futures contracts (Note 1) | (481,948) |
| <hr/> | |
| Net unrealized depreciation of investments and futures contracts during the period | (5,348,195) |
| <hr/> | |
| Net loss on investments | (5,676,528) |
| <hr/> | |

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Net increase in net assets resulting from operations \$ 471,891

DISTRIBUTIONS TO SERIES A, B, AND C REMARKETED PREFERRED SHAREHOLDERS (NOTE 1):

From tax exempt net investment income (2,316,109)

Net decrease in net assets resulting from operations
(applicable to common shareholders) \$(1,844,218)

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

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Statement of changes in net assets

DECREASE IN NET ASSETS

| | Six months ended 10/31/07* | Year ended 4/30/07 |
|--|-------------------------------|-----------------------|
|--|-------------------------------|-----------------------|

Operations:

| | | |
|-----------------------|--------------|---------------|
| Net investment income | \$ 6,148,419 | \$ 13,659,990 |
|-----------------------|--------------|---------------|

| | | |
|----------------------------------|-----------|-----------|
| Net realized loss on investments | (328,333) | (436,585) |
|----------------------------------|-----------|-----------|

| | | |
|-----------------------------------------------------------|-------------|-----------|
| Net unrealized appreciation (depreciation) of investments | (5,348,195) | 4,388,138 |
|-----------------------------------------------------------|-------------|-----------|

| | | |
|------------------------------------------------------|---------|------------|
| Net increase in net assets resulting from operations | 471,891 | 17,611,543 |
|------------------------------------------------------|---------|------------|

DISTRIBUTIONS TO SERIES A, B, AND C REMARKETED PREFERRED SHAREHOLDERS (NOTE 1):

| | | |
|---------------------------------------|-------------|-------------|
| From tax exempt net investment income | (2,316,109) | (4,325,346) |
|---------------------------------------|-------------|-------------|

| | | |
|--------------------------------------------------------------------------------------------------------|-------------|------------|
| Net increase (decrease) in net assets resulting from operations (applicable to common shareholders) | (1,844,218) | 13,286,197 |
|--------------------------------------------------------------------------------------------------------|-------------|------------|

DISTRIBUTIONS TO COMMON SHAREHOLDERS (NOTE 1):

| | | |
|---------------------------------------|-------------|-------------|
| From tax exempt net investment income | (4,063,539) | (8,859,421) |
|---------------------------------------|-------------|-------------|

| | | |
|-------------------------------------------|--------------|-------------|
| Decrease from shares repurchased (Note 5) | (20,144,456) | (7,799,198) |
|-------------------------------------------|--------------|-------------|

| | | |
|------------------------------|--------------|-------------|
| Total decrease in net assets | (26,052,213) | (3,372,422) |
|------------------------------|--------------|-------------|

NET ASSETS

| | | |
|---------------------|-------------|-------------|
| Beginning of period | 200,175,830 | 203,548,252 |
|---------------------|-------------|-------------|

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| | | |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| End of period (including distributions in excess of net investment income of \$347,508 and \$116,279, respectively) | \$174,123,617 | \$200,175,830 |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|

NUMBER OF FUND SHARES

| | | |
|------------------------------------------------------------------------|-------------|------------|
| Common shares outstanding at beginning of period | 15,172,510 | 15,846,380 |
| Shares repurchased (Note 5) | (1,611,217) | (673,870) |
| Retirement of shares held by the fund (Note 5) | (1,334) | |
| Common shares outstanding at end of period | 13,559,959 | 15,172,510 |
| Remarketed preferred shares outstanding at beginning and end of period | 4,040 | 4,040 |

* Unaudited

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

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

PER-SHARE OPERATING PERFORMANCE

| | Six months ended** | | Year ended | | | |
|--------------------------------------------------------|--------------------|---------|------------|---------|---------|---------|
| | 10/31/07 | 4/30/07 | 4/30/06 | 4/30/05 | 4/30/04 | 4/30/03 |
| Net asset value, beginning of period (common shares) | \$13.19 | \$12.85 | \$13.15 | \$12.72 | \$12.98 | \$13.00 |
| <i>Investment operations:</i> | | | | | | |
| Net investment income (a) | .43 | .89 | .86 | .91 | 1.00 | 1.09 |
| Net realized and unrealized gain (loss) on investments | (.37) | .23 | (.30) | .51 | (.24) | (.10) |
| Total from investment operations | .06 | 1.12 | .56 | 1.42 | .76 | .99 |

Distributions to preferred shareholders:
From net

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| | | | | | | |
|----------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|
| investment income | (.16) | (.28) | (.21) | (.12) | (.07) | (.10) |
| <hr/> | | | | | | |
| Total from investment operations (applicable to common shareholders) | (.10) | .84 | .35 | 1.30 | .69 | .89 |
| <hr/> | | | | | | |
| <i>Distributions to common shareholders:</i> | | | | | | |
| From net investment income | (.29) | (.57) | (.68) | (.87) | (.95) | (.91) |
| <hr/> | | | | | | |
| Total distributions | (.29) | (.57) | (.68) | (.87) | (.95) | (.91) |
| <hr/> | | | | | | |
| Increase from shares repurchased | .04 | .07 | .03 | | | |
| <hr/> | | | | | | |
| Net asset value, end of period (common shares) | \$12.84 | \$13.19 | \$12.85 | \$13.15 | \$12.72 | \$12.98 |
| <hr/> | | | | | | |
| Market price, end of period (common shares) | \$11.40 | \$12.20 | \$11.68 | \$11.72 | \$12.47 | \$12.48 |
| <hr/> | | | | | | |
| Total return at market price (%) (common shares) (b) | (4.24)* | 9.64 | 5.61 | .82 | 7.49 | 7.35 |
| <hr/> | | | | | | |

RATIOS AND SUPPLEMENTAL DATA

| | | | | | | |
|-----------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net assets, end of period (common shares) (in thousands) | \$174,124 | \$200,176 | \$203,548 | \$212,505 | \$205,571 | \$209,697 |
| <hr/> | | | | | | |
| Ratio of expenses to average net assets %(c,d) | .79* | 1.28 | 1.37 | 1.40 | 1.37 | 1.41 |
| <hr/> | | | | | | |
| Ratio of net investment income to average net assets %(d) | 2.10* | 4.61 | 4.92 | 6.15 | 7.05 | 7.65 |
| <hr/> | | | | | | |
| Portfolio turnover (%) | 18.44* | 12.60 | 10.74 | 29.51 | 19.19 | 12.30 |

(Continued on next page)

Financial highlights (Continued)

* *Not annualized.*

** *Unaudited.*

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

(b) *Total return assumes dividend reinvestment.*

(c) *Includes amounts paid through expense offset arrangements (Note 2).*

(d) *Ratios reflect net assets available to common shares only: net investment income ratio also reflects reduction for dividend payments to preferred shareholders.*

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

Notes to financial statements 10/31/07 (Unaudited)

Note 1: Significant accounting policies

Putnam Municipal Opportunities Trust (the fund) is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The fund's investment objective is to seek as high a level of current income exempt from federal income tax as Putnam Investment Management, LLC (Putnam Management), the fund's manager, a wholly-owned subsidiary of Putnam, LLC believes is consistent with the preservation of capital. The fund intends to achieve its objective by investing in a portfolio of investment grade and some below investment-grade municipal bonds selected by Putnam Management.

In the normal course of business, the fund enters into contracts that may include agreements to indemnify another party under given circumstances. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be, but have not yet been, made against the fund. However, the fund expects the risk of material loss to be remote.

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

A) Security valuation Tax-exempt bonds and notes are generally valued on the basis of valuations provided by an independent pricing service approved by the Trustees. Such services use information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. Certain investments are also valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees. The fair value of securities is generally determined as the amount that the fund could reasonably expect to realize from an orderly disposition of such securities over a reasonable period of time. By its nature, a fair value price is a good faith estimate of the value of a security at a given point in time and does not reflect an actual market price, which may be different by a material amount.

B) Security transactions and related investment income Security transactions are recorded on the trade date (the date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis. Interest income is recorded on the accrual basis. All premiums/discounts are amortized/accreted on a yield-to-maturity basis. The premium in excess of the call price, if any, is amortized to the call date; thereafter, any remaining premium is amortized to maturity.

C) Futures and options contracts The fund may use futures and options contracts to hedge against changes in the values of securities the fund owns or expects to purchase, or for other investment purposes. The fund may also write options on swaps or securities it owns or in which it may invest to increase its current returns.

The potential risk to the fund is that the change in value of futures and options contracts may not correspond to the change in value of the hedged instruments. In addition, losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparty to the contract is unable to perform. Risks may exceed amounts recognized on the Statement of assets and liabilities. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it

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was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. The fund and the broker agree to exchange an amount of cash equal to the daily fluctuation in the value of the futures contract. Such receipts or payments are known as variation margin. Exchange traded options are valued at the last sale price or, if no sales are reported, the last bid price for purchased options and the last ask price for written options. Options traded over-the-counter are valued using prices supplied by dealers. Futures and written option contracts outstanding at period end, if any, are listed after the fund's portfolio.

D) Federal taxes It is the policy of the fund to distribute all of its income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code of 1986, as amended, (the Code) applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Code, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At April 30, 2007, the fund had a capital loss carryover of \$21,500,758 available to the extent allowed by the Code to offset future net capital gain, if any.

The amount of the carryover and the expiration dates are:

| Loss Carryover | Expiration |
|----------------|----------------|
| \$2,526,324 | April 30, 2008 |
| 1,503,027 | April 30, 2009 |
| 2,243,569 | April 30, 2010 |
| 3,588,009 | April 30, 2011 |
| 8,885,378 | April 30, 2012 |
| 2,388,286 | April 30, 2013 |

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending April 30, 2008 \$457,139 of losses recognized during the period November 1, 2006 to April 30, 2007.

The aggregate identified cost on a tax basis is \$283,680,169, resulting in gross unrealized appreciation and depreciation of \$11,261,256 and \$1,199,813, respectively, or net unrealized appreciation of \$10,061,443.

E) Distributions to shareholders Distributions to common and preferred shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. Dividends on remarketed preferred shares become payable when, as and if declared by the Trustees. Each dividend period for the remarketed preferred shares is generally a 28-day period for Series A and a 7-day period for Series B and C. The applicable dividend rate for the remarketed preferred shares on October 31, 2007 was 3.65% for Series A and 3.60% for Series B and C. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year. Reclassifications are made to the fund's

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capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

F) Determination of net asset value Net asset value of the common shares is determined by dividing the value of all assets of the fund, less all liabilities and the liquidation preference of any outstanding remarketed preferred shares, by the total number of common shares outstanding as of period end.

Note 2: Management fee, administrative services and other transactions

Putnam Management is paid for management and investment advisory services quarterly based on the average net assets of the fund. Such fee is based on the lesser of (i) an annual rate of 0.55% of the average net assets of the fund attributable to common and preferred shares outstanding or (ii) the following annual rates expressed as a percentage of the fund's average weekly net assets attributable to common and preferred shares outstanding: 0.65% of the first \$500 million and 0.55% of the next \$500 million, with additional breakpoints at higher asset levels.

Prior to August 3, 2007, such fee was based on the lesser of (i) an annual rate of 0.35% of the average net assets of the fund attributable to common and preferred shares outstanding or (ii) the following annual rates were expressed as a percentage of the fund's average weekly net assets attributable to common and preferred shares outstanding: 0.45% of the first \$500 million and 0.35% of the next \$500 million, with additional breakpoints at higher asset levels.

In addition, the fund paid an administrative services fee to Putnam Management quarterly based on an annual rate of 0.20% of the average weekly net assets attributable to common and preferred shares outstanding. These amounts are included in Compensation of Manager in the Statement of operations.

Effective August 3, 2007, Marsh & McLennan Companies, Inc. sold its ownership interest in Putnam Management, its parent companies and affiliates to a wholly-owned subsidiary of Great-West Lifeco, Inc. The fund's shareholders have approved a new management contract for the fund that became effective upon the sale.

If dividends payable on remarketed preferred shares during any dividend payment period plus any expenses attributable to remarketed preferred shares for that period exceed the fund's gross income attributable to the proceeds of the remarketed preferred shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than the effective management and administrative service fees rate under the contracts multiplied by the liquidation preference of the remarketed preferred shares outstanding during the period).

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

Custodial services for the fund's assets were provided by Putnam Fiduciary Trust Company (PFTC), an affiliate of Putnam Management, and by State Street Bank and Trust Company (State Street). Custody fees are based on the fund's asset level, the number of its security holdings, transaction volumes and with respect to PFTC, certain fees related to the transition of assets to State Street. Putnam Investor Services, a division of PFTC, provided investor servicing agent functions to the fund. Putnam Investor Services was paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund's average net assets. During the period ended October 31, 2007, the fund incurred \$47,713 for custody and investor servicing agent functions provided by PFTC.

The fund has entered into arrangements with PFTC and State Street whereby PFTC's and State

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Street's fees are reduced by credits allowed on cash balances. For the six months ended October 31, 2007, the fund's expenses were reduced by \$84,418 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$290, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustee's meeting attended. Trustees receive additional fees for attendance at certain committee meetings and industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees.

The fund has adopted a Trustee Fee Deferral Plan (the Deferral Plan) which allows the Trustees to defer the receipt of all or a portion of Trustees' fees payable on or after July 1, 1995. The deferred fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan (the Pension Plan) covering all Trustees of the fund who have served as a Trustee for at least five years and were first elected prior to 2004. Benefits under the Pension Plan are equal to 50% of the Trustee's average annual attendance and retainer fees for the three years ended December 31, 2005. The retirement benefit is payable during a Trustee's lifetime, beginning the year following retirement, for the number of years of service through December 31, 2006. Pension expense for the fund is included in Trustee compensation and expenses in the Statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the Statement of assets and liabilities. The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

Note 3: Purchases and sales of securities

During the six months ended October 31, 2007 cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$54,426,102 and \$66,358,093, respectively. There were no purchases or sales of U.S. government securities.

Note 4: Preferred shares

The Series A (800), Series B (1,620) and Series C (1,620) Remarketed Preferred shares are redeemable at the option of the fund on any dividend payment date at a redemption price of \$50,000, \$25,000 and \$25,000 per share, plus an amount equal to any dividends accumulated on a daily basis but unpaid through the redemption date (whether or not such dividends have been declared) and, in certain circumstances, a call premium.

It is anticipated that dividends paid to holders of remarketed preferred shares will be considered tax-exempt dividends under the Internal Revenue Code of 1986. To the extent that the fund earns taxable income and capital gains by the conclusion of a fiscal year, it may be required to apportion to the holders of the remarketed preferred shares throughout that year additional dividends as necessary to result in an after-tax equivalent to the applicable dividend rate for the period.

Under the Investment Company Act of 1940, the fund is required to maintain asset coverage of at least 200% with respect to the remarketed preferred shares. Additionally, the fund's bylaws impose more stringent asset coverage requirements and restrictions relating to the rating of the remarketed preferred shares by the shares' rating agencies. Should these requirements not be met, or should dividends accrued on the remarketed preferred shares not be paid, the fund may be restricted in its ability to declare

dividends to common shareholders or may be required to redeem certain of the remarketed preferred shares. At October 31, 2007, no such restrictions have been placed on the fund.

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Note 5: Shares repurchased

In September 2007, the Trustees approved the renewal of the repurchase program to allow the fund to repurchase up to an additional 10% of its outstanding common shares over the 12-month period ending October 7, 2008 (based on shares outstanding as of October 5, 2007). Prior to this renewal, the Trustees had approved a repurchase program to allow the fund to repurchases up to 10% of its outstanding common shares over the 12-month period ending October 6, 2007 (based on shares outstanding as of October 7, 2005). Repurchases are made when the fund's shares are trading at less than net asset value and in accordance with procedures approved by the fund's Trustees.

For the six months ended October 31, 2007, the fund repurchased 93,966 common shares for an aggregate purchase price of \$1,072,611, which reflects a weighted-average discount from net asset value per share of 10.65% .

In July 2007, the fund repurchased 1,517,251 common shares pursuant to an issuer tender offer commenced on June 4, 2007, for up to 10% if its outstanding common shares, at \$12.57 per share, for an aggregate purchase price of \$19,071,845. The tender offer purchase price represented a discount of 2% from the net asset value of the fund's common shares as of July 12, 2007.

During the period, the fund retired 1,334 shares held by the fund in a control account. No monies were paid by the fund as a result of the retirement of shares.

Note 6: Regulatory matters and litigation

In late 2003 and 2004, Putnam Management settled charges brought by the Securities and Exchange Commission (the SEC) and the Massachusetts Securities Division in connection with excessive short-term trading in Putnam funds. Payments from Putnam Management will be distributed to certain open-end Putnam funds and their shareholders. These allegations and related matters have served as the general basis for certain lawsuits, including purported class action lawsuits against Putnam Management and, in a limited number of cases, some Putnam funds. Putnam Management believes that these lawsuits will have no material adverse effect on the funds or on Putnam Management's ability to provide investment management services. In addition, Putnam Management has agreed to bear any costs incurred by the Putnam funds as a result of these matters.

Putnam Management and Putnam Retail Management are named as defendants in a civil suit in which the plaintiffs allege that the management and distribution fees paid by certain Putnam funds were excessive and seek recovery under the Investment Company Act of 1940. Putnam Management and Putnam Retail Management have contested the plaintiffs' claims and the matter is currently pending in the U.S. District Court for the District of Massachusetts. Based on currently available information, Putnam Management believes that this action is without merit and that it is unlikely to have a material effect on Putnam Management's and Putnam Retail Management's ability to provide services to their clients, including the fund.

Note 7: New accounting pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation). The Interpretation prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken by a filer in the filer's tax return. Upon adoption, the Interpretation did not have a material effect on the fund's financial statements. However, the conclusions regarding the Interpretation may be subject to review and adjustment at a later date based on factors including, but not limited to, further implementation guidance expected from the FASB, and on-going analysis of tax laws, regulations and interpretations thereof.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (the Standard). The Standard defines fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. The Standard applies to fair value measurements already required or permitted by existing standards. The Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods

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within those fiscal years. Putnam Management is currently evaluating what impact the adoption of the Standard will have on the fund's financial statements.

Note 8: Actions by Trustees

The Trustees of the Putnam Funds have approved a plan to merge Putnam Municipal Bond Fund and Putnam Investment Grade Municipal Trust, both closed-end funds managed by Putnam Management, into the Fund. The transaction is scheduled to occur in 2008. It is subject to a number of conditions, including approval of a majority of the outstanding shareholders of the fund, and there is no guarantee it will occur.

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Shareholder meeting results (unaudited)

An annual meeting of shareholders of the fund was held on October 31, 2007.

At the meeting, each of the nominees for Trustees was elected, as follows:

| | Common shares | |
|-------------------------|---------------|----------------|
| | Votes for | Votes withheld |
| Jameson A. Baxter | 11,299,122 | 1,022,502 |
| Charles E. Haldeman Jr. | 11,332,216 | 989,408 |
| Charles B. Curtis | 11,328,748 | 992,876 |
| Robert J. Darretta | 11,328,590 | 993,034 |
| Myra R. Drucker | 11,395,629 | 925,995 |
| Paul L. Joskow | 11,330,605 | 991,019 |
| Kenneth R. Leibler | 11,330,613 | 991,011 |
| Elizabeth T. Kennan | 11,380,245 | 941,379 |
| George Putnam, III | 11,313,910 | 1,007,714 |
| W. Thomas Stephens | 11,318,452 | 1,003,172 |
| Richard B. Worley | 11,307,992 | 1,013,632 |

| | Preferred shares | |
|--|------------------|----------------|
| | Votes for | Votes withheld |

| | | |
|---------------------|-------|----|
| John A. Hill | 3,722 | 34 |
| Robert E. Patterson | 3,722 | 34 |

All tabulations are rounded to nearest whole number.

May 15, 2007 meeting

A proposal to approve a new management contract between the fund and Putnam Investment Management, LLC was approved as follows:

| Votes for | Votes against | Abstentions |
|-----------|---------------|-------------|
| 9,226,523 | 455,336 | 273,389 |

All tabulations rounded to the nearest whole number.

October 15, 2007 meeting

A special meeting of shareholders of the fund was held on October 15, 2007 to consider several proposals relating to the merger of Putnam Municipal Bond Fund and Putnam Investment Grade Municipal Trust into the fund, which such meeting was adjourned to a later date.

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Fund information

About Putnam Investments

Founded 70 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We manage over 100 mutual funds in growth, value, blend, fixed income, and international.

Investment Manager

Putnam Investment Management, LLC
One Post Office Square
Boston, MA 02109

Officers

Charles E. Haldeman, Jr.
President

Charles E. Porter
*Executive Vice President,
Principal Executive Officer,
Associate Treasurer and
Compliance Liaison*

Francis J. McNamara, III
*Vice President and
Chief Legal Officer*

Robert R. Leveille
*Vice President and
Chief Compliance Officer*

Marketing Services

Putnam Retail Management
One Post Office Square
Boston, MA 02109

Jonathan S. Horwitz
Senior Vice President

Mark C. Trenchard
*Vice President and
BSA Compliance Officer*

Custodian

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State Street Bank and Trust
Company

and Treasurer

Judith Cohen
*Vice President, Clerk and
Assistant Treasurer*

Legal Counsel

Ropes & Gray LLP

Steven D. Krichmar
*Vice President and
Principal Financial Officer*

Wanda M. McManus
*Vice President, Senior Associate
Treasurer and Assistant Clerk*

Trustees

John A. Hill, *Chairman*
Jameson Adkins Baxter,
Vice Chairman
Charles B. Curtis
Robert J. Darretta
Myra R. Drucker
Charles E. Haldeman, Jr.
Paul L. Joskow
Elizabeth T. Kennan
Kenneth R. Leibler
Robert E. Patterson
George Putnam, III
W. Thomas Stephens
Richard B. Worley

Janet C. Smith
*Vice President, Principal
Accounting Officer and
Assistant Treasurer*

Susan G. Malloy
*Vice President and
Assistant Treasurer*

Nancy E. Florek
*Vice President, Assistant Clerk,
Assistant Treasurer and
Proxy Manager*

Beth S. Mazor
Vice President

James P. Pappas
Vice President

Richard S. Robie, III
Vice President

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Call 1-800-225-1581 weekdays between 8:30 a.m. and 8:00 p.m. or on Saturday between 9:00 a.m. and 5:00 p.m. Eastern Time, or visit our Web site (www.putnam.com) anytime for up-to-date information about the fund's NAV.

Item 2. Code of Ethics:

Not Applicable

Item 3. Audit Committee Financial Expert:

Not Applicable

Item 4. Principal Accountant Fees and Services:

Not Applicable

Item 5. Audit Committee

Not Applicable

Item 6. Schedule of Investments:

The registrant's schedule of investments in unaffiliated issuers is included in the report to shareholders in Item 1 above.

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies:

Not applicable

Item 8. Portfolio Managers of Closed-End Management Investment Companies

(a) Not applicable

(b) There have been no changes to the list of the registrant's identified portfolio managers included in the registrant's report on Form N-CSR for the most recent completed fiscal year.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers:

Registrant Purchase of Equity Securities

| Total Number | Average | Total Number of Shares Purchased as Part of Publicly Announced | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased |
|--------------|---------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
|--------------|---------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|

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| <u>Period</u> | <u>of Shares Purchased</u> | <u>Price Paid per Share</u> | <u>Plans or Programs*</u> | <u>under the Plans or Programs**</u> |
|----------------------------------|----------------------------|-----------------------------|---------------------------|--------------------------------------|
| May 1 - May 31, 2007 | - | - | - | 631,127 |
| June 1 - June 30, 2007 | - | - | - | 631,127 |
| <hr/> | | | | |
| July 1 - July 31, 2007 | 1,517,251 | \$12.57 | 1,517,251*** | 631,127 |
| August 1 - August 31, 2007 | 32,838 | \$11.29 | 32,838 | 598,289 |
| September 1 - September 30, 2007 | 11,424 | \$11.57 | 11,424 | 586,865 |
| October 1 - October 31, 2007 | 49,704 | \$11.46 | 49,704 | 1,898,128 |

*The Board of Trustees announced a repurchase plan on October 7, 2005 for which **807,855** shares were approved for repurchase by the fund. The repurchase plan was approved through October 6, 2006. On March 10, 2006, the Trustees announced that the repurchase program was increased to allow repurchases of up to a total of 1,615,709 shares over the original term of the program. On September 15, 2006, the Trustees voted to extend the term of the repurchase program through October 6, 2007. In September 2007, the Trustees announced that the repurchase program was increased to allow repurchases up to a total of 2,976,676 shares through October 7, 2008.

See note *** below for information about repurchases made by the fund in July 2007 pursuant to an issuer tender offer.

**Information prior to October 1, 2007 is based on the total number of shares eligible for repurchase under the program, as amended through September 15, 2006. Information from October 1, 2007 forward is based on the total number of shares eligible for repurchase under the program, as amended through September 2007.

***Includes 1,517,251 shares repurchased by the fund pursuant to an issuer tender offer that concluded during the period. Shares repurchased as part of this tender offer were repurchased at \$12.57 per share, which represented approximately 98% of the fund's per-share net asset value on the expiration date of the tender offer.

Item 10. Submission of Matters to a Vote of Security Holders:

Not applicable

Item 11. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the registrant in this report is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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(b) Changes in internal control over financial reporting: During the period, Putnam Fiduciary Trust Company, the fund's transfer agent, began utilizing shareholder systems and systems support provided by DST Systems, Inc. and certain of its affiliates.

Item 12. Exhibits:

(a)(1) Not applicable

(a)(2) Separate certifications for the principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are filed herewith.

(b) The certifications required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended, are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Putnam Municipal Opportunities Trust

By (Signature and Title):

/s/Janet C. Smith

Janet C. Smith
Principal Accounting Officer

Date: December 28, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title):

/s/Charles E. Porter

Charles E. Porter
Principal Executive Officer

Date: December 28, 2007

By (Signature and Title):

/s/Steven D. Krichmar

Steven D. Krichmar
Principal Financial Officer

Date: December 28, 2007
