PUTNAM MANAGED HIGH YIELD TRUST
Form N-CSR
July 27, 2006

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 - 07658)

Exact name of registrant as specified in charter: Putnam Managed High Yield 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: May 31, 2006

Date of reporting period: June 1, 2005 - May 31, 2006

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

We have stringent investor protections and provide a wealth of information about the Putnam funds.

Industry-leading service

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

Putnam Managed High Yield Trust

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Annual Report

Cover photograph: © Richard H. Johnson

Message from the Trustees

Dear Fellow Shareholder

Investors continue to keep a close watch on the course of the economy. Globally, it appears that, assuming economic growth exceeds 4% in 2006, we will have seen the strongest economic performance over a four-year period in over thirty years. Corporate profits have boomed around the world, business capacity utilization rates have moved up, and unemployment rates have come down. Given such a sustained period of robust growth, it is not surprising that prices have begun to rise, inflation rates have crept up, and central banks in many countries, particularly the Federal Reserve (the Fed) in the United States, have pushed interest rates higher.

In recent weeks, investors have worried that these higher rates could threaten the fundamentals of the global economy, prompting a widespread sell-off. However, we believe that today’s higher interest rates, far from being a threat to global economic fundamentals, are in fact an integral part of them. Higher interest rates are bringing business borrowing costs closer to the rate of return available from investments. In our view, this should help provide the basis for a longer and more durable business expansion and a continued healthy investment environment.

You can be assured that the investment professionals managing your fund are closely monitoring the factors that influence the performance of the securities in which your fund invests. Moreover, Putnam Investments’ management team, under the leadership of Chief Executive Officer Ed Haldeman, continues to focus on investment performance and remains committed to putting the interests of shareholders first.

In the following pages, members of your fund’s management team discuss the fund’s performance and strategies for the fiscal period ended May 31, 2006, and provide their outlook for the months ahead. As always, we thank you for your support of the Putnam funds.

Putnam Managed High Yield Trust: a disciplined approach to seeking income and capital growth

Relative to most types of fixed-income investments, high-yield bonds are more dependent on the performance of issuing companies than on interest rates. For this reason, distinguishing between opportunities and pitfalls requires a rigorous investment process. With Putnam Managed High Yield Trust, this process is highlighted by exhaustive research, investment diversification, and portfolio adjustments.

Because of the risks of high-yield bond investing, in-depth credit research is essential. The funds research team more than 20 professionals, including analysts who specialize by industry visits with the management of issuing companies and analyzes each companys prospects. The team then compares this information to the bonds potential upside or downside before deciding whether it is an appropriate investment for the fund.

The funds portfolio typically consists of a broad range of industries and companies. Holdings are diversified across industry sectors and among bonds with differing credit ratings. While the fund invests primarily in the bonds of U.S. companies, its diversified approach allows it to include foreign bonds as well. Among these securities, investments in emerging-market bonds may be used to enhance the funds appreciation potential. Although diversification does not ensure a profit or protect against a loss and it is possible to lose money in a diversified portfolio, the funds diversification can help reduce the volatility that typically comes with higher-risk investments.

As the bond markets shift over time, the funds management looks for ways to capitalize on developments that affect fixed-income securities in general and high-yield bonds in particular. For example, when credit spreads are wide and expected to tighten, the fund

High-yield bonds have historically offered greater return potential than investment-grade bonds.

may pursue the higher income potential offered by lower-quality issues. On the other hand, when credit spreads are narrow that is, when the difference in yield between higher- and lower-rated bonds of comparable maturities is small the fund may shift its emphasis to higher-quality high-yield bonds.

Lower-rated bonds may offer higher yields in return for more risk. 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. Additional risks may be associated with emerging-market securities, including illiquidity and volatility.

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

More assets at work While open-end funds must maintain a cash position to meet redemptions, closed-end funds have no such requirement 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 funds net asset value (NAV) per share, the NAV of a closed-end fund share is equal to the current value of the funds 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.

Putnam Managed High Yield Trust seeks high current income and, as a secondary objective, capital growth (to the extent consistent with seeking high current income), by investing in corporate high-yield bonds. The fund is designed for investors seeking higher fixed-income returns who are willing to accept the added risks of investing in below-investment-grade bonds.

Highlights

* For the 12 months ended May 31, 2006, Putnam Managed High Yield Trust returned 8.03% at net asset value (NAV) and 18.23% at market price.
* The fund's benchmark, the JP Morgan Developed High Yield Index, returned 7.36%.
* The average return for the fund's Lipper category, High Current Yield Funds (closed-end), was 8.15%.
* Additional fund performance, comparative performance, and Lipper data can be found in the performance section beginning on page 13.

Performance

It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

Total return for periods ended 5/31/06

Since the fund's inception (6/25/93), average annual return is 6.30% at NAV and 5.45% at market price.

	Average annual return		Cumulative return	
	NAV	Market price	NAV	Market price
10 years	5.26%	4.91%	66.97%	61.45%
5 years	7.75	4.25	45.27	23.16
3 years	10.46	6.79	34.76	21.80
1 year	8.03	18.23	8.03	18.23

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

Report from the fund managers

The year in review

During its fiscal year ended May 31, 2006, Putnam Managed High Yield Trust outperformed its benchmark, the JP Morgan Developed High Yield Index, based on results at net asset value (NAV). We attribute this outperformance primarily to successful security selection. The management teams decision to overweight bonds from the strong-performing energy and utilities industries also buoyed performance, as did a modest position in emerging-market bonds (which are not a component of the benchmark) held earlier in the fiscal year. The funds results at NAV were in line with the average for its Lipper peer group. However, it is important to remember that comparisons in this category can be misleading because it contains only six funds, and at least one fund in the group uses leverage to boost returns.

Market overview

High-yield bonds performed well at the start of the funds 2006 fiscal year, mainly due to a strong corporate business climate. In addition, mergers and acquisitions activity was brisk and several high-yield companies were acquired by investment-grade firms, resulting in an upgrade of their credit ratings. However, the market made little progress during the last four months of calendar 2005, as generally solid corporate business fundamentals were offset by periodic negative news, including the bankruptcies of Delta and Northwest airlines in September 2005, auto parts supplier Delphi in October, and electric utility Calpine in December. The high-yield market also continued to digest the significant influx of debt that accompanied the credit-rating downgrades of Ford and General Motors earlier in the year. However, the tide turned in January, as investors focused on continued healthy business fundamentals, large deals that came to the market, consolidation activity, strong liquidity, and General Motors plan to sell its financing arm. In addition, even with the bankruptcies cited above, the overall default rate remained below historical averages, indicating the relative financial health of high-yield companies.

While the Fed continued to raise short-term interest rates at each of its Open Market Committee meetings during the period, these moves did not have as much impact on the high-yield market as the relative health of corporate business fundamentals. Against that backdrop, there was a rally among the lower-quality segments of the high-yield market from January through the end of April. However, May brought with it increasing volatility across most asset classes, due to concerns about inflation that made investors more risk-averse. A sharp sell-off in the emerging markets spilled into the credit markets, leading to lower prices for high-yield bonds during May.

Strategy overview

For most of the fiscal year, we maintained a bias toward the higher-quality tiers of the high-yield bond market. Until May, the last month of the fiscal year, high-yield bond spreads the yield advantage offered by high-yield bonds over comparable Treasuries remained narrow, meaning investors were not being compensated for taking on the additional risk carried by lower-quality bonds. In addition, we believed that the Feds continued tightening of short-term interest rates would start to soften economic growth, a backdrop likely to favor bonds offering higher credit ratings. Overall, we sought to maintain a diversified portfolio, investing in companies offering a sustainable competitive advantage, a

Market sector performance

These indexes provide an overview of performance in different market sectors for the 12 months ended 5/31/06.

Bonds	
JP Morgan Developed High Yield Index (high-yield corporate bonds)	7.36%
Lehman Aggregate Bond Index (broad bond market)	−0.48%
Lehman GNMA Index (Government National Mortgage Association bonds)	0.72%
Lehman Municipal Bond Index (tax-exempt bonds)	1.88%
Lehman Global Aggregate Bond Index (global bond markets)	0.61%
Equities	
S&P 500 Index (broad stock market)	8.64%
Russell 2000 Index (small-company stocks)	18.24%
MSCI EAFE Index (international stocks)	28.24%

viable capital structure, sufficient cash-flow generation, and some sort of adequate downside protection. We continued to be selective in adding new names to the fund, relying on our rigorous fundamental credit research to evaluate potential investments.

With regard to industry and sector weightings, we maintained an overweight position in energy, particularly exploration and production companies, which continued to benefit from strong global demand and restricted supply. We also favored media, where valuations remained attractive and solid economic growth sustained advertising spending. In addition, we emphasized bonds issued by building materials companies, which benefited from demand growth, and utilities, due to the stable cash flow characteristics offered by regulated utilities and pipeline companies.

Areas we chose to underweight, relative to the benchmark, included bonds issued by auto manufacturers and parts suppliers, several of whom filed for bankruptcy protection due in part to high costs and a lack of pricing power. We also underweighted paper and forest products because we felt their valuations were not compelling.

Your fund's holdings

During the course of the fiscal year, our diversified approach helped stabilize returns. Although our high-quality bias held back performance when lower-quality bonds rallied in early 2006, it helped bolster relative returns during the last quarter of 2005 and again when the market struggled in May 2006. At the same time, we did maintain some exposure to lower-quality pockets of the market when bonds offered attractive valuations and/or positive business fundamentals and these investments were able to participate in the rally from January through April 2006.

One of the key contributors of positive results was **Doane Pet Care**. After this pet food manufacturer was acquired during the first half of the fiscal year, its bonds and preferred stock obligations were redeemed, resulting in significant capital appreciation for your fund. **Williams Companies**, which owns exploration and production as well as pipeline assets, also fared well due to rising natural gas prices. Your fund held bonds and common stock of **Samsonite** as the company improved its operating performance, and the stock advanced strongly. Bonds issued by advertising firm **Vertis** also appreciated during the lower-quality rally in the market in the first few months of 2006, and due to an improvement in the company's business prospects. Finally, telecommunications services provider **Qwest** posted improved results because of strengthening business fundamentals and management's de-leveraging of its balance sheet.

Each period brings with it some disappointments, and this fiscal year

Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each comprised, as of 5/31/06. The fund's holdings will change over time.

Holding (percent of fund's net assets)	Coupon (%) and maturity date	Industry
Ford Motor Credit Corp. (0.8%)	7.875%, 2010	Automotive
CCH I, LLC (0.7%)	11%, 2015	Cable television
DirecTV Holdings, LLC (0.7%)	6.375%, 2015	Broadcasting
XCL, Ltd. Equity Units (0.7%)	N/A	Oil and gas
Novelis, Inc. 144A (0.7%)	7.75%, 2015	Metals
General Motors Acceptance Corp. (0.6%)	7.75%, 2010	Automotive
Whiting Petroleum Corp. (0.6%)	7%, 2014	Oil and gas
Affinion Group, Inc. 144A (0.6%)	10.125%, 2013	Advertising and marketing services
Qwest Communications International, Inc. (0.6%)	7.5%, 2014	Regional Bells
Aero Invest 1 SA 144A (Luxembourg) (0.6%)	11.269%, 2015	Aerospace and defense

was no exception. The fund’s position in consumer products company **Spectrum Brands** declined because the company missed earnings expectations due to weakness in its battery business. Relative to the fund’s benchmark index, your fund’s performance was held back by not owning some index components that posted relatively strong returns. We avoided bonds issued by electric utility Calpine, which declared bankruptcy in December but subsequently rallied from distressed levels, posting strong performance during the lower-quality rally in the first four months of 2006. Communications technology firm **Level 3 Communications**, a distressed security, is also represented in the benchmark but was not a holding in the portfolio. Both of these securities strengthened in the first four months of 2006, dampening the fund’s relative performance.

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

On May 12, 2006, the Trustees of the Putnam funds approved the merger of your fund into Putnam High Yield Trust, an open-end fund that pursues similar investment objectives and strategies and which is managed by the same investment team, led by Portfolio Leader Paul Scanlon. The merger is subject to shareholder approval and other conditions, and there is no certainty that the merger will occur. Proxy materials for the merger have been sent to the shareholders of Putnam Managed High Yield Trust and filed with the SEC.

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.

As we embark on a new fiscal year, we will focus on three main factors to determine our outlook. First, we consider company fundamentals. While some industries currently are facing challenges, the overall fundamental backdrop for corporations remains generally positive, although higher interest rates, fuel costs, and slowing growth expected in 2007 will provide some headwind in certain sectors. We also examine technicals, or the supply of and demand for high-yield bonds. Recently, these technicals have been less favorable: New issuance is currently running well ahead of last year’s levels and the quality of some new deals has deteriorated. One redeeming feature is that many bonds are being removed from the market by tenders, upgrades, and refinancing in the bank loan market. At this point, the technical outlook is difficult to predict, and we remain neutral. Finally, we consider valuations. While high-yield spreads are tighter than the long-term average — indicating that high-yield bonds are selling at relatively high valuations —they remain above their historically tightest levels. Ordinarily, this would be of significant concern. However, defaults remain at low levels and show no sign of spiking. Therefore, we find valuations to be reasonable, as long as defaults don’t increase.

When we put this all together, we believe returns for fiscal 2007 will be generated mainly through interest income rather than capital appreciation or depreciation. Therefore, we intend to continue to build and maintain a diversified portfolio of relatively high-quality bonds.

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. 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’s shares trade on a stock exchange at market prices, which may be higher *or lower than the fund's net asset value.*

12

Your fund's performance

This section shows your fund's performance for periods ended May 31, 2006, the end of its 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 and comparative index results for periods ended 5/31/06

	NAV	Market price	JP Morgan Developed High-Yield Index	Lipper High Current Yield Funds (closed-end) category average
Annual average Life of fund (since 6/25/93)	6.30%	5.45%	—*	6.86%
10 years	66.97	61.45	95.26%	76.61
Annual average	5.26	4.91	6.92	5.76
5 years	45.27	23.16	53.12	44.01
Annual average	7.75	4.25	8.89	7.50
3 years	34.76	21.80	33.21	31.37
Annual average	10.46	6.79	10.03	9.52
1 year	8.03	18.23	7.36	8.15

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 calculations for reinvested dividends may differ from actual performance.

** This index began operations on 12/31/94.*

Over the 1-, 3-, 5-, and 10-year periods ended 5/31/06, there were 6, 4, 4, and 4 funds, respectively, in this Lipper category.

13

Fund price and distribution information

For the 12-month period ended 5/31/06

Distributions		
Number	12	
Income	$0.588	
Capital gains	—	
Total	$0.588	
Share value:	NAV	Market price
5/31/05	$9.04	$7.97
5/31/06	9.10	8.78
Current yield (end of period) Current dividend rate[1]	6.46%	6.70%

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

Fund performance for most recent calendar quarter

Total return for periods ended 6/30/06

	NAV	Market price
Annual average Life of fund (since 6/25/93)	6.24%	5.40%
10 years	66.02	59.95
Annual average	5.20	4.81
5 years	47.61	30.14
Annual average	8.10	5.41
3 years	30.79	21.92
Annual average	9.36	6.83

1 year	6.10	13.94

14

Your fund's management

Your fund is managed by the members of the Putnam Core Fixed-Income High-Yield Team. Paul Scanlon is the Portfolio Leader. Norman Boucher and Robert Salvin are Portfolio Members of your fund. The Portfolio Leader and Portfolio Member coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Core Fixed-Income High-Yield 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.

Fund ownership by the Portfolio Leader and Portfolio Members

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is as of May 31, 2006, and May 31, 2005.

	Year	$0	$1 – $10,000	$10,001 – $50,000	$50,001 – $100,000	$100,001 – $500,000	$500,001 – $1,000,000	$1,000,001 and over
Paul Scanlon	2006	*						
Portfolio Leader	2005	*						
Norman Boucher	2006	*						
Portfolio Member	N/A							
Robert Salvin	2006	*						
Portfolio Member	2005	*						

N/A indicates the individual was not a Portfolio Leader or Portfolio Member as of 5/31/05.

15

Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately $50,000. This amount includes a portion of 2005 compensation paid by Putnam Management to the fund managers listed in this section for their portfolio management responsibilities, calculated based on the fund assets they manage taken as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2005 compensation paid to the Group Chief Investment Officer of the fund’s broader investment category for his oversight responsibilities, calculated based on the fund assets he oversees taken as a percentage of the total assets he oversees. This amount does not include compensation of other personnel involved in research, trading, administration, systems, compliance, or fund operations; nor does it include non-compensation costs. These percentages are determined as of the fund’s fiscal period-end. For personnel who joined Putnam Management during or after 2005, the calculation reflects annualized 2005 compensation or an estimate of 2006 compensation, as applicable.

Other Putnam funds managed by the Portfolio Leader and Portfolio Member

Paul Scanlon is also a Portfolio Leader of Putnam Floating Rate Income Fund, Putnam High Yield Advantage Fund, and Putnam High Yield Trust. He is also a Portfolio Member of Putnam Diversified Income Trust, Putnam Master Intermediate Income Trust, and Putnam Premier Income Trust.

Norman Boucher is also a Portfolio Member of Putnam High Yield Advantage Fund and Putnam High Yield Trust.

Robert Salvin is also a Portfolio Leader of Putnam High Income Securities Fund, and a Portfolio Member of Putnam Convertible Income-Growth Trust, Putnam High Yield Advantage Fund, and Putnam High Yield Trust.

Paul Scanlon, Norman Boucher, and Robert Salvin 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

During the year ended May 31, 2006, Portfolio Member Norman Boucher joined and Portfolio Member Geoffrey Kelley left your fund’s management team.

Fund ownership by Putnam’s Executive Board

The table below shows how much the members of Putnam’s Executive Board have invested in the fund (in dollar ranges). Information shown is as of May 31, 2006, and May 31, 2005.

	Year	$0	$1 – $10,000	$10,001 – $50,000	$50,001– $100,000	$100,001 and over
Philippe Bibi	2006	*				
Chief Technology Officer	2005	*				
Joshua Brooks	2006	*				
Deputy Head of Investments	2005	*				
William Connolly	2006	*				
Head of Retail Management	N/A					
Kevin Cronin	2006	*				

Head of Investments	2005	*
Charles Haldeman, Jr.	2006	*
President and CEO	2005	*
Amrit Kanwal	2006	*
Chief Financial Officer	2005	*
Steven Krichmar	2006	*
Chief of Operations	2005	*
Francis McNamara, III	2006	*
General Counsel	2005	*
Richard Robie, III	2006	*
Chief Administrative Officer	2005	*
Edward Shadek	2006	*
Deputy Head of Investments	2005	*
Sandra Whiston	2006	*
Head of Institutional Management	N/A	

N/A indicates the individual was not a member of Putnams Executive Board as of 5/31/05.

17

Terms and definitions

Important terms

Total return shows how the value of the funds 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 funds assets, minus any liabilities, divided by the number of outstanding 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 and the American Stock Exchange.

Comparative indexes

JP Morgan Developed High Yield Index is an unmanaged index of high-yield fixed-income securities issued in developed countries.

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

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

Lehman GNMA Index is an unmanaged index of Government National Mortgage Association bonds.

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

Morgan Stanley Capital International (MSCI) EAFE Index is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. Russell 2000 Index is an unmanaged index of the 2,000 smallest companies in the Russell 3000 Index.

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 funds category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

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 funds management contract and administrative services contract with Putnam Management and its sub-management contract with Putnam Managements affiliate, Putnam Investments Limited (PIL). 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 beginning in March and ending in June 2005, the Contract Committee met five times to consider the information provided by Putnam Management and other information developed with the assistance of the Boards independent counsel and independent staff. The Contract Committee reviewed and discussed key aspects of this information with all of the Independent Trustees. Upon completion of this review, the Contract Committee recommended and the Independent Trustees approved the continuance of your funds management contract, administrative services contract and sub-management contract, effective July 1, 2005. Because PIL is an affiliate of Putnam Management and Putnam Management remains fully responsible for all services provided by PIL, the Trustees have not evaluated PIL as a separate entity and all subsequent references to Putnam Management below should be deemed to include reference to PIL as necessary or appropriate in the context.

This approval was based on the following conclusions:

* That the fee schedule currently in effect for your fund, subject to certain changes noted below, represents 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 such fee schedule represents 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 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.

Model fee schedules and categories; total expenses

The Trustees review of the management fees and total expenses of the Putnam funds focused on three major themes:

* Consistency. The Trustees, working in cooperation with Putnam Management, have developed and implemented a series of model fee schedules for the Putnam funds designed to ensure that each funds management fee is consistent with the fees for similar funds in the Putnam family of funds and compares favorably with fees paid by competitive funds sponsored by other investment advisors. Under this approach, each Putnam fund is assigned to one of several fee categories based on a combination of factors, including competitive fees and perceived difficulty of management, and a common fee schedule is implemented for all funds in a given fee category. The Trustees reviewed the model fee schedule then in effect for the Putnam funds, including fee levels and breakpoints, and the assignment of your fund to a particular fee category under this structure. (Breakpoints refer to reductions in fee rates that apply to additional assets once specified asset levels are reached.)

Since their inception, Putnams closed-end funds have generally had management fees that are higher than those of Putnams open-end funds pursuing comparable investment strategies. These differences ranged from five to 20 basis points. The Trustees then reexamined this matter and recommended that these differences be conformed to a uniform five basis points. Under the new fee schedule, which went into effect on January 1, 2006, the fund pays a quarterly management fee to Putnam Management calculated at the annual rates set out below:

0.55% of the first $500 million of the funds average weekly assets (as described below under *Approval of Amended and Restated Management Contract in July 2005*);
0.45% of the next $500 million;
0.40% of the next $500 million;
0.35% of the next $5 billion;
0.325% of the next $5 billion;
0.305% of the next $5 billion;
0.29% of the next $5 billion;
0.28% of the next $5 billion;
0.27% of the next $5 billion;
0.26% of the next $5 billion;
0.25% of the next $5 billion;

0.24% of the next $5 billion;
0.23% of the next $5 billion; and
0.22% thereafter.

20

Your fund□s separate administrative services contract, which was amended in January 2006, provides for quarterly payment of fees to Putnam Management equal at all asset levels to 0.20% of the fund□s average weekly assets.

Based on net asset levels as of June 30, 2005, and without taking into account any leverage your fund may incur for investment purposes, the new management fee schedule for your fund will not change the combined management and administrative services fees, as a percentage of the fund□s net assets, currently paid by common shareholders. The Trustees approved the new fee schedules for the funds effective as of January 1, 2006, in order to provide Putnam Management an opportunity to accommodate the impact on revenues in its budget process for the coming year.

* Competitiveness. The Trustees also 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 50th percentile in management fees and in the first percentile in total expenses as of December 31, 2004 (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 the Putnam funds continue to meet evolving competitive standards.

* Economies of scale. The Trustees concluded that the fee schedule currently in effect for your fund, which as of January 1, 2006, reflects the changes noted above, represents an appropriate sharing of economies of scale at current asset levels. The Trustees examined the existing breakpoint structure of the Putnam funds□ management fees in light of competitive industry practices. The Trustees considered various possible modifications to the Putnam funds□ current breakpoint structure, but ultimately concluded that the current breakpoint structure continues to serve the interests of fund shareholders. Accordingly, the Trustees continue to believe that the fee schedules currently in effect for the funds, taking into account the changes noted above, represent an appropriate sharing of economies of scale at current asset levels.

In connection with their review of the management and administrative services 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 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.

21

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 funds□ investment process and performance by the work of the Investment Oversight Committees of the Trustees, which meet 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 recognize 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 the 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 continued to discuss 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. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these changes and to evaluate whether additional remedial changes are warranted.

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 High Current Yield Funds (closed-end)) for the one-, three-, and five-year periods ended December 31, 2004 (the first percentile being the best-performing funds and the 100th percentile being the worst-performing funds):

One-year period	Three-year period	Five-year period
56th	40th	40th

(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 December 31, 2004, there were 8, 4, and 4 funds, respectively, in your fund's Lipper peer group.* Past performance is no guarantee of future performance.)

** The percentile rankings for your fund's common share annualized total return performance in the Lipper High Current Yield Funds (closed-end) category for the one-, five-, and ten-year periods ended June 30, 2006, were 29%, 40%, and 40%, respectively. Over the one-, five-, and ten-year periods ended June 30, 2006, the fund ranked 2nd out of 6, 2nd out of 4, and 2nd out of 4 funds, respectively. Note that this more recent information was not available when the Trustees approved the continuance of your fund's management contract.*

As a general matter, the Trustees believe that cooperative efforts between the Trustees and Putnam Management represent the most effective way to address investment performance problems. The Trustees believe 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 believe 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 advisor 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 principally benefits related to brokerage and soft-dollar allocations, whereby a portion of the commissions paid by a fund for brokerage is earmarked to pay for research services that may be utilized by a fund's investment advisor, subject to the obligation to seek best execution. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage, which pertains mainly to funds investing in equity securities, represent assets of the funds that should be used for the benefit of fund shareholders. This area has been marked by significant change in recent years. In July 2003, acting upon the Contract Committee's recommendation, the Trustees directed that allocations of brokerage to reward firms that sell fund shares be discontinued no later than December 31, 2003. In addition, commencing in 2004, the allocation of brokerage commissions by Putnam Management to acquire research services from third-party service providers has been significantly reduced, and continues at a modest level only to acquire research that is customarily not available for cash. The Trustees will continue to monitor the allocation of the funds' brokerage to ensure that the principle of "best price and execution" remains paramount in the portfolio trading process.

The Trustees' annual review of your fund's management contract and administrative services contract also included the review of your fund's custodian and investor servicing agreements with Putnam Fiduciary Trust Company, which provide benefits to affiliates of Putnam Management.

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

23

Trustees observed, in this regard, that the differences in fee rates between institutional clients and the mutual 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 mutual 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 have not relied on such comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

Approval of amended and restated management contract in July 2005

In July 2005, the Trustees, including the Independent Trustees of your fund, approved an amendment to your fund's management contract to take into account investment leverage in calculating management fees. The Trustees, including a majority of the Independent Trustees, have concluded that it would be in the best interest of your fund and its common shareholders to compensate Putnam Management on the basis of its "average weekly assets," rather than its net assets. "Average weekly assets" is defined as the difference (as measured on a weekly basis) between the fund's total assets (including assets attributable to leverage for investment purposes) and its total liabilities (excluding liabilities attributable to leverage for investment purposes). This formulation effectively allows for Putnam Management to receive management fees on leveraged assets. As a fundamental investment restriction prohibits the fund from issuing preferred shares, for all practical purposes the only form of investment leverage available would be borrowing. In the course of their evaluation, the Trustees considered the benefit to your fund from the additional investment management services that Putnam Management would perform in connection with a leveraged investment strategy, as well as the amount of compensation Putnam Management would receive under the proposed fee structure.

The Trustees noted that the amendment would align the fee arrangements for your fund more closely with those of other closed-end Putnam funds that currently engage in leverage for investment purposes. Furthermore, the Trustees were advised by Putnam Management that it is a customary and widespread practice in the closed-end fund industry to structure leveraged products in a manner that compensates advisors for their management of the assets acquired through leverage.

In evaluating the incentives and potential conflicts of interest created by an average weekly assets-based fee, the Trustees considered that the asset coverage restrictions under the 1940 Act, as well as other legal requirements, limit the extent to which a manager can expose a fund to additional risk through leverage. Furthermore, the Trustees considered the advantages of a management fee reduction mechanism that is included in the amended contract, which reduces the management fee dollar for dollar (subject to a specified maximum reduction)

24

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where the costs of carrying investment leverage outweigh the benefits (in terms of net income and short-term capital gains) to common shareholders from managing additional investment assets. In the event that your fund actually engages in leverage, the Trustees will have the opportunity, through regular reports from Putnam Management prepared in connection with the fee reduction mechanism described above, to continue monitoring the conflict of interest between Putnam Management and your fund.

Shareholders of your fund approved the amended and restated management contract at a meeting on December 6, 2005 (which was an adjournment of the fund's annual meeting convened on October 28, 2005).

The Trustees also approved conforming changes to the sub-management contract between Putnam Management and PIL with respect to your fund, to provide for PIL's fee to be calculated on the basis of the fund's average weekly assets. The fee paid under the sub-management contract is paid by Putnam Management and not by your fund. Under the circumstances, the changes to the sub-management contract did not require shareholder approval.

25

Other information for shareholders

Important notice regarding share repurchase program

In October 2005, the Trustees of your fund authorized Putnam Investments to implement a repurchase program on behalf of your fund, which would allow your fund to repurchase up to 5% of its outstanding shares over the 12 months ending October 6, 2006. In March 2006, the Trustees approved an increase in this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period. Pending the outcome of shareholder voting on the proposal to merge the fund with Putnam High Yield Trust, the fund does not currently intend to repurchase shares under this program.

Putnam's policy on confidentiality

In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' addresses, telephone numbers, Social Security numbers, and the names of their financial advisors. We use this information to assign an account number and to help us maintain accurate records of transactions and account balances. It is our policy to protect the confidentiality of your information, whether or not you currently own shares of our funds, and in particular, not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use. Under certain circumstances, we share this information with outside vendors who provide services to us, such as mailing and proxy solicitation. In those cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. We may also share this information with our Putnam affiliates to service your account or provide you with information about other Putnam products or services. It is also our policy to share account information with your financial advisor, if you've listed one on your Putnam account. If you would like clarification about our confidentiality policies or have any questions or concerns, please don't hesitate to contact us at 1-800-225-1581, Monday through Friday, 8:30 a.m. to 7:00 p.m., or Saturdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

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, 2005, 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.

26

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.

27

Financial statements

A guide to financial statements

These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, 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 year.

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.

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.

28