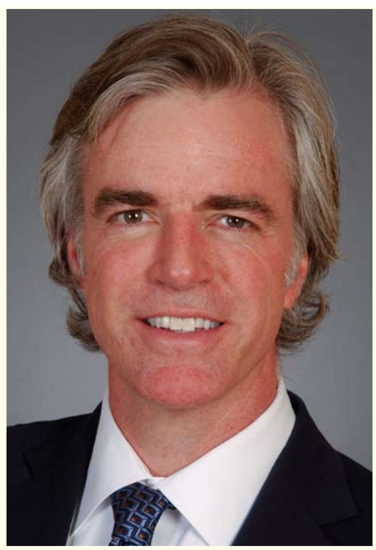
Diversified Absolute Return

Turbulent times often call for innovative moves. In an environment of negative sentiment and investor pessimism at historical levels, Putnam Investments has rolled out a suite of four absolute return funds on the back of the asset manager's expertise in global asset allocation and global fixed income investing. Unlike relative return funds that measure themselves against market indices, Putnam's absolute return funds aim to provide positive returns over time, with less volatility than more traditional funds, whether markets are rising or falling.

What is the investment philosophy behind these new funds?

Putnam's new absolute return funds are a series of four funds so individual investors can select the investment that is right for them. They are designed to generate positive returns despite market conditions. Each fund has a different return target and a proportional risk profile. The targets are set at 1%, 3%, 5% and 7% above Treasury bills. These are long-term investments and are not money market funds. They are not meant to outperform every quarter but are rather designed to have consistent returns. That being said, we are going to invest in securities that we believe will generate positive returns over a long period in line with a very favorable risk adjusted framework.

Relative return funds, which are meant to compete against and add a little value to an index or a peer group, define the current investment industry. Particularly in the aftermath of everything that has transpired in the last two years, our philosophy is to liberate ourselves from those kinds of constraints in order to pursue return in a way that is compatible with different appetites for risks. That is why, it is important that we offer a series or a family of



ROB A. BLOEMKER, Managing Director and Deputy Head of Investments is also Head of Fixed Income. He joined Putnam in 1999 as a Mortgage Specialist, and prior to his current role, served as the Team Leader of Putnam's MBS, ABS, and Government team. Bloemker is a Portfolio Manager of Putnam Absolute Return 100 Fund, Putnam Absolute Return 300 Fund, Putnam U.S. Government Income Trust, Putnam American Government Income Fund, Putnam Income Fund, Putnam Diversified Income Trust, Putnam Global Income Trust, Putnam Premier Income Trust, and Putnam Master Intermediate Income Trust. Bloemker serves on Putnam's Advisory Council and Executive Committee and has been in the investment industry since 1988.

JEFFREY L. KNIGHT, Managing Director and Deputy Head of Investments is also Head of Global Asset Allocation. In this role, he oversees the institutional and individual portfolios and the asset allocation investment process for Putnam's multi-asset-class portfolios. Knight is a Portfolio Manager of Putnam Absolute Return 500 Fund, Putnam Absolute Return 700 Fund, Putnam Asset Allocation Funds (Balanced, Growth, Conservative), Putnam Income Strategies Fund, Putnam RetirementReady Funds, and Putnam CollegeAdvantage Funds. Mr. Knight joined Putnam in 1993 as Vice President and Senior Quantitative Analyst in the Global Asset Allocation Group. A founding member of the team, he was instrumental in the development and implementation of the group's quantitative models and methodologies. He is a CFA charterholder and has been in the investment industry since 1987.

"In short, Putnam's suite of absolute return funds go beyond traditional investment constraints to pursue positive returns with less volatility over time than more traditional funds."

Funds

GLOBAL ASSET CLASSES: 100 & 300	GLOBAL ASSET CLASSES 500 & 700
Sovereign Debt	U.S.,International, and Emerging Market
Investment-grade Corporate Bonds	U.S.,International, and Emerging Market
High-yield Corporate Bonds	TIPS
Structured Credit Securities	High-yield Securities
Convertibles	Currencies
Bank Loans	Commodities
Mortgage-backed Securities	REITs
Asset-backed Securities	
Commercial Mortgage-backed Securities	
Collateralized Mortgage Obligations	

OBJECTIVE
Putnam Absolute Return 100 seeks a positive return that exceeds the rate of inflation, as reflected by T-bills, by 1%
Putnam Absolute Return 300 seeks a positive return that exceeds the rate of inflation, as reflected by T-bills, by 3%
Putnam Absolute Return 500 seeks a positive return that exceeds the rate of inflation, as reflected by T-bills, by 5%
Putnam Absolute Return 700 seeks a positive return that exceeds the rate of inflation, as reflected by T-bills, by 7%

PORTFOLIO MANAGERS 100 & 300		PORTFOLIO MANAGERS 500 & 700	
Rob Bloemker	Michael Salem	Jeffrey Knight	Robert Schoen
Carl Bell	Paul Scanlon	James Fetch	Jason Vaillancourt
D William Kohl	Raman Srivasiaya	Robert Kea	
Kevin Murphy			

funds of such strategies as opposed to a single strategy or a single fund.

In short, Putnam's suite of absolute return funds go beyond traditional investment constraints to pursue positive returns with less volatility over time than more traditional funds.

What level of absolute return are you looking at?

The four funds are Putnam Absolute Return 100, Putnam Absolute Return 300, Putnam Absolute Return 500, and Putnam Absolute Return 700. They seek to provide absolute returns of 1%, 3%, 5% and 7%, respectively, over inflation as measured by T-bills.

The Absolute Return 100 and 300 are our global multi-sector bond funds. We are not tied to benchmark. Our model is not based on trying to beat any one of the popular indexes like the Lehman Aggregate or the High Yield Index, or the Government or Corporate, or a Treasury Index similar to other fixed income mutual funds. Ultimately, we're going to beat the U.S. Treasuries, the official benchmark. Yet, the real goal here is to outperform cash alternatives and deliver positive returns for our shareholders.

We believe that this market has been divided into risks with money markets being the safety valve. Money markets, especially with the government's involvement, are becoming safer and lower in yield. The return for safety has gone down to virtually zero. Alternatively, when you look at the volatility of many of the fixed income sectors, it's hard to find something that doesn't have 10% volatility. Previously, going from money markets to other fixed income funds you might have 3% to 5% volatility. Today, it's really 0% to 10%. We believe that these funds will fit nicely somewhere in the middle.

The Absolute Return 500 and 700 are global asset allocation funds that can invest in a more expanded universe of securities. These funds have higher return targets and higher risk profiles. To pursue these returns, these funds can invest in global bonds, global stocks and alternative asset classes including commodities, REITS and inflation-protected securities.

These funds have the flexibility to go-anywhere in the world

What is the rationale for launching absolute return funds in this market?

By seeking positive returns with less volatility over time than more traditional funds, absolute return funds offer investors the tools to more precisely customize portfolios and help manage volatility no matter what markets do. We've seen not only huge market drops but also historically unprecedented volatility. There has been a wide gap between ultra-safe cash and everything else. That is why there is something close to $12 trillion in cash on the sidelines of the markets today.

At Putnam Investments, we have a team of nearly one hundred fixed income professionals covering nearly every sector of fixed income across the globe. We have people who specialize in government securities and sovereign debt globally. We also have people who specialize in corporate credit throughout the globe. Moreover, we have people who specialize in mortgages and other structured products worldwide. These teams have ideas that we believe represent great value and, when implemented in a sophisticated way, can generate consistent returns over cash.

We think, over full cycles, all sectors of fixed income are available to us and we will be able to shift opportunistically between them. In a situation where you've got your zero risk/zero return on one end of the spectrum and the very volatile issues on the other. We can decide how to combine those two to target a different balance of tradeoffs.

As we step out the product line to the absolute return 500 and 700, the universe of investable securities expands, and the management responsibility shifts. Our global asset allocation team has the flexibility to utilize additional asset classes and strategies to address market volatility and provide positive returns for our shareholders.

It is important to note that we are going to look for opportunities that provide positive returns and not to keep up with any Index. It is our responsibility to look across that universe of securities and find ways to consistently make money for our shareholders regardless of what is happening in the markets.

Can you describe the structure of Putnam Absolute Return 100 and 300 funds and the portfolio construction process?

The products are fairly broad. They're designed to be flexible, dynamic, and ready to take advantage of a shifting opportunity set, moving from one sector to next, from one type of strategy to another. That is essential for long term performance that is absolute return in nature.

Unlike funds tied to a narrow investment universe, the Putnam Absolute Return 100 and Putnam Absolute Return 300 can invest across global fixed-income sectors and can adjust the mix of securities as opportunities change. The main risks in fixed income are interest rate risks. When you buy a bond fund, you typically have between 4% and 5% risk of your investment, annual volatility, related to interest rate movements. Many bond funds will have spread risks on top of that. A government fund has very little risk, a typical income fund has a growing amount, and a high yield fund has the highest risk.

Two primary risks in fixed income at a macro level are interest rate risks and spread risks. These funds are not going to have a static amount of either or else they would look like a benchmark. There are times when it is opportune and advantageous to have duration in the portfolio where you are locking in interest rates for what might be one, two or three years. We will do that at times.

There are also times, and we think now is one of those, when fixed income spread products—corporate bonds and mortgages—represent attractive value. We will use some of those as well. Depending on what type we use and what type of environment it is, we use different amounts.

And what is the structure of Putnam Absolute Return 500 and 700 funds and your portfolio construction process for these funds?

Putnam's targeted absolute return funds have more flexibility than traditional funds that invest in stock and bond benchmarks. We can invest anywhere in the world and can adjust the portfolio dynamically as opportunities and risks change. The Global Asset Allocation team is currently focused on capital preservation and respecting the deleveraging that is still taking place. Cash is a perfectly viable investment within these strategies as well. The cash balances with these strategies are used partially to stabilize the variability in an environment of high volatility, but also partially to preserve our ability to invest in the opportunities that we expect to emerge in the next two years as we gain some clarity on how this cycle plays out.

Within equities, the important thing to point out is that we do not have to invest like the market. We don't have to create a portfolio that looks like the S&P 500 with some small overweights and underweights.

We can think about our investments themematically. For example, an intriguing theme we think for 2009 is where the proceeds of the President Obama stimulus plan will be deployed. It's likely that we'll see a significant amount of infrastructure and alternative energy spending, so we might own companies that would benefit from that in those areas as standalone investments and without any regard necessarily for whether that tracks the stock market well or poorly. We might think about this on a regional scale and rather than competing against the Morgan Stanley World Stock Market Index, we might find that companies in Japan that serve the domestic market and have been depressed by this circumstance are trading substantially below their intrinsic value. We might also think about our investments in terms of characteristics where, at the end of a bear market, there are always opportunities created with solid self-financing companies that are cheap and themselves offer a buffer in the form of dividend polices. It doesn't matter if those happen to track well or poorly with the overall stock market, but there could be equity opportunities that come up.

Our starting equity allocation aggregate is likely to be low. We think the vulnerability of the stock market, to a deepening recession and to a dysfunctional credit system, is very high. Thus, we will not start out with a terrifically high allocation to equities, but we will organize our research and investment decisions differently for these funds than we might for more benchmark sensitive funds.

For commodities, we have the constraints that a 40-Act fund operates under with respect to commodity investments. What is permitted is indexed-linked notes. We can't, for example, go out and buy gold bullion.

We cannot even invest in individual commodities by themselves, but we can invest in notes. There is a fair degree of flexibility in how we construct this portion of the portfolio.

Today, in our commodity investments, we would emphasize the precious metals complex over the energy complex because the technicals in the energy markets are very unfavorable for financial investors. Contango, in oil, for example, creates an adverse hurdle rate where the spot price has to rise substantially to make money on one of these notes. Given the economic environment and happening with demand, for an absolute return opportunity, we don't think that's a particularly compelling one in the near term. Therefore, our initial commodity investments are likely to be focused more on stored value themes than on demand led themes to the extent that we can reflect that in a customized commodity index. However, because of the demand size the representation of commodities and strategies right off the bat is likely to be quite low. We are looking for moneymaking opportunities and although we're permitted to invest in commodities, it doesn't mean that we have to.

We still are in a period of high-implied volatilities, which creates an opportunity to generate returns through, for example, selling upside. We could buy a stock, sell a call option on that stock, and generate a package that has a high positive carry, which could withstand even some downside pressure on the price. If we are selective in how we do that, it is a way to further bolster the absolute return properties of our strategies now. We will exploit that unique aspect in today's environment at the outset.

You explained various classes of assets that you could choose from in the 500 and 700 funds, your views and how your picks may change with time. Can currency and real estate become part of your investment mix?

Currency can be used in two ways and we will incorporate the currency process in two ways. One is the example I gave with buying Japanese stocks. That in itself comes with yen exposure. We will make an affirmative decision on whether to keep or to hedge that yen exposure that comes automatically with our non-U.S. investments. Separately, we have the ability and the flexibility to make outright investment decisions on currencies even though we may not have investments in those countries.

Real estate is the heart of the storm right now. We would invest potentially in REITs, which, as a category, are certainly available to us. There are some current yields in the REIT area that may appear to be very attractive, but obviously, the turmoil in real estate is very dynamic. Deleveraging and a still intensifying real estate crisis does not make them attractive investment for us at this stage.

Can you talk about your risk controls?

These funds use a wide range of investment tools to purse positive returns over time. They mix traditional and modern investments, as well as conventional security selection, with more advanced active strategies. Each fund has the ability to use modern investment tools to gain or enhance exposure to specific markets, to fine tune portfolio strategies, and to eliminate unwanted market risk. These funds combine investments in a range of securities that have low performance correlation which can help to reduce portfolio volatility.

Putnam Absolute Return Funds:

Putnam Absolute Return 100 Fund A-Share
Putnam Absolute Return 300 Fund A-Share
Putnam Absolute Return 500 Fund A-Share
Putnam Absolute Return 700 Fund A-Share

Symbol	**PARTX, PTRNX, PJMDX, PDMAX**
Website	www.putnam.com
Address	Putnam 1 Post Office Square Boston, MA 02109
Telephone	1-800-225-1581
Inception	January 2009

INVESTMENT INFORMATION	
New Investment	$0.00
Min Initial IRA Investment	$0.00

ANNUALIZED TTL RETURNS OF THE ML U.S. TREASURY BILL IX*	
1 Year	2.45%
3 Years	4.08%
5 Years	3.31%
10 Years	3.46%

FEES AND EXPENSES	100 & 300
Max Sales Charge - Front	3.25%
Max Sales Charge - Deferred**	None
Max Redemption Fee	1.00%
Base Mgmt Fee	0.55 & 0.65
Total Expense Ratio***	1.25 & 1.35
Max Perfom. Fee Adjust****	+/-0.04 & +/-0.12

FEES AND EXPENSES	500 & 700
Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred**	None
Max Redemption Fee	1.00%
Base Mgmt Fee	0.80 & 0.95
Total Expense Ratio***	1.50 & 1.65
Max Perfom. Fee Adjust****	+/-0.20 & +/-0.28

**as of 12/31/2008 **A deferred sales charge of 1.00% on class A shares may be imposed on certain redemptions of shares bought without an initial sales charge ***Expense estimates are class A shares in the first year of fund operations ****The management fees can adjust based on fund performance. - The adjustment is equal to 4% of the outperformance of the return target*

Source: Company Documents; Lipper

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