

PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form DEF 14A
January 26, 2010

SCHEDULE 14A INFORMATION

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

Filed by the Registrant / X /

Filed by a party other than the Registrant //

Check the appropriate box:

// Preliminary Proxy Statement

// Confidential, for Use of the Commission Only (as permitted by Rule
14a-6(e) (2))

/ X / Definitive Proxy Statement

// Definitive Additional Materials

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PUTNAM MUNICIPAL OPPORTUNITIES TRUST

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement,
if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

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A Message from the Chairman

Putnam Municipal Opportunities Trust

January 25, 2010

Dear Fellow Shareholder:

The matters to be considered at your fund's shareholder meeting include the election of Trustees and a shareholder proposal urging consideration of the conversion of the fund to an open-end fund. This shareholder proposal was submitted by an institutional investor which specializes in taking positions in closed-end funds when discounts are large and then seeking short-term profits by pressing for conversion of such funds to open-end form or other liquidity events. We do not believe that the interests of this investor are aligned with those of other long-term investors of the fund and therefore recommend a vote against this proposal.

The Trustees of your fund are mindful that, under certain circumstances, it might be appropriate to convert the fund to an open-end fund. In mid-2008, faced with potentially uneconomic costs of leverage and a large discount in the trading price of your fund's common shares, we concluded that such a conversion, in the form of a merger with another open-end Putnam Fund, would be in the best interests of shareholders. However, as we began the process of implementing the merger, the collapse of the financial markets fundamentally changed the circumstances that had led to our initial decision. The Federal Reserve slashed short-term interest rates, which significantly reduced the cost of leverage to the fund and increased the incremental income produced by the fund's leverage. At the same time, liquidity in the trading markets for the fund's portfolio securities declined significantly, which increased the potential costs of selling

1 Proxy Statement

portfolio securities in order to raise the cash needed to complete the merger. In light of these changed conditions, the Trustees decided in January 2009 to put the merger on hold and in June 2009 to suspend the merger indefinitely.

The wisdom of these decisions has been confirmed by subsequent events. For the year ended December 31, 2009, your fund achieved a total return of 33.88% at net asset value, compared with the 17.94% return of the shares of the open-end Putnam Fund which you would have received in the merger. At the same time, the trading discount in the common shares of your fund has declined from an average of -10.88% in the third quarter of 2008 (when the merger was first approved by the Trustees) to an average of -5.64% in the final quarter of 2009.

After careful consideration of current market conditions, the Trustees of your fund have concluded that the current closed-end structure continues to provide benefits to shareholders that are not available under an open-end structure. We will periodically review this conclusion as market conditions change. We urge you to vote in favor of re-electing the current Trustees and to vote against the shareholder proposal.

Sincerely,

John A. Hill, Chairman
Board of Trustees
The Putnam Funds

Proxy Statement 2

Table of contents

Notice of Annual Meeting of Shareholders	4
<hr/>	
Trustees' Recommendations	5
<hr/>	
The Proposals	6
<hr/>	
Proposal 1	6
<hr/>	
Proposal 2	23
<hr/>	
Further Information About Voting and the Meeting	36
<hr/>	
Fund Information	40
<hr/>	

PROXY CARD(S) ENCLOSED

If you have any questions, please contact us at 1-800-780-7316 or call your financial advisor.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on April 8, 2010.

The proxy statement is available at <https://www.proxyonline.com>.

3 Proxy Statement

Notice of Annual Meeting of Shareholders

To the Shareholders of Putnam Municipal Opportunities Trust:

This is the formal agenda for your fund's shareholder meeting. It tells you what proposals will be voted on and the time and place of the meeting, in the event you attend in person.

The Annual Meeting of Shareholders of your fund will be held on April 8, 2010 at 11:00 a.m., Boston time, at the principal offices of the fund on the 8th floor of One Post Office Square, Boston, Massachusetts 02109, to consider the following proposals:

- 1. Fixing the number of Trustees at 14 and electing your fund's nominees for Trustees. See page 6.**
- 2. Shareholder proposal recommending that the Trustees consider converting the fund to open-end format. See page 23.**

By Judith Cohen, Clerk, and by the Trustees

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

In order for you to be represented at your fund's shareholder meeting, we urge you to record your voting instructions via the Internet or by telephone or to mark, sign, date, and mail the enclosed proxy card(s) in the postage-paid envelope provided.

January 25, 2010

Proxy Statement 4

Proxy Statement

This document will give you the information you need to vote on the proposals. Much of the information is required under rules of the Securities and Exchange Commission (SEC); some of it is technical. If there is anything you don't understand, please contact us at our toll-free number, 1-800-780-7316, or call your financial advisor.

Who is asking for your vote?

Your vote is being solicited by the Trustees of Putnam Municipal Opportunities Trust for use at the Annual Meeting of Shareholders of the fund to be held on April 8, 2010, and, if your fund's meeting is adjourned, at any later meetings, for the purpose stated in the Notice of Annual Meeting of Shareholders (see page 4). The Notice of Annual Meeting of Shareholders, the enclosed proxy card(s) and this proxy statement are being mailed on or about January 25, 2010.

How do your fund's Trustees recommend that shareholders vote on these proposals?

The Trustees recommend that you vote

- 1. FOR fixing the number of Trustees at 14 and electing your fund's nominees for Trustees.**
- 2. AGAINST the shareholder proposal recommending that the Trustees consider converting the fund to open-end format.**

Who is eligible to vote?

Shareholders of record at the close of business on January 11, 2010 (the "Record Date") are entitled to be present and to vote at the meeting or any adjourned meeting.

Each share is entitled to one vote. Unless otherwise noted, the holders of your fund's preferred shares and holders of your fund's common shares will vote as separate classes. Shares represented by a duly executed proxy will be

voted in accordance with your instructions. If a duly executed proxy is submitted without filling in a vote on a proposal, your shares will be voted in accordance with the Trustees' recommendation. If any other matters properly come before the meeting, your shares will be voted on such matters in accordance with the judgment of the persons designated on the enclosed proxy card(s).

5 Proxy Statement

The Proposals

1. ELECTION OF TRUSTEES

Who are the nominees for Trustees?

The Board Policy and Nominating Committee of the Trustees of the fund makes recommendations concerning the nominees for Trustees of your fund. The Board Policy and Nominating Committee consists solely of Trustees who are not "interested persons" (as defined in the Investment Company Act of 1940, as amended, the "1940 Act") of your fund or of Putnam Investment Management, LLC, your fund's investment manager ("Putnam Management"). Those Trustees who are not "interested persons" of your fund or Putnam Management are referred to as "Independent Trustees" throughout this proxy statement.

The Board of Trustees, based on the recommendation of the Board Policy and Nominating Committee, has fixed the number of Trustees of your fund at 14 and recommends that you vote for the election of the nominees described in the following pages. Each nominee is currently a Trustee of your fund and of the other Putnam funds.

Pursuant to the bylaws of your fund and the 1940 Act, holders of the preferred shares of your fund, voting as a class, are entitled to elect two nominees for Trustees. The holders of the preferred shares and the common shares of your fund, voting together as a single class, are entitled to vote for the remaining 12 of the 14 nominees. Therefore, Messrs. Hill and Patterson have been nominated to be elected as Trustees by the holders of the preferred shares, while the other 12 nominees have been nominated to be elected by the holders of the preferred shares and common shares voting together as a single class.

The nominees for Trustees and their backgrounds are shown in the following pages. This information includes each nominee's name, year of birth, principal occupation(s) during the past 5 years, and other information about the nominee's professional background, including other directorships the nominee holds. The address of all of the Trustees is One Post Office Square, Boston, Massachusetts 02109. At December 31, 2009, there were 104 Putnam funds.

Independent Trustees

Ravi Akhoury (Born 1947)

Trustee since 2009

Mr. Akhoury serves as Advisor to New York Life Insurance Company. He is also a Director of Jacob Ballas Capital India (a non-banking finance company focused on private equity advisory services) and

Proxy Statement 6

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is a member of its Compensation Committee. He also serves as a Trustee of American India Foundation and of the Rubin Museum.

Previously, Mr. Akhoury was a Director and on the Compensation Committee of MaxIndia/New York Life Insurance Company in India. He was also Vice President and Investment Policy Committee member of Fischer, Francis, Trees and Watts (a fixed-income portfolio management firm). He has also served on the Board of Bharti Telecom (an Indian telecommunications company), serving as a member of its Audit and Compensation Committee, and as a member of the Audit Committee on the Board of Thompson Press (a publishing company). From 1992 to 2007, he was Chairman and CEO of MacKay Shields, a multi-product investment management firm with over \$40 billion in assets under management.

Mr. Akhoury graduated from the Indian Institute of Technology with a B.S. in Engineering and obtained an M.S. in Quantitative Methods from SUNY at Stony Brook.

Jameson A. Baxter (Born 1943)

Trustee since 1994 and Vice Chairman since 2005

Ms. Baxter is the President of Baxter Associates, Inc., a private investment firm.

Ms. Baxter serves as a Director of ASHTA Chemicals, Inc., and the Mutual Fund Directors Forum. Until 2007, she was a Director of Banta Corporation (a printing and supply chain management company), Ryerson, Inc. (a metals service corporation), and Advocate Health Care. Until 2004, she was a Director of BoardSource (formerly the National Center for Nonprofit Boards), and until 2002, she was a Director of Intermatic Corporation (a manufacturer of energy control products). She is Chairman Emeritus of the Board of Trustees of Mount Holyoke College, having served as Chairman for five years.

Ms. Baxter has held various positions in investment banking and corporate finance, including Vice President of and Consultant to First Boston Corporation and Vice President and Principal of the Regency Group. She is a graduate of Mount Holyoke College.

Charles B. Curtis (Born 1940)

Trustee since 2001

Mr. Curtis is President Emeritus of the Nuclear Threat Initiative (a private foundation dealing with national security issues), and serves as Senior Advisor to the United Nations Foundation and as Senior Advisor to the Center for Strategic and International Studies.

7 Proxy Statement

Mr. Curtis is a member of the Council on Foreign Relations and the National Petroleum Council. He also serves as Director of Edison International and Southern California Edison. Until 2006, Mr. Curtis served as a member of the Trustee Advisory Council of the Applied Physics Laboratory, Johns Hopkins University.

From August 1997 to December 1999, Mr. Curtis was a Partner at Hogan & Hartson LLP, an international law firm headquartered in Washington, D.C. Prior to May 1997, Mr. Curtis was Deputy Secretary of Energy and Under Secretary of the U.S. Department of Energy. He was a founding member of the law firm Van Ness Feldman. Mr. Curtis served as Chairman of the Federal Energy Regulatory Commission from 1977 to 1981 and has held positions on the staff of the U.S. House of Representatives, the U.S. Treasury Department, and the Securities and

Exchange Commission.

Robert J. Darretta (Born 1946)

Trustee since 2007

Mr. Darretta serves as Director of United-Health Group, a diversified health-care company.

Until April 2007, Mr. Darretta was Vice Chairman of the Board of Directors of Johnson & Johnson, one of the world's largest and most broadly based health-care companies. Prior to 2007, he had responsibility for Johnson & Johnson's finance, investor relations, information technology, and procurement function. He served as Johnson & Johnson Chief Financial Officer for a decade, prior to which he spent two years as Treasurer of the corporation and over ten years leading various Johnson & Johnson operating companies.

Mr. Darretta received a B.S. in Economics from Villanova University.

Myra R. Drucker (Born 1948)

Trustee since 2004

Ms. Drucker is Chair of the Board of Trustees of Commonfund (a not-for-profit firm managing assets for educational endowments and foundations), Vice Chair of the Board of Trustees of Sarah Lawrence College, and a member of the Investment Committee of the Kresge Foundation (a charitable trust). She is also a Director of Interactive Data Corporation (a provider of financial market data and analytics to financial institutions and investors).

Ms. Drucker is an ex-officio member of the New York Stock Exchange Pension Managers Advisory Committee, having served as Chair for seven years. She serves as an advisor to RCM Capital Management (an investment management firm) and to the Employee Benefits Investment Committee of The Boeing Company (an aerospace firm).

Proxy Statement 8

From November 2001 until August 2004, Ms. Drucker was Managing Director and a member of the Board of Directors of General Motors Asset Management and Chief Investment Officer of General Motors Trust Bank. From December 1992 to November 2001, Ms. Drucker served as Chief Investment Officer of Xerox Corporation (a document company). Prior to December 1992, Ms. Drucker was Staff Vice President and Director of Trust Investments for International Paper (a paper and packaging company).

Ms. Drucker received a B.A. degree in Literature and Psychology from Sarah Lawrence College and pursued graduate studies in economics, statistics, and portfolio theory at Temple University.

John A. Hill (Born 1942)

Trustee since 1985 and Chairman since 2000

Mr. Hill is founder and Vice-Chairman of First Reserve Corporation, the leading private equity buyout firm specializing in the worldwide energy industry, with offices in Greenwich, Connecticut; Houston, Texas; London, England; and Shanghai, China. The firm's investments on behalf of some of the nation's largest pension and endowment funds are currently concentrated in 31 companies with annual revenues in excess of \$15 billion, which

employ over 100,000 people in 23 countries.

Mr. Hill is a Director of Devon Energy Corporation and various private companies owned by First Reserve, and serves as a Trustee of Sarah Lawrence College where he serves as Chairman and also chairs the Investment Committee. He is also a member of the Advisory Board of the Millstein Center for Corporate Governance and Performance at the Yale School of Management.

Prior to forming First Reserve in 1983, Mr. Hill served as President of F. Eberstadt and Company, an investment banking and investment management firm. Between 1969 and 1976, Mr. Hill held various senior positions in Washington, D.C. with the federal government, including Deputy Associate Director of the Office of Management and Budget and Deputy Administrator of the Federal Energy Administration during the Ford Administration.

Born and raised in Midland, Texas, he received his B.A. in Economics from Southern Methodist University and pursued graduate studies as a Woodrow Wilson Fellow.

Paul L. Joskow (Born 1947)

Trustee since 1997

Dr. Joskow is an economist and President of the Alfred P. Sloan Foundation (a philanthropic institution focused primarily on research and education on issues related to science, technology, and economic performance). He is on leave from his position as the Elizabeth and James Killian Professor of Economics and Management at the Massachusetts Institute

9 Proxy Statement

of Technology (MIT), where he has been on the faculty since 1972. Dr. Joskow was the Director of the Center for Energy and Environmental Policy Research at MIT from 1999 through 2007.

Dr. Joskow serves as a Trustee of Yale University, as a Director of TransCanada Corporation (an energy company focused on natural gas transmission and power services) and of Exelon Corporation (an energy company focused on power services), and as a member of the Board of Overseers of the Boston Symphony Orchestra. Prior to August 2007, he served as a Director of National Grid (a UK-based holding company with interests in electric and gas transmission and distribution and telecommunications infrastructure). Prior to July 2006, he served as President of the Yale University Council. Prior to February 2005, he served on the board of the Whitehead Institute for Biomedical Research (a non-profit research institution). Prior to February 2002, he was a Director of State Farm Indemnity Company (an automobile insurance company), and prior to March 2000, he was a Director of New England Electric System (a public utility holding company).

Dr. Joskow has published six books and numerous articles on industrial organization, government regulation of industry, and competition policy. He is active in industry restructuring, environmental, energy, competition, and privatization policies □ serving as an advisor to governments and corporations worldwide. Dr. Joskow holds a Ph.D. and M.Phil. from Yale University and a B.A. from Cornell University.

Elizabeth T. Kennan (Born 1938)

Trustee since 1992

Dr. Kennan is a Partner of Cambus-Kenneth Farm (thoroughbred horse and cattle breeding). She is President Emeritus of Mount Holyoke College.

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Dr. Kennan served as Chairman and is now Lead Director of Northeast Utilities. She is a Trustee of the National Trust for Historic Preservation and of Centre College. Until 2006, she was a member of The Trustees of Reservations. Prior to 2001, Dr. Kennan served on the oversight committee of the Folger Shakespeare Library. Prior to June 2005, she was a Director of Talbots, Inc., and she has served as Director on a number of other boards, including Bell Atlantic, Chastain Real Estate, Shawmut Bank, Berkshire Life Insurance, and Kentucky Home Life Insurance. Dr. Kennan has also served as President of Five Colleges Incorporated and as a Trustee of the University of Notre Dame, and is active in various educational and civic associations.

As a member of the faculty of Catholic University for twelve years, until 1978, Dr. Kennan directed the post-doctoral program in Patristic and Medieval Studies, taught history, and published numerous articles and two books. Dr. Kennan holds a Ph.D. from the University of Washington in Seattle, an M.A. from Oxford University, and an A.B. from Mount Holyoke College. She holds several honorary doctorates.

Proxy Statement 10

Kenneth R. Leibler (Born 1949)

Trustee since 2006

Mr. Leibler is a founder and former Chairman of the Boston Options Exchange, an electronic marketplace for the trading of derivative securities.

Mr. Leibler currently serves as a Trustee of Beth Israel Deaconess Hospital in Boston. He is also Lead Director of Ruder Finn Group, a global communications and advertising firm, and a Director of Northeast Utilities, which operates New England's largest energy delivery system. Prior to December 2006, he served as a Director of the Optimum Funds group. Prior to October 2006, he served as a Director of ISO New England, the organization responsible for the operation of the electric generation system in the New England states. Prior to 2000, Mr. Leibler was a Director of the Investment Company Institute in Washington, D.C.

Prior to January 2005, Mr. Leibler served as Chairman and Chief Executive Officer of the Boston Stock Exchange. Prior to January 2000, he served as President and Chief Executive Officer of Liberty Financial Companies, a publicly traded diversified asset management organization. Prior to June 1990, Mr. Leibler served as President and Chief Operating Officer of the American Stock Exchange (AMEX), and at the time was the youngest person in AMEX history to hold the title of President. Prior to serving as AMEX President, he held the position of Chief Financial Officer, and headed its management and marketing operations. Mr. Leibler graduated with a degree in Economics from Syracuse University.

Robert E. Patterson (Born 1945)

Trustee since 1984

Mr. Patterson is Senior Partner of Cabot Properties, LP and Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate).

Mr. Patterson serves as Chairman Emeritus and Trustee of the Joslin Diabetes Center. Prior to June 2003, he was a Trustee of the Sea Education Association. Prior to December 2001, Mr. Patterson was President and Trustee of Cabot Industrial Trust (a publicly traded real estate investment trust). Prior to February 1998, he was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership (a registered investment adviser involved in institutional real estate investments). Prior to 1990, he served as Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (the predecessor company of Cabot Partners).

Mr. Patterson practiced law and held various positions in state government, and was the founding Executive Director of the Massachusetts Industrial Finance Agency. Mr. Patterson is a graduate of Harvard College and

Harvard Law School.

11 Proxy Statement

George Putnam, III (Born 1951)

Trustee since 1984

Mr. Putnam is Chairman of New Generation Research, Inc. (a publisher of financial advisory and other research services), and President of New Generation Advisors, LLC (a registered investment adviser to private funds). Mr. Putnam founded the New Generation companies in 1986.

Mr. Putnam is a Director of The Boston Family Office, LLC (a registered investment adviser). He is a Trustee of St. Mark's School, a Trustee of Epiphany School and a Trustee of the Marine Biological Laboratory in Woods Hole, Massachusetts. Until 2006, he was a Trustee of Shore Country Day School, and until 2002, was a Trustee of the Sea Education Association.

Mr. Putnam previously worked as an attorney with the law firm of Dechert LLP (formerly known as Dechert Price & Rhoads) in Philadelphia. He is a graduate of Harvard College, Harvard Business School, and Harvard Law School.

W. Thomas Stephens (Born 1942)

Trustee since 2009

Mr. Stephens retired as Chairman and Chief Executive Officer of Boise Cascade, L.L.C. (a paper, forest products and timberland assets company) in December 2008.

Mr. Stephens is a Director of TransCanada Pipelines, Ltd. (an energy infrastructure company). From 1997 to 2008, Mr. Stephens served as a Trustee on the Board of the Putnam Funds, which he rejoined as a Trustee in 2009. Until 2004, Mr. Stephens was a Director of Xcel Energy Incorporated (a public utility company), Qwest Communications and Norske Canada, Inc. (a paper manufacturer). Until 2003, Mr. Stephens was a Director of Mail-Well, Inc. (a diversified printing company). He served as Chairman of Mail-Well until 2001 and as CEO of MacMillan-Bloedel, Ltd. (a forest products company) until 1999.

Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville Corporation. He holds B.S. and M.S. degrees from the University of Arkansas.

Proxy Statement 12

Richard B. Worley (Born 1945)

Trustee since 2004

Mr. Worley is Managing Partner of Permit Capital LLC, an investment management firm.

Mr. Worley serves as a Trustee of the University of Pennsylvania Medical Center, The Robert Wood Johnson Foundation (a philanthropic organization devoted to health-care issues), and the National Constitution Center. He is

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also a Director of The Colonial Williamsburg Foundation (a historical preservation organization), and the Philadelphia Orchestra Association. Mr. Worley also serves on the investment committees of Mount Holyoke College and World Wildlife Fund (a wildlife conservation organization).

Prior to joining Permit Capital LLC in 2002, Mr. Worley served as President, Chief Executive Officer, and Chief Investment Officer of Morgan Stanley Dean Witter Investment Management and as a Managing Director of Morgan Stanley, a financial services firm. Mr. Worley also was the Chairman of Miller Anderson & Sherrerd, an investment management firm that was acquired by Morgan Stanley in 1996.

Mr. Worley holds a B.S. degree from the University of Tennessee and pursued graduate studies in economics at the University of Texas.

Interested Trustee

Robert L. Reynolds* (Born 1952)

Trustee since 2008 and President of the Putnam Funds since July 2009

Mr. Reynolds is President and Chief Executive Officer of Putnam Investments, a member of Putnam Investments' Executive Board of Directors, and President of the Putnam Funds. He has more than 30 years of investment and financial services experience.

Prior to joining Putnam Investments in 2008, Mr. Reynolds was Vice Chairman and Chief Operating Officer of Fidelity Investments from 2000 to 2007. During this time, he served on the Board of Directors for FMR Corporation, Fidelity Investments Insurance Ltd., Fidelity Investments Canada Ltd., and Fidelity Management Trust Company. He was also a Trustee of the Fidelity Family of Funds. From 1984 to 2000, Mr. Reynolds served in a number of increasingly responsible leadership roles at Fidelity.

Mr. Reynolds serves on several not-for-profit boards, including those of the West Virginia University Foundation, Concord Museum, Dana-Farber Cancer Institute, Lahey Clinic, and Initiative for a Competitive Inner City in Boston. He is a member of the Chief Executives Club of Boston, the National Innovation Initiative, and the Council on Competitiveness.

13 Proxy Statement

Mr. Reynolds received a B.S. in Business Administration/Finance from West Virginia University.

* Nominee who is an "interested person" of the fund, Putnam Management and/or Putnam Retail Management Limited Partnership ("Putnam Retail Management"). Mr. Reynolds is deemed an "interested person" by virtue of his position as an officer of the fund, Putnam Management and/or Putnam Retail Management. Mr. Reynolds is the President and Chief Executive Officer of Putnam Investments and the President of the Putnam Funds.

All of the nominees, except for Messrs. Akhoury, Reynolds and Stephens, were elected by shareholders of the fund on May 8, 2008. The 12 nominees for election as Trustees by the holders of common and preferred shares, voting as a single class, who receive the greatest number of votes from the preferred and common shareholders will be elected as Trustees of your fund. In addition, the two nominees for election as Trustees by the preferred shareholders, voting as a class, who receive the greatest number of votes from the preferred shareholders will be elected as Trustees of your fund.

Each of the nominees has agreed to serve as a Trustee, if elected. If any of the nominees is unavailable for election at the time of the meeting, which is not anticipated, the Trustees may vote for other nominees at their discretion, or the Trustees may fix the number of Trustees at fewer than 14 for your fund. Each Trustee serves until the

election and qualification of his or her successor, or until he or she sooner dies, resigns, retires or is removed.

What are the Trustees' responsibilities?

Your fund's Trustees are responsible for the general oversight of your fund's affairs and for assuring that your fund is managed in the best interests of its shareholders. The Trustees regularly review your fund's investment performance as well as the quality of other services provided to your fund and its shareholders by Putnam Management and its affiliates, including administration and shareholder servicing. At least annually, the Trustees review and evaluate the fees and operating expenses paid by your fund for these services and negotiate changes that they deem appropriate. In carrying out these responsibilities, the Trustees are assisted by an independent administrative staff and by your fund's auditors, independent counsel and other experts as appropriate, selected by and responsible to the Trustees.

Consistent with the 1940 Act and SEC rules, more than 75% of the trustees of your fund are Independent Trustees. These Independent Trustees must vote separately to approve all financial arrangements and other agreements with your fund's investment manager and other affiliated parties. The role of independent trustees has been characterized as that of a "watchdog" charged with oversight to protect shareholders' interests against overreaching and abuse by those who are in a position to control or influence a fund. Your fund's Independent Trustees meet regularly as a

Proxy Statement 14

group in executive session. Thirteen of the 14 nominees for election as Trustee are now, and would be, if elected, Independent Trustees.

Board committees. Your fund's Trustees have determined that the efficient conduct of your fund's affairs makes it desirable to delegate responsibility for certain specific matters to committees of the board. Certain committees (the Executive Committee, Distributions Committee, and Audit and Compliance Committee) are authorized to act for the Trustees as specified in their charters. The other committees review and evaluate matters specified in their charters and make recommendations to the Trustees as they deem appropriate. Each committee may utilize the resources of your fund's independent staff, counsel and auditors as well as other experts. The committees meet as often as necessary, either in conjunction with regular meetings of the Trustees or otherwise. The membership and chairperson of each committee are appointed by the Trustees upon recommendation of the Board Policy and Nominating Committee.

Audit and Compliance Committee. The Audit and Compliance Committee provides oversight on matters relating to the preparation of the fund's financial statements, compliance matters, internal audit functions, and Codes of Ethics issues. This oversight is discharged by regularly meeting with management and the fund's independent auditors and keeping current on industry developments. Duties of this Committee also include the review and evaluation of all matters and relationships pertaining to the fund's independent auditors, including their independence. Information about the fees billed to the fund by the fund's independent auditors, as well as information about the Committee's pre-approval policies relating to the work performed by the fund's independent auditors, is included on pages 40 and 41 of this proxy statement. The members of the Committee include only Independent Trustees. Each member of the Committee also is "independent", as such term is interpreted for purposes of Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the listing standards of the New York Stock Exchange. The Board of Trustees has adopted a written charter for the Committee, a current copy of which is available at putnam.com/individual. The Committee currently consists of Messrs. Patterson (Chairperson), Darretta, Hill, Leibler, Stephens and Ms. Drucker.

Board Policy and Nominating Committee. The Board Policy and Nominating Committee reviews policy matters pertaining to the operations of the Board of Trustees and its committees, the compensation of the Trustees and their staff, and the conduct of legal affairs for the Putnam funds. The Committee also oversees the voting of proxies associated with portfolio investments of the Putnam funds, with the goal of ensuring that these proxies are voted in the best interest of the fund's shareholders.

The Committee evaluates and recommends all candidates for election as Trustees and recommends the appointment of members and chairs of each board committee. The Committee also identifies prospective nominees for election as

15 Proxy Statement

trustee by considering individuals that come to its attention through the recommendation of current Trustees, Putnam Management or shareholders. Candidates properly submitted by shareholders (as described below) will be considered and evaluated on the same basis as candidates recommended by other sources. The Committee may, but is not required to, engage a third-party professional search firm to assist it in identifying and evaluating potential nominees.

When evaluating a potential candidate for membership on the Board of Trustees, the Committee considers the skills and characteristics that it determines would most benefit the Putnam funds at the time the evaluation is made. The Committee may take into account a wide variety of attributes in considering potential trustee candidates, including, but not limited to: (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities to the Board of Trustees, (ii) other board experience, (iii) relevant industry and related experience, (iv) educational background, (v) financial expertise, (vi) an assessment of the candidate's ability, judgment and expertise, (vii) an assessment of the perceived needs of the Board of Trustees and its committees at that point in time and (viii) overall Board of Trustees composition. In connection with this evaluation, the Committee will determine whether to interview prospective nominees, and, if warranted, one or more members of the Committee, and other Trustees and representatives of the funds, as appropriate, will interview prospective nominees in person or by telephone. Once this evaluation is completed, the Committee recommends such candidates as it determines appropriate to the Independent Trustees for nomination, and the Independent Trustees select the nominees after considering the recommendation of the Committee.

The Committee will consider nominees for trustee recommended by shareholders of your fund provided shareholders submit their recommendations by the date disclosed in the paragraph entitled "Date for receipt of shareholders' proposals for the next annual meeting" in the section "Further Information About Voting and the Meeting," and provided the shareholders' recommendations otherwise comply with applicable securities laws, including Rule 14a-8 under the Exchange Act.

The Committee consists only of Independent Trustees. The Trustees have adopted a written charter for the Board Policy and Nominating Committee, a current copy of which is available at putnam.com/individual. The Board Policy and Nominating Committee currently consists of Dr. Kennan (Chairperson), Ms. Baxter and Messrs. Hill, Patterson and Putnam.

Brokerage Committee. The Brokerage Committee reviews the Putnam funds' policies regarding the execution of portfolio trades and Putnam Management's practices and procedures relating to the implementation of those policies. The Committee reviews periodic reports on the cost and quality of execution of portfolio transactions and the extent to which brokerage commissions have been used (i) by

Putnam Management to obtain brokerage and research services generally useful to it in managing the portfolios of the funds and of its other clients, and (ii) by the funds to pay for certain fund expenses. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Drs. Joskow (Chairperson) and Kennan, Ms. Baxter and Messrs. Akhoury, Curtis, Putnam and Worley.

Communications, Service and Marketing Committee. The Communications, Service and Marketing Committee reviews the quality of services provided to shareholders and oversees the marketing and sale of Putnam fund shares by Putnam Retail Management. The Committee also exercises general oversight of marketing and sales communications used by Putnam Retail Management, as well as other communications sent to fund shareholders. The Committee also reviews periodic summaries of any correspondence to the Trustees from shareholders. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Messrs. Putnam (Chairperson), Curtis, Patterson, Stephens and Drs. Joskow and Kennan.

Contract Committee. The Contract Committee reviews and evaluates at least annually all arrangements pertaining to (i) the engagement of Putnam Management and its affiliates to provide services to the Putnam funds, (ii) the expenditure of the funds' assets for distribution purposes pursuant to Distribution Plans of the funds, and (iii) the engagement of other persons to provide material services to the funds, including in particular those instances where the cost of services is shared between the funds and Putnam Management and its affiliates or where Putnam Management or its affiliates have a material interest. The Committee also reviews the proposed organization of new fund products, proposed structural changes to existing funds and matters relating to closed-end funds. The Committee reports and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Ms. Baxter (Chairperson), Drs. Joskow and Kennan and Messrs. Akhoury, Curtis, Putnam and Worley.

Distributions Committee. The Distributions Committee oversees all dividends and distributions by the Putnam funds. The Committee makes recommendations to the Trustees of the funds regarding the amount and timing of distributions paid by the funds, and determines such matters when the Trustees are not in session. The Committee also oversees the policies and procedures pursuant to which Putnam Management prepares recommendations for distributions, and meets regularly with representatives of Putnam Management to review the implementation of such policies and procedures. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Ms. Drucker (Chairperson) and Messrs. Darretta, Hill, Leibler, Patterson, and Stephens.

17 Proxy Statement

Executive Committee. The functions of the Executive Committee are twofold. The first is to ensure that the Putnam funds' business may be conducted at times when it is not feasible to convene a meeting of the Trustees or for the Trustees to act by written consent. The Committee may exercise any or all of the power and authority of the Trustees when the Trustees are not in session. The second is to establish annual and ongoing goals, objectives and priorities for the Board of Trustees and to ensure coordination of all efforts between the Trustees and Putnam Management on behalf of the shareholders of the funds. The Committee currently consists of Messrs. Hill (Chairperson), Curtis, Patterson and Putnam, Dr. Joskow and Ms. Baxter.

Investment Oversight Committees. The Investment Oversight Committees regularly meet with investment personnel of Putnam Management to review the investment performance and strategies of the Putnam funds in light of their stated investment objectives and policies. The Committees seek to identify any compliance issues that are unique to the applicable categories of funds and work with the appropriate Board committees to ensure that any such issues are properly addressed. Investment Oversight Committee A currently consists of Messrs. Darretta (Chairperson) and Putnam and Ms. Baxter. Investment Oversight Committee B currently consists of Messrs. Akhoury (Chairperson) and Curtis. Investment Oversight Committee C currently consists of Messrs. Leibler (Chairperson) and Hill and Dr. Kennan. Investment Oversight Committee D currently consists of Messrs. Worley (Chairperson) and Stephens and Dr. Joskow. Investment Oversight Committee E currently consists of Ms. Drucker (Chairperson) and Messrs. Patterson and Reynolds.

Investment Oversight Coordinating Committee. The Investment Oversight Coordinating Committee coordinates the work of the Investment Oversight Committees and works with representatives of Putnam Management to coordinate the Board's general oversight of the investment performance of the Putnam funds. From time to time, as determined by the Chairman of the Board, the Committee may also review particular matters relating to fund investments and Putnam Management's investment process. The Committee currently consists of

Ms. Drucker (Chairperson) and Messrs. Akhoury, Darretta, Leibler and Worley.

Pricing Committee. The Pricing Committee oversees the valuation of assets of the Putnam funds and reviews the funds' policies and procedures for achieving accurate and timely pricing of fund shares. The Committee also oversees implementation of these policies, including fair value determinations of individual securities made by Putnam Management or other designated agents of the funds. The Committee also oversees compliance by money market funds with Rule 2a-7 and the correction of occasional pricing errors. The Committee also reviews matters related to the liquidity of portfolio holdings. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Messrs. Leibler (Chairperson), Darretta, Hill, Patterson, Stephens and Ms. Drucker.

Proxy Statement 18

How large a stake do the Trustees have in the Putnam family of funds?

The Trustees allocate their investments among the Putnam funds based on their own investment needs. The table below shows the number of shares beneficially owned by each nominee for Trustee and the value of each nominee's holdings in the fund and in all of the Putnam funds as of December 31, 2009. As a group, the Trustees owned shares of the Putnam funds valued at approximately \$44 million as of December 31, 2009.

Name of Nominee	Dollar Range of Putnam Municipal Opportunities Trust Common Shares Owned	Common Shares of Putnam Municipal Opportunities Trust Beneficially Owned	Aggregate Dollar Range of Shares Held in All of the Putnam Funds Overseen by Trustee
Ravi Akhoury	\$1-\$10,000	100.000	over \$100,000
Jameson A. Baxter	\$50,001-\$100,000	4,827.150	over \$100,000
Charles B. Curtis	\$1-\$10,000	396.382	over \$100,000
Robert J. Darretta	\$1-\$10,000	100.000	over \$100,000
Myra R. Drucker	\$1-\$10,000	363.221	over \$100,000
John A. Hill	\$1-\$10,000	428.617	over \$100,000
Paul L. Joskow	\$1-\$10,000	387.000	over \$100,000
Elizabeth T. Kennan	\$1-\$10,000	795.890	over \$100,000
Kenneth R. Leibler	\$1-\$10,000	287.000	over \$100,000

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Robert E. Patterson	\$1-\$10,000	655.000	over \$100,000
George Putnam, III	\$10,001-\$50,000	3,788.000	over \$100,000
W. Thomas Stephens	\$1-\$10,000	100.000	over \$100,000
Richard B. Worley	\$1-\$10,000	343.103	over \$100,000
Robert L. Reynolds	\$0	0.000	over \$100,000

As of December 31, 2009, none of the Trustees owned any preferred shares of the fund.

As of December 31, 2009, the Trustees and officers of the fund, as a group, owned less than 1% of the fund's outstanding common shares on that date.

What are some of the ways in which the Trustees represent shareholder interests?

Among other ways, the Trustees seek to represent shareholder interests:

by carefully reviewing your fund's investment performance on an individual basis with your fund's investment personnel;

by discussing with senior management of Putnam Management steps being taken to address any performance deficiencies;

by carefully reviewing the quality of the various other services provided to your fund and its shareholders by Putnam Management and its affiliates;

19 Proxy Statement

by reviewing in depth the fees paid by your fund and by negotiating with Putnam Management to ensure that such fees remain reasonable and competitive with those of comparable funds, while at the same time providing Putnam Management sufficient resources to continue to provide high quality services in the future;

by reviewing brokerage costs and fees, allocations among brokers, soft dollar expenditures and similar expenses of your fund;

by monitoring potential conflicts of interest between the Putnam funds, including your fund, and Putnam Management and its affiliates to ensure that the funds continue to be managed in the best interests of their shareholders; and

by monitoring potential conflicts among funds managed by Putnam Management to ensure that shareholders continue to realize the benefits of participation in a large and diverse family of funds.

How can shareholders communicate with the Trustees?

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The Board of Trustees provides a process for shareholders to send communications to the Trustees. Shareholders may direct communications to the Board of Trustees as a whole or to specified individual Trustees by submitting them in writing to the following address:

The Putnam Funds

Attention: Board of Trustees or any specified Trustee(s)

One Post Office Square

Boston, Massachusetts 02109

Written communications must include the shareholder's name, be signed by the shareholder, refer to the Putnam fund(s) in which the shareholder holds shares and include the class and number of shares held by the shareholder as of a recent date.

Representatives of the fund's transfer agent will review all communications sent to Trustees and, as deemed appropriate, will provide copies and/or summaries of such communications to the Trustees.

How often do the Trustees meet?

The Trustees hold regular meetings each month (except August), usually over a two-day period, to review the operations of the Putnam funds. A portion of these meetings is devoted to meetings of various committees of the board that focus on particular matters. Each Trustee generally attends at least two formal committee meetings during each regular meeting of the Trustees. In addition, the Trustees meet in small groups with senior investment personnel and portfolio managers to review recent performance and the current investment climate for selected funds. These meetings ensure that fund performance is reviewed in detail at least twice a year. The committees of the board, including the Executive Committee, may also meet on special occasions as the need arises. During calendar year 2009, the average Trustee participated in approximately 62 committee and board meetings.

Proxy Statement 20

The number of times each committee met during your fund's last fiscal year is shown in the table below:

Fiscal year ended April 30, 2009

Audit and Compliance Committee	12
Board Policy and Nominating Committee	12
Brokerage Committee	7
Communications, Service and Marketing Committee	7
Contract Committee	13
Distributions Committee	11
Executive Committee	1

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Investment Oversight Committees:

Investment Oversight Committee A	9
Investment Oversight Committee B	9
Investment Oversight Committee C	9
Investment Oversight Committee D	9

Investment Oversight Coordinating Committee	14
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Pricing Committee	9
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Your fund does not have a policy with respect to Trustee attendance at shareholder meetings. While various Trustees may attend shareholder meetings from time to time, your fund's Trustees did not attend the last annual meeting of your fund. However, they were represented at the meeting by their independent staff and independent counsel.

What are the Trustees paid for their services?

Each Independent Trustee of the fund receives an annual retainer fee and additional fees for each Trustees' meeting attended and for certain related services. Independent Trustees also are reimbursed for costs incurred in connection with their services, including costs of travel, seminars and educational materials. All of the current Independent Trustees of the fund are Trustees of all the Putnam funds and receive fees for their services.

The Trustees periodically review their fees to ensure that such fees continue to be appropriate in light of their responsibilities as well as in relation to fees paid to trustees of other mutual fund complexes. The Board Policy and Nominating Committee, which consists solely of Independent Trustees of the fund, estimates that committee and Trustee meeting time, together with the appropriate preparation, requires the equivalent of at least three business days per Trustee meeting. The table on page 22 includes the year each Trustee became a Trustee of the Putnam funds, the fees paid to each of those Trustees by your fund for its most recent fiscal year ended April 30, 2009 and the fees paid to each of those Trustees by all of the Putnam funds during calendar year 2009.

Under a Retirement Plan for Trustees of the Putnam funds (the Plan), each Trustee elected prior to 2004 who retires with at least five years of service as a Trustee of the funds is entitled to receive an annual retirement benefit equal to one-half of the

21 Proxy Statement

average annual attendance and retainer fees paid to such Trustee for calendar years 2003, 2004 and 2005. This 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. A death benefit, also available under the Plan, ensures that the Trustee or his or her beneficiaries will receive benefit payments for the lesser of an aggregate period of (i) ten years or (ii) such Trustee's total years of service.

The Plan Administrator (currently the Board Policy and Nominating Committee) may terminate or amend the Plan at any time, but no termination or amendment will result in a reduction in the amount of benefits (i) currently being paid to a Trustee at the time of such termination or amendment, or (ii) to which a current Trustee would have been entitled had he or she retired immediately prior to such termination or amendment. The Trustees have terminated the Plan with respect to any Trustee first elected to the board after 2003.

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Trustees/Year	Aggregate compensation from the fund	Pension or retirement benefits accrued as part of fund expenses	Estimated annual benefits from all Putnam funds upon retirement⁽¹⁾	Total compensation from all Putnam funds⁽²⁾
Ravi Akhoury/2009(5)	\$453	N/A	N/A	\$259,167
Jameson A. Baxter/1994(3)	2,602	\$343	\$110,500	295,000
Charles B. Curtis/2001	2,462	250	113,900	285,000
Robert J. Darretta/2007	2,602	N/A	N/A	290,000
Myra R. Drucker/2004(3)	2,602	N/A	N/A	295,000
Charles E. Haldeman, Jr./2004(8)	N/A	N/A	N/A	N/A
John A. Hill/1985(3)(4)	2,992	571	161,700	374,376
Paul L. Joskow/1997(3)	2,553	225	113,400	295,000
Elizabeth T. Kennan/1992(3)	2,602	475	108,000	295,000
Kenneth R. Leibler/2006	2,602	N/A	N/A	295,000
Robert E. Patterson/1984	2,602	315	106,500	295,000
George Putnam, III/1984	2,602	273	130,300	295,000
Robert L. Reynolds/2008(6)	N/A	N/A	N/A	N/A
W. Thomas Stephens/1997(7)	0	354	107,100	139,167
Richard B. Worley/2004	2,602	N/A	N/A	285,000

¹ Estimated benefits for each Trustee are based on Trustee fee rates for calendar years 2003, 2004 and 2005.

² As of December 31, 2009, there were 104 funds in the Putnam family.

³ Certain Trustees are also owed compensation deferred pursuant to a Trustee Compensation Deferral Plan. As of April 30, 2009, the total amounts of deferred compensation payable by the fund, including income earned on such amounts, to these Trustees were:

Ms. Baxter □ \$4,916; Ms. Drucker □ \$1,184; Mr. Hill □ \$17,238; Dr. Joskow- \$4,458; and Dr. Kennan □ \$681.

Proxy Statement 22

⁴ Includes additional compensation to Mr. Hill for service as Chairman of the Trustees of the Funds.

⁵ Mr. Akhoury was elected to the Board of Trustees of the Putnam funds on February 12, 2009.

⁶ Mr. Reynolds was elected to the Board of Trustees of the Putnam funds on September 12, 2008.

⁷ Mr. Stephens, who retired from the Board of Trustees of the Putnam funds on March 31, 2008, rejoined the Board of Trustees on May 14, 2009. Upon his retirement, Mr. Stephens became entitled to receive annual retirement benefit payments from the funds commencing on January 15, 2009. In connection with his rejoining the Board of Trustees, Mr. Stephens has agreed to suspend the balance of his retirement benefit payments for the duration of his service as a Trustee.

⁸ Mr. Haldeman retired from the Board of Trustees of the Putnam funds on June 30, 2009.

Possible shareholder nomination of candidates for election as Trustees.

Karpus Investment Management (□Karpus□), the institutional investor which submitted the shareholder proposal described in this proxy statement (see Proposal 2), also has notified the fund of its intention to nominate eight individuals for election as Trustees by the fund□s common and preferred shareholders (voting as a single class) at the upcoming meeting. Karpus might send you soliciting materials in an effort to persuade you to vote for their nominees to the fund□s Board of Trustees. **The fund□s Trustees urge you to NOT RETURN any proxy card sent to you by Karpus.**

What is the voting requirement for electing Trustees?

If a quorum is present at the meeting, the two nominees for election as Trustees by the holders of the preferred shares who receive the greatest number of votes cast by holders of the preferred shares will be elected as Trustees, and the twelve nominees for election as Trustees by the holders of the preferred shares and common shares voting together as a single class who receive the greatest number of votes cast by the holders of the preferred shares and common shares voting together as a single class will be elected as Trustees. Each preferred shareholder and each common shareholder will be entitled to one vote for each share held.

2. SHAREHOLDER PROPOSAL RECOMMENDING THAT THE TRUSTEES CONSIDER CONVERTING THE FUND TO OPEN-END FORMAT

What is this proposal?

Karpus (the □proponent□) has informed the fund that the proponent intends to present a proposal for action at the meeting. The proponent□s proposal, the accompanying supporting statement, and the Trustees□ unanimous recommendation that shareholders vote □AGAINST□ the proposal are presented below.

The proposal submitted by the proponent and the accompanying supporting statement read as follows:

RESOLVED

The shareholders request the Board of Trustees to promptly consider converting the Fund from a closed-end fund format to an open-end fund format.

SUPPORTING STATEMENT

In the Funds' original press release dated September 12, 2008, the Board approved in principle a plan to merge PMO into an open-end fund. The press release highlighted the following 4 specific benefits for shareholders if the proposed mergers were approved: (1) ability to invest in an open-end fund with similar investment objectives; (2) the elimination of the Funds' discounts; (3) ability to redeem shares at their net asset value on a daily basis; and (4) choice of timing any recognition of taxable gains or losses by the redemption of shares. Further, the Funds also acknowledged on October 30, 2008 that lowered overall expenses were expected as a result of the additional assets in connection with the mergers. **All of these benefits are still applicable and desirable for shareholders today.**

Nine months later, in a press release dated June 26, 2009, the Board reversed course and determined that the proposed mergers would not be in the best interest of common shareholders, and authorized Putnam to suspend further efforts to implement the mergers. As the largest shareholder of the fund, we fully disagree with the Board's decision. The merger proposal continues to provide shareholders with the benefits originally stated by the Board. We feel that the Trustees' decision was driven by the Putnam Funds rather than the shareholders who they purportedly have a fiduciary duty to represent. By suspending the merger, Putnam Funds benefit by continuing to collect fees on the captive and levered assets of the closed-end fund, while the Trustees continue to be well compensated for their oversight.

We believe that now is an ideal time for this open-end proposal. Common shareholders continue to pay penalty default rates on the fund's leverage, while preferred shareholders are stuck holding illiquid securities. While it is true default rates remain low, we are concerned that they could rise dramatically in the near term. Fund management could take advantage of the recent strength in the municipal bond market to redeem the auction rate preferred shares of the Fund, as required before merging into an open-end fund.

The Board's original recommendation to merge PMO into an open-end fund with similar objectives is clearly in all shareholders' (both common and preferred) best interests. Our proposal is simply re-instating the same proposal that management recommended over a year ago. Shareholders should be granted an opportunity to vote on this proposal.

END OF SHAREHOLDER PROPOSAL

What do the Trustees recommend?

The Trustees of your fund unanimously recommend that shareholders vote AGAINST this proposal. The Trustees of your fund believe that, under current circumstances, the continued operation of your fund as a closed-end fund is in the best interests of your fund's shareholders.

Why are the Trustees recommending a vote against the proposal?

The Trustees have carefully considered the possibility of converting your fund to open-end status on a number of occasions. Based on this extensive consideration and recent discussions of market conditions with the fund's managers, the Trustees have concluded that the current closed-end structure continues to provide benefits to shareholders that are not available under an open-end structure, though they will periodically review this conclusion as market conditions change. As described in more detail below, these benefits result from structural advantages that include the following:

Because a closed-end fund's shares are not redeemable, your fund is not required to maintain short-term, lower-yielding investments in anticipation of possible redemptions, and generally can be more fully invested in higher-yielding securities.

As a closed-end fund, your fund does not experience the cash flows associated with sales and redemptions of open-end fund shares, which create transaction costs that are borne by long-term shareholders.

Your fund currently benefits from its use of leverage through outstanding preferred shares, a strategy that is not available to open-end funds. This leverage offers opportunities for increased investment yield, while effectively amplifying the common shareholders' exposure to the effects of both investment losses and investment gains.

The Trustees believe that, at the current time, all of these structural advantages continue to work in favor of your fund's common shareholders. As discussed below, the fund has experienced superior performance over recent periods, as well as over the longer term, relative to a similar open-end Putnam Fund. For example, for the year ended December 31, 2009, your fund achieved a total return of 33.88%, compared with the 17.94% return of the shares of the corresponding open-end Putnam Fund. The Trustees believe that this outperformance is due, at least in part, to the structural advantages of closed-end status.

25 Proxy Statement

The Trustees recognize that converting the fund to an open-end fund would allow shareholders to redeem their shares at net asset value (NAV), thereby eliminating the current discount in the trading price of the fund's shares. They noted, however, that the trading discount for your fund has declined in recent months to levels as narrow as 4.01%, thus providing common shareholders with opportunities to liquidate their positions at market prices relatively close to NAV. The Trustees believe that the

merits of your fund's closed-end structure are exemplified by the current market circumstances, under which narrow discounts coincide with the fund's significant outperformance relative to its corresponding open-end Putnam Fund. More fundamentally, the Trustees considered that all shareholders who purchased your fund's shares presumably made their choice from among a broad array of available investment products available in the marketplace, with an understanding of the potential advantages and disadvantages of closed-end funds, as described in the fund's original prospectus and in subsequent reports and communications. If your fund were to open-end, shareholders seeking to remain in a leveraged, tax-exempt closed-end investment vehicle would be forced to incur costs in locating and acquiring an alternative fund in which to invest.

As described in more detail below, the Trustees also considered the significant costs potentially associated with an open-ending conversion, including:

Your fund would need to sell a significant portion of its portfolio in order to redeem its outstanding preferred shares prior to a conversion. This would cause the fund to incur transaction costs, as well as the risk of potential

market losses associated with liquidating large positions in a short time frame.

□ Following a conversion, your fund would likely need to liquidate additional assets in order to meet redemption requests from investors who do not wish to remain shareholders of an open-end fund. The Trustees considered that such mechanisms as redemption fees and in-kind payments might mitigate the costs associated with such additional redemptions, though they might not fully insulate the remaining shareholders from bearing a portion of these costs.

□ Significant shareholder redemptions would reduce the size of your fund, which could result in an increased expense ratio for remaining shareholders.

□ Your fund would likely incur legal, accounting, proxy solicitation, and other costs in connection with soliciting a shareholder vote for conversion and effecting a conversion.

The Trustees observed that the proposal was submitted by an institutional investor which specializes in taking positions in closed-end funds when discounts are large and then seeking short-term profits by pressing for liquidity events such as conversion of such funds to open-end form. The Trustees do not believe that the

Proxy Statement 26

interests of this investor are aligned with those of other long-term investors of your fund.

The Trustees took into account that your fund's preferred shareholders might benefit from an open-ending, in that the fund would be obligated to redeem the preferred shares for their full liquidation preference prior to completing a conversion to open-end status. The Trustees noted that the fund continues to comply with all of the terms of the preferred shares, and that the preferred shareholders continue to be paid the □maximum dividend rate□ on their shares, as determined in accordance with the fund's bylaws.

Why did the Trustees approve and then suspend your fund's proposed merger into an open-end fund?

Dividend rates on your fund's outstanding preferred shares are adjusted periodically through a remarketing process. Beginning in early 2008, the remarketing process for these and similar preferred shares across the closed-end fund industry ceased to function. Since that time, the fund has been paying preferred shareholders so-called □maximum dividend rates□ or □penalty rates□ required by the terms of the preferred shares. This development effectively increased the costs of leverage borne by common shareholders. After reductions in the fund's outstanding preferred shares and unsuccessful efforts to develop alternative leveraging strategies, the Trustees announced in September 2008 a preliminary plan to merge your fund into Putnam Tax Exempt Income Fund, an open-end fund.

In approving the proposed merger, the Trustees considered, among other factors, the recent marketplace developments for leveraged closed-end funds, the risks and costs to the fund's common shareholders of maintaining the current preferred share leverage over time, the cost and availability of alternative leverage financing sources for the fund, the level of discount then prevailing in the trading price of the fund's shares as compared with NAV, and general conditions in the municipal bond market. A plan of merger was formally approved and announced in October 2008. The announcement at the time stated that completion of the merger would be subject to a number of conditions and other factors and that the expected dates for submission to shareholders and merger completion could be delayed in light of changing market conditions.

In anticipation of shareholder approval and completion of the merger, the fund began the process of redeeming its remaining preferred shares. From November 2008 through January 2009, Putnam Management carried out preferred share redemptions that significantly reduced the fund's preferred share leverage, though the fund today remains leveraged in a manner reasonably comparable to its industry peers. Although your fund's portfolio was well positioned to commence preferred share redemptions, the significant decline in liquidity across major markets in the

wake of Lehman Brothers's September 2008 bankruptcy caused Putnam Management to recommend to the Trustees in January 2009 that further redemptions of preferred shares would not be advisable at that time.

Following delay of the proposed merger, the Trustees continued to monitor prospects