

PUTNAM HIGH INCOME SECURITIES FUND

Form N-CSR

April 28, 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 -05133)

Exact name of registrant as specified in charter: Putnam High Income Securities Fund

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: August 31, 2006

Date of reporting period: September 1, 2005 - February 28, 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:

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## 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.

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# Putnam High Income Securities Fund

## 2|28|06

### *Semiannual Report*

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## *Message from the Trustees*

# Dear Fellow Shareholder

In the early months of 2006, we have seen a continuation of generally benign economic conditions. Inflationary pressures remain modest, with no strong indications that higher energy costs are causing a general increase in prices of goods and services, and the unemployment rate remains below 5% (and well below its 40-year average of 6%). Corporate profitability — the most important factor influencing the prices of common stocks — has remained exceptionally strong. In the fourth quarter of 2005, after-tax profits of all U.S. corporations reached 8.1% of gross domestic product (GDP) — their largest share of GDP since tracking of corporate profits began in 1947. Nevertheless, the slowdown in the housing market as mortgage rates rise causes us some concern, and we are aware that it could contribute to setbacks in the stock market, even as the general economic environment remains supportive for investments.

While the Federal Reserve Board (the Fed) has remained committed to its program of measured interest-rate increases, there have been signs that the end of this tightening cycle might not be far away. We consider it fortunate that the Fed's new Chairman, Ben Bernanke, like his predecessor Alan Greenspan, regards the Fed's role in pursuing both price stability and economic growth as essential to encouraging investment.

Although there is no guarantee a fund will achieve its objectives, we believe that the professional research, diversification, and active management that mutual funds provide continue to make them an intelligent choice for investors. We want you to know that Putnam Investments, under the leadership of Chief Executive Officer Ed Haldeman, continues to focus on delivering consistent, dependable, superior investment performance over time.

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In the following pages, members of your fund's management team discuss the fund's performance and strategies, and their outlook for the months ahead. We thank you for your support of the Putnam funds.

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## **Putnam High Income Securities Fund: opportunities from high-yield bonds and convertibles**

The average investor may think of bonds as government-sponsored securities that offer relatively low risk and less volatility than the stock market. However, high-yield corporate bonds and convertible securities, the types of investments held by Putnam High Income Securities Fund, are different. Both are issued by companies rather than the government. Moreover, high-yield corporates and convertibles can offer greater returns than other bonds — but carry a greater potential for risk, such as the risk of corporate default or periodic illiquidity.

High-yield bonds are issued by companies that are deemed to be less than investment-grade status (rated below Baa), which means their issuing companies are considered more likely to default on their loans than higher-rated counterparts. High-yield bond prices tend to follow individual companies' fundamentals as well as interest-rate levels. While lower-rated corporate bonds may carry higher risk, they typically provide potentially higher levels of yield to compensate investors for that risk. That is why extensive research based on credit analysis is vital to identifying better high-yield issuers with a lower risk of default.

What sets convertible securities apart is a unique built-in option that allows the investor to exchange or convert the bond for a fixed number of shares of stock of the issuer. Convertible securities pay interest like most bonds, and the amount does not change as the underlying stock's price increases or decreases. Issuers range from large, well-known S&P 500 corporations to small, rapidly growing companies to those in cyclically depressed industries such as airlines, autos, and utilities.

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Building a portfolio of high-yield bonds and convertible securities with the appropriate balance of risk and return potential requires intensive research and analysis. In the case of Putnam High Income Securities Fund, Putnam's global equity and credit research analysts conduct rigorous research to determine the true worth of the issuing company's business. The fund's portfolio team then constructs a portfolio that it believes offers the best return potential without undue risk.

*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.*

## The "busted" convertible

One kind of security in which your fund may invest is the "busted" convertible. "Busted" refers to a security whose underlying stock price has fallen significantly below the conversion price. It becomes much less sensitive to the volatility of the underlying stock and is more bond-like, responding to interest-rate changes. A busted convertible may pay a higher yield than other convertibles, but may also carry a higher level of risk. (Some companies in this situation may eventually default on their bonds.)

The objective of buying a busted convertible is to take advantage of a company's eventual turnaround despite present challenges. For example, a company undergoing management turmoil may draw negative investor reactions, causing its stock price to tumble. However, if intensive research determines that the management crisis is likely to be resolved, the fund manager could buy the security at a steep discount. The goal is to sell it at a higher premium once the situation is corrected and the price of the security recovers.

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**Putnam High Income Securities Fund** seeks high current income and, as a secondary objective, capital appreciation by investing in a portfolio of high-yielding convertible and nonconvertible securities with potential for capital appreciation.

### Highlights

\* For the six months ended February 28, 2006, Putnam High Income Securities Fund had total returns of 3.97% at net asset value (NAV) and 4.29% at market price.

\* The fund's primary benchmark, the Merrill Lynch All-Convertibles Speculative Quality Index, returned 4.98%. The fund's secondary benchmark, the JP Morgan Developed High Yield Index, returned 1.97%.

\* The average return for the fund's Lipper category, Convertible Securities Funds (closed-end), was 4.17%.

\* 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 2/28/06

Since the fund's inception (7/9/87), average annual return is 10.14% at NAV and 9.13% at market price.

|          | Average annual return |              | Cumulative return |              |
|----------|-----------------------|--------------|-------------------|--------------|
|          | NAV                   | Market price | NAV               | Market price |
| 10 years | 8.63%                 | 6.98%        | 128.88%           | 96.33%       |
| 5 years  | 11.02                 | 7.01         | 68.66             | 40.31        |
| 3 years  | 16.15                 | 12.38        | 56.71             | 41.91        |
| 1 year   | 6.69                  | 7.16         | 6.69              | 7.16         |
| 6 months | □                     | □            | 3.97              | 4.29         |

*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.*

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## Report from the fund managers

### The period in review

Your fund continued to deliver positive results during the first half of its fiscal year, although the weaker performance of high-yield bonds relative to convertible securities caused the fund's return at NAV to lag results for its primary benchmark and the average return of its Lipper peer group. A generally positive equity market provided a favorable backdrop for both high-yield convertibles and bonds, since these securities tend to be influenced more by fundamentals supportive of common stocks and less by interest-rate trends. However, the bankruptcies of several high-profile issuers muted results in the high-yield bond market. Your fund had minimal exposure to these issuers because of its focus on the higher-quality area of the high-yield universe and its avoidance of companies that exhibited substantial credit risk.

## Market overview

The prices of convertible securities are influenced primarily by two key factors: credit spreads, or the difference in yield between higher- and lower-quality bonds, and the direction of the broad equity market. During the second half of the fiscal year ended August 31, 2005, there was a sharp correction in the convertible market. The major credit rating agencies downgraded the debt issued by Ford and General Motors to below investment grade, causing credit spreads to widen quickly. However, thanks to a fundamentally healthy economy, the market was able to absorb this disruption and yields remained low by historical standards. In addition, the equity market generated moderately positive results during the current fiscal period and performed particularly well during the fall of 2005 and in January of 2006. As a result, throughout the first half of the fund's 2006 fiscal year, the market environment for convertibles was noticeably stronger than it had been during the prior period.

The story was rather different in the high-yield bond market. The market essentially ran in place during the first four months of the period. The impact of generally solid corporate financial results was offset by the bankruptcies of several

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high-profile bond issuers, including Delta and Northwest Airlines in September, auto parts maker Delphi in October, and independent power producer Calpine in December. By January, however, the tide had turned and the high-yield market ended the period with improved results. Positive influences included continuing strong business fundamentals, persistent signs of economic growth, fewer deals coming to market following earlier heavy issuance, and improved market liquidity.

## Strategy overview

Your fund invests mainly in a combination of convertible securities and high-yield corporate bonds, relying on our analysis of individual securities to identify what we consider to be the most attractive opportunities. After more than two years of a strong rally in both convertibles and high-yield bonds, new opportunities to add yield with lower-quality bonds have become relatively scarce. During the period, we continued to add higher-quality convertibles from industries that were experiencing short-term weakness, such as insurance companies and airlines. We also avoided problematic situations such as the Calpine bankruptcy, and did not invest in any General Motors (GM) convertibles until the securities, along with GM's common stock, declined sharply in price. This particular investment illustrates our thinking about the attractiveness of "busted" convertibles.

### Market sector performance

These indexes provide an overview of performance in different market sectors for the six months ended 2/28/06.

#### Bonds

Merrill Lynch All-Convertibles Speculative Quality Index  
(high-yield U.S. convertible securities)

4.98%

JP Morgan Developed High Yield Index (high-yield corporate bonds)

1.97%

Lehman Aggregate Bond Index (broad bond market)

0.11%

Lehman Global Aggregate Bond Index (international bonds)

1.92%

#### Equities

S&P 500 Index (broad stock market)

5.93%

|   |        |
|---|--------|
| Russell 2000 Index (small-company stocks) | 10.24% |
| MSCI EAFE Index (international stocks)    | 15.14% |

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On the high-yield bond side of the portfolio, we maintained our bias toward bonds from the higher-quality tiers of the high-yield debt market. We believe this strategy, which has been in place since the second half of fiscal 2005, is appropriate given our view of where the market is in the current credit cycle. High-yield bond spreads have narrowed to the point that investors are not being well compensated for the additional risk they assume when choosing a lower-quality investment. In addition, we are positioning the portfolio somewhat defensively to guard against the possibility of slower economic growth. If the economy does slow, high-yield bonds with higher credit ratings are likely to perform better on a relative basis than lower-rated issues. Overall, our plan is to maintain a diversified portfolio, targeting issuers that appear to have a sustainable competitive advantage within their industry, solid capital structures, and the ability to generate sufficient levels of cash flow.

## Your fund's holdings

One of your fund's best-performing convertible investments during the period was **American Airlines**. Despite higher fuel costs, well-positioned airlines are benefiting from improved economic conditions, which have led to stronger demand for air travel and from

higher airfares that have resulted, in part, from fuel surcharges. Initially, we invested in American Airlines' convertible because it offered a high current yield. By the end of the period, we sold out of the position at a price above par (or face) value because the price of the convertible had moved up in step with the price of American Airlines' common stock.

The fund also benefited from a large position in **Titan International**, a manufacturer of wheels and tires for off-road use. Management tendered a formal buyout proposal and, although the proposal had not been approved by the end of the fiscal period, the convertible's price advanced as a result of this activity.

As noted earlier, we avoided **GM's** convertible securities until they "busted" — i.e., until prices dropped substantially. When we did invest, we purchased a security with a very short maturity. By the end of the period, this position had generated a nice gain for the fund.

Convertible holdings that detracted from performance included **MeriStar**, a real estate investment trust (REIT) that operates full-service hotels and resorts. The REIT was the subject of a takeover during the period. The convertible we held was trading at a substantial premium to conversion value (i.e., the value of the convertible if converted into common stock). Because the takeover price was closer to the common stock

## Top holdings

This table shows the fund's top holdings, and the percentage of the fund's net assets that each comprised, as of 2/28/06. The fund's holdings will change over time.

| Holding (percent of fund's net assets) | Security information | Sector |
|--|----------------------|--------|
|--|----------------------|--------|

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### Convertible Securities

|                                   |   |                    |
|-----------------------------------|---|--------------------|
| Northrop Grumman Corp. (2.1%)     | Ser. B, \$7.00 cum. cv. pfd.  | Capital goods      |
| General Motors Corp. (1.7%)       | Ser. A, \$1.13 cv. pfd.   | Consumer cyclicals |
| Schering-Plough Corp. (1.4%)      | \$3.00 cv. pfd.   | Health care        |
| Nash Finch Co. (1.3%)             | Cv. sr. sub. notes stepped-coupon<br>1.631% (zero %, 3/15/13), 2035 | Consumer staples   |
| FelCor Lodging Trust, Inc. (1.3%) | Ser. A, \$1.95 cum. cv. pfd.  | Financial          |
| <b>Corporate Bonds and Notes</b>  |   |                    |
| Ford Motor Credit Corp. (0.4%)    | Notes 7.875%, 2010  | Consumer cyclicals |
| DirecTV Holdings, LLC (0.4%)      | Company guaranty 6.375%, 2015                                       | Consumer staples   |
| Novelis, Inc. (0.3%)              | 144A sr. notes 7.75%, 2015  | Basic materials    |
| CCH I, LLC (0.3%)                 | 144A sec'd. notes 11%, 2015   | Consumer staples   |
| Whiting Petroleum Corp. (0.3%)    | 144A sr. sub. notes 7%, 2014  | Energy             |

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price than the convertible price, the fund's position declined in value once the takeover was announced. The position remained in the fund at the end of the period, awaiting final closure of the deal.

The fund's investment in **Great Plains Energy**, a public utility, also declined during the period. The company's energy consulting business has suffered as a result of high natural gas prices. We are maintaining this position as we believe the company has the potential to rebound if natural gas prices remain stable or move lower.

Strong performers from the high-yield bond portion of the portfolio included **Decrane Aircraft Holdings**, an aircraft parts supplier. Decrane's bond prices rebounded from depressed levels as the company enjoyed a surge in demand from customers in the corporate aircraft industry.

Disappointments among high-yield bond holdings included **Charter Communications**, the fourth-largest cable TV operator in the United States. The firm's securities underperformed in light of the intensifying competitive threats from satellite TV and from the merger of AT&T and BellSouth, which was announced shortly after the period ended.

*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.*

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## The outlook for your fund

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

Our strategy in the convertibles market over the balance of the fiscal year will be to continue to focus on high-yielding issues that are more sensitive to movements in the underlying common stock. We also plan to continue trying to avoid companies that exhibit significant credit risk. After a period of sustained economic expansion, which is where the United States currently finds itself in the business cycle, companies that carry substantial credit risk are typically in extremely poor financial condition.

As to the high-yield bond market, we would characterize our current outlook as neutral. While the business fundamentals of many high-yield issuers are solid, the technical, or supply and demand, condition of the market is in flux. The number of new issues coming to market has been fewer than in earlier periods but also larger in size. At the same time, investor demand, as determined by asset flows, has been volatile. Finally, high-yield spreads relative to investment-grade bonds are tight relative to historical averages, indicating that the market as a whole is somewhat overvalued. Consequently, we believe returns will be generated mainly through yield rather than capital appreciation over the near term.

*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.*

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## Your fund's performance

This section shows your fund's performance during the first half of its fiscal year, which ended February 28, 2006. In accordance with regulatory requirements for mutual funds, we also include performance for the most recent calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

### Fund performance

Total return for periods ended 2/28/06

|                             | NAV    | Market price |
|-----------------------------|--------|--------------|
| Annual average              |        |              |
| Life of fund (since 7/9/87) | 10.14% | 9.13%        |
| 10 years                    | 128.88 | 96.33        |
| Annual average              | 8.63   | 6.98         |
| 5 years                     | 68.66  | 40.31        |
| Annual average              | 11.02  | 7.01         |
| 3 years                     | 56.71  | 41.91        |

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|                |       |       |
|----------------|-------|-------|
| Annual average | 16.15 | 12.38 |
| 1 year         | 6.69  | 7.16  |
| 6 months       | 3.97  | 4.29  |

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

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### Comparative index returns

For periods ended 2/28/06

|   | Merrill Lynch<br>All-Convertibles<br>Speculative<br>Quality Index | JP Morgan<br>Developed<br>High Yield<br>Index | Lipper<br>Convertible<br>Securities Funds<br>(closed-end)<br>category average |
|---|---|---|---|
| Annual average<br>Life of fund (since 7/9/87) | □ *   | □□  | 9.03%   |
| 10 years<br>Annual average                    | 145.02%<br>9.38   | 94.30%<br>6.87                                | 100.89<br>7.18  |
| 5 years<br>Annual average                     | 42.57<br>7.35   | 49.11<br>8.32                                 | 26.60<br>4.65   |
| 3 years<br>Annual average                     | 60.80<br>17.16  | 42.70<br>12.58                                | 40.43<br>11.88  |
| 1 year  | 6.92  | 3.50  | 6.71  |
| 6 months                                      | 4.98  | 1.97  | 4.17  |

Index and Lipper results should be compared to fund performance at net asset value.

\* The Merrill Lynch All-Convertibles Speculative Quality Index began operations on 1/5/95.

□ The JP Morgan Developed High Yield Index began operations on 12/31/94.

□ Over the 6-month and 1-, 3-, 5-, and 10-year periods ended 2/28/06, there were 11, 11, 7, 6, and 6 funds, respectively, in this Lipper category.

**Fund price and distribution information**

For the six-month period ended 2/28/06

## Distributions\*

|                               |          |              |
|-------------------------------|----------|--------------|
| Number                        | 6        |              |
| Income                        | \$0.2658 |              |
| Capital gains                 | □        |              |
| Total                         | \$0.2658 |              |
| Share value:                  | NAV      | Market price |
| 8/31/05                       | \$8.69   | \$7.80       |
| 2/28/06                       | 8.73     | 7.86         |
| Current yield (end of period) |          |              |
| Current dividend rate□        | 6.09%    | 6.76%        |

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

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

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**Fund performance for most recent calendar quarter**

Total return for periods ended 3/31/06

|                             | NAV    | Market price |
|-----------------------------|--------|--------------|
| Annual average              |        |              |
| Life of fund (since 7/9/87) | 10.15% | 9.12%        |
| 10 years                    | 131.69 | 95.98        |
| Annual average              | 8.77   | 6.96         |
| 5 years                     | 73.12  | 66.03        |
| Annual average              | 11.60  | 10.67        |
| 3 years                     | 56.81  | 41.15        |
| Annual average              | 16.18  | 12.17        |
| 1 year                      | 10.38  | 13.29        |

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|          |      |      |
|----------|------|------|
| 6 months | 5.16 | 5.49 |
|----------|------|------|

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## Your fund's management

Your fund is managed by the members of the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams. David King and Robert Salvin are Portfolio Leaders of your fund. The Portfolio Leaders coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Large-Cap Value and Core Fixed-Income High-Yield teams, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at [www.putnam.com](http://www.putnam.com).

## Fund ownership by the Portfolio Leaders

The table below shows how much the fund's current Portfolio Leaders have invested in the fund (in dollar ranges). Information shown is as of February 28, 2006, and February 28, 2005.

| Year                    | \$0  | \$1      | \$10,001 | \$50,001  | \$100,001 | \$500,001   | \$1,000,001 |
|-------------------------|------|----------|----------|-----------|-----------|-------------|-------------|
|                         |      | \$10,000 | \$50,000 | \$100,000 | \$500,000 | \$1,000,000 | and over    |
| David King              | 2006 | *        |          |           |           |             |             |
| <i>Portfolio Leader</i> | 2005 | *        |          |           |           |             |             |
| Robert Salvin           | 2006 | *        |          |           |           |             |             |
| <i>Portfolio Leader</i> | 2005 | *        |          |           |           |             |             |

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## Fund manager compensation

The total 2005 fund manager compensation that is attributable to your fund is approximately \$90,000. 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 Leaders

David King is also a Portfolio Leader of Putnam Convertible Income-Growth Trust and Putnam New Value Fund. He is also a Portfolio Member of The Putnam Fund for Growth and Income.

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

David King 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 February 28, 2006, Portfolio Member Robert Salvin became a Portfolio Leader of the fund.

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## 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 February 28, 2006, and February 28, 2005.

|                                   | Year | \$0 | \$1 -<br>\$10,000 | \$10,001 -<br>\$50,000 | \$50,001 -<br>\$100,000 | \$100,001<br>and over |
|-----------------------------------|------|-----|-------------------|------------------------|-------------------------|-----------------------|
| Philippe Bibi                     | 2006 |     | *                 |                        |                         |                       |
| <i>Chief Technology Officer</i>   | 2005 |     | *                 |                        |                         |                       |
| Joshua Brooks                     | 2006 |     | *                 |                        |                         |                       |
| <i>Deputy Head of Investments</i> | 2005 |     | *                 |                        |                         |                       |
| William Connolly                  | 2006 |     | *                 |                        |                         |                       |
| <i>Head of Retail Management</i>  | N/A  |     |                   |                        |                         |                       |
| Kevin Cronin                      | 2006 |     | *                 |                        |                         |                       |
| <i>Head of Investments</i>        | 2005 |     | *                 |                        |                         |                       |
| Charles Haldeman, Jr.             | 2006 |     | *                 |                        |                         |                       |
| <i>President and CEO</i>          | 2005 |     | *                 |                        |                         |                       |
| Amrit Kanwal                      | 2006 |     | *                 |                        |                         |                       |
| <i>Chief Financial Officer</i>    | 2005 |     | *                 |                        |                         |                       |

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|   |      |   |
|---|------|---|
| Steven Krichmar                         | 2006 | * |
| <i>Chief of Operations</i>              | 2005 | * |
| Francis McNamara, III                   | 2006 | * |
| <i>General Counsel</i>                  | 2005 | * |
| Richard Robie, III                      | 2006 | * |
| <i>Chief Administrative Officer</i>     | 2005 | * |
| Edward Shadek                           | 2006 | * |
| <i>Deputy Head of Investments</i>       | 2005 | * |
| Sandra Whiston                          | 2006 | * |
| <i>Head of Institutional Management</i> | N/A  |   |

N/A indicates the individual was not a member of Putnam's Executive Board as of 2/28/05.

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## Terms and definitions

### Important terms

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

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities, 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 American Stock Exchange and the New York 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.

Merrill Lynch All-Convertibles Speculative Quality Index is an unmanaged index of high-yield U.S. convertible securities.

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

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## **Trustee approval of management contract**

### **General conclusions**

The Board of Trustees of the Putnam funds oversees the management of each fund and, as required by law, determines annually whether to approve the continuance of your fund's management contract with Putnam Management and its sub-management contract with Putnam Management's 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 (the "1940 Act")) 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 Board's 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 fund's management 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 fund's 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 your fund, including fee levels and breakpoints, and the assignment of the 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, Putnam's closed-end funds have generally had management fees that are higher than those of Putnam's open-end funds pursuing comparable investment strategies. These differences ranged from five to 20 basis points. The Trustees reexamined this matter and recommended that these differences be conformed to a uniform five basis points. As a result, the Trustees approved a reduction in the management fees for your fund. At a meeting on January 13, 2006, the Trustees approved an amended management contract for your fund to memorialize the fee arrangements agreed to in June 2005. Under the new fee schedule, the fund pays a quarterly fee to Putnam Management at the following rates:

0.70% of the first \$500 million of the fund's average weekly assets (as described below under "Approval of Amended and Restated Management Contract in July 2005");  
 0.60% of the next \$500 million;  
 0.55% of the next \$500 million;  
 0.50% of the next \$5 billion;  
 0.475% of the next \$5 billion;  
 0.455% of the next \$5 billion;  
 0.44% of the next \$5 billion;  
 0.43% of the next \$5 billion;  
 0.42% of the next \$5 billion;  
 0.41% of the next \$5 billion;  
 0.40% of the next \$5 billion;  
 0.39% of the next \$5 billion;  
 0.38% of the next \$5 billion; and  
 0.37% thereafter.

The new fee schedule for your fund resulted in lower management fees paid, as a percentage of the fund's average weekly assets, by common shareholders.

\* **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 33rd percentile in management fees and in the 33rd 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 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.

### 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

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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 Convertible Securities 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 |
|-----------------|-------------------|------------------|
| 36th            | 12th              | 12th             |

(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 13, 8, and 8 funds, respectively, in your fund's Lipper peer group.\* Past performance is no guarantee of future performance.)

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.

*\* The percentile rankings for your fund's common share annualized total return performance in the Lipper Convertible Securities Funds (closed-end) category for the one-, five-, and ten-year periods ended March 31, 2006, were 75%, 15%, and 15%, respectively. Over the one-, five-, and ten-year periods ended March 31, 2006, the fund ranked 9th out of 11, 1st out of 6, and 1st out of 6 funds, respectively. Note that this more recent information was not available when the Trustees approved the continuance of your fund's management contract.*

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## **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 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 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.

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## **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 your fund's Agreement and Declaration of Trust prohibits the issuance of 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 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 an advisor 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) 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.

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The Trustees approved the changes to your fund's management contract in principle at a meeting held on April 15, 2005, and further confirmed their approval in principle by written consent of a majority of the Trustees (including a majority of the Independent Trustees) dated May 18, 2005. Shareholders of your fund approved the amended and restated management contract at the fund's annual meeting of shareholders on July 14, 2005. The Trustees confirmed their action by written consent at an in-person meeting as required under the 1940 Act prior to the execution of the amended management contract.

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.

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## **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 expansion of this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period.

### **Important notice regarding delivery of shareholder documents**

In accordance with SEC regulations, Putnam sends a single copy of annual and semiannual shareholder reports, prospectuses, and proxy statements to Putnam shareholders who share the same address. If you prefer to receive

your own copy of these documents, please call Putnam at 1-800-225-1581, and Putnam will begin sending individual copies within 30 days.

## Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2005, are available on the Putnam Individual Investor Web site, [www.putnam.com/individual](http://www.putnam.com/individual), and on the SEC's Web site, [www.sec.gov](http://www.sec.gov). If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

## Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at [www.sec.gov](http://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.

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## Recent change to investment policy

In February 2006, the Trustees of your fund approved a change to the fund's investment policies. Effective April 30, 2006, the fund will no longer be required to invest, under normal circumstances, at least 80% of its net assets in fixed-income securities rated below investment grade (below BBB as rated by Standard & Poor's or Baa by Moody's).

As a result, the fund's management team will have greater flexibility (although the team may choose not to utilize this flexibility) to pursue the fund's objectives across a broader spectrum of credit quality. The fund's management team believes that it is possible under current conditions to raise the credit quality of the fund's portfolio without compromising the fund's yield or primary investment objective of seeking high current income, particularly in light of the fund's considerable exposure to convertible securities — an investment universe in which "high yield" and "low credit ratings" currently are not synonymous. In addition, a portfolio with higher credit quality generally offers shareholders greater protection against risk of loss, which serves the fund's secondary objective of capital appreciation.

The removal of this investment restriction did not change the fund's objectives and did not require shareholder approval.

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## Financial statements

### A guide to financial statements

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

The fund's portfolidists 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, which is calculated separately for each class of shares. (For funds with preferred shares, the amount subtracted from total assets

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includes the liquidation preference of preferred shares.)

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

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

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

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### The fund's portfolio /28/06 (Unaudited)

#### CORPORATE BONDS AND NOTES (41.9%)\*

|   | Principal amount | Value      |
|---|------------------|------------|
| Advertising and Marketing Services (0.3%)       |                  |            |
| Affinion Group, Inc. 144A company               |                  |            |
| guaranty 10 1/8s, 2013                          | \$ 420,000       | \$ 405,300 |
| Lamar Media Corp. company guaranty 7 1/4s, 2013 | 130,000          | 134,063    |
|   |                  | 539,363    |

#### Automotive (2.2%)

|   |         |         |
|---|---------|---------|
| ArvinMeritor, Inc. notes 8 3/4s, 2012                     | 95,000  | 93,100  |
| Dana Corp. notes 5.85s, 2015                              | 65,000  | 39,813  |
| Delco Remy International, Inc. company guaranty 11s, 2009 | 4,000   | 1,820   |
| Ford Motor Co. notes 7.45s, 2031                          | 340,000 | 241,400 |
| Ford Motor Credit Corp. bonds 7 3/8s, 2011                | 360,000 | 324,649 |
| Ford Motor Credit Corp. notes 7 7/8s, 2010                | 910,000 | 841,629 |
| General Motors Acceptance Corp. bonds 8s, 2031            | 565,000 | 515,979 |
| General Motors Acceptance Corp. notes 7 3/4s, 2010        | 555,000 | 523,065 |
| General Motors Acceptance Corp. notes 6 7/8s, 2012        | 140,000 | 124,739 |
| General Motors Acceptance Corp. notes 6 3/4s, 2014        | 285,000 | 251,780 |

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|   |         |           |
|---|---------|-----------|
| General Motors Acceptance Corp. notes 5 1/8s, 2008        | 135,000 | 123,523   |
| Hertz Corp. 144A sr. notes 8 7/8s, 2014                   | 185,000 | 193,325   |
| Meritor Automotive, Inc. notes 6.8s, 2009                 | 145,000 | 142,100   |
| Tenneco Automotive, Inc. company guaranty 8 5/8s, 2014    | 175,000 | 174,125   |
| Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013 | 275,000 | 304,511   |
| TRW Automotive Inc. sr. notes 9 3/8s, 2013                | 200,000 | 217,000   |
| TRW Automotive Inc. sr. sub. notes 11s, 2013              | 185,000 | 207,663   |
|   |         | 4,320,221 |

Basic Materials (4.4%)

|   |             |         |
|---|-------------|---------|
| Abitibi-Consolidated Finance LP company guaranty 7 7/8s, 2009   | 2,000       | 1,945   |
| AK Steel Corp. company guaranty 7 7/8s, 2009  | 20,000      | 19,450  |
| BCP Crystal US Holdings Corp. sr. sub. notes 9 5/8s, 2014   | 170,000     | 190,188 |
| Century Aluminum Co. company guaranty 7 1/2s, 2014  | 80,000      | 83,200  |
| Chaparral Steel Co. company guaranty 10s, 2013  | 270,000     | 298,350 |
| Chesapeake Corp. sr. sub. notes 7s, 2014  | EUR 135,000 | 145,484 |
| Cognis Holding GmbH & Co. 144A sr. notes 9 1/2s, 2014 (Germany)   | EUR 275,000 | 367,003 |
| Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 □□ | \$ 65,000   | 57,850  |
| Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 □□         | 310,000     | 288,300 |
| Crystal US Holdings, LLC sr. disc. notes stepped-coupon Ser. A, zero % (10s, 10/1/09), 2014 □□            | 360,000     | 281,700 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| Basic Materials <i>continued</i>  |                  |            |
| Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008 | \$ 352,000       | \$ 378,400 |
| Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)                    | 240,000          | 263,700    |
| Graphic Packaging International Corp sr. notes 8 1/2s, 2011                 | 15,000           | 15,075     |
| Hercules, Inc. company guaranty 6 3/4s, 2029                                | 180,000          | 176,400    |
| Huntsman, LLC company guaranty 11 5/8s, 2010                                | 97,000           | 110,580    |
| Huntsman, LLC company guaranty 11 1/2s, 2012                                | 53,000           | 60,553     |
| Ineos Group Holdings PLC 144A bonds 7 7/8s,                                 |                  |            |

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|   |     |         |           |
|---|-----|---------|-----------|
| 2016 (United Kingdom)   | EUR | 150,000 | 178,547   |
| Innophos, Inc. 144A sr. sub. notes 8 7/8s, 2014                   | \$  | 425,000 | 437,750   |
| Ispat Inland ULC sec. notes 9 3/4s, 2014                          |     | 300,000 | 341,250   |
| Jefferson Smurfit Corp. company guaranty 8 1/4s, 2012             |     | 24,000  | 23,460    |
| Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013             |     | 150,000 | 140,250   |
| JSG Holding PLC 144A sr. notes 11 1/2s,<br>2015 (Ireland) ☐☐      | EUR | 111,715 | 135,107   |
| Lyondell Chemical Co. company guaranty 10 1/2s, 2013              | \$  | 270,000 | 301,725   |
| Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007                  |     | 65,000  | 67,275    |
| MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)             |     | 310,000 | 324,725   |
| Metals USA, Inc. 144A sec. notes 11 1/8s, 2015                    |     | 160,000 | 172,000   |
| Nalco Co. sr. sub. notes 9s, 2013                                 | EUR | 190,000 | 246,884   |
| Nalco Co. sr. sub. notes 8 7/8s, 2013                             | \$  | 180,000 | 188,550   |
| Nell AF S.a.r.l. 144A sr. notes 8 3/8s, 2015 (Luxembourg)         |     | 265,000 | 266,325   |
| Nell AF S.a.r.l. 144A sr. notes 8 3/8s, 2015 (Luxembourg)         | EUR | 50,000  | 61,393    |
| NewPage Corp. sec. notes 10s, 2012                                | \$  | 360,000 | 376,200   |
| Norske Skog Canada, Ltd. sr. notes 7 3/8s, 2014 (Canada)          |     | 280,000 | 257,600   |
| Novelis, Inc. 144A sr. notes 7 3/4s, 2015                         |     | 605,000 | 586,850   |
| PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)            |     | 98,714  | 103,403   |
| PQ Corp. 144A company guaranty 7 1/2s, 2013                       |     | 265,000 | 254,400   |
| Rockwood Specialties Group, Inc. company<br>guaranty 7 5/8s, 2014 | EUR | 310,000 | 383,594   |
| Smurfit Capital Funding PLC debs. 7 1/2s, 2025 (Ireland)          | \$  | 45,000  | 41,400    |
| Steel Dynamics, Inc. company guaranty 9 1/2s, 2009                |     | 180,000 | 188,550   |
| Sterling Chemicals, Inc. sec. notes 10s, 2007 ☐☐                  |     | 17,046  | 16,236    |
| Stone Container Corp. sr. notes 9 3/4s, 2011                      |     | 225,000 | 231,469   |
| Stone Container Corp. sr. notes 8 3/8s, 2012                      |     | 95,000  | 93,100    |
| Stone Container Finance company guaranty 7 3/8s,<br>2014 (Canada) |     | 115,000 | 106,663   |
| Ucar Finance, Inc. company guaranty 10 1/4s, 2012                 |     | 120,000 | 127,800   |
| United States Steel Corp. sr. notes 9 3/4s, 2010                  |     | 154,000 | 167,090   |
| Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010 ☐☐             |     | 12,983  | 10,321    |
| Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011 ☐☐             |     | 23,885  | 18,989    |
|   |     |         | 8,587,084 |

Building Materials (0.9%)

|  |         |         |
|--|---------|---------|
| Associated Materials, Inc. company guaranty 9 3/4s, 2012               | 230,000 | 228,850 |
| Building Materials Corp. company guaranty 8s, 2008                     | 70,000  | 71,050  |
| Goodman Global Holding Co., Inc. sr. notes FRN<br>Ser. B, 7.491s, 2012 | 60,000  | 61,050  |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

Principal amount      Value

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Building Materials *continued*

Goodman Global Holding Co., Inc.

|   |    |         |    |           |
|---|----|---------|----|-----------|
| sr. sub. notes 7 7/8s, 2012                           | \$ | 240,000 | \$ | 234,600   |
| Jacuzzi Brands, Inc. sec. notes 9 5/8s, 2010          |    | 100,000 |    | 108,000   |
| NTK Holdings, Inc. sr. disc. notes zero %, 2014       |    | 270,000 |    | 189,000   |
| Texas Industries, Inc. sr. unsecd. notes 7 1/4s, 2013 |    | 300,000 |    | 310,500   |
| THL Buildco, Inc. (Nortek Holdings, Inc.)             |    |         |    |           |
| sr. sub. notes 8 1/2s, 2014                           |    | 460,000 |    | 458,850   |
|   |    |         |    | 1,661,900 |

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Capital Goods (4.3%)

Aero Invest 1 SA 144A company guaranty FRN

|   |     |         |  |         |
|---|-----|---------|--|---------|
| 10.634s, 2015 (Luxembourg) □□   | EUR | 369,826 |  | 451,340 |
| Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008                          | \$  | 293,000 |  | 309,115 |
| Allied Waste North America, Inc. sec. notes Ser. B, 5 3/4s, 2011                                |     | 30,000  |  | 28,725  |
| Amsted Industries, Inc. 144A sr. notes 10 1/4s, 2011  |     | 420,000 |  | 455,700 |
| Argo-Tech Corp. sr. notes 9 1/4s, 2011  |     | 165,000 |  | 174,900 |
| BE Aerospace, Inc. sr. notes 8 1/2s, 2010   |     | 321,000 |  | 345,075 |
| Blount, Inc. sr. sub. notes 8 7/8s, 2012  |     | 160,000 |  | 168,000 |
| Browning-Ferris Industries, Inc. debs. 7.4s, 2035   |     | 65,000  |  | 60,125  |
| Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008   |     | 140,000 |  | 140,000 |
| Covalence Specialty Materials Corp. 144A sr. sub. notes 10 1/4s, 2016                           |     | 295,000 |  | 305,694 |
| Crown Americas, LLC/Crown Americas Capital Corp. 144A sr. notes 7 5/8s, 2013                    |     | 340,000 |  | 354,450 |
| Crown Cork & Seal Co. Inc. debs. 8s, 2023   |     | 90,000  |  | 87,750  |
| Decrane Aircraft Holdings Co. company guaranty zero %, 2008 (acquired 7/23/04, cost \$78,000) □ |     | 238,000 |  | 157,080 |
| DRS Technologies, Inc. company guaranty 6 5/8s, 2016  |     | 115,000 |  | 115,575 |
| Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012  |     | 414,000 |  | 449,190 |
| Greenbrier Companies, Inc. company guaranty 8 3/8s, 2015  |     | 125,000 |  | 131,250 |
| Greenbrier Companies, Inc. 144A sr. notes 8 3/8s, 2015  |     | 95,000  |  | 99,750  |
| Hexcel Corp. sr. sub. notes 6 3/4s, 2015  |     | 55,000  |  | 55,138  |
| Invensys, PLC notes 9 7/8s, 2011 (United Kingdom)   |     | 15,000  |  | 15,525  |
| L-3 Communications Corp. company guaranty 7 5/8s, 2012  |     | 100,000 |  | 104,750 |
| L-3 Communications Corp. company guaranty 6 1/8s, 2013  |     | 80,000  |  | 78,800  |
| L-3 Communications Corp. sr. sub. notes Class B, 6 3/8s, 2015                                   |     | 215,000 |  | 214,463 |
| Legrand SA debs. 8 1/2s, 2025 (France)  |     | 405,000 |  | 496,125 |
| Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012  |     | 139,000 |  | 153,248 |
| Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011  | EUR | 45,000  |  | 57,266  |
| Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013  | \$  | 155,000 |  | 159,263 |
| Milacron Escrow Corp. sec. notes 11 1/2s, 2011  |     | 320,000 |  | 286,400 |
| Mueller Group, Inc. sr. sub. notes 10s, 2012  |     | 230,000 |  | 251,850 |



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|  |         |         |
|--|---------|---------|
| Mueller Holdings, Inc. disc. notes stepped-coupon<br>zero % (14 3/4s, 4/15/09), 2014 ☐ | 135,000 | 109,350 |
|--|---------|---------|

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|  |     | Principal amount | Value      |
|--|-----|------------------|------------|
| <i>Capital Goods continued</i>                                       |     |                  |            |
| Owens-Brockway Glass Container, Inc company<br>guaranty 6 3/4s, 2014 | EUR | 105,000          | \$ 128,049 |
| Owens-Brockway Glass company guaranty 8 7/8s, 2009                   | \$  | 5,000            | 5,219      |
| Owens-Brockway Glass company guaranty 8 1/4s, 2013                   |     | 240,000          | 250,200    |
| Owens-Brockway Glass company guaranty 7 3/4s, 2011                   |     | 55,000           | 57,750     |
| Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012                     |     | 197,000          | 211,775    |
| Owens-Illinois, Inc. debs. 7.8s, 2018                                |     | 55,000           | 55,550     |
| Plastipak Holdings Inc. 144A sr. notes 8 1/2s, 2015                  |     | 95,000           | 98,088     |
| Ray Acquisition SCA sr. notes 9 3/8s, 2015 (France)                  | EUR | 275,000          | 350,612    |
| Siebe PLC 144A sr. unsub. 6 1/2s, 2010 (United Kingdom)              | \$  | 260,000          | 242,775    |
| Solo Cup Co. sr. sub. notes 8 1/2s, 2014                             |     | 380,000          | 338,200    |
| TD Funding Corp. company guaranty 8 3/8s, 2011                       |     | 280,000          | 292,600    |
| Tekni-Plex, Inc. 144A sec. notes 10 7/8s, 2012                       |     | 320,000          | 352,000    |
| Terex Corp. company guaranty 9 1/4s, 2011                            |     | 40,000           | 42,650     |
| Terex Corp. company guaranty 7 3/8s, 2014                            |     | 24,000           | 24,720     |
| Terex Corp. company guaranty Ser. B, 10 3/8s, 2011                   |     | 82,000           | 86,613     |
|  |     |                  | 8,352,698  |

Communication Services (3.2%)

|  |  |         |         |
|--|--|---------|---------|
| Alamosa Delaware, Inc. company guaranty 12s, 2009                              |  | 49,000  | 53,043  |
| Alamosa Delaware, Inc. company guaranty 11s, 2010                              |  | 54,000  | 60,360  |
| Alamosa Delaware, Inc. sr. notes 8 1/2s, 2012                                  |  | 40,000  | 43,200  |
| American Cellular Corp. company guaranty 9 1/2s, 2009                          |  | 45,000  | 46,744  |
| American Cellular Corp. sr. notes Ser. B, 10s, 2011                            |  | 420,000 | 456,750 |
| American Tower Corp. sr. notes 7 1/2s, 2012                                    |  | 90,000  | 94,950  |
| American Towers, Inc. company guaranty 7 1/4s, 2011                            |  | 165,000 | 173,250 |
| Asia Global Crossing, Ltd. sr. notes 13 3/8s,<br>2010 (Bermuda) (In default) ☐ |  | 28,473  | 854     |
| Centennial Cellular Operating Co., LLC company<br>guaranty 10 1/8s, 2013       |  | 90,000  | 98,550  |
| Centennial Communications Corp. 144A sr. notes 10s, 2013                       |  | 145,000 | 150,800 |
| Centennial Communications Corp. 144A<br>sr. notes FRN 10 1/4s, 2013            |  | 40,000  | 41,300  |
| Cincinnati Bell Telephone company guaranty 6.3s, 2028                          |  | 35,000  | 31,850  |
| Cincinnati Bell, Inc. company guaranty 7s, 2015                                |  | 80,000  | 79,900  |
| Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014                              |  | 25,000  | 25,250  |

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|   |         |         |
|---|---------|---------|
| Cincinnati Bell, Inc. unsub. notes 7 1/4s, 2023                     | 80,000  | 78,800  |
| Citizens Communications Co. notes 9 1/4s, 2011                      | 240,000 | 265,800 |
| Citizens Communications Co. sr. notes 6 1/4s, 2013                  | 205,000 | 201,156 |
| Digicel, Ltd. 144A sr. notes 9 1/4s, 2012 (Jamaica)                 | 165,000 | 173,250 |
| Dobson Cellular Systems sec. notes 9 7/8s, 2012                     | 160,000 | 174,800 |
| Dobson Communications Corp. 144A sr. notes FRN 8.85s, 2012          | 75,000  | 74,250  |
| Eircom Funding company guaranty Ser. US\$, 8 1/4s, 2013 (Ireland)   | 60,000  | 64,125  |
| Horizon PCS, Inc. company guaranty 11 3/8s, 2012                    | 40,000  | 46,000  |
| Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom) | 150,000 | 154,688 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

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|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Communication Services continued</i>   |                  |            |
| Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 10/15/08), 2012 (United Kingdom) ☐☐             | \$ 230,000       | \$ 193,775 |
| iPCS, Inc. sr. notes 11 1/2s, 2012  | 70,000           | 80,325     |
| IWO Holdings, Inc. sec. FRN 8.35s, 2012   | 25,000           | 26,031     |
| Madison River Capital Corp. sr. notes 13 1/4s, 2010   | 69,000           | 72,623     |
| Nextel Partners, Inc. sr. notes 8 1/8s, 2011  | 290,000          | 307,400    |
| Qwest Communications International, Inc. company guaranty 7 1/2s, 2014  | 540,000          | 554,850    |
| Qwest Corp. notes 8 7/8s, 2012  | 430,000          | 481,600    |
| Qwest Corp. sr. notes 7 5/8s, 2015  | 150,000          | 160,875    |
| Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada)   | 240,000          | 294,900    |
| Rogers Wireless, Inc. sec. notes 9 5/8s, 2011 (Canada)  | 265,000          | 307,400    |
| Rogers Wireless, Inc. sec. notes 6 3/8s, 2014 (Canada)  | 330,000          | 334,125    |
| Rural Cellular Corp. sr. notes 9 7/8s, 2010   | 150,000          | 160,500    |
| Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010  | 70,000           | 71,050     |
| Rural Cellular Corp. 144A sr. sub. notes FRN 10.43s, 2012   | 50,000           | 51,500     |
| SBA Communications Corp. sr. notes 8 1/2s, 2012   | 48,000           | 52,800     |
| SBA Telecommunications, Inc./SBA Communications Corp sr. disc notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 ☐☐ | 49,000           | 46,428     |
| Syniverse Technologies, Inc. sr. sub. notes Ser. B, 7 3/4s, 2013  | 175,000          | 175,438    |
| U S West, Inc. debs. 7 1/4s, 2025   | 65,000           | 65,813     |
| Valor Telecommunications Enterprises, LLC/Finance Corp. company guaranty 7 3/4s, 2015                                 | 75,000           | 78,094     |
|   |                  | 6,105,197  |

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Consumer (0.5%)

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|  |         |         |
|--|---------|---------|
| Jostens IH Corp. company guaranty 7 5/8s, 2012 | 500,000 | 507,500 |
| Samsonite Corp. sr. sub. notes 8 7/8s, 2011    | 335,000 | 354,263 |
|  |         | 861,763 |

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Consumer Staples (6.9%)

|   |         |         |
|---|---------|---------|
| Adelphia Communications Corp. sr. notes 10 7/8s, 2010 (In default) □        | 20,000  | 12,950  |
| Adelphia Communications Corp. sr. notes Ser. B, 9 7/8s, 2007 (In default) □ | 235,000 | 152,163 |
| Affinity Group, Inc. sr. sub. notes 9s, 2012                                | 360,000 | 360,000 |
| AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012                         | 35,000  | 33,294  |
| AMC Entertainment, Inc. sr. sub. notes 8s, 2014                             | 29,000  | 25,266  |
| AMC Entertainment, Inc. 144A company guaranty 11s, 2016                     | 90,000  | 90,563  |
| Ashtead Holdings PLC 144A sr. notes 8 5/8s, 2015 (United Kingdom)           | 75,000  | 78,375  |
| Atlantic Broadband Finance, LLC company guaranty 9 3/8s, 2014               | 285,000 | 265,050 |
| Brand Services, Inc. company guaranty 12s, 2012                             | 309,000 | 327,540 |
| Cablevision Systems Corp. sr. notes Ser. B, 8s, 2012                        | 250,000 | 245,625 |
| CCH I Holdings, LLC 144A company guaranty 11 1/8s, 2014                     | 363,000 | 199,650 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

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|   | Principal amount | Value     |
|---|------------------|-----------|
| <i>Consumer Staples continued</i>   |                  |           |
| CCH I Holdings, LLC 144A company guaranty 10s, 2014   | \$ 65,000        | \$ 33,800 |
| CCH I Holdings, LLC 144A company guaranty stepped-coupon zero % (11 3/4s, 5/15/06), 2014 □□ | 14,000           | 7,280     |
| CCH I, LLC 144A secd. notes 11s, 2015   | 692,000          | 582,145   |
| Charter Communications Holdings II 144A sr. notes 10 1/4s, 2010                             | 295,000          | 293,525   |
| Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 1/4s, 2010                  | 235,000          | 234,413   |
| Church & Dwight Co., Inc. company guaranty 6s, 2012   | 130,000          | 129,350   |
| Cinemark USA, Inc. sr. sub. notes 9s, 2013  | 130,000          | 137,475   |
| Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/07), 2014 □□             | 325,000          | 242,125   |
| Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008                                | 115,000          | 119,888   |
| Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012                              | 10,000           | 10,513    |
| CSC Holdings, Inc. debs. 7 5/8s, 2018   | 50,000           | 48,688    |
| CSC Holdings, Inc. debs. Ser. B, 8 1/8s, 2009   | 3,000            | 3,094     |

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|   |         |         |
|---|---------|---------|
| CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011                                 | 105,000 | 105,788 |
| CSC Holdings, Inc. sr. sub. debs. 10 1/2s, 2016                                   | 130,000 | 137,800 |
| CSC Holdings, Inc. 144A sr. notes 7 1/4s, 2012                                    | 205,000 | 198,338 |
| Dean Foods Co. sr. notes 6 5/8s, 2009   | 440,000 | 447,700 |
| Del Monte Corp. company guaranty 6 3/4s, 2015                                     | 105,000 | 105,000 |
| Del Monte Corp. sr. sub. notes 8 5/8s, 2012                                       | 270,000 | 287,550 |
| DirecTV Holdings, LLC company guaranty 6 3/8s, 2015                               | 690,000 | 687,413 |
| DirecTV Holdings, LLC sr. notes 8 3/8s, 2013                                      | 185,000 | 198,413 |
| Doane Pet Care Co. 144A sr. sub. notes 10 5/8s, 2015                              | 350,000 | 370,125 |
| Domino's, Inc. sr. sub. notes 8 1/4s, 2011  | 106,000 | 110,240 |
| Echostar DBS Corp. company guaranty 6 5/8s, 2014                                  | 210,000 | 204,225 |
| Echostar DBS Corp. sr. notes 6 3/8s, 2011   | 500,000 | 488,750 |
| Elizabeth Arden, Inc. company guaranty 7 3/4s, 2014                               | 155,000 | 159,650 |
| Emmis Communications Corp. unsecd. sr. notes FRN 10.366s, 2012                    | 42,857  | 42,857  |
| Granite Broadcasting Corp. sec. notes 9 3/4s, 2010                                | 75,000  | 67,875  |
| Gray Television, Inc. company guaranty 9 1/4s, 2011                               | 87,000  | 92,438  |
| Intelsat Bermuda, Ltd. 144A sr. notes 8 7/8s, 2015 (Bermuda)                      | 210,000 | 217,875 |
| Intelsat Bermuda, Ltd. 144A sr. notes 8 1/2s, 2013 (Bermuda)                      | 100,000 | 102,250 |
| Jean Coutu Group, Inc. sr. notes 7 5/8s, 2012 (Canada)                            | 150,000 | 150,000 |
| Jean Coutu Group, Inc. sr. sub. notes 8 1/2s, 2014 (Canada)                       | 75,000  | 71,625  |
| LIN Television Corp. company guaranty Ser. B, 6 1/2s, 2013                        | 205,000 | 194,494 |
| LIN Television Corp. sr. sub. notes 6 1/2s, 2013                                  | 165,000 | 156,544 |
| Marquee Holdings, Inc. sr. disc. notes stepped-coupon zero % (12s, 8/15/09), 2014 | 225,000 | 137,531 |
| Paxson Communications Corp. 144A sec. FRN 10.777s, 2013                           | 95,000  | 91,913  |
| Paxson Communications Corp. 144A sec. FRN 7.777s, 2012                            | 120,000 | 120,000 |
| Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013                          | 375,000 | 367,500 |
| Playtex Products, Inc. company guaranty 9 3/8s, 2011                              | 248,000 | 259,780 |
| Playtex Products, Inc. sec. notes 8s, 2011  | 400,000 | 427,000 |
| Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012                                 | 342,000 | 346,275 |
| Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012                        | 205,000 | 220,888 |
| Rainbow National Services, LLC 144A sr. sub. debs. 10 3/8s, 2014                  | 200,000 | 226,250 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

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|   | Principal amount | Value      |
|---|------------------|------------|
| Consumer Staples <i>continued</i>                       |                  |            |
| Remington Arms Co., Inc. company guaranty 10 1/2s, 2011 | \$ 275,000       | \$ 233,750 |
| Rite Aid Corp. company guaranty 9 1/2s, 2011            | 130,000          | 136,500    |
| Rite Aid Corp. company guaranty 7 1/2s, 2015            | 105,000          | 101,194    |
| Rite Aid Corp. debs. 6 7/8s, 2013                       | 215,000          | 180,600    |
| Sbarro, Inc. company guaranty 11s, 2009                 | 210,000          | 214,725    |
| Scotts Co. (The) sr. sub. notes 6 5/8s, 2013            | 55,000           | 55,688     |

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|  |         |            |
|--|---------|------------|
| Sirius Satellite Radio, Inc. sr. unsecd. notes 9 5/8s, 2013  | 180,000 | 176,400    |
| Six Flags, Inc. sr. notes 8 7/8s, 2010                       | 138,000 | 139,380    |
| Spectrum Brands, Inc. company guaranty 7 3/8s, 2015          | 445,000 | 383,813    |
| Spectrum Brands, Inc. sr. sub. notes 8 1/2s, 2013            | 100,000 | 91,250     |
| United Rentals NA, Inc. company guaranty 6 1/2s, 2012        | 105,000 | 104,869    |
| United Rentals NA, Inc. sr. sub. notes 7 3/4s, 2013          | 24,000  | 24,090     |
| United Rentals NA, Inc. sr. sub. notes 7s, 2014              | 230,000 | 222,813    |
| Universal City Florida Holding Co. sr. notes 8 3/8s, 2010    | 290,000 | 289,275    |
| Universal City Florida Holding Co. sr. notes FRN 9.43s, 2010 | 107,000 | 108,605    |
| Warner Music Group sr. sub. notes 7 3/8s, 2014               | 125,000 | 125,313    |
| Young Broadcasting, Inc. company guaranty 10s, 2011          | 374,000 | 334,263    |
| Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014         | 85,000  | 71,400     |
|  |         | 13,420,787 |

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Energy (3.7%)

|   |         |         |
|---|---------|---------|
| Arch Western Finance, LLC sr. notes 6 3/4s, 2013                        | 340,000 | 340,850 |
| Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands) | 92,000  | 99,130  |
| Chaparral Energy, Inc. 144A sr. notes 8 1/2s, 2015                      | 145,000 | 153,338 |
| CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)               | 240,000 | 245,100 |
| Chesapeake Energy Corp. company guaranty 7 3/4s, 2015                   | 60,000  | 63,750  |
| Chesapeake Energy Corp. sr. notes 7 1/2s, 2013                          | 190,000 | 202,113 |
| Chesapeake Energy Corp. sr. notes 7s, 2014                              | 250,000 | 259,375 |
| Compton Petroleum Corp. company guaranty 7 5/8s, 2013 (Canada)          | 195,000 | 198,900 |
| Comstock Resources, Inc. sr. notes 6 7/8s, 2012                         | 120,000 | 120,000 |
| Delta Petroleum Corp. company guaranty 7s, 2015                         | 485,000 | 468,025 |
| Denbury Resources, Inc. sr. sub. notes 7 1/2s, 2015                     | 100,000 | 104,750 |
| Dresser-Rand Group, Inc. 144A sr. sub. notes 7 5/8s, 2014               | 27,000  | 28,080  |
| Encore Acquisition Co. sr. sub. notes 6 1/4s, 2014                      | 60,000  | 58,800  |
| Encore Acquisition Co. sr. sub. notes 6s, 2015                          | 213,000 | 202,350 |
| EXCO Resources, Inc. company guaranty 7 1/4s, 2011                      | 235,000 | 239,700 |
| Forest Oil Corp. company guaranty 7 3/4s, 2014                          | 100,000 | 104,625 |
| Forest Oil Corp. sr. notes 8s, 2011                                     | 135,000 | 147,150 |
| Forest Oil Corp. sr. notes 8s, 2008                                     | 94,000  | 98,348  |
| Hanover Compressor Co. sr. notes 9s, 2014                               | 90,000  | 98,100  |
| Hanover Compressor Co. sr. notes 8 5/8s, 2010                           | 60,000  | 63,375  |
| Hanover Compressor Co. sub. notes zero %, 2007                          | 125,000 | 115,000 |
| Hanover Equipment Trust sec. notes Ser. B, 8 3/4s, 2011                 | 40,000  | 42,200  |
| Harvest Operations Corp. sr. notes 7 7/8s, 2011 (Canada)                | 365,000 | 364,088 |
| Inergy LP/Inergy Finance Corp. sr. notes 6 7/8s, 2014                   | 455,000 | 433,388 |
| Inergy LP/Inergy Finance Corp. 144A sr. notes 8 1/4s, 2016              | 30,000  | 30,600  |
| KCS Energy, Inc. sr. notes 7 1/8s, 2012                                 | 85,000  | 86,275  |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Energy continued</i>   |                  |            |
| Massey Energy Co. sr. notes 6 5/8s, 2010                                    | \$ 335,000       | \$ 342,538 |
| Newfield Exploration Co. sr. notes 7 5/8s, 2011                             | 150,000          | 160,875    |
| Newfield Exploration Co. sr. sub. notes 6 5/8s, 2014                        | 210,000          | 216,825    |
| Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014 | 95,000           | 98,088     |
| Peabody Energy Corp. sr. notes 5 7/8s, 2016                                 | 180,000          | 176,400    |
| Plains Exploration & Production Co. sr. notes 7 1/8s, 2014                  | 205,000          | 213,713    |
| Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012             | 190,000          | 204,250    |
| Pogo Producing Co. sr. sub. notes 6 7/8s, 2017                              | 185,000          | 186,388    |
| Pride International, Inc. sr. notes 7 3/8s, 2014                            | 400,000          | 427,000    |
| Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013           | 25,000           | 25,313     |
| Stone Energy Corp. sr. sub. notes 6 3/4s, 2014                              | 210,000          | 200,550    |
| Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012                              | 7,000            | 7,490      |
| Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011                         | 40,000           | 41,600     |
| Whiting Petroleum Corp. 144A sr. sub. notes 7s, 2014                        | 575,000          | 576,438    |
|   |                  | 7,244,878  |

Financial (0.4%)

|   |         |         |
|---|---------|---------|
| Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R) | 60,000  | 61,200  |
| E*Trade Finance Corp. sr. notes 8s, 2011                | 230,000 | 242,075 |
| Finova Group, Inc. notes 7 1/2s, 2009                   | 231,000 | 75,075  |
| Western Financial Bank sub. debs. 9 5/8s, 2012          | 320,000 | 360,000 |
|   |         | 738,350 |

Gaming & Lottery (1.7%)

|  |         |         |
|--|---------|---------|
| Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012              | 30,000  | 32,250  |
| Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012              | 25,000  | 26,156  |
| Boyd Gaming Corp. sr. sub. notes 7 1/8s, 2016              | 195,000 | 197,438 |
| Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014              | 290,000 | 289,275 |
| MGM Mirage, Inc. company guaranty 8 1/2s, 2010             | 95,000  | 102,956 |
| MGM Mirage, Inc. company guaranty 6s, 2009                 | 280,000 | 278,600 |
| MGM Mirage, Inc. sr. notes 6 3/4s, 2012                    | 2,000   | 2,033   |
| Mirage Resorts, Inc. debs. 7 1/4s, 2017                    | 55,000  | 57,338  |
| Park Place Entertainment Corp. sr. notes 7 1/2s, 2009      | 30,000  | 31,763  |
| Park Place Entertainment Corp. sr. notes 7s, 2013          | 165,000 | 174,601 |
| Park Place Entertainment Corp. sr. sub. notes 7 7/8s, 2010 | 278,000 | 296,418 |
| Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010     | 200,000 | 208,876 |
| Penn National Gaming, Inc. sr. sub. notes 6 3/4s, 2015     | 65,000  | 65,325  |
| Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012   | 175,000 | 182,000 |
| Resorts International Hotel and Casino, Inc.               |         |         |

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|   |         |           |
|---|---------|-----------|
| company guaranty 11 1/2s, 2009  | 158,000 | 174,195   |
| Scientific Games Corp. company guaranty 6 1/4s, 2012                      | 175,000 | 173,906   |
| Station Casinos, Inc. sr. notes 6s, 2012                                  | 193,000 | 193,000   |
| Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016                         | 120,000 | 122,100   |
| Trump Entertainment Resorts, Inc. sec. notes 8 1/2s, 2015                 | 345,000 | 344,138   |
| Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp.<br>1st mtg. 6 5/8s, 2014 | 365,000 | 359,525   |
|   |         | 3,311,893 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|  | Principal amount | Value      |
|--|------------------|------------|
| Health Care (3.0%)   |                  |            |
| Athena Neurosciences Finance, LLC company<br>guaranty 7 1/4s, 2008                       | \$ 355,000       | \$ 347,013 |
| Community Health Systems, Inc.<br>sr. sub. notes 6 1/2s, 2012                            | 408,000          | 403,920    |
| DaVita, Inc. company guaranty 7 1/4s, 2015   | 290,000          | 295,800    |
| DaVita, Inc. company guaranty 6 5/8s, 2013   | 290,000          | 294,350    |
| Fresenius Finance BV 144A 5 1/2s, 2016 (Netherlands)                                     | EUR 60,000       | 72,027     |
| HCA, Inc. debs. 7.19s, 2015  | \$ 82,000        | 85,016     |
| HCA, Inc. notes 6 3/8s, 2015   | 65,000           | 64,898     |
| HCA, Inc. notes 5 3/4s, 2014   | 75,000           | 71,715     |
| HCA, Inc. sr. notes 6.95s, 2012  | 70,000           | 72,009     |
| Healthsouth Corp. notes 7 5/8s, 2012   | 266,000          | 292,600    |
| Insight Health Services Corp. company<br>guaranty FRB 9.93s, 2011                        | 305,000          | 282,125    |
| MedQuest, Inc. company guaranty Ser. B, 11 7/8s, 2012                                    | 36,000           | 27,720     |
| MQ Associates, Inc. sr. disc. notes stepped-coupon<br>zero % (12 1/4s, 8/15/08), 2012 ☐☐ | 360,000          | 79,200     |
| Omnicare, Inc. sr. sub. notes 6 7/8s, 2015   | 95,000           | 96,900     |
| Omnicare, Inc. sr. sub. notes 6 1/8s, 2013   | 155,000          | 152,675    |
| Owens & Minor, Inc. company guaranty 8 1/2s, 2011  | 110,000          | 114,950    |
| Psychiatric Solutions, Inc. company guaranty 7 3/4s, 2015                                | 360,000          | 371,700    |
| Select Medical Corp. company guaranty 7 5/8s, 2015                                       | 100,000          | 85,500     |
| Service Corp. International notes 6 1/2s, 2008   | 35,000           | 35,350     |
| Service Corp. International notes Ser. *, 7.7s, 2009                                     | 41,000           | 43,050     |
| Service Corp. International 144A sr. notes 7 1/4s, 2017                                  | 65,000           | 66,381     |
| Service Corp. International 144A sr. notes 6 3/4s, 2016                                  | 180,000          | 179,550    |
| Stewart Enterprises, Inc. 144A sr. notes 7 1/4s, 2013                                    | 340,000          | 328,950    |
| Tenet Healthcare Corp. notes 7 3/8s, 2013  | 265,000          | 243,138    |
| Tenet Healthcare Corp. sr. notes 9 7/8s, 2014  | 245,000          | 249,288    |
| Triad Hospitals, Inc. sr. notes 7s, 2012   | 165,000          | 168,300    |
| Triad Hospitals, Inc. sr. sub. notes 7s, 2013  | 300,000          | 302,625    |

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|   |         |           |
|---|---------|-----------|
| Universal Hospital Services, Inc.<br>sr. notes 10 1/8s, 2011 (Canada) | 120,000 | 125,400   |
| US Oncology, Inc. company guaranty 9s, 2012                           | 160,000 | 171,200   |
| Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014           | 365,000 | 380,513   |
| Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)          | 65,000  | 74,019    |
| Ventas Realty LP/Capital Corp. company<br>guaranty 6 3/4s, 2010 (R)   | 75,000  | 76,594    |
| Ventas Realty LP/Capital Corp. sr. notes 6 5/8s, 2014 (R)             | 50,000  | 50,625    |
| Ventas Realty LP/Capital Corp. 144A sr. notes 6 1/2s, 2016 (R)        | 80,000  | 80,400    |
|   |         | 5,785,501 |

Homebuilding (0.7%)

|  |         |         |
|--|---------|---------|
| Ashton Woods USA, LLC/Ashton Woods Finance Co.<br>144A sr. sub. notes 9 1/2s, 2015 (R) | 100,000 | 94,000  |
| Beazer Homes USA, Inc. company guaranty 8 5/8s, 2011                                   | 95,000  | 99,513  |
| K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012                           | 130,000 | 136,175 |
| K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014                                  | 60,000  | 57,169  |
| KB Home sr. sub. notes 9 1/2s, 2011  | 2,000   | 2,093   |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|  | Principal amount | Value     |
|--|------------------|-----------|
| Homebuilding <i>continued</i>                              |                  |           |
| Meritage Homes Corp. company guaranty 6 1/4s, 2015         | \$ 75,000        | \$ 67,500 |
| Schuler Homes, Inc. company guaranty 10 1/2s, 2011         | 104,000          | 111,150   |
| Standard Pacific Corp. sr. notes 7s, 2015                  | 180,000          | 166,050   |
| Technical Olympic USA, Inc. company guaranty 10 3/8s, 2012 | 75,000           | 76,106    |
| Technical Olympic USA, Inc. sr. sub. notes 7 1/2s, 2015    | 235,000          | 199,750   |
| WCI Communities, Inc. company guaranty 9 1/8s, 2012        | 356,000          | 360,450   |
|  |                  | 1,369,956 |

Household Furniture and Appliances (0.1%)

|  |         |         |
|--|---------|---------|
| Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014 | 260,000 | 271,700 |
|--|---------|---------|

Lodging/Tourism (0.5%)

|   |         |         |
|---|---------|---------|
| FelCor Lodging LP company guaranty 9s, 2008 (R)                   | 100,000 | 110,500 |
| HMH Properties, Inc. company guaranty Ser. B,<br>7 7/8s, 2008 (R) | 35,000  | 35,219  |
| Host Marriott LP company guaranty Ser. G, 9 1/4s, 2007 (R)        | 60,000  | 63,000  |
| Host Marriott LP sr. notes Ser. M, 7s, 2012 (R)                   | 215,000 | 219,300 |
| MeriStar Hospitality Corp. company                                |         |         |



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|  |         |         |
|--|---------|---------|
| guaranty 9 1/8s, 2011 (R)<br>Starwood Hotels & Resorts Worldwide, Inc.     | 125,000 | 145,000 |
| company guaranty 7 7/8s, 2012<br>Starwood Hotels & Resorts Worldwide, Inc. | 95,000  | 104,263 |
| company guaranty 7 3/8s, 2007<br>Starwood Hotels & Resorts Worldwide, Inc. | 121,000 | 123,420 |
| debs. 7 3/8s, 2015   | 120,000 | 130,200 |
|  |         | 930,902 |

Publishing (1.9%)

|  |         |           |
|--|---------|-----------|
| American Media, Inc. company guaranty Ser. B, 10 1/4s, 2009                  | 335,000 | 298,988   |
| CanWest Media, Inc. company guaranty 8s, 2012 (Canada)                       | 356,394 | 365,304   |
| Cenveo Corp, sr. sub. notes 7 7/8s, 2013                                     | 235,000 | 232,650   |
| Dex Media West, LLC/Dex Media Finance Co.<br>sr. notes Ser. B, 8 1/2s, 2010  | 245,000 | 259,700   |
| Dex Media, Inc. disc. notes stepped-coupon<br>zero % (9s, 11/15/08), 2013 □□ | 115,000 | 96,600    |
| Dex Media, Inc. notes 8s, 2013   | 85,000  | 87,975    |
| Houghton Mifflin Co. sr. sub. notes 9 7/8s, 2013                             | 405,000 | 441,450   |
| Mail-Well I Corp. company guaranty 9 5/8s, 2012                              | 180,000 | 194,175   |
| PRIMEDIA, Inc. sr. notes 8s, 2013  | 330,000 | 295,350   |
| R.H. Donnelley Corp. sr. notes 6 7/8s, 2013                                  | 85,000  | 79,900    |
| R.H. Donnelley Corp. 144A sr. disc. notes Ser. A-2,<br>6 7/8s, 2013          | 145,000 | 134,850   |
| R.H. Donnelley Corp. 144A sr. disc. notes 6 7/8s, 2013                       | 70,000  | 65,100    |
| R.H. Donnelley Corp. 144A sr. notes 8 7/8s, 2016                             | 195,000 | 201,825   |
| Reader's Digest Association, Inc. (The) sr. notes 6 1/2s, 2011               | 440,000 | 435,600   |
| Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009                          | 446,000 | 437,638   |
| Vertis, Inc. 144A sub. notes 13 1/2s, 2009                                   | 160,000 | 131,200   |
|  |         | 3,758,305 |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| Retail (1.0%)   |                  |            |
| Asbury Automotive Group, Inc. sr. sub. notes 8s, 2014     | \$ 105,000       | \$ 105,919 |
| Autonation, Inc. company guaranty 9s, 2008                | 260,000          | 277,550    |
| GSC Holdings Corp. 144A company guaranty 8s, 2012         | 185,000          | 184,538    |
| Harry & David Holdings, Inc. company<br>guaranty 9s, 2013 | 75,000           | 72,750     |
| JC Penney Co., Inc. debs. 7 1/8s, 2023                    | 220,000          | 248,626    |
| JC Penney Co., Inc. notes 9s, 2012                        | 130,000          | 152,588    |
| JC Penney Co., Inc. notes 8s, 2010                        | 10,000           | 10,893     |

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|   |         |           |
|---|---------|-----------|
| Movie Gallery, Inc. sr. unsecd. notes 11s, 2012       | 130,000 | 85,475    |
| Neiman-Marcus Group, Inc. 144A sr. notes 9s, 2015     | 450,000 | 475,313   |
| United Auto Group, Inc. company guaranty 9 5/8s, 2012 | 275,000 | 294,938   |
|   |         | 1,908,590 |

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Technology (2.1%)

|  |         |           |
|--|---------|-----------|
| Advanced Micro Devices, Inc. sr. notes 7 3/4s, 2012                      | 168,000 | 178,080   |
| Amkor Technologies, Inc. sr. notes 7 3/4s, 2013                          | 184,000 | 174,340   |
| Celestica, Inc. sr. sub. notes 7 7/8s, 2011 (Canada)                     | 85,000  | 86,700    |
| Celestica, Inc. sr. sub. notes 7 5/8s, 2013 (Canada)                     | 180,000 | 180,000   |
| Freescale Semiconductor, Inc. sr. notes Ser. B, 7 1/8s, 2014             | 210,000 | 221,813   |
| Iron Mountain, Inc. company guaranty 8 5/8s, 2013                        | 355,000 | 368,313   |
| Iron Mountain, Inc. company guaranty 6 5/8s, 2016                        | 390,000 | 367,575   |
| Lucent Technologies, Inc. debs. 6.45s, 2029                              | 225,000 | 189,844   |
| New ASAT Finance, Ltd. company guaranty 9 1/4s,<br>2011 (Cayman Islands) | 90,000  | 75,150    |
| Soletron Corp. 144A sr. sub. notes 8s, 2016                              | 175,000 | 177,625   |
| SunGard Data Systems, Inc. 144A sr. sub. notes 10 1/4s, 2015             | 256,000 | 268,480   |
| SunGard Data Systems, Inc. 144A sr. unsecd. notes 9 1/8s, 2013           | 426,000 | 453,158   |
| UGS Corp. company guaranty 10s, 2012                                     | 350,000 | 383,688   |
| Unisys Corp. sr. notes 8s, 2012  | 190,000 | 185,250   |
| Xerox Capital Trust I company guaranty 8s, 2027                          | 175,000 | 181,125   |
| Xerox Corp. company guaranty 9 3/4s, 2009                                | 3,000   | 3,293     |
| Xerox Corp. notes Ser. MTN, 7.2s, 2016                                   | 110,000 | 117,150   |
| Xerox Corp. sr. notes 7 5/8s, 2013                                       | 211,000 | 223,924   |
| Xerox Corp. sr. notes 6 7/8s, 2011                                       | 185,000 | 191,244   |
|  |         | 4,026,752 |

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Textiles (0.4%)

|   |         |         |
|---|---------|---------|
| Levi Strauss & Co. sr. notes 12 1/4s, 2012            | 281,000 | 321,043 |
| Levi Strauss & Co. sr. notes 9 3/4s, 2015             | 253,000 | 269,445 |
| Oxford Industries, Inc. sr. notes 8 7/8s, 2011        | 100,000 | 103,000 |
| Tommy Hilfiger USA, Inc. company guaranty 6.85s, 2008 | 100,000 | 103,000 |
|   |         | 796,488 |

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Tire & Rubber (0.3%)

|   |         |         |
|---|---------|---------|
| Goodyear Tire & Rubber Co. (The) notes 8 1/2s, 2007 | 60,000  | 61,275  |
| Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011 | 435,000 | 427,388 |
| Goodyear Tire & Rubber Co. (The) sr. notes 9s, 2015 | 85,000  | 85,425  |
|   |         | 574,088 |

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|   | Principal amount | Value      |
|---|------------------|------------|
| Transportation (0.4%)   |                  |            |
| Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008                | \$ 230,000       | \$ 209,300 |
| Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008                | 300,000          | 323,250    |
| Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009                | 40,000           | 41,200     |
| Navistar International Corp. company guaranty 6 1/4s, 2012                    | 110,000          | 110,825    |
| Navistar International Corp. company guaranty Ser. B, 9 3/8s, 2006            | 157,000          | 158,374    |
|   |                  | 842,949    |
| Utilities & Power (3.0%)  |                  |            |
| AES Corp. (The) sr. notes 8 7/8s, 2011  | 22,000           | 23,870     |
| AES Corp. (The) sr. notes 8 3/4s, 2008  | 14,000           | 14,700     |
| AES Corp. (The) 144A sec. notes 9s, 2015                                      | 175,000          | 191,625    |
| AES Corp. (The) 144A sec. notes 8 3/4s, 2013                                  | 240,000          | 260,100    |
| ANR Pipeline Co. debs. 9 5/8s, 2021   | 180,000          | 232,483    |
| CMS Energy Corp. sr. notes 8.9s, 2008   | 60,000           | 64,050     |
| CMS Energy Corp. sr. notes 8 1/2s, 2011                                       | 70,000           | 76,300     |
| CMS Energy Corp. sr. notes 7 3/4s, 2010                                       | 40,000           | 42,100     |
| Colorado Interstate Gas Co. debs. 6.85s, 2037                                 | 95,000           | 100,643    |
| Colorado Interstate Gas Co. sr. notes 5.95s, 2015                             | 30,000           | 29,594     |
| Copano Energy, LLC. 144A sr. notes 8 1/8s, 2016                               | 80,000           | 82,800     |
| Dynegy Holdings, Inc. 144A sec. notes 10 1/8s, 2013                           | 315,000          | 354,375    |
| Dynegy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010                 | 90,000           | 91,575     |
| Dynegy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016                 | 125,000          | 128,438    |
| El Paso Corp. sr. notes 8.05s, 2030   | 115,000          | 123,913    |
| El Paso Corp. sr. notes 7 3/8s, 2012  | 90,000           | 93,375     |
| El Paso Corp. sr. notes Ser. MTN, 7.8s, 2031                                  | 85,000           | 90,100     |
| El Paso Natural Gas Co. debs. 8 5/8s, 2022                                    | 40,000           | 47,856     |
| El Paso Production Holding Co. company guaranty 7 3/4s, 2013                  | 360,000          | 379,800    |
| Ferrellgas LP/Finance sr. notes 6 3/4s, 2014                                  | 155,000          | 151,125    |
| Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034                           | 280,000          | 305,900    |
| Mirant North America, LLC 144A sr. notes 7 3/8s, 2013                         | 230,000          | 236,038    |
| Mission Energy Holding Co. sec. notes 13 1/2s, 2008                           | 155,000          | 178,638    |
| Monongahela Power Co. 1st mtge. 6.7s, 2014                                    | 90,000           | 96,733     |
| Nevada Power Co. 2nd mtge. 9s, 2013   | 62,000           | 68,557     |
| Northwestern Corp. sec. notes 5 7/8s, 2014                                    | 360,000          | 361,858    |
| NRG Energy, Inc. sr. notes 7 3/8s, 2016<br>(acquired 1/26/06, cost \$480,000) | 480,000          | 494,400    |

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|  |         |         |
|--|---------|---------|
| Orion Power Holdings, Inc. sr. notes 12s, 2010           | 125,000 | 143,125 |
| SEMCO Energy, Inc. sr. notes 7 3/4s, 2013                | 110,000 | 114,275 |
| SEMCO Energy, Inc. 144A sr. notes 7 3/4s, 2013           | 145,000 | 150,800 |
| Sierra Pacific Power Co. general ref. mtge. 6 1/4s, 2012 | 35,000  | 35,700  |
| Sierra Pacific Resources sr. notes 8 5/8s, 2014          | 165,000 | 180,070 |
| Teco Energy, Inc. notes 7.2s, 2011                       | 35,000  | 37,013  |

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CORPORATE BONDS AND NOTES (41.9%)\* *continued*

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|   | Principal amount | Value         |
|---|------------------|---------------|
| <i>Utilities &amp; Power continued</i>                                |                  |               |
| Teco Energy, Inc. notes 7s, 2012                                      | \$ 60,000        | \$ 63,000     |
| Teco Energy, Inc. sr. notes 6 3/4s, 2015                              | 10,000           | 10,500        |
| Tennessee Gas Pipeline Co. debs. 7s, 2028                             | 15,000           | 15,776        |
| Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017                 | 40,000           | 43,961        |
| Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026                | 150,000          | 163,313       |
| Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada) | 140,000          | 144,550       |
| Utilicorp United, Inc. sr. notes 9.95s, 2011                          | 95,000           | 105,688       |
| Williams Cos., Inc. (The) notes 8 3/4s, 2032                          | 30,000           | 36,300        |
| Williams Cos., Inc. (The) notes 8 1/8s, 2012                          | 35,000           | 38,325        |
| Williams Cos., Inc. (The) notes 7 5/8s, 2019                          | 50,000           | 55,000        |
| Williams Cos., Inc. (The) 144A notes 6 3/8s, 2010                     | 65,000           | 65,163        |
|   |                  | 5,723,505     |
| Total corporate bonds and notes (cost \$80,874,049)                   |                  | \$ 81,132,870 |

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CONVERTIBLE PREFERRED STOCKS (34.8%)\*

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|  | Shares  | Value      |
|--|---------|------------|
| <i>Basic Materials (2.9%)</i>                                  |         |            |
| Freeport-McMoRan Copper & Gold, Inc. 5.50% cv. pfd.            | 160     | \$ 182,160 |
| Freeport-McMoRan Copper & Gold, Inc. 144A 5.50% cv. pfd.       | 1,740   | 1,980,990  |
| Huntsman Corp. \$2.50 cv. pfd.                                 | 25,500  | 1,137,938  |
| Smurfit-Stone Container Corp. Ser. A, \$1.75 cum. cv. pfd. (S) | 101,920 | 2,344,160  |
|  |         | 5,645,248  |
| <i>Capital Goods (3.9%)</i>                                    |         |            |
| Allied Waste Industries Ser. D, 6.25% cv. pfd.                 | 4,060   | 1,244,390  |

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|   |        |           |
|---|--------|-----------|
| Northrop Grumman Corp. Ser. B, \$7.00 cum. cv. pfd. | 31,900 | 4,147,000 |
| Owens-Illinois, Inc. \$2.375 cv. pfd.               | 63,770 | 2,208,036 |
|   |        | 7,599,426 |

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Communication Services (2.0%)

|   |        |           |
|---|--------|-----------|
| Cincinnati Bell, Inc. Ser. B, \$3.378 cum. cv. pfd. (S) | 35,300 | 1,461,420 |
| Crown Castle International Corp. \$3.125 cum. cv. pfd.  | 42,014 | 2,300,267 |
|   |        | 3,761,687 |

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Consumer Cyclical (4.0%)

|   |         |           |
|---|---------|-----------|
| Ford Motor Company Capital Trust II \$3.25 cum. cv. pfd.                | 66,700  | 2,009,338 |
| General Motors Corp. Ser. A, \$1.13 cv. pfd. (S)                        | 141,300 | 3,214,575 |
| Interpublic Group of Companies, Inc. 144A<br>Ser. B, 5.25% cum. cv. pfd | 1,018   | 998,913   |
| TXI Capital Trust I \$2.75 cv. pfd.                                     | 26,600  | 1,596,000 |
|   |         | 7,818,826 |

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Consumer Staples (1.5%)

|  |        |           |
|--|--------|-----------|
| Emmis Communications Corp. Ser. A, \$3.125 cum. cv. pfd. | 24,100 | 982,075   |
| Rite Aid Corp. \$1.375 cum. cv. pfd.                     | 20,800 | 443,768   |
| Six Flags, Inc. \$1.813 cum. cv. pfd.                    | 63,200 | 1,469,400 |
|  |        | 2,895,243 |

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CONVERTIBLE PREFERRED STOCKS (34.8%)\* *continued*

|   | Shares | Value        |
|---|--------|--------------|
| Energy (1.9%)   |        |              |
| Chesapeake Energy Corp. Ser. *, \$4.50 cum. cv. pfd (S) | 21,700 | \$ 1,971,988 |
| Hanover Compressor Capital Trust \$3.625 cum. cv. pfd.  | 32,000 | 1,612,000    |
|   |        | 3,583,988    |

---

Financial (10.1%)

|   |        |           |
|---|--------|-----------|
| Aspen Insurance Holdings, Ltd. \$2.813 cv. pfd. (Bermuda)   | 20,000 | 1,000,000 |
| Chubb Corp. (The) \$1.75 cv. pfd.                           | 55,500 | 1,887,000 |
| Conseco, Inc. \$1.38 cum. cv. pfd.                          | 58,300 | 1,734,425 |
| Fannie Mae Ser. 04-1, 5.375% cv. pfd.                       | 20     | 1,941,485 |
| FelCor Lodging Trust, Inc. Ser. A, \$1.95 cum. cv. pfd. (R) | 99,200 | 2,480,000 |
| IPC Holdings, Ltd. 7.25% cv. pfd. (Bermuda)                 | 18,500 | 485,625   |

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|   |        |            |
|---|--------|------------|
| Lehman Brothers Holdings, Inc. \$1.563 cv. pfd.             | 40,190 | 1,060,011  |
| Marshall & Ilsley Corp. \$1.625 cv. pfd.                    | 58,500 | 1,554,345  |
| Merrill Lynch & Co., Inc. Ser. JNC, 6.75% cv. pfd.          | 30,260 | 1,318,731  |
| Platinum Underwriters Holdings, Ltd. Ser. A, 6.00% cv. pfd. | 34,500 | 1,047,938  |
| Simon Property Group, Inc. \$3.00 cv. pfd.                  | 15,100 | 1,036,238  |
| Sovereign Capital Trust IV \$2.188 cv. pfd.                 | 46,000 | 2,018,250  |
| Washington Mutual Capital Trust I \$2.688 cum. cv. pfd.     | 38,400 | 2,069,760  |
|   |        | 19,633,808 |

Health Care (1.4%)

|                                       |        |           |
|---------------------------------------|--------|-----------|
| Schering-Plough Corp. \$3.00 cv. pfd. | 55,300 | 2,758,088 |
|---------------------------------------|--------|-----------|

Technology (2.2%)

|   |        |           |
|---|--------|-----------|
| Lucent Technologies Capital Trust 1 7.75% cum. cv. pfd. | 2,100  | 1,974,263 |
| Xerox Corp. \$6.25 cv. pfd.                             | 17,600 | 2,175,800 |
|   |        | 4,150,063 |

Utilities & Power (4.9%)

|   |        |           |
|---|--------|-----------|
| El Paso Corp. 144A 4.99% cv. pfd.   | 1,300  | 1,495,975 |
| El Paso Energy Capital Trust I \$2.375 cv. pfd. (S)   | 38,950 | 1,484,969 |
| Entergy Corp. \$3.813 cv. pfd.  | 40,900 | 2,116,575 |
| Great Plains Energy, Inc. \$2.00 cum. cv. pfd.  | 80,000 | 1,970,000 |
| NRG Energy, Inc. 5.75% cv. pfd. (acquired various dates from<br>1/25/06 to 1/26/06, cost \$1,026,710) □ | 4,100  | 955,300   |
| Southern Union Co. \$2.50 cv. pfd.  | 30,700 | 1,519,650 |
|   |        | 9,542,469 |

|  |  |    |            |
|--|--|----|------------|
| Total convertible preferred stocks (cost \$63,991,933) |  | \$ | 67,388,846 |
|--|--|----|------------|

CONVERTIBLE BONDS AND NOTES (18.8%)\*

|   | Principal amount | Value      |
|---|------------------|------------|
| Capital Goods (0.7%)                                      |                  |            |
| DRS Technologies, Inc. 144A cv. unsec. notes 2s, 2026     | \$ 240,000       | \$ 248,100 |
| Titan International, Inc. 144A cv. sr. notes 5 1/4s, 2009 | 700,000          | 1,024,625  |
|   |                  | 1,272,725  |

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|   | Principal amount | Value      |
|---|------------------|------------|
| <b>Communication Services (0.5%)</b>  |                  |            |
| Charter Communications, Inc. 144A cv. sr. notes 5 7/8s, 2009                                      | \$ 1,300,000     | \$ 931,125 |
| <b>Conglomerates (1.1%)</b>   |                  |            |
| GenCorp, Inc. cv. sub. notes 5 3/4s, 2007   | 2,030,000        | 2,235,538  |
| <b>Consumer Cyclical (3.0%)</b>   |                  |            |
| Mediacom Communications Corp. cv. sr. notes 5 1/4s, 2006  | 1,050,000        | 1,040,813  |
| Navistar Financial Corp. cv. sub. bonds 4 3/4s, 2009  | 1,150,000        | 1,137,063  |
| Pier 1 Imports, Inc. 144A cv. sr. unsub. notes stepped-coupon<br>6 3/8s (6 1/8s, 2/15/11) 2036 ☐☐ | 1,541,000        | 1,589,156  |
| Sinclair Broadcast Group, Inc. cv. bonds 6s, 2012   | 2,055,000        | 1,810,969  |
| Sinclair Broadcast Group, Inc. cv. sr. sub. notes<br>stepped-coupon 4 7/8s (2s, 1/15/11) 2018 ☐☐  | 265,000          | 229,556    |
|   |                  | 5,807,557  |
| <b>Consumer Staples (2.3%)</b>  |                  |            |
| Nash Finch Co. cv. sr. sub. notes stepped-coupon<br>1.631s (zero %, 3/15/13) 2035 ☐☐              | 6,170,000        | 2,498,850  |
| Rite Aid Corp. cv. notes 4 3/4s, 2006   | 1,660,000        | 1,630,950  |
| Rite Aid Corp. 144A cv. notes 4 3/4s, 2006  | 264,000          | 259,380    |
|   |                  | 4,389,180  |
| <b>Energy (0.5%)</b>  |                  |            |
| McMoran Exploration Co. cv. sr. notes 6s, 2008  | 690,000          | 931,500    |
| <b>Financial (0.6%)</b>   |                  |            |
| Rewards Network, Inc. cv. sub. debs. 3 1/4s, 2023   | 1,300,000        | 1,085,500  |
| <b>Health Care (0.8%)</b>   |                  |            |
| Connetics Corp. cv. sr. notes 2s, 2015  | 1,300,000        | 1,036,750  |
| EPIX Medical, Inc. cv. sr. notes 3s, 2024   | 900,000          | 574,875    |
| Manor Care, Inc. 144A cv. sr. notes 2 1/8s, 2035  | 30,000           | 31,238     |
|   |                  | 1,642,863  |
| <b>Homebuilding (0.5%)</b>  |                  |            |
| WCI Communities, Inc. cv. sr. sub. notes 4s, 2023   | 980,000          | 1,063,300  |

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Lodging/Tourism (0.9%)

|  |           |           |
|--|-----------|-----------|
| MeriStar Hospitality Corp. cv. sr. sub. notes 9 1/2s, 2010 (R) | 1,730,000 | 1,799,200 |
|--|-----------|-----------|

Technology (6.1%)

|   |           |           |
|---|-----------|-----------|
| Agere Systems, Inc. cv. sub. notes 6 1/2s, 2009                           | 980,000   | 966,525   |
| Amkor Technologies, Inc. cv. sub. notes 5 3/4s, 2006                      | 1,400,000 | 1,396,500 |
| Cray, Inc. cv. sr. sub. notes 3s, 2024                                    | 1,400,000 | 967,750   |
| Fairchild Semiconductor International, Inc. cv. company guaranty 5s, 2008 | 980,000   | 971,425   |
| Kulicke & Soffa Industries, Inc. cv. sub. notes 0.5s, 2008                | 2,050,000 | 1,824,500 |
| Lucent Technologies, Inc. cv. debs. Ser. B, 2 3/4s, 2025                  | 450,000   | 471,938   |
| Mentor Graphics Corp. cv. sub. notes FRN 6.36s, 2023                      | 1,700,000 | 1,602,250 |
| ON Semiconductor Corp. 144A cv. bonds zero %, 2024                        | 1,500,000 | 1,293,750 |

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CONVERTIBLE BONDS AND NOTES (18.8%)\* *continued*

|   | Principal amount | Value      |
|---|------------------|------------|
| <i>Technology continued</i>                                 |                  |            |
| Safeguard Scientifics, Inc. cv. sr. notes 2 5/8s, 2024      | \$ 200,000       | \$ 149,000 |
| Safeguard Scientifics, Inc. 144A cv. sr. notes 2 5/8s, 2024 | 2,800,000        | 2,086,000  |
|   |                  | 11,729,638 |

Transportation (1.2%)

|  |           |           |
|--|-----------|-----------|
| Continental Airlines, Inc. cv. sr. unsub. notes 4 1/2s, 2007 | 1,200,000 | 1,170,000 |
| Pinnacle Airlines Corp. cv. sr. notes 3 1/4s, 2025           | 1,500,000 | 1,192,500 |
|  |           | 2,362,500 |

Utilities & Power (0.6%)

|   |         |           |
|---|---------|-----------|
| XCEL Energy, Inc. 144A cv. notes 7 1/2s, 2007 | 720,000 | 1,100,700 |
|---|---------|-----------|

|   |  |               |
|---|--|---------------|
| Total convertible bonds and notes (cost \$34,497,943) |  | \$ 36,351,326 |
|---|--|---------------|

UNITS (0.9%)\*

|   | Units | Value        |
|---|-------|--------------|
| Hercules, Inc. cv. sub. debs. Units 6.50%, 2029 | 2,020 | \$ 1,525,100 |
| XCL Equity Units (F)                            | 406   | 276,866      |
| Total units (cost \$2,203,786)                  |       | \$ 1,801,966 |



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COMMON STOCKS (0.4%)\*

|  | Shares  |    | Value   |
|--|---------|----|---------|
| Coinmach Service Corp. IDS (Income Deposit Securities) (S) | 25,623  | \$ | 425,342 |
| Compass Minerals International, Inc.                       | 147     |    | 3,668   |
| Contifinancial Corp. Liquidating Trust Units               | 574,207 |    | 179     |
| Crown Castle International Corp. ☐                         | 309     |    | 9,687   |
| Dobson Communications Corp. ☐                              | 338     |    | 2,447   |
| iPCS, Inc. ☐   | 3,463   |    | 163,107 |
| Knology, Inc. ☐  | 32      |    | 162     |
| Samsonite Corp. ☐  | 201,560 |    | 177,373 |
| Sterling Chemicals, Inc. ☐                                 | 50      |    | 501     |
| Sun Healthcare Group, Inc. ☐                               | 202     |    | 1,289   |
| USA Mobility, Inc.   | 56      |    | 1,614   |
| VS Holdings, Inc. ☐  | 28,292  |    | 1       |
| WHX Corp. ☐  | 3,964   |    | 40,235  |
| Total common stocks (cost \$1,844,480)                     |         | \$ | 825,605 |

PREFERRED STOCKS (0.1%)\*

|   | Shares |    | Value   |
|---|--------|----|---------|
| Dobson Communications Corp. 13.00% pfd.         | 1      | \$ | 1,270   |
| Paxson Communications Corp. 14.25% cum. pfd. ☐☐ | 17     |    | 141,950 |
| Rural Cellular Corp. Ser. B, 11.375% cum. pfd.  | 43     |    | 51,385  |
| Total preferred stocks (cost \$200,888)         |        | \$ | 194,605 |

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FOREIGN GOVERNMENT BONDS AND NOTES (☐%)\* (cost \$86,722)

|   | Principal amount |    | Value  |
|---|------------------|----|--------|
| Philippines (Republic of ) bonds 9 1/2s, 2024 | \$ 80,000        | \$ | 94,200 |

WARRANTS (☐%)\* ☐

|                            | Expiration date | Strike price | Warrants | Value |
|----------------------------|-----------------|--------------|----------|-------|
| Dayton Superior Corp. 144A | 6/15/09         | 270          | \$ 3     |       |

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|                                     |         |            |          |
|-------------------------------------|---------|------------|----------|
|                                     |         | \$         |          |
|                                     |         | 0.01       |          |
|                                     |         | EUR        |          |
| MDP Acquisitions PLC 144A (Ireland) | 10/1/13 | 0.001 119  | 3,332    |
| TravelCenters of America, Inc.      | 5/1/09  | \$0.001420 | 525      |
| Ubiquitel, Inc. 144A                | 4/15/10 | 22.74 420  | 4        |
| Total warrants (cost \$28,988)      |         |            | \$ 3,864 |

SHORT-TERM INVESTMENTS (5.8%)\*

|  | Principal amount/shares | Value         |
|--|-------------------------|---------------|
| Putnam Prime Money Market Fund (e)   | 5,388,976               | \$ 5,388,976  |
| Short-term investments held as collateral for loaned securities with yields ranging from 4.51% to 4.71% and due dates ranging from March 1, 2006 to March 24, 2006 (d) | \$ 5,885,328            | 5,873,290     |
| Total short-term investments (cost \$11,262,266)   |                         | \$ 11,262,266 |

TOTAL INVESTMENTS

Total investments (cost \$194,991,055) \$ 199,055,548

*Percentages indicated are based on net assets of \$193,781,792.*

- \* *Non-income-producing security.*
- Securities on loan, in part or in entirety, at February 28, 2006.*
- (S) *The interest rate and date shown parenthetically represent the new interest rate to be paid and the date the fund will begin accruing interest at this rate.*
- Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at February 28, 2006 was \$1,112,380 or 0.6% of net assets.*
- Income may be received in cash or additional securities at the discretion of the issuer.*

(R) *Real Estate Investment Trust.*

(d) *See Note 1 to the financial statements.*

(e) *See Note 5 to the financial statements regarding investments in Putnam Prime Money Market Fund.*

(F) *Security is valued at fair value following procedures approved by the Trustees.*

*At February 28, 2006, liquid assets totaling \$333,290 have been designated as collateral for open swap contracts and forward contracts.*

*144A after the name of a security represents those exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.*

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The rates shown on Floating Rate Bonds (FRB) and Floating Rate Notes (FRN) are the current interest rates at February 28, 2006

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### FORWARD CURRENCY CONTRACTS TO SELL at 2/28/06 (aggregate face value \$2,595,393) (Unaudited)

|      | Value       | Aggregate<br>face value | Delivery<br>date | Unrealized<br>depreciation |
|------|-------------|-------------------------|------------------|----------------------------|
| Euro | \$2,612,621 | \$2,595,393             | 3/15/06          | \$(17,228)                 |

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### CREDIT DEFAULT CONTRACTS OUTSTANDING at 2/28/06 (Unaudited)

|  | Notional<br>amount | Unrealized<br>appreciation |
|--|--------------------|----------------------------|
| Agreement with Goldman Sachs International on September 2, 2004, terminating on the date on which the notional amount is reduced to zero or the date on which the assets securing the reference obligation are liquidated, the fund receives a payment of the outstanding notional amount times 2.461% and the fund pays in the event of a credit default in one of the underlying securities in the basket of BB CMBS securities. | \$108,000          | \$ 666                     |
| Agreement with JPMorgan Chase Bank, N.A. on September 1, 2005, maturing on September 20, 2010, to pay quarterly 460 basis points times the notional amount. Upon a credit default event of General Motors Acceptance Corp., the fund receives a payment of the proportional notional amount times the difference between the par value and the then market value of General Motors Acceptance Corp.                                | 190,000            | 410                        |
| <b>Total</b>   |                    | <b>\$1,076</b>             |

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

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## Statement of assets and liabilities 2/28/06 (Unaudited)

### ASSETS

Investment in securities, at value, including \$5,668,432 of securities on loan (Note 1):

|   |               |
|---|---------------|
| Unaffiliated issuers (identified cost \$189,602,079)      | \$193,666,572 |
| Affiliated issuers (identified cost \$5,388,976) (Note 5) | 5,388,976     |

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|  |                      |
|--|----------------------|
| Dividends, interest and other receivables                        | 2,453,922            |
| Receivable for securities sold                                   | 319,029              |
| Unrealized appreciation on swap contracts (Note 1)               | 1,076                |
| Receivable for open forward currency contracts (Note 1)          | 3,573                |
| Receivable for closed forward currency contracts (Note 1)        | 2,557                |
| <b>Total assets</b>  | <b>201,835,705</b>   |
| <b>LIABILITIES</b>   |                      |
| Distributions payable to shareholders                            | 979,706              |
| Payable for securities purchased                                 | 530,237              |
| Payable for shares of the fund repurchased (Note 4)              | 128,969              |
| Payable for compensation of Manager (Notes 2 and 5)              | 328,494              |
| Payable for investor servicing and custodian fees (Note 2)       | 49,545               |
| Payable for Trustee compensation and expenses (Note 2)           | 65,922               |
| Payable for administrative services (Note 2)                     | 2,710                |
| Payable for open forward currency contracts (Note 1)             | 20,801               |
| Payable for closed forward currency contracts (Note 1)           | 358                  |
| Collateral on securities loaned, at value (Note 1)               | 5,873,290            |
| Other accrued expenses   | 73,881               |
| <b>Total liabilities</b>   | <b>8,053,913</b>     |
| <b>Net assets</b>  | <b>\$193,781,792</b> |
| <b>REPRESENTED BY</b>  |                      |
| Paid-in capital (Unlimited shares authorized) (Notes 1, 2 and 4) | \$216,539,747        |
| Distributions in excess of net investment income (Note 1)        | (99,110)             |

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|   |               |
|---|---------------|
| Accumulated net realized loss on investments and foreign currency transactions (Note 1)         | (26,707,247)  |
| Net unrealized appreciation of investments and assets and liabilities in foreign currencies     | 4,048,402     |
| Total <input type="checkbox"/> Representing net assets applicable to capital shares outstanding | \$193,781,792 |

COMPUTATION OF NET ASSET VALUE

|   |        |
|---|--------|
| Net asset value per share<br>(\$193,781,792 divided by 22,207,463 shares) | \$8.73 |
|---|--------|

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

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**Statement of operations** Six months ended 2/28/06 (Unaudited)

INVESTMENT INCOME

|   |              |
|---|--------------|
| Interest (including interest income of \$128,783 from investments in affiliated issuers) (Note 5) | \$ 4,718,705 |
| Dividends   | 2,115,045    |
| Securities lending  | 49,151       |
| Total investment income   | 6,882,901    |

EXPENSES

|  |         |
|--|---------|
| Compensation of Manager (Note 2)               | 691,016 |
| Investor servicing fees (Note 2)               | 48,134  |
| Custodian fees (Note 2)                        | 67,819  |
| Trustee compensation and expenses (Note 2)     | 12,759  |
| Administrative services (Note 2)               | 7,515   |
| Legal  | 49,401  |
| Other  | 99,604  |
| Fees waived and reimbursed by Manager (Note 5) | (3,853) |
| Total expenses                                 | 972,395 |

|   |              |
|---|--------------|
| Expense reduction (Note 2)  | (2,149)      |
| Net expenses  | 970,246      |
| Net investment income   | 5,912,655    |
| Net realized gain on investments (Notes 1 and 3)  | 5,980,199    |
| Net realized gain on swap contracts (Note 1)  | 4,005        |
| Net realized gain on foreign currency transactions (Note 1)                                   | 119,866      |
| Net unrealized depreciation of assets and liabilities in foreign currencies during the period | (15,454)     |
| Net unrealized depreciation of investments and swap contracts during the period               | (5,906,570)  |
| Net gain on investments   | 182,046      |
| Net increase in net assets resulting from operations  | \$ 6,094,701 |

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

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## Statement of changes in net assets

### INCREASE (DECREASE) IN NET ASSETS

|   | Six months ended<br>2/28/06* | Year ended<br>8/31/05 |
|---|------------------------------|-----------------------|
| <i>Operations:</i>  |                              |                       |
| Net investment income   | \$ 5,912,655                 | \$ 10,015,052         |
| Net realized gain on investments<br>and foreign currency transactions   | 6,104,070                    | 5,057,492             |
| Net unrealized appreciation (depreciation) of investments<br>and assets and liabilities in foreign currencies | (5,922,024)                  | 443,982               |
| Net increase in net assets resulting from operations  | 6,094,701                    | 15,516,526            |
| Distributions to shareholders: (Note 1)   |                              |                       |

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|   |               |               |
|---|---------------|---------------|
| From net investment income  | (5,958,176)   | (10,948,219)  |
| Increase from issuance of shares in connection with the merger of Putnam High Income Opportunities Trust (Note 7) | □             | 75,299,313    |
| Decrease from capital shares repurchased (Note 4)   | (2,402,994)   | □             |
| Increase from payments by affiliates (Note 2)   | 404,272       | □             |
| Total increase (decrease) in net assets   | (1,862,197)   | 79,867,620    |
| <b>NET ASSETS</b>   |               |               |
| Beginning of period   | 195,643,989   | 115,776,369   |
| End of period (including distributions in excess of net investment income of \$99,110 and \$53,589, respectively) | \$193,781,792 | \$195,643,989 |
| <b>NUMBER OF FUND SHARES</b>  |               |               |
| Shares outstanding at beginning of period   | 22,519,551    | 13,825,527    |
| Shares issued in connection with the merger of Putnam High Income Opportunities Trust (Note 7)                    | □             | 8,694,024     |
| Shares repurchased (Note 4)   | (312,088)     | □             |
| Shares outstanding at end of period   | 22,207,463    | 22,519,551    |

\* Unaudited.

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

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

### PER-SHARE OPERATING PERFORMANCE

|                                      | Six months ended** |         | Year ended |         |         |         |
|--------------------------------------|--------------------|---------|------------|---------|---------|---------|
|                                      | 2/28/06            | 8/31/05 | 8/31/04    | 8/31/03 | 8/31/02 | 8/31/01 |
| Net asset value, beginning of period | \$8.69             | \$8.37  | \$7.73     | \$6.56  | \$7.30  | \$8.09  |

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*Investment operations:*

|  |        |          |        |        |        |        |
|--|--------|----------|--------|--------|--------|--------|
| Net investment income (a)                              | .26(d) | .52(d,f) | .57(d) | .58    | .60    | .67    |
| Net realized and unrealized gain (loss) on investments | .02    | .36      | .63    | 1.15   | (.72)  | (.71)  |
| Total from investment operations                       | .28    | .88      | 1.20   | 1.73   | (.12)  | (.04)  |
| <i>Less distributions:</i>                             |        |          |        |        |        |        |
| From net investment income                             | (.27)  | (.56)    | (.56)  | (.56)  | (.62)  | (.75)  |
| Total distributions                                    | (.27)  | (.56)    | (.56)  | (.56)  | (.62)  | (.75)  |
| Increase from repurchase of shares                     | .01    | □        | □      | □      | □      | □      |
| Increase from payments by affiliates                   | .02(e) | □        | □      | □      | □      | □      |
| Net asset value, end of period                         | \$8.73 | \$8.69   | \$8.37 | \$7.73 | \$6.56 | \$7.30 |
| Market price, end of period                            | \$7.86 | \$7.80   | \$7.62 | \$7.31 | \$6.35 | \$7.45 |
| Total return at market price (%) (b)                   | 4.29*  | 9.89     | 12.06  | 24.73  | (6.77) | 3.91   |

RATIOS AND SUPPLEMENTAL DATA

|  |           |           |           |           |          |           |
|--|-----------|-----------|-----------|-----------|----------|-----------|
| Net assets, end of period (in thousands)                 | \$193,782 | \$195,644 | \$115,776 | \$106,934 | \$90,561 | \$100,130 |
| Ratio of expenses to average net assets (%) (c)          | .50*(d)   | 1.06(d)   | 1.09(d)   | 1.13      | 1.10     | 1.14      |
| Ratio of net investment income to average net assets (%) | 3.07*(d)  | 6.13(d,f) | 6.88(d)   | 8.20      | 8.65     | 8.91      |
| Portfolio turnover (%)                                   | 29.57*    | 46.13     | 61.92     | 69.94     | 56.70    | 106.41    |

(Continued on next page)



## Financial highlights (Continued)

\* Not annualized.

\*\* Unaudited.

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

(b) Total return assumes dividend reinvestment.

(c) Includes amounts paid through expense offset and brokerage service arrangements (Note 2).

(d) Reflects waivers of certain fund expenses in connection with investments in Putnam Prime Money Market Fund during the period. As a result of such waivers, the expenses of the fund for the periods ended February 28, 2006, August 31, 2005 and August 31, 2004 reflect a reduction of less than 0.01% of average net assets (Note 5).

(e) Reflects a voluntary reimbursement of \$404,272 from Putnam Management relating to an operational error. The reimbursement had no impact on total return at market price and increased total return at net asset value by 0.24% (Note 2).

(f) Reflects a non-recurring accrual related to Putnam Management's settlement with the SEC regarding brokerage allocation practices, which amounted to less than \$0.01 per share and less than 0.01% of average net assets (Note 6).

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

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## Notes to financial statements 2/28/06 (Unaudited)

### Note 1: Significant accounting policies

Putnam High Income Bond Fund (the "fund"), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. On September 30, 2005, the fund's name was changed from Putnam High Income Bond Fund to Putnam High Income Securities Fund. The fund seeks to provide high current income as a primary objective and capital appreciation as a secondary objective by investing in a portfolio primarily consisting of high-yielding convertible and nonconvertible securities with the potential for capital appreciation. The fund invests in higher yielding, lower rated bonds that may have a higher rate of default.

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

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

A) Security valuation Investments for which market quotations are readily available are valued at the last reported sales price on their principal exchange, or official closing price for certain markets. If no sales are reported — as in the case of some securities traded over-the-counter — a security is valued at its last reported bid price. Market quotations are not considered to be readily available for certain debt obligations; such investments are valued on the basis of valuations furnished by an independent pricing service approved by the Trustees or dealers selected

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by Putnam Investment Management, LLC (Putnam Management), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC. Such services or dealers determine valuations for normal institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships, generally recognized by institutional traders, between securities. Many securities markets and exchanges outside the U.S. close prior to the close of the New York Stock Exchange and therefore the closing prices for securities in such markets or on such exchanges may not fully reflect events that occur after such close but before the close of the New York Stock Exchange. Accordingly, on certain days, the fund will fair value foreign equity securities taking into account multiple factors, including movements in the U.S. securities markets. The number of days on which fair value prices will be used will depend on market activity and it is possible that fair value prices will be used by the fund to a significant extent. Securities quoted in foreign currencies, if any, are translated into U.S. dollars at the current exchange rate. Other investments, including certain restricted securities, are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees.

B) Joint trading account Pursuant to an exemptive order from the Securities and Exchange Commission, the fund may transfer uninvested cash balances, including cash collateral received under security lending arrangements, into a joint trading account along with the cash of other registered investment companies and certain other accounts managed by Putnam Management. These balances may be invested in issues of high-grade short-term investments having maturities of up to 397 days for collateral received under security lending arrangements and up to 90 days for other cash investments.

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C) Security transactions and related investment income Security transactions are recorded on the trade date (the date the order to buy or sell is executed). Gains or losses on securities sold are determined on the identified cost basis.

Interest income is recorded on the accrual basis. Dividend income, net of applicable withholding taxes, is recognized on the ex-dividend date except that certain dividends from foreign securities, if any, are recognized as soon as the fund is informed of the ex-dividend date. Non-cash dividends, if any, are recorded at the fair market value of the securities received. Dividends representing a return of capital, if any, are reflected as a reduction of cost when the amount is conclusively determined.

All premiums/discounts are amortized/accreted on a yield-to-maturity basis.

D) Foreign currency translation The accounting records of the fund are maintained in U.S. dollars. The market value of foreign securities, currency holdings, and other assets and liabilities are recorded in the books and records of the fund after translation to U.S. dollars based on the exchange rates on that day. The cost of each security is determined using historical exchange rates. Income and withholding taxes are translated at prevailing exchange rates when earned or incurred. The fund does not isolate that portion of realized or unrealized gains or losses resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such gains and losses are included with the net realized and unrealized gain or loss on investments. Net realized gains and losses on foreign currency transactions represent net realized exchange gains or losses on closed forward currency contracts, disposition of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions and the difference between the amount of investment income and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized appreciation and depreciation of assets and liabilities in foreign currencies arise from changes in the value of open forward currency contracts and assets and liabilities other than investments at the period end, resulting from changes in the exchange rate. Investments in foreign securities involve certain risks, including those related to economic instability, unfavorable political developments, and currency fluctuations, not present with domestic investments.

E) Forward currency contracts The fund may buy and sell forward currency contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. These contracts are used to protect against a decline in value relative to the U.S. dollar of the currencies in which its portfolio securities are denominated or quoted (or an increase in the value of a currency in which securities a fund intends to buy are denominated, when a fund holds cash reserves and short term investments), or for other investment purposes. The U.S. dollar value of forward currency contracts is determined using current forward currency exchange rates supplied by a quotation service. The market value of the contract will fluctuate with changes in currency exchange

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rates. The contract is marked to market daily and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The fund could be exposed to risk if the value of the currency changes unfavorably, if the counterparties to the contracts are unable to meet the terms of their contracts or if the fund is unable to enter into a closing position. Risks may exceed amounts recognized on the statement of assets and liabilities. Forward currency contracts outstanding at period end, if any, are listed after the fund's portfolio.

F) Credit default contracts The fund may enter into credit default contracts where one party, the protection buyer, makes an upfront or periodic payment to a counter party, the protection seller,

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in exchange for the right to receive a contingent payment. The maximum amount of the payment may equal the notional amount, at par, of the underlying index or security as a result of a related credit event. An upfront payment received by the fund, as the protection seller, is recorded as a liability on the fund's books. An upfront payment made by the fund, as the protection buyer, is recorded as an asset on the fund's books. Periodic payments received or paid by the fund are recorded as realized gains or losses. The credit default contracts are marked to market daily based upon quotations from an independent pricing service or market makers and the change, if any, is recorded as unrealized gain or loss. Payments received or made as a result of a credit event or termination of the contract are recognized, net of a proportional amount of the upfront payment, as realized gains or losses. In addition to bearing the risk that the credit event will occur, the fund could be exposed to market risk due to unfavorable changes in interest rates or in the price of the underlying security or index, the possibility that the fund may be unable to close out its position at the same time or at the same price as if it had purchased comparable publicly traded securities or that the counterparty may default on its obligation to perform. Risks of loss may exceed amounts recognized on the statement of assets and liabilities. Credit default contracts outstanding at period end, if any, are listed after the fund's portfolio.

G) Security lending The fund may lend securities, through its agents, to qualified borrowers in order to earn additional income. The loans are collateralized by cash and/or securities in an amount at least equal to the market value of the securities loaned. The market value of securities loaned is determined daily and any additional required collateral is allocated to the fund on the next business day. The risk of borrower default will be borne by the fund's agents; the fund will bear the risk of loss with respect to the investment of the cash collateral. Income from securities lending is included in investment income on the statement of operations. At February 28, 2006, the value of securities loaned amounted to \$5,668,432. The fund received cash collateral of \$5,873,290 which is pooled with collateral of other Putnam funds into 26 issues of high grade short-term investments.

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

At August 31, 2005, the fund had a capital loss carryover of \$32,785,979 available to the extent allowed by the Code to offset future net capital gain, if any. This amount includes \$16,076,404 of capital losses acquired in connection with the acquisition of Putnam High Income Opportunities Trust, which are subject to limitations imposed by the Internal Revenue Code. The amount of the carryover and the expiration dates are:

| Loss Carryover | Expiration      |
|----------------|-----------------|
| \$ 9,470,066   | August 31, 2009 |
| 13,721,217     | August 31, 2010 |
| 9,594,696      | August 31, 2011 |

The aggregate identified cost on a tax basis is \$195,030,461, resulting in gross unrealized appreciation and depreciation of \$10,907,462 and \$6,882,375, respectively, or net unrealized appreciation of \$4,025,087.

I) Distributions to shareholders Distributions to shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. The amount and character of income and gains to be distributed are determined in accordance with

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income tax regulations, which may differ from generally accepted accounting principles. Dividend sources are estimated at the time of declaration. Actual results may vary. Any non-taxable return of capital cannot be determined until final tax calculations are completed after the end of the fund's fiscal year. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

## **Note 2: Management fee, administrative services and other transactions**

Putnam Management is paid for management and investment advisory services quarterly based on the "average weekly assets" of the fund. "Average weekly assets" is defined to mean the average of the weekly determinations of the difference between the total assets of the fund (including any assets attributable to leverage for investment purposes through incurrence of indebtedness) and the total liabilities of the fund (excluding liabilities incurred in connection with leverage for investment purposes). This fee is based on the following annual rates: 0.70% of the first \$500 million of average weekly assets, 0.60% of the next \$500 million, 0.55% of the next \$500 million and 0.50% of the next \$5 billion, with additional breakpoints at higher asset levels.

Prior to January 1, 2006, the fund's management fee was based on the following annual rates: 0.75% of the first \$500 million of average weekly assets, 0.65% of the next \$500 million, 0.60% of the next \$500 million and 0.55% thereafter.

Putnam Investments Limited ("PIL"), an affiliate of Putnam Management, is authorized by the Trustees to manage a separate portion of the assets of the fund as determined by Putnam Management from time to time. Putnam Management pays a quarterly sub-management fee to PIL for its services at an annual rate of 0.40% of the average weekly assets (calculated in the same manner as under the fund's management contract with Putnam Management) of the portion of the fund managed by PIL.

During the period ended February 28, 2006, Putnam Management voluntarily reimbursed the fund \$404,272 relating to an operational error that occurred during the prior fiscal year.

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

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company ("PFTC"), a subsidiary of Putnam, LLC. PFTC receives fees for custody services based on the fund's asset level, the number of its security holdings and transaction volumes. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. Putnam Investor Services is paid a monthly fee for investor servicing at an annual rate of 0.05% of the fund's average net assets. During the period ended February 28, 2006, the fund incurred \$115,953 for these services.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. The fund also reduced expenses through brokerage service arrangements. For the six months ended February 28, 2006, the fund's expenses were reduced by \$2,149 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which \$278, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings, industry seminars and for certain compliance-related matters. Trustees also are reimbursed for expenses they incur relating to their services as Trustees. George Putnam, III, who is not an independent Trustee, also receives the foregoing fees for his services as Trustee.

The fund has adopted a Trustee Fee Deferral Plan (the "Deferral Plan") which allows the Trustees to

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defer the receipt of all or a portion of Trustees fees payable on or after July 1, 1995. The deferred fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

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

### **Note 3: Purchases and sales of securities**

During the six months ended February 28, 2006, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated \$54,890,712 and \$56,989,710, respectively. There were no purchases or sales of U.S. government securities.

### **Note 4: 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 expansion of this repurchase program to allow the fund to repurchase a total of up to 10% of its outstanding shares over the same period. Repurchases will only be made when the fund's shares are trading at less than net asset value and in accordance with procedures approved by the fund's Trustees. For the period ended February 28, 2006, the fund repurchased 312,088 common shares for an aggregate purchase price of \$2,402,994, which reflects a weighted-average discount from net asset value per share of 10.6% .

### **Note 5: Investment in Putnam Prime Money Market Fund**

Pursuant to an exemptive order from the Securities and Exchange Commission, the fund invests in Putnam Prime Money Market Fund, an open-end management investment company managed by Putnam Management. Management fees paid by the fund are reduced by an amount equal to the management and administrative services fees paid by Putnam Prime Money Market Fund with respect to assets invested by the fund in Putnam Prime Money Market Fund. For the period ended February 28, 2006, management fees paid were reduced by \$3,853 relating to the fund's investment in Putnam Prime Money Market Fund. Income distributions earned by the fund are recorded as income in the statement of operations and totaled \$128,783 for the period ended February 28, 2006. During the period ended February 28, 2006, cost of purchases and cost of sales of investments in Putnam Prime Money Market Fund aggregated \$42,969,275 and \$43,139,769, respectively.

### **Note 6: Regulatory matters and litigation**

Putnam Management has entered into agreements with the Securities and Exchange Commission and the Massachusetts Securities Division settling charges connected with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. Pursuant to these settlement agreements, Putnam Management will pay a total of \$193.5 million in penalties and restitution, with \$153.5 million being paid to certain open-end funds and their shareholders. The amount will be allocated to shareholders and funds

pursuant to a plan developed by an independent consultant, and will be paid following approval of the plan by the SEC and the Massachusetts Securities Division.

The Securities and Exchange Commission's and Massachusetts Securities Division's allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management will bear any costs incurred by Putnam funds in connection with these lawsuits. Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to provide investment management services to its clients, including the Putnam funds.

In connection with a settlement with the Securities and Exchange Commission relating to Putnam Management's brokerage allocation practices, on October 13, 2005 the fund received \$5,080 in proceeds paid by Putnam Management. The fund had accrued a receivable for this amount in the prior fiscal year.

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

#### **Note 7: Acquisition of Putnam High Income Opportunities Trust**

On January 24, 2005, the fund issued 8,694,024 shares in exchange for 3,712,567 shares of Putnam High Income Opportunities Trust to acquire that fund's net assets in a tax-free exchange approved by the shareholders. The net assets of the fund and Putnam High Income Opportunities Trust on January 21, 2005, valuation date, were \$119,743,477 and \$75,299,313, respectively. On January 21, 2005, Putnam High Income Opportunities Trust had distributions in excess of net investment income of \$439,279, accumulated net realized loss of \$21,080,625 and unrealized appreciation of \$4,326,390. The aggregate net assets of the fund immediately following the acquisition were \$195,042,790.

Information presented in the statement of operations and the statement of changes in net assets reflect only the operations of Putnam High Income Securities Fund.

## **The Putnam family of funds**

The following is a complete list of Putnam's open-end mutual funds. *Investors should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. For a prospectus containing this and other information for any Putnam fund or product, call your financial advisor at 1-800-225-1581 and ask for a prospectus. Please read the prospectus carefully before investing.*

#### **Growth funds**

Discovery Growth Fund  
Growth Opportunities Fund  
Health Sciences Trust  
International New Opportunities Fund\*  
New Opportunities Fund  
OTC & Emerging Growth Fund

#### **Value funds**

Classic Equity Fund  
Convertible Income-Growth Trust  
Equity Income Fund  
The George Putnam Fund of Boston  
The Putnam Fund for Growth  
and Income

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Small Cap Growth Fund  
Vista Fund  
Voyager Fund

International Growth and Income Fund\*  
Mid Cap Value Fund  
New Value Fund  
Small Cap Value Fund□

### **Blend funds**

Capital Appreciation Fund  
Capital Opportunities Fund  
Europe Equity Fund\*  
Global Equity Fund\*  
Global Natural Resources Fund\*  
International Capital  
Opportunities Fund\*  
International Equity Fund\*  
Investors Fund  
Research Fund  
Tax Smart Equity Fund®  
Utilities Growth and Income Fund

### **Income funds**

American Government Income Fund  
Diversified Income Trust  
Floating Rate Income Fund  
Global Income Trust\*  
High Yield Advantage Fund\*□  
High Yield Trust\*  
Income Fund  
Limited Duration Government  
Income Fund□  
Money Market Fund§  
U.S. Government Income Trust

\* A 1% redemption fee on total assets redeemed or exchanged between 6 and 90 days of purchase may be imposed for all share classes of these funds.

□ Closed to new investors.

□ Formerly Putnam Intermediate U.S. Government Income Fund.

§ An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

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### **Tax-free income funds**

AMT-Free Insured Municipal Fund\*\*  
Tax Exempt Income Fund  
Tax Exempt Money Market Fund§  
Tax-Free High Yield Fund

#### *State tax-free income funds:*

Arizona, California, Florida, Massachusetts,  
Michigan, Minnesota, New Jersey, New York,  
Ohio, and Pennsylvania

### **Asset allocation funds**

Income Strategies Fund

Putnam Asset Allocation Funds □ three investment portfolios that spread your money across a variety of stocks, bonds, and money market investments.

*The three portfolios:*

Asset Allocation: Balanced Portfolio

Asset Allocation: Conservative Portfolio

Asset Allocation: Growth Portfolio

**Putnam RetirementReady® Funds**

Putnam RetirementReady Funds □ ten investment portfolios that offer diversification among stocks, bonds, and money market instruments and adjust to become more conservative over time based on a target date for withdrawing assets.

*The ten funds:*

Putnam RetirementReady 2050 Fund

Putnam RetirementReady 2045 Fund

Putnam RetirementReady 2040 Fund

Putnam RetirementReady 2035 Fund

Putnam RetirementReady 2030 Fund

Putnam RetirementReady 2025 Fund

Putnam RetirementReady 2020 Fund

Putnam RetirementReady 2015 Fund

Putnam RetirementReady 2010 Fund

Putnam RetirementReady Maturity Fund

\*\* Formerly Putnam Tax-Free Insured Fund.

*With the exception of money market funds, a 2% redemption fee may be applied to shares exchanged or sold within 5 days of purchase.*

*Check your account balances and the most recent month-end performance at [www.putnam.com](http://www.putnam.com).*

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## **Fund information**

### **About Putnam Investments**

Founded over 65 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We manage over 100 mutual funds in growth, value, blend, fixed income, and international.

Investment Manager

Putnam Investment

Management, LLC

One Post Office Square

Boston, MA 02109

Investment Sub-Manager

Putnam Investments Limited

57-59 St. James Street

London, England SW1A 1LD



Marketing Services  
Putnam Retail Management  
One Post Office Square  
Boston, MA 02109

Custodian  
Putnam Fiduciary  
Trust Company

Legal Counsel  
Ropes & Gray LLP

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

Officers  
George Putnam, III  
*President*

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

Jonathan S. Horwitz  
*Senior Vice President  
and Treasurer*

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

Michael T. Healy  
*Assistant Treasurer and  
Principal Accounting Officer*

Daniel T. Gallagher  
*Senior Vice President,  
Staff Counsel and  
Compliance Liaison*

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Beth S. Mazor  
*Vice President*

James P. Pappas  
*Vice President*

Richard S. Robie, III  
*Vice President*

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

Charles A. Ruys de Perez  
*Vice President and  
Chief Compliance Officer*

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

Judith Cohen  
*Vice President, Clerk and  
Assistant Treasurer*

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

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

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

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Item 2. Code of Ethics:

Not Applicable

Item 3. Audit Committee Financial Expert:

Not Applicable

Item 4. Principal Accountant Fees and Services:

Not Applicable

Item 5. Audit Committee

Not Applicable

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### Item 6. Schedule of Investments:

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

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

Not applicable

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

Not Applicable

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

Registrant Purchase of Equity Securities

| <u>Period</u>                        | <u>Total Number<br/>of Shares<br/>Purchased</u> | <u>Average<br/>Price Paid<br/>per Share</u> | <u>Total Number<br/>of Shares<br/>Purchased<br/>as Part<br/>of Publicly<br/>Announced<br/>Plans or<br/>Programs</u> | <u>Maximum<br/>Number (or<br/>Approximate<br/>Dollar Value )<br/>of Shares<br/>that May Yet Be<br/>Purchased<br/>under the Plans<br/>or Programs *</u> |
|--------------------------------------|---|---|---|--|
| October 7-<br>October<br>31,2005     | 42,963  | \$7.50                                      | 42,963  | 2,208,992  |
| November 1 -<br>November 30,<br>2005 | 21,959  | \$7.71                                      | 21,959  | 2,187,033  |
| December 1 -<br>December 31,<br>2005 | 88,982  | \$7.58                                      | 88,982  | 2,098,051  |
| January 1 -<br>January 31,<br>2006   | 79,528  | \$7.79                                      | 79,528  | 2,018,523  |
| February 1 -<br>February 28,<br>2006 | 78,656  | \$7.85                                      | 78,656  | 1,939,867  |

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The Board of Trustees announced a repurchase plan on October 7, 2005 for which **1,125,977** shares were approved for repurchase by the fund. The repurchase plan was approved through October 6, 2006. . On March 10, 2006, the Trustees announced that the repurchase program was extended to allow repurchases of up to a total of 2,251,955 shares over the original term of the program

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\*Information is based on the total number of shares eligible for repurchase under the program, as amended on March 10, 2006.

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

Not applicable

### Item 11. Controls and Procedures:

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

(b) Changes in internal control over financial reporting:

Not applicable

### Item 12. Exhibits:

(a)(1) Not applicable

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

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

### SIGNATURES

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

#### Putnam High Income Securities Fund

By (Signature and Title):

/s/Michael T. Healy

Michael T. Healy  
Principal Accounting Officer

Date: April 28, 2006

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

By (Signature and Title):

/s/Charles E. Porter

Charles E. Porter  
Principal Executive Officer

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Date: April 28, 2006

By (Signature and Title):

/s/Steven D. Krichmar

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Steven D. Krichmar  
Principal Financial Officer

Date: April 28, 2006

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