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PUTNAM PREMIER INCOME TRUST

Form N-CSR

March 29, 2005

Putnam  
Premier  
Income  
Trust

Item 1. Report to Stockholders:

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

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

1-31-05

[GRAPHIC OMITTED: WATCH]

[SCALE LOGO OMITTED]

From the Trustees

[GRAPHIC OMITTED: PHOTO OF JOHN A. HILL AND GEORGE PUTNAM, III]

John A. Hill and  
George Putnam, III

Dear Fellow Shareholder:

During the past several months, Putnam has introduced a number of reforms for the benefit of shareholders, including increasing the amount of disclosure for our funds. We are now including additional disclosure about your fund's management team. Following the Outlook for Your Fund, we provide manager compensation information that pertains to your fund and list any changes in your fund's Portfolio Leader and Portfolio Members during the prior year period, as well as these individuals' other fund management responsibilities at Putnam. We also show how much these individuals have invested in the fund (in dollar ranges), and fund ownership (in dollar ranges) is also shown for the members of Putnam's Executive Board. Finally, on page 13, we provide certain information about the most recent approval of your fund's management contract with Putnam by the Trustees.

We are also pleased to announce that three new Trustees have joined your fund's Board of Trustees. Nominated by your fund's independent Trustees, these individuals have had outstanding careers as leaders in the investment management industry. Myra R. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College and serves as ex-officio member and past Chair of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee and as a Trustee of Commonfund, a not-for-profit asset management firm. Richard B. Worley is Managing Partner of Permit Capital LLC, an investment management firm. Both Ms. Drucker and Mr. Worley are independent Trustees (i.e., Trustees who are not "interested persons" of your fund or its investment advisor). Charles E. Haldeman, Jr., the third new Trustee, is President and Chief Executive Officer of Putnam Investments. We also announce the departure of one of your fund's Trustees, A.J.C. Smith, formerly Chairman of Putnam Investments and Consultant to Marsh & McLennan Companies, Inc.

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Finally, we would like to welcome shareholders of Putnam Master Income Trust, a multi-sector fixed-income fund with a similar objective and strategy as your fund, who have become shareholders of this fund as a result of a recently completed merger between the two funds.

In the following pages, your fund's management team discusses performance, strategy, and its outlook for the remainder of fiscal 2005.

Respectfully yours,

/S/ JOHN A. HILL

/S/ GEORGE PUTNAM, III

John A. Hill  
Chairman of the Trustees

George Putnam, III  
President of the Funds

March 16, 2005

Report from Fund Management

Fund highlights

- \* During the semiannual period ended January 31, 2005, Putnam Premier Income Trust had a total return at net asset value (NAV) of 7.43%. The fund's return at market price was 9.53%.
- \* The fund's primary benchmark, the Lehman Government Bond Index, returned 3.30% for the same period.
- \* The average return for the fund's Lipper category, Flexible Income Funds (closed-end), was 8.25%.
- \* After the end of the period, Putnam Master Income Trust was merged into your fund. See page 5 for details.
- \* See the Performance Summary beginning on page 10 for additional fund performance, comparative performance, and Lipper data.

Performance commentary

During the past six months, shorter-maturity bond yields have risen as the U.S. Federal Reserve Board (the Fed) has continued its gradual series of interest-rate increases. Meanwhile, yields on longer-term bonds declined somewhat, responding to generally moderate global inflation. Longer-maturity bond performance was also bolstered by increased demand from pension funds. The fund's high-yield and emerging-market bonds performed well, enabling the fund to outperform its benchmark by a significant margin although results at NAV lagged the average for the fund's Lipper category. 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.

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TOTAL RETURN FOR  
PERIODS ENDED 1/31/05  
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Market

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(inception 2/29/88)	NAV	Price
6 months	7.43%	9.53%
1 year	8.48	6.47
5 years	51.16	68.91
Annual average	8.61	11.05
10 years	118.62	121.70
Annual average	8.14	8.29
Annual average (life of fund)	8.55	7.50

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.

### FUND PROFILE

Putnam Premier Income Trust is designed for investors seeking a high level of current income. The fund maintains flexibility across three sectors -- U.S. government and agencies, high-yield corporate, and international -- to seek maximum current income without undue risk to capital. The fund may be appropriate for investors seeking a higher level of income who can accept a moderately higher level of risk.

### Market overview

Global bond markets have enjoyed a favorable set of circumstances during the past six months. Most sectors have produced positive returns, with riskier sectors -- including corporate high-yield bonds and emerging-market bonds -- continuing to outperform the higher-quality investment-grade corporate, government, and agency sectors. While short-term interest rates generally rose during the period, following the Fed's lead, the Fed's clear communication of its tightening policy and its measured pace of rate increases resulted in no surprises. This clarity was beneficial for longer-term bondholders, who remained focused on economic data. Consequently, while the federal funds rate rose from 1.00% in June 2004 to 2.50% on February 2, 2005 (just after the end of the reporting period), long-term rates moved downward, as low inflation and stable economic conditions helped investors remain generally positive. The rise in short rates and decline in long rates therefore caused a narrowing in the spread between the two, causing the yield curve -- a graphical depiction of all bond yields -- to flatten.

Although turmoil continued in Iraq and the Middle East, other uncertainties that have preoccupied investors -- including fears of terrorism and the close U.S. presidential election -- have lessened. Generally positive economic conditions, low interest rates on high-quality bonds, and a weak dollar drew investors into riskier bond sectors that provided higher income levels. As a result, high-yield corporate bonds and emerging-market securities outperformed. In the high-yield sector, default rates continued to decline, and, combined with positive global economic growth, attracted investors and resulted in strong demand for these securities. Emerging markets generally

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benefited from high energy and commodities prices, solid economic growth, and an overall reduction of perceived risk. The weak dollar also helped bolster returns in emerging-market securities for U.S. investors.

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### MARKET SECTOR PERFORMANCE 6 MONTHS ENDED 1/31/05

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#### Bonds

Lehman Government Bond Index (U.S. Treasury and agency securities)	3.30%
Citigroup Non-U.S. World Government Bond Index (international government bonds)	13.07%
JP Morgan Global High Yield Index (global high-yield corporate bonds)	7.72%
JP Morgan Global Diversified Emerging Markets Bond Index (global emerging-market bonds)	11.03%

#### Equities

S&P 500 Index (broad stock market)	8.16%
MSCI EAFE Index (international stocks)	16.68%
Russell 2000 Index (small-company stocks)	13.88%

These indexes provide an overview of performance in different market sectors for the six months ended 1/31/05.

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#### Strategy overview

While the fund's emerging-market and high-yield corporate bond holdings provided the strongest performance, we had begun trimming these positions before the period began and reduced these weightings further during the period. These sectors have seen such strong performance over the past few years that we believed they were no longer attractively valued. Moreover, although global economic growth continued at a solid pace, it has slowed from prior years.

Within the high-yield corporate sector, we upgraded credit quality by selling CCC-rated and B-rated bonds and buying bonds with BB-ratings. We used the proceeds of the sales to increase the fund's weighting in mortgage-backed securities (MBSs), asset-backed securities (ABSs), and commercial mortgage-backed securities (CMBSs), all of which had solid returns during the period. These securities are generally high in credit quality and have shorter maturities, or durations, meaning that they are likely to be less sensitive to an increase in interest rates. Moreover, their shorter maturities give us the flexibility to reinvest more frequently, which would be beneficial if interest rates were to rise. We found CMBSs particularly attractive because they offered higher yields than corporate bonds of roughly the same credit quality.

We increased the fund's position in bank loans during the period. These securities offer a higher level of credit quality than high-yield bonds. In addition, they offer floating interest rates that, like an adjustable home mortgage, move with market rates and therefore can provide protection of principal from interest-rate risk.

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[GRAPHIC OMITTED: horizontal bar chart TOP SECTOR WEIGHTINGS COMPARED]

### TOP SECTOR WEIGHTINGS COMPARED

	as of 7/31/04	as of 1/31/05
High yield	40.9%	42.1%
U.S. investment grade	39.1%	40.9%
International	20.0%	17.0%

#### Footnote reads:

This chart shows how the fund's top weightings have changed over the last six months. Weightings are shown as a percentage of net assets. Holdings will vary over time.

### How fund holdings and sectors affected performance

As already mentioned, we reduced the fund's exposure to corporate high-yield bonds and increased its allocation to mortgage-backed securities (MBSs), asset-backed securities (ABSs), and commercial mortgage-backed securities (CMBSs). Within the MBS group, we acquired high-coupon GNMA (Government National Mortgage Association) securities, which were less likely to be prepaid and therefore performed well. The fund also owned reperforming GNMA, which are traditional MBSs in which the borrowers have become delinquent in making payments for a period of time. As a result, these securities are less likely to be refinanced than other types of MBSs. We believed the reperforming GNMA did not represent a major credit risk, and the fund benefited from the higher income that they produced.

The fund's CMBS holdings performed well, as investors were attracted to their combination of relatively high income and strong credit quality. These securities are backed both by the issuers that pool the securities and the individual corporations issuing the mortgages. Given the relative strength of the economic recovery over the past few years, this credit quality has generally been strong.

[GRAPHIC OMITTED: TOP HOLDINGS]

#### TOP HOLDINGS

(Percent of fund's net assets as of 1/31/05)

#### High-yield sector

- 1 AT&T Corp (0.7%)  
Sr. notes 9 3/4%, 2031
- 2 Consec Finance Securitizations Corp.  
(0.4%)  
Ser. 01-3, Class A4, 6.91%, 2033
- 3 Consec Finance Securitizations Corp.  
(0.4%)  
Ser. 00-4, Class A6, 8.31s, 2032

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International sector

- 1 France (Government of) (1.2%)  
Bonds 4%, 2013
- 2 Germany (Federal Republic of) (1.0%)  
Bonds Ser. 97, 6%, 2007
- 3 Russia (Federation of) (0.9%)  
144A unsub. Stepped-coupon 5%  
(7 1/2%, 3/31/07), 2030

U.S. investment-grade sector

- 1 Federal Home Loan Mortgage Corporation (4.2%)  
6 1/2%, with due dates from July 1, 2028 to September 1, 2034
- 2 U.S. Government Treasury Bonds (4.0%)  
6 1/4%, May 15, 2030
- 3 Federal National Mortgage Association Pass-Through Certificates (3.2%)  
4 1/2%, TBA, February 1, 2020

The fund's holdings will change over time.

The fund's international government bond holdings, including bonds from the United Kingdom, Germany, France, and Canada, performed well, responding to solid economic growth and declining longer-term interest rates. The fund's European government holdings were also bolstered by the currency effect of the weak dollar.

Although the fund's emerging-market weighting had been reduced prior to the beginning of the period, we continued to pare back these holdings during their strong performance of the past six months. These securities have performed well over the past several years as a result of strong growth in many emerging-market countries, due to gains in manufacturing and exports to other rapidly growing countries, as well as exports of metals, oil, and natural gas, all of which have risen significantly in price. Bonds from Russia, Colombia, and Brazil delivered particularly strong performance.

Finally, with over 10% of the fund's assets invested in foreign bonds, currency appreciation due to the decline in the dollar versus other major currencies -- especially the euro -- made a significant and positive contribution to returns.

Please note that all holdings discussed in this report are subject to review in accordance with the fund's investment strategy and may vary in the future.

OF SPECIAL INTEREST

Merger with Putnam Master Income Trust completed

During the period, shareholders of Putnam Master Income Trust and Putnam Premier Income Trust approved a merger of Putnam Master Income Trust into Putnam Premier Income Trust, and the merger was recently completed on February 28, 2005. Putnam Master Income Trust is a closed-end,

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multi-sector fixed-income fund whose objectives, strategy, and investments are substantially similar to those of your fund. The merger, which occurred on February 25, 2005, should result in lower expenses for shareholders of each fund due to the larger asset base of the combined fund.

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.

The past two years have seen strong returns in the emerging and high-yield corporate bond markets, reflecting a global economic recovery. We continue to believe, as we did six months ago, that certain headwinds could have a negative impact on the performance of lower-quality bond sectors. First, the current high level of energy prices may act as a tax and reduce both consumer and corporate spending. And second, higher short-term interest rates and lower long-term interest rates have resulted in a flattening of the yield curve, which represents yields on bonds of all maturities. This flattening has reduced the incentive for investors to take more risk by buying longer-maturity bonds. Similarly, the narrowing of the credit yield spread -- the difference in yield between lower- and higher-quality bonds -- has also reduced the incentive for investors to take on greater credit risk because lower-quality bonds are not paying as high an interest rate as they did a year or two ago.

On the positive side, inflation remains low and there do not appear to be any imminent threats to the stability of the global economy, which is still growing at a solid, positive rate. Nevertheless, we have positioned the fund to have a shorter average maturity and shorter duration -- or lower interest-rate sensitivity -- and we have generally improved the overall credit quality in the portfolio. We believe these are prudent measures given the current state of the global economy and bond markets.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice. International investing involves certain risks, such as currency fluctuations, economic instability, and political developments. Additional risks may be associated with emerging-market securities, including illiquidity and volatility. 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. Lower-rated bonds may offer higher yields in return for more risk. Mutual funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk.

Your fund's management

Your fund is managed by the members of the Putnam Core Fixed-Income and Core Fixed-Income High-Yield teams. D. William Kohli is the Portfolio Leader, and Rob Bloemker, Jeffrey Kaufman, Stephen Peacher, and David Waldman are Portfolio Members of your fund. The Portfolio Leader and

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Portfolio Members coordinate the teams' management of the fund.

For a complete listing of the members of the Putnam Core Fixed-Income 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.putnaminvestments.com](http://www.putnaminvestments.com).

### Fund ownership

The table below shows how much the fund's current Portfolio Leader and Portfolio Members have invested in the fund (in dollar ranges). Information shown is for the current and prior year ended January 31.

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#### FUND PORTFOLIO LEADER AND PORTFOLIO MEMBERS

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	Year	\$0	\$1 - \$10,000	\$10,001 - \$50,000	\$50,001 - \$100,000	\$100,001 - \$500,000	\$500,001 \$1,000,000
D. William Kohli	2005	*					
Portfolio Leader	2004	*					
Rob Bloemker	N/A						
Portfolio Member	N/A						
Jeffrey Kaufman	N/A						
Portfolio Member	N/A						
Stephen Peacher	N/A						
Portfolio Member	N/A						
David Waldman	2005	*					
Portfolio Member	2005	*					

N/A indicates that the individual became a Portfolio Member after the reporting date.

### Fund manager compensation

The total 2004 fund manager compensation that is attributable to your fund is approximately \$800,000. This amount includes a portion of 2004 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 as a percentage of the total assets they manage. The compensation amount also includes a portion of the 2004 compensation paid to the Chief Investment Officers of the teams and the Group Chief Investment Officer responsible for the fund's broader investment category for their oversight responsibilities, calculated

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based on the fund assets they oversee taken as a percentage of the total assets they oversee. These percentages are determined as of the fund's fiscal period-end. For personnel who joined Putnam Management during or after 2004, the calculation reflects annualized 2004 compensation or an estimate of 2005 compensation, as applicable.

Other Putnam funds managed by  
the Portfolio Leader and Portfolio Members

D. William Kohli is also a Portfolio Leader of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust, and a Portfolio Member of Putnam Global Income Trust.

Rob Bloemker is also a Portfolio Member of Putnam American Government Income Fund, Putnam Diversified Income Trust, Putnam Income Fund, Putnam Limited Duration Government Income Fund, Putnam Master Intermediate Income Trust, and Putnam U.S. Government Income Trust.

Jeffrey Kaufman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

Stephen Peacher is also a Portfolio Leader of Putnam Floating Rate Income Fund, Putnam High Yield Advantage Fund, Putnam High Yield Trust, and Putnam Managed High Yield Trust. He is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

David Waldman is also a Portfolio Member of Putnam Diversified Income Trust and Putnam Master Intermediate Income Trust.

D. William Kohli, Rob Bloemker, Jeffrey Kaufman, Stephen Peacher, and David Waldman may also manage other accounts and variable trust funds advised by Putnam Management or an affiliate.

### Changes in your fund's Portfolio Leader and Portfolio Members

Your fund's Portfolio Leader and Portfolio Members did not change during the year ended January 31, 2005. After the close of the period, Rob Bloemker, Jeffrey Kaufman, and Stephen Peacher became Portfolio Members of your fund.

### Fund ownership

The table below shows how much the members of Putnam's Executive Board have invested in the fund (in dollar ranges). Information shown is for the current and prior year ended January 31.

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#### PUTNAM EXECUTIVE BOARD

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	Year	\$0	\$1 - \$10,000	\$10,001 - \$50,000	\$50,001- \$100,000	\$100, and o
Philippe Bibi	2005	*				
Chief Technology Officer	2004	*				

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John Boneparth	2005	*
Head of Global Institutional Mgmt	2004	*
Joshua Brooks	N/A	
Deputy Head of Investments	N/A	
Kevin Cronin	2005	*
Head of Investments	N/A	
Charles Haldeman, Jr.	2005	*
President and CEO	2004	*
Amrit Kanwal	2005	*
Chief Financial Officer	N/A	
Steven Krichmar	2005	*
Chief of Operations	N/A	
Francis McNamara, III	2005	*
General Counsel	N/A	
Richard Monaghan	2005	*
Head of Retail Management	2004	*
Richard Robie, III	2005	*
Chief Administrative Officer	N/A	
Edward Shaddek	N/A	
Deputy Head of Investments	N/A	

N/A indicates the individual joined Putnam's Executive Board after the reporting date.

Performance summary

This section shows your fund's performance during the first half of its fiscal year, which ended January 31, 2005. In accordance with regulatory requirements, we also include performance for the most current 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.

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TOTAL RETURN FOR PERIODS ENDED 1/31/05

	NAV	Market price
6 months	7.43%	9.53%
1 year	8.48	6.47
5 years	51.16	68.91
Annual average	8.61	11.05
10 years	118.62	121.70
Annual average	8.14	8.29
Annual average Life of fund (since 2/29/88)	8.55	7.50

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

COMPARATIVE INDEX RETURNS FOR PERIODS ENDED 1/31/05

	Lehman Government Bond Index	Citigroup Non-U.S. World Government Bond Index	JP Morgan Global High Yield Index*	Lipper Income (clo cate aver
6 months	3.30%	13.07%	7.72%	8.25
1 year	3.27	9.85	9.55	8.39
5 years	44.10	53.99	44.87	43.18
Annual average	7.58	9.02	7.70	7.28
10 years	102.78	94.70	125.81	121.05
Annual average	7.33	6.89	8.49	8.07
Annual average Life of fund (since 2/29/88)	7.65	7.64	--	8.33

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculations for reinvested dividends may differ from actual performance.

\* The inception date of the JP Morgan Global High Yield Index was 12/31/93.

+ Over the 6-month and 1-, 5-, and 10-year periods ended 1/31/05, there were 10 funds in this Lipper category.

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PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 1/31/05  
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Putnam Premier Income Trust  
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Distributions (number)	6	
Income	\$0.234	
Capital gains	--	
Total	\$0.234	
Share value:	NAV	Market price
7/31/04	\$7.03	\$6.29
1/31/05	7.29	6.65
Current return (end of period)		
Current dividend rate 1	6.42%	7.04%

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

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TOTAL RETURN FOR PERIODS ENDED 12/31/04 (MOST RECENT CALENDAR QUARTER)  
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	NAV	Market price
6 months	8.07%	12.52%
1 year	9.84	7.27
5 years	49.36	65.88
Annual average	8.35	10.65
10 years	119.31	127.75
Annual average	8.17	8.58
Annual average Life of fund (since 2/29/88)	8.56	7.43

Terms and definitions

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

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exchanges such as the American Stock Exchange and the New York Stock Exchange.

### Comparative indexes

Citigroup Non-U.S. World Government Bond Index is an unmanaged index of global investment-grade fixed-income securities, excluding the United States.

JP Morgan Global Diversified Emerging Markets Bond Index is an unmanaged index of global emerging-market fixed-income securities.

JP Morgan Global High Yield Index is an unmanaged index of global high-yield fixed-income securities.

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and agency 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 funds (without sales charges) with similar current investment styles or objectives as determined by Lipper. Lipper category averages reflect performance trends for funds within a category and are based on results at net asset value.

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 each fund's management contract with Putnam Management. In this regard the Board of Trustees, with the assistance of its Contract Committee consisting solely of Independent Trustees, requests and evaluates all information it deems reasonably necessary in the circumstances. Over the course of several months beginning in March and ending in June of 2004, the Contract Committee reviewed 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 contract, effective July 1, 2004.

This approval was based on the following conclusions:

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- \* That the fee schedule currently in effect for your fund 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 service, 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 are described below.

### Model fee schedules and categories; total expenses

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 complex and compares favorably with fees paid by competitive funds sponsored by other advisors. The Trustees reviewed the model fee schedule currently in effect for the fund, including fee levels and breakpoints, and the assignment of the fund to a particular fee category under this structure. The Trustees also reviewed comparative fee and expense information for competitive funds. The Trustees concluded that no changes should be made in the fund's current fee schedule at this time. The Trustees noted that expense ratios for a number of Putnam funds had been increasing recently as a result of declining net assets and the natural operation of fee breakpoints. They noted that such expense ratio increases were currently being controlled by expense limitations implemented in January 2004. They also noted that the competitive landscape regarding mutual fund fees may be changing as a result of fee reductions accepted by various other fund groups in connection with recent regulatory settlements and greater focus on fees and expenses in the mutual fund industry generally. The Trustees indicated an intention to monitor these developments closely.

### Economies of scale

As noted above, the Trustees concluded that the fee schedule currently in effect for your fund represents an appropriate sharing of economies of scale at current asset levels. The Trustees indicated their intention to continue their ongoing consideration of economies of scale and in particular to consider further the possible operation of such economies in the event that a significant recovery in the equity markets or net fund sales were to raise asset levels substantially above current levels. In this regard, the Trustees noted that they had reviewed data relating to the substantial increase in asset levels of the Putnam funds that occurred during the years leading up to the market peak in 2000, the subsequent decline in assets and the resulting impact on revenues and expenses of Putnam Management. The Trustees also noted that recent declines in net assets in many Putnam funds, together with significant changes in the cost structure of Putnam Management have altered the economics of Putnam Management's business in significant ways. The Trustees concluded that they would monitor these changes carefully and evaluate the resulting impact on Putnam Management's economics and the sharing of economies of scale between the parties.

### Investment performance

The quality of the investment process provided by Putnam Management

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represented a major factor in the Trustees' evaluation of the quality of services provided by Putnam Management under the Management Contracts. The Trustees recognized that 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 -- does not guarantee favorable investment results for every fund in every time period. The Trustees considered the investment performance of each fund over multiple time periods and considered information comparing the fund's performance with various benchmarks and with the performance of competitive funds. The Trustees noted the satisfactory investment performance of many Putnam funds.

They also noted the disappointing investment performance of certain funds in recent years and continued to discuss with senior management of Putnam Management the factors contributing to such under-performance 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 in an effort 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. As a general matter, the Trustees concluded that consultation between the Trustees and Putnam Management represents the most effective way to address investment performance problems. The Trustees believe that investors in the Putnam funds and their financial advisors have, as a general matter, effectively placed their trust in the Putnam organization, under the supervision of the funds' Trustees, to make appropriate decisions regarding the management of the funds. The Trustees believe that the termination of the Management Contract and engagement of a new investment adviser for under-performing funds, with all the attendant disruptions, would not serve the interests of fund shareholders at this time and would not necessarily provide any greater assurance of improved investment performance.

Brokerage and soft-dollar allocations; other benefits

The Trustees considered various potential benefits that Putnam Management may receive in connection with the services it provides under the Management Contract with your fund. These include principally benefits related to brokerage and soft-dollar allocations, which pertain mainly to funds investing in equity securities. The Trustees believe that soft-dollar credits and other potential benefits associated with the allocation of fund brokerage represent assets of the funds that should be used for the benefit of fund shareholders. The Trustees noted recent trends in the allocation of fund brokerage, including commission costs, the allocation of brokerage to firms that provide research services to Putnam Management, and the sources and application of available soft-dollar credits. Effective December 31, 2003, reflecting a decision made by the Trustees earlier that year, Putnam Management ceased allocating brokerage in connection with the sale of fund shares. In addition, in preparing its budget for commission allocations in 2004, Putnam Management voluntarily reduced substantially the allocation of brokerage commissions to acquire research services from third-party service providers. In light of evolving best practices in the mutual fund industry, the Trustees concluded that this practice should be further curtailed and possibly eliminated in the near future. The Trustees indicated that they would continue to monitor the allocation of the funds' brokerage to ensure that the principle of "best price and

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execution" remains paramount in the portfolio trading process.

### Comparison of retail and institutional fee schedules

The information examined by the Trustees as part of the annual contract reviews included information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans and college endowments. This information included comparison of such fees with fees charged to the Putnam funds, as well as a detailed assessment of the differences in the services provided to these two types of clients. The Trustees devoted special attention to these issues and reviewed recent articles by critics of mutual fund fees, articles by the ICI defending such fee differences, and relevant guidance provided by decisions of the courts. The Trustees observed, in this regard, that the differences in fee rates between institutional clients and 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 reflects to a substantial degree historical competitive forces operating in separate market places. In reaching their conclusions, the Trustees considered the fact that fee rates across all asset sectors are higher on average for mutual funds than for institutional clients, and also considered the differences between the services that Putnam provides to the Putnam funds and those that it provides to institutional clients of the firm.

### Settlement of regulatory charges related to market timing

Finally, in reaching their conclusions, the Trustees considered all matters pertinent to the administrative charges filed against Putnam Management by the SEC and the Commonwealth of Massachusetts in October 2003 relating to market timing, the firm's settlement of those charges, and the conclusions and recommendations of the Trustees' Audit and Pricing Committee based on its review of these matters. The Trustees considered the actions taken by the owner of Putnam Management and its new senior management to terminate or discipline the individuals involved, to implement new compliance systems, to indemnify the funds against all costs and liabilities related to these matters, and otherwise to ensure that the interests of the funds and their shareholders are fully protected. The Trustees noted that, in addition to the settlements of the regulatory charges which will provide comprehensive restitution for any losses suffered by shareholders, the new senior management of Putnam Management has moved aggressively to control expense ratios of funds affected by market timing, to reduce charges to new investors, to improve disclosure of fees and expenses, and to emphasize the paramount role of investment performance in achieving shareholders' investment goals.

### Other information for shareholders

#### A note about duplicate mailings

In response to investors' requests, the SEC has modified mailing regulations for proxy statements, semiannual and annual reports, and prospectuses. Putnam is now able to send a single copy of these materials to customers who share the same address. This change will automatically apply to all shareholders except those who notify us. If you would prefer to receive your own copy, please call Putnam at 1-800-225-1581.

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### 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, 2004, are available on the Putnam Individual Investor Web site, [www.putnaminvestments.com/individual](http://www.putnaminvestments.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

For periods ending on or after July 9, 2004, 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.

The fund's portfolio  
January 31, 2005 (Unaudited)

Corporate bonds and notes (36.2%) (a)

Principal amount	Value
Basic Materials (3.6%)	
-----	
\$575,000 AK Steel Corp. company guaranty 7 3/4s, 2012	\$590,813
630,000 ALROSA Finance SA 144A company guaranty 8 7/8s, 2014 (Luxembourg)	653,625
260,000 Avecia Group PLC company guaranty 11s, 2009 (United Kingdom)	274,300
1,020,000 BCP Caylux Holdings Luxembourg SCA 144A sr. sub. notes 9 5/8s, 2014 (Luxembourg)	1,132,200
405,000 Century Aluminum Co. 144A company guaranty 7 1/2s, 2014	432,338
EUR 775,000 Cognis GMBH 144A sr. notes 9 1/2s, 2014 (Germany)	1,133,877
\$1,035,000 Compass Minerals Group, Inc. company guaranty 10s, 2011	1,161,788
400,000 Compass Minerals International, Inc. sr. disc. notes stepped-coupon Ser. B, zero % (12s, 6/1/08), 2013 (STP)	326,000
1,070,000 Compass Minerals International, Inc. sr. notes stepped-coupon zero % (12 3/4s, 12/15/07), 2012 (STP)	920,200
738,000 Crystal US Holdings, LLC/US Sub 3 Corp. 144A sr. disc. notes stepped-coupon zero % (10s, 10/1/09), 2014 (STP)	512,910
265,000 Equistar Chemicals LP notes 8 3/4s, 2009	291,500

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	2,345,000	Equistar Chemicals LP/Equistar Funding Corp. company guaranty 10 1/8s, 2008	2,673,300
	615,000	Georgia-Pacific Corp. bonds 7 3/4s, 2029	701,100
	1,340,000	Georgia-Pacific Corp. debs. 7.7s, 2015	1,541,000
	60,000	Georgia-Pacific Corp. sr. notes 8s, 2024	70,350
	4,000	Georgia-Pacific Corp. sr. notes 7 3/8s, 2008	4,330
	950,000	Gerdau Ameristeel Corp. sr. notes 10 3/8s, 2011 (Canada)	1,097,250
	1,385,000	Hercules, Inc. company guaranty 11 1/8s, 2007	1,627,375
	280,000	Huntsman Advanced Materials, LLC 144A sec. FRN 10.89s, 2008	300,300
	330,000	Huntsman Advanced Materials, LLC 144A sec. notes 11s, 2010	387,750
	1,099,000	Huntsman Co., LLC sr. disc. notes zero %, 2008	733,583
	2,190,000	Huntsman ICI Holdings sr. disc. notes zero %, 2009	1,229,138
	555,000	Huntsman, LLC company guaranty 11 5/8s, 2010	646,575
	415,000	Huntsman, LLC 144A company guaranty 11 1/2s, 2012	491,775
	325,000	Innophos, Inc. 144A sr. sub. notes 8 7/8s, 2014	350,188
	180,000	International Steel Group, Inc. sr. notes 6 1/2s, 2014	194,400
	912,000	ISP Chemco, Inc. company guaranty Ser. B, 10 1/4s, 2011	1,012,320
	310,000	Jefferson Smurfit Corp. company guaranty 8 1/4s, 2012	328,600
	55,000	Jefferson Smurfit Corp. company guaranty 7 1/2s, 2013	56,788
EUR	700,000	JSG Holding PLC 11 1/2s, 2015	914,661
	\$100,000	Lyondell Chemical Co. bonds 11 1/8s, 2012	117,500
	980,000	Lyondell Chemical Co. company guaranty 9 1/2s, 2008	1,058,400
	895,000	Lyondell Chemical Co. notes Ser. A, 9 5/8s, 2007	977,788
	125,000	MDP Acquisitions PLC sr. notes 9 5/8s, 2012 (Ireland)	138,125
EUR	610,000	MDP Acquisitions PLC sr. notes Ser. EUR, 10 1/8s, 2012 (Ireland)	906,384
	\$892,474	MDP Acquisitions PLC sub. notes 15 1/2s, 2013 (Ireland) (PIK)	1,039,732
EUR	100,000	Nalco Co. sr. notes 7 3/4s, 2011	144,352
EUR	100,000	Nalco Co. sr. sub. notes 9s, 2013	144,352
	\$1,490,000	Nalco Co. sr. sub. notes 8 7/8s, 2013	1,624,100
	795,000	Norske Skog Canada, Ltd. sr. notes 7 3/8s, 2014 (Canada)	802,950
	1,140,000	Novels, Inc. 144A sr. notes 7 1/4s, 2015 (Canada)	1,162,800
	609,379	PCI Chemicals Canada sec. sr. notes 10s, 2008 (Canada)	645,942
	112,580	Pioneer Companies, Inc. sec. sr.notes FRN 6.05s, 2006	118,209

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EUR	500,000	Rockwood Specialties Group, Inc. company guaranty 7 5/8s, 2014	664,734
	\$200,000	Rockwood Specialties Group, Inc. 144A sub. notes 7 1/2s, 2014	206,000
EUR	620,000	SGL Carbon SA 144A sr. notes 8 1/2s, 2012 (Luxembourg)	903,465
	\$965,000	Steel Dynamics, Inc. company guaranty 9 1/2s, 2009	1,054,263
	207,976	Sterling Chemicals, Inc. sec. notes 10s, 2007 (PIK)	206,936
	345,000	Stone Container Corp. sr. notes 8 3/8s, 2012	365,700
	210,000	Stone Container Finance company guaranty 7 3/8s, 2014 (Canada)	216,300
	529,000	Ucar Finance, Inc. company guaranty 10 1/4s, 2012	591,819
	498,000	United Agri Products 144A sr. notes 8 1/4s, 2011	535,350
	706,000	United States Steel Corp. sr. notes 9 3/4s, 2010	806,605
	77,422	Wheeling-Pittsburgh Steel Corp. sr. notes 6s, 2010	65,034
	150,487	Wheeling-Pittsburgh Steel Corp. sr. notes 5s, 2011	126,409
	260,000	WHX Corp. sr. notes 10 1/2s, 2005	247,000
			-----
			36,660,583

### Capital Goods (2.6%)

	698,000	AEP Industries, Inc. sr. sub. notes 9 7/8s, 2007	711,960
	1,670,000	Allied Waste North America, Inc. company guaranty Ser. B, 8 1/2s, 2008	1,736,800
	511,000	Amsted Industries, Inc. 144A sr. notes 10 1/4s, 2011	574,875
	775,000	Argo-Tech Corp. sr. notes 9 1/4s, 2011	848,625
	260,000	BE Aerospace, Inc. sr. sub. notes Ser. B, 8s, 2008	257,400
	776,000	Blount, Inc. sr. sub. notes 8 7/8s, 2012	843,900
	455,000	Browning-Ferris Industries, Inc. debs. 7.4s, 2035	389,025
	597,000	Browning-Ferris Industries, Inc. sr. notes 6 3/8s, 2008	585,060
	1,240,000	Crown Euro Holdings SA sec. notes 10 7/8s, 2013 (France)	1,453,900
EUR	115,000	Crown Euro Holdings SA sec. notes 10 1/4s, 2011 (France)	172,000
	\$387,000	Crown Euro Holdings SA sec. notes 9 1/2s, 2011 (France)	431,505
EUR	151,000	Crown Euro Holdings SA sec. notes 6 1/4s, 2011 (France)	207,835
	\$2,596,000	Decrane Aircraft Holdings Co. company guaranty zero %, 2008	986,480
	1,010,000	Earle M. Jorgensen Co. sec. notes 9 3/4s, 2012	1,128,675
	840,000	FIMEP SA sr. notes 10 1/2s, 2013 (France)	993,300
EUR	500,000	Flender Holdings 144A sr. notes 11s,	

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	2010 (Germany)	786,928
\$770,000	Flowserve Corp. company guaranty 12 1/4s, 2010	847,000
1,370,000	Invensys, PLC notes 9 7/8s, 2011 (United Kingdom)	1,469,325
2,050,000	L-3 Communications Corp. 144A sr. sub. notes 5 7/8s, 2015	2,039,750
1,025,000	Legrand SA debs. 8 1/2s, 2025 (France)	1,209,500
	78,000 Manitowoc Co., Inc. (The) company guaranty 10 1/2s, 2012	89,505
EUR 240,000	Manitowoc Co., Inc. (The) company guaranty 10 3/8s, 2011	349,572
\$305,000	Manitowoc Co., Inc. (The) sr. notes 7 1/8s, 2013	326,350
305,000	Mueller Group, Inc. sec. FRN 7.493s, 2011	313,388
370,000	Mueller Group, Inc. sr. sub. notes 10s, 2012	399,600
775,000	Owens-Brockway Glass company guaranty 8 1/4s, 2013	842,813
613,000	Owens-Brockway Glass company guaranty 7 3/4s, 2011	658,975
1,345,000	Owens-Brockway Glass sr. sec. notes 8 3/4s, 2012	1,496,313
206,000	Owens-Illinois, Inc. debs. 7.8s, 2018	214,240
405,000	Pliant Corp. sec. notes 11 1/8s, 2009	441,956
EUR 201,000	Polypore, Inc. notes 8 3/4s, 2012	272,463
\$363,000	Polypore, Inc. sr. sub. notes 8 3/4s, 2012	372,983
1,650,000	Sequa Corp. sr. notes 9s, 2009	1,823,250
325,000	Siebe PLC 144A sr. unsub. 6 1/2s, 2010 (United Kingdom)	307,531
265,000	Terex Corp. company guaranty 9 1/4s, 2011	293,488
995,000	Terex Corp. company guaranty Ser. B, 10 3/8s, 2011	1,104,450
		-----
		26,980,720
Communication Services (3.9%)		
-----		
469,000	Alamosa Delaware, Inc. company guaranty 11s, 2010	546,385
371,000	Alamosa Delaware, Inc. company guaranty stepped-coupon zero % (12s, 7/31/05), 2009 (STP)	399,753
270,000	American Cellular Corp. company guaranty 9 1/2s, 2009	249,750
1,040,000	American Towers, Inc. company guaranty 7 1/4s, 2011	1,086,800
770,000	Asia Global Crossing, Ltd. sr. notes 13 3/8s, 2010 (Bermuda) (In default) (NON)	38,500
5,725,000	AT&T Corp. sr. notes 9 3/4s, 2031	7,292,219
1,775,000	AT&T Corp. sr. notes 9.05s, 2011	2,059,000
205,000	Cincinnati Bell Telephone Co. company guaranty 6.3s, 2028	186,550
750,000	Cincinnati Bell, Inc. sr. sub. notes 8 3/8s, 2014	761,250

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565,000	Cincinnati Bell, Inc. sr. sub. notes 7 1/4s, 2023	553,700
1,475,000	Citizens Communications Co. notes 9 1/4s, 2011	1,722,063
2,993,000	Citizens Communications Co. sr. notes 6 1/4s, 2013	2,985,518
437,472	Colo.com, Inc. 144A sr. notes 13 7/8s, 2010 (In default) (NON) (F)	--
365,000	Eircom Funding company guaranty Ser. US\$, 8 1/4s, 2013 (Ireland)	398,763
540,000	Fairpoint Communications, Inc. sr. sub. notes 12 1/2s, 2010	587,250
300,220	Globix Corp. company guaranty 11s, 2008 (PIK)	283,708
810,000	Inmarsat Finance PLC company guaranty 7 5/8s, 2012 (United Kingdom)	826,200
1,060,000	Inmarsat Finance PLC company guaranty stepped-coupon zero % (10 3/8s, 10/15/08), 2012	768,500
420,000	iPCS, Inc. sr. no 11 1/2s, 2012	479,850
115,000	IWO Escrow Co. 144A sec. FRN 6.32s, 2012	115,000
115,000	IWO Escrow Co. 144A sr. disc. notes stepped-coupon zero % (10 3/4s, 1/15/10), 2015 (STP)	73,313
780,000	Level 3 Financing, Inc. 144A sr. notes 10 3/4s, 2011	672,750
1,005,000	Madison River Capital Corp. sr. notes 13 1/4s, 2010	1,075,350
1,458,000	MCI, Inc. sr. notes 8.735s, 2014	1,594,688
358,000	MCI, Inc. sr. notes 7.688s, 2009	373,663
1,000	MCI, Inc. sr. notes 6.908s, 2007	1,023
1,628,000	Nextel Communications, Inc. sr. notes 7 3/8s, 2015	1,794,870
2,602,000	Nextel Communications, Inc. sr. notes 5.95s, 2014	2,699,575
915,000	Nextel Partners, Inc. sr. notes 8 1/8s, 2011	1,006,500
390,000	PanAmSat Corp. notes 6 3/8s, 2008	403,650
610,000	Qwest Communications International, Inc. 144A sr. notes 7 3/4s, 2014	620,675
3,360,000	Qwest Corp. 144A notes 9 1/8s, 2012	3,822,000
505,000	Qwest Services Corp. 144A notes 14 1/2s, 2014	632,513
240,000	Rogers Cantel, Inc. debs. 9 3/4s, 2016 (Canada)	288,000
380,000	Rogers Wireless Communications, Inc. sec. notes 9 5/8s, 2011 (Canada)	445,550
365,000	Rogers Wireless Communications, Inc. sec. notes 7 1/2s, 2015 (Canada)	390,550
420,000	Rural Cellular Corp. sr. sub. notes 9 3/4s, 2010	405,300
322,000	SBA Communications Corp. 144A sr. notes 8 1/2s, 2012	335,283
445,000	SBA Telecommunications Inc./SBA Communication Corp. sr. disc. notes stepped-coupon zero % (9 3/4s, 12/15/07), 2011 (STP)	383,256
935,000	TSI Telecommunication Services, Inc. company guaranty Ser. B, 12 3/4s, 2009	1,054,213

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510,000	UbiquiTel Operating Co. sr. notes 9 7/8s, 2011	562,275
336,000	UbiquiTel Operating Co. 144A sr. notes 9 7/8s, 2011	370,440
337,135	Verado Holdings, Inc. sr. disc. notes zero %, 2008 (In default) (NON) (F)	10
		40,346,206

### Consumer Cyclical (8.2%)

730,000	Advertising Direct 144A sr. notes 9 1/4s, 2012 (Canada)	770,150
395,000	Ameristar Casinos, Inc. company guaranty 10 3/4s, 2009	442,400
468,000	Argosy Gaming Co. sr. sub. notes 7s, 2014	514,800
870,000	ArvinMeritor, Inc. notes 8 3/4s, 2012	973,313
640,000	Asbury Automotive Group, Inc. sr. sub. notes 8s, 2014	641,600
1,230,000	Autonation, Inc. company guaranty 9s, 2008	1,383,750
210,000	Beazer Homes USA, Inc. company guaranty 8 3/8s, 2012	230,475
820,000	Boyd Gaming Corp. sr. sub. notes 8 3/4s, 2012	904,050
230,000	Boyd Gaming Corp. sr. sub. notes 7 3/4s, 2012	247,250
190,000	Boyd Gaming Corp. sr. sub. notes 6 3/4s, 2014	194,750
1,480,646	CanWest Media, Inc. 144A sr. sub. notes 8s, 2012 (Canada)	1,580,590
500,000	Chumash Casino & Resort Enterprise 144A sr. notes 9s, 2010	547,500
1,192,000	Coinmach Corp. sr. notes 9s, 2010	1,227,760
277,000	Cooper Standard Auto 144A notes 8 3/8s, 2014	263,150
91,000	Cooper Standard Auto 144A notes 7s, 2012	89,408
145,000	D.R. Horton, Inc. company guaranty 8s, 2009	162,069
880,000	D.R. Horton, Inc. sr. notes 7 7/8s, 2011	1,009,800
220,000	D.R. Horton, Inc. sr. notes 6 7/8s, 2013	241,450
600,000	D.R. Horton, Inc. sr. notes 5 7/8s, 2013	615,199
220,000	Dana Corp. notes 10 1/8s, 2010	243,143
785,000	Dana Corp. notes 9s, 2011	924,338
135,000	Dana Corp. notes 7s, 2029	134,104
405,000	Dana Corp. notes 6 1/2s, 2009	423,633
780,000	Dayton Superior Corp. sec. notes 10 3/4s, 2008	838,500
295,000	Delco Remy International, Inc. company guaranty 11s, 2009	311,225
740,000	Delco Remy International, Inc. sr. sub. notes 9 3/8s, 2012	736,300
825,000	Dex Media West, LLC/Dex Media Finance Co. sr. notes Ser. B, 8 1/2s, 2010	897,188

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705,000	Dex Media, Inc. disc. notes zero %, 2013	530,513
805,000	Dex Media, Inc. notes 8s, 2013	855,313
265,000	Dura Operating Corp. company guaranty Ser. B, 8 5/8s, 2012	272,288
661,000	FelCor Lodging LP company guaranty 9s, 2008 (R)	743,625
680,000	Finlay Fine Jewelry Corp. sr. notes 8 3/8s, 2012	683,400
965,000	Gaylord Entertainment Co. sr. notes 8s, 2013	1,032,550
1,160,000	Goodyear Tire & Rubber Co. (The) notes 7.857s, 2011	1,171,600
285,000	Goodyear Tire & Rubber Co. (The) notes 6 3/8s, 2008	295,688
5,000	Harrah's Operating Co., Inc. company guaranty 8s, 2011	5,794
585,000	HMH Properties, Inc. company guaranty Ser. B, 7 7/8s, 2008 (R)	600,356
389,000	Host Marriott LP sr. notes Ser. E, 8 3/8s, 2006 (R)	404,560
1,050,000	Host Marriott LP 144A sr. notes 7s, 2012 (R)	1,097,250
475,000	Houghton Mifflin Co. sr. sub. notes 9 7/8s, 2013	495,188
825,000	Icon Health & Fitness company guaranty 11 1/4s, 2012	709,500
725,000	ITT Corp. debs. 7 3/8s, 2015	812,000
815,000	ITT Corp. notes 6 3/4s, 2005	832,319
1,370,000	JC Penney Co., Inc. debs. 7.95s, 2017	1,596,050
615,000	JC Penney Co., Inc. debs. 7 1/8s, 2023	666,506
40,000	JC Penney Co., Inc. notes 8s, 2010	45,350
1,445,000	John Q. Hammons Hotels LP/John Q. Hammons Hotels Finance Corp. III 1st mtge. Ser. B, 8 7/8s, 2012	1,618,400
728,000	Jostens Holding Corp. sr. disc. notes stepped-coupon zero % (10 1/4s, 12/1/08), 2013 (STP)	509,600
1,602,000	Jostens IH Corp. 144A company guaranty 7 5/8s, 2012	1,630,035
795,000	K. Hovnanian Enterprises, Inc. company guaranty 8 7/8s, 2012	882,450
540,000	K. Hovnanian Enterprises, Inc. company guaranty 6 3/8s, 2014	552,150
405,000	K. Hovnanian Enterprises, Inc. sr. notes 6 1/2s, 2014	418,163
243,000	K2, Inc. sr. notes 7 3/8s, 2014	260,921
328,000	KB Home company guaranty 5 7/8s, 2015	332,202
472,000	KB Home sr. notes 5 3/4s, 2014	477,479
1,885,000	Laidlaw International, Inc. sr. notes 10 3/4s, 2011	2,167,750
780,000	Lamar Media Corp. company guaranty 7 1/4s, 2013	838,500
1,406,000	Levi Strauss & Co. sr. notes 12 1/4s, 2012	1,518,480
780,000	Levi Strauss & Co. 144A sr. notes 9 3/4s, 2015	758,550
600,000	Mandalay Resort Group sr. notes 6 3/8s, 2011	627,000

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985,000	MeriStar Hospital Corp. company guaranty 9 1/8s, 2011 (R)	1,063,800
410,000	Meritage Corp. company guaranty 9 3/4s, 2011	453,050
275,000	Meritage Corp. sr. notes 7s, 2014	284,625
560,000	Meritor Automotive, Inc. notes 6.8s, 2009	576,800
615,000	Metaldyne Corp. 144A sr. notes 10s, 2013	575,025
1,085,000	MGM Mirage, Inc. company guaranty 8 1/2s, 2010	1,228,763
680,000	MGM Mirage, Inc. company guaranty 6s, 2009	693,600
250,000	Mirage Resorts, Inc. debs. 7 1/4s, 2017	261,875
165,000	Mohegan Tribal Gaming Authority sr. sub. notes 8s, 2012	177,375
430,000	Mohegan Tribal Gaming Authority sr. sub. notes 6 3/8s, 2009	436,988
415,000	Owens Corning bonds 7 1/2s, 2018 (In default) (NON)	284,275
1,185,000	Owens Corning notes 7 1/2s, 2005 (In default) (NON)	817,650
635,000	Oxford Industries, Inc. sr. notes 8 7/8s, 2011	676,275
1,250,000	Park Place Entertainment Corp. sr. notes 7 1/2s, 2009	1,390,625
680,000	Park Place Entertainment Corp. sr. notes 7s, 2013	754,800
545,000	Park Place Entertainment Corp. sr. sub. notes 8 7/8s, 2008	613,806
1,320,000	Penn National Gaming, Inc. sr. sub. notes 8 7/8s, 2010	1,425,600
395,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 3/4s, 2013	427,588
1,068,000	Pinnacle Entertainment, Inc. sr. sub. notes 8 1/4s, 2012	1,137,420
1,515,000	PRIMEDIA, Inc. company guaranty 8 7/8s, 2011	1,598,325
1,110,000	PRIMEDIA, Inc. sr. notes 8s, 2013	1,137,750
470,000	R. H. Donnelley Corp. 144A sr. notes 6 7/8s, 2013	471,175
510,000	Reader's Digest Association, Inc. (The) sr. notes 6 1/2s, 2011	536,775
995,000	Resorts International Hotel and Casino, Inc. company guaranty 11 1/2s, 2009	1,166,638
175,000	RH Donnelley Finance Corp. I company guaranty 8 7/8s, 2010	193,813
1,290,000	RH Donnelley Finance Corp. I 144A company guaranty 8 7/8s, 2010	1,428,675
650,000	RH Donnelley Finance Corp. I 144A sr. sub. notes 10 7/8s, 2012	760,500
791,000	Russell Corp. company guaranty 9 1/4s, 2010	848,348
1,538,000	Saks, Inc. company guaranty 7s, 2013	1,576,450
1,665,000	Samsonite Corp. sr. sub. notes 8 7/8s, 2011	1,791,956
530,000	Schuler Homes, Inc. company guaranty 10 1/2s, 2011	605,525
466,000	Scientific Games Corp. 144A sr. sub. notes 6 1/4s, 2012	472,990

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	1,545,000 Sealy Mattress Co. sr. sub. notes 8 1/4s, 2014	1,575,900
	590,000 Standard Pacific Corp. sr. notes 7 3/4s, 2013	638,675
	785,000 Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 7/8s, 2012	894,900
	535,000 Starwood Hotels & Resorts Worldwide, Inc. company guaranty 7 3/8s, 2007	569,106
	665,000 Station Casinos, Inc. sr. notes 6s, 2012	681,625
	715,000 Station Casinos, Inc. sr. sub. notes 6 7/8s, 2016	741,813
	470,000 Technical Olympic USA, Inc. company guaranty 10 3/8s, 2012	524,050
	305,000 Technical Olympic USA, Inc. company guaranty 9s, 2010	327,875
	463,000 Technical Olympic USA, Inc. 144A sr. sub. notes 7 1/2s, 2015	449,110
EUR	185,000 Teksid Aluminum 144A company guaranty 11 3/8s, 2011 (Luxembourg)	226,058
\$1,040,000	Tenneco Automotive, Inc. sec. notes Ser. B, 10 1/4s, 2013	1,222,000
	596,000 Tenneco Automotive, Inc. 144A sr. sub. notes 8 5/8s, 2014	619,840
	870,000 THL Buildco, Inc. (Nortek, Inc.) sr. sub. notes 8 1/2s, 2014	893,925
	494,000 Toys R Us, Inc. notes 7 5/8s, 2011	512,525
	715,000 United Auto Group, Inc. company guaranty 9 5/8s, 2012	779,350
	835,000 Vertis, Inc. company guaranty Ser. B, 10 7/8s, 2009	897,625
	1,015,000 Vertis, Inc. 144A sub. notes 13 1/2s, 2009	1,078,438
	1,135,000 WCI Communities, Inc. company guaranty 9 1/8s, 2012	1,265,525
	552,000 William Carter Holdings Co. (The) company guaranty Ser. B, 10 7/8s, 2011	622,380
	770,000 WRC Media Corp. sr. sub. notes 12 3/4s, 2009	729,575
	785,000 Wynn Las Vegas, LLC/Wynn Las Vegas Capital Corp. 144A 1st mtge. 6 5/8s, 2014	771,263
		-----
		83,879,843

### Consumer Staples (4.5%)

	560,000 Adelphia Communications Corp. sr. notes 10 7/8s, 2010 (In default) (NON)	484,400
	25,000 Adelphia Communications Corp. sr. notes 10 1/4s, 2011 (In default) (NON)	22,063
	75,000 Adelphia Communications Corp. sr. notes 9 3/8s, 2009 (In default) (NON)	64,500
	765,000 Affinity Group, Inc. sr. sub. notes 9s, 2012	818,550
	416,000 AMC Entertainment, Inc. sr. sub. notes 9 7/8s, 2012	449,280
	1,269,000 AMC Entertainment, Inc. sr. sub.	

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	notes 8s, 2014	1,257,896
165,822	Archibald Candy Corp. company guaranty 10s, 2007 (In default) (NON) (PIK) (F)	35,320
790,000	Brand Services, Inc. company guaranty 12s, 2012	888,750
700,000	Capital Records, Inc. 144A company guaranty 8 3/8s, 2009	785,750
360,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (12 1/8s, 1/15/07), 2012 (STP)	230,400
735,000	Charter Communications Holdings, LLC/Capital Corp. sr. disc. notes stepped-coupon zero % (11 3/4s, 5/15/06), 2011 (STP)	510,825
980,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 11 1/8s, 2011	828,100
1,195,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10 3/4s, 2009	1,018,738
2,310,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 10s, 2011	1,824,900
265,000	Charter Communications Holdings, LLC/Capital Corp. sr. notes 8 5/8s, 2009	212,000
625,000	Church & Dwight Co., Inc. 144A sr. sub. notes 6s, 2012	631,250
35,000	Cinemark USA, Inc. sr. sub. notes 9s, 2013	39,200
1,385,000	Cinemark, Inc. sr. disc. notes stepped-coupon zero % (9 3/4s, 3/15/07), 2014 (STP)	1,045,675
1,155,000	Constellation Brands, Inc. company guaranty Ser. B, 8s, 2008	1,258,950
595,000	Constellation Brands, Inc. sr. sub. notes Ser. B, 8 1/8s, 2012	645,575
600,000	CSC Holdings, Inc. debs. 7 5/8s, 2018	663,000
515,000	CSC Holdings, Inc. sr. notes Ser. B, 7 5/8s, 2011	561,350
1,460,000	CSC Holdings, Inc. 144A sr. notes 6 3/4s, 2012	1,533,000
1,297,000	Dean Foods Co. sr. notes 6 5/8s, 2009	1,352,123
780,000	Del Monte Corp. sr. sub. notes 8 5/8s, 2012	866,775
465,000	Del Monte Corp. 144A sr. sub. notes 6 3/4s, 2015	470,813
3,586,000	Diva Systems Corp. sr. disc. notes Ser. B, 12 5/8s, 2008 (In default) (NON)	15,689
1,150,000	Doane Pet Care Co. sr. sub. debs. 9 3/4s, 2007	1,115,500
678,000	Domino's, Inc. sr. sub. notes 8 1/4s, 2011	725,460
1,038,000	Echostar DBS Corp. sr. notes 6 3/8s, 2011	1,060,058
2,991,000	Echostar DBS Corp. 144A company guaranty 6 5/8s, 2014	3,020,910

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	452,000 Elizabeth Arden, Inc. company guaranty 7 3/4s, 2014	473,470
1,353,000	Granite Broadcasting Corp. sec. notes 9 3/4s, 2010	1,302,263
440,000	Intelsat Bermuda, Ltd. 144A sr. notes 8 1/4s, 2013 (Bermuda)	455,400
500,000	Jean Coutu Group, Inc. 144A sr. notes 7 5/8s, 2012 (Canada)	520,000
603,000	Jean Coutu Group, Inc. 144A sr. sub. notes 8 1/2s, 2014 (Canada)	601,493
1,170,000	Kabel Deutschland GmbH 144A sr. notes 10 5/8s, 2014 (Germany)	1,322,100
	59,690 Knology, Inc. 144A sr. notes 12s, 2009 (PIK)	57,302
1,374,000	Pinnacle Foods Holding Corp. sr. sub. notes 8 1/4s, 2013	1,257,210
1,165,000	Playtex Products, Inc. company guaranty 9 3/8s, 2011	1,246,550
1,075,000	Playtex Products, Inc. sec. notes 8s, 2011	1,171,750
1,050,000	Prestige Brands, Inc. sr. sub. notes 9 1/4s, 2012	1,107,750
	45,000 Quebecor Media, Inc. sr. disc. notes stepped-coupon zero % (13 3/4s, 7/15/06), 2011 (Canada) (STP)	44,550
1,010,000	Rainbow National Services, LLC 144A sr. notes 8 3/4s, 2012	1,136,250
1,030,000	Remington Arms Co., Inc. company guaranty 10 1/2s, 2011	991,375
	780,000 Rite Aid Corp. company guaranty 9 1/2s, 2011	838,500
	50,000 Rite Aid Corp. debs. 6 7/8s, 2013	45,250
	105,000 Rite Aid Corp. notes 7 1/8s, 2007	104,475
	710,000 Rite Aid Corp. sr. notes 9 1/4s, 2013	706,450
	455,000 Rite Aid Corp. 144A sec. notes 7 1/2s, 2015	448,175
1,220,000	Sbarro, Inc. company guaranty 11s, 2009	1,226,100
	355,000 Scotts Co. (The) sr. sub. notes 6 5/8s, 2013	368,313
	945,000 Six Flags, Inc. sr. notes 9 5/8s, 2014	890,663
EUR	288,000 United Biscuits Finance company guaranty 10 5/8s, 2011 (United Kingdom)	396,213
\$1,235,000	United Rentals (North America), Inc. company guaranty 6 1/2s, 2012	1,213,388
	529,000 Universal City Florida Holding Co. 144A sr. notes 8 3/8s, 2010	550,160
	664,000 Universal City Florida Holding Co. 144A sr. notes FRN 7.2s, 2010	690,560
	405,000 Videotron Ltee company guaranty 6 7/8s, 2014 (Canada)	413,606
1,010,000	Williams Scotsman, Inc. company guaranty 9 7/8s, 2007	1,010,000
	610,000 Young Broadcasting, Inc. company guaranty 10s, 2011	643,550
	510,000 Young Broadcasting, Inc. sr. sub. notes 8 3/4s, 2014	507,450
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		46,177,116

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### Energy (3.7%)

1,085,000	Amerada Hess Corp. unsub notes 6.65s, 2011	1,193,882
1,390,000	Arch Western Finance, LLC sr. notes 6 3/4s, 2013	1,417,800
483,000	Arch Western Finance, LLC 144A sr. notes 6 3/4s, 2013	492,660
677,000	Bluewater Finance, Ltd. company guaranty 10 1/4s, 2012 (Cayman Islands)	744,700
890,000	BRL Universal Equipment sec. notes 8 7/8s, 2008	930,050
795,000	CHC Helicopter Corp. sr. sub. notes 7 3/8s, 2014 (Canada)	832,763
475,000	Chesapeake Energy Corp. company guaranty 9s, 2012	535,563
371,000	Chesapeake Energy Corp. company guaranty 7 3/4s, 2015	402,999
1,365,000	Chesapeake Energy Corp. sr. notes 7 1/2s, 2013	1,487,850
400,000	Chesapeake Energy Corp. sr. notes 7s, 2014	424,000
720,000	Comstock Resources, Inc. sr. notes 6 7/8s, 2012	734,400
974,000	Dresser, Inc. company guaranty 9 3/8s, 2011	1,056,790
301,000	Dresser-Rand Group, Inc. 144A sr. sub. notes 7 3/8s, 2014	307,773
755,000	Encore Acquisition Co. company guaranty 8 3/8s, 2012	832,388
360,000	Encore Acquisition Co. sr. sub. notes 6 1/4s, 2014	359,100
1,020,000	Exco Resources, Inc. company guaranty 7 1/4s, 2011	1,076,100
480,000	Forest Oil Corp. company guaranty 7 3/4s, 2014	516,000
770,000	Forest Oil Corp. sr. notes 8s, 2011	872,988
275,000	Forest Oil Corp. sr. notes 8s, 2008	299,063
555,000	Hanover Compressor Co. sr. notes 9s, 2014	610,500
449,000	Hanover Compressor Co. sr. notes 8 5/8s, 2010	484,920
745,000	Hanover Compressor Co. sub. notes zero %, 2007	659,325
241,000	Hanover Equipment Trust sec. notes Ser. B, 8 3/4s, 2011	260,280
824,000	Harvest Operations Corp. 144A sr. notes 7 7/8s, 2011 (Canada)	832,240
730,000	Hornbeck Offshore Services, Inc. 144A sr. notes 6 1/8s, 2014	728,175
875,000	Inergy LP/Inergy Finance Corp. 144A sr. notes 6 7/8s, 2014	870,625
515,000	KCS Energy, Inc. sr. notes 7 1/8s, 2012	539,463
646,000	Key Energy Services, Inc. sr. notes 6 3/8s, 2013	646,000
1,081,000	Massey Energy Co. sr. notes 6 5/8s, 2010	1,113,430
980,000	Newfield Exploration Co. sr. notes 7 5/8s, 2011	1,097,600

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505,000	Newfield Exploration Co. 144A sr. sub. notes 6 5/8s, 2014	532,775
655,000	Offshore Logistics, Inc. company guaranty 6 1/8s, 2013	653,363
764,138	Oslo Seismic Services, Inc. 1st mtge. 8.28s, 2011	806,748
505,000	Pacific Energy Partners/Pacific Energy Finance Corp. sr. notes 7 1/8s, 2014	532,775
266,000	Parker Drilling Co. company guaranty Ser. B, 10 1/8s, 2009	279,300
1,065,000	Peabody Energy Corp. sr. notes 5 7/8s, 2016	1,059,675
880,000	Pemex Project Funding Master Trust company guaranty 8 5/8s, 2022	1,042,800
795,000	Petro Geo-Services notes 10s, 2010 (Norway)	908,288
1,045,000	Petronas Capital, Ltd. company guaranty 7 7/8s, 2022 (Malaysia)	1,320,671
683,000	Plains Exploration & Production Co. sr. notes 7 1/8s, 2014	749,593
1,132,000	Plains Exploration & Production Co. sr. sub. notes 8 3/4s, 2012	1,253,690
920,000	Pogo Producing Co. sr. sub. notes Ser. B, 8 1/4s, 2011	984,400
1,166,000	Pride sr. notes 7 3/8s, 2014	1,282,600
830,000	Seabulk International, Inc. company guaranty 9 1/2s, 2013	888,100
420,000	Seven Seas Petroleum, Inc. sr. notes Ser. B, 12 1/2s, 2005 (In default) (NON) (F)	4
1,273,000	Star Gas Partners LP/Star Gas Finance Co. sr. notes 10 1/4s, 2013	1,352,563
460,000	Stone Energy Corp. 144A sr. sub. notes 6 3/4s, 2014	449,650
410,000	Tengizchevroll Finance Co. 144A sec. notes 6.124s, 2014 (Luxembourg)	414,100
205,000	Universal Compression, Inc. sr. notes 7 1/4s, 2010	216,531
900,000	Vintage Petroleum, Inc. sr. notes 8 1/4s, 2012	987,750
205,000	Vintage Petroleum, Inc. sr. sub. notes 7 7/8s, 2011	218,838
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		38,293,641

### Financial (0.7%)

820,000	China Development Bank bonds and notes 4 3/4s, 2014	810,305
435,000	Crescent Real Estate Equities LP notes 7 1/2s, 2007 (R)	449,138
1,075,000	Crescent Real Estate Equities LP sr. notes 9 1/4s, 2009 (R)	1,161,000
1,390,000	E(a)Trade Finance Corp. 144A sr. notes 8s, 2011	1,494,250
1,679,020	Finova Group, Inc. notes 7 1/2s, 2009	772,349
1,745,000	VTB Bank (VTB Capital) 144A notes 7 1/2s, 2011 (Luxembourg)	1,875,875
760,000	Western Financial Bank sub. debs. 9 5/8s, 2012	858,800

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7,421,717

Government (0.2%)

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1,626,000 Pemex Project Funding Master Trust  
144A company guaranty 9 1/2s, 2027 2,065,020

Health Care (3.0%)

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486,000 Alderwoods Group, Inc. 144A sr.  
notes 7 3/4s, 2012 521,235  
805,000 AmerisourceBergen Corp. company  
guaranty 7 1/4s, 2012 887,513  
780,000 AmerisourceBergen Corp. sr. notes  
8 1/8s, 2008 861,900  
1,375,000 Ardent Health Services, Inc. sr.  
sub. notes 10s, 2013 1,423,125  
456,000 Community Health Systems, Inc. 144A  
sr. sub. notes 6 1/2s, 2012 456,000  
455,000 Coventry Health Care, Inc. 144A sr.  
notes 5 7/8s, 2012 461,825  
655,000 Elan Finance PLC/Elan Finance Corp.  
144A sr. notes 7 3/4s, 2011  
(Ireland) 684,475  
470,000 Extencicare Health Services, Inc.  
company guaranty 9 1/2s, 2010 521,700  
745,000 Extencicare Health Services, Inc.  
sr. sub. notes 6 7/8s, 2014 754,313  
920,000 HCA, Inc. debs. 7.19s, 2015 959,548  
350,000 HCA, Inc. notes 8.36s, 2024 384,510  
750,000 HCA, Inc. notes 7.69s, 2025 779,934  
1,385,000 HCA, Inc. notes 7s, 2007 1,450,049  
371,000 HCA, Inc. notes 6 3/8s, 2015 373,181  
775,000 HCA, Inc. notes 6 1/4s, 2013 782,568  
364,000 HCA, Inc. notes 5 3/4s, 2014 352,841  
1,365,000 Healthsouth Corp. notes 7 5/8s, 2012 1,371,825  
705,000 Healthsouth Corp. sr. notes 8 1/2s,  
2008 728,794  
340,000 Healthsouth Corp. sr. notes 8 3/8s,  
2011 352,750  
290,000 Healthsouth Corp. sr. notes 7s, 2008 292,538  
340,845 Magellan Health Services, Inc. sr.  
notes Ser. A, 9 3/8s, 2008 367,260  
795,000 MedQuest, Inc. company guaranty  
Ser. B, 11 7/8s, 2012 930,150  
1,170,000 MQ Associates, Inc. sr. disc. notes  
stepped-coupon zero %  
(12 1/4s, 8/15/08), 2012 (STP) 900,900  
1,045,000 Omnicare, Inc. sr. sub. notes  
6 1/8s, 2013 1,029,325  
1,022,000 PacifiCare Health Systems, Inc.  
company guaranty 10 3/4s, 2009 1,154,860  
915,000 Province Healthcare Co. sr. sub.  
notes 7 1/2s, 2013 1,024,800  
390,000 Service Corp. International debs.  
7 7/8s, 2013 417,300  
105,000 Service Corp. International notes  
7.2s, 2006 108,675  
35,000 Service Corp. International notes  
6 7/8s, 2007 36,575  
155,000 Service Corp. International notes

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	6 1/2s, 2008	159,069
370,000	Service Corp. International notes Ser. (a), 7.7s, 2009	392,200
1,085,000	Service Corp. International/US 144A sr. notes 7s, 2016	1,085,000
1,010,000	Stewart Enterprises, Inc. notes 10 3/4s, 2008	1,089,538
530,000	Tenet Healthcare Corp. notes 7 3/8s, 2013	487,600
359,000	Tenet Healthcare Corp. sr. notes 6 1/2s, 2012	319,510
1,240,000	Tenet Healthcare Corp. 144A sr. notes 9 7/8s, 2014	1,286,500
311,000	Tenet Healthcare Corp. 144A sr. notes 9 1/4s, 2015	311,000
1,150,000	Triad Hospitals, Inc. sr. notes 7s, 2012	1,203,188
992,000	Triad Hospitals, Inc. sr. sub. notes 7s, 2013	1,004,400
740,000	Universal Hospital Services, Inc. sr. notes 10 1/8s, 2011	765,900
350,000	US Oncology, Inc. 144A sr. notes 9s, 2012	379,750
250,000	US Oncology, Inc. 144A sr. sub. notes 10 3/4s, 2014	285,625
594,000	Vanguard Health Holding Co. II, LLC sr. sub. notes 9s, 2014	635,580
425,000	Ventas Realty LP/Capital Corp. company guaranty 9s, 2012 (R)	493,000
243,000	Ventas Realty LP/Capital Corp. 144A sr. notes 6 5/8s, 2014 (R)	245,430
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		30,513,759

Technology (1.5%)

1,218,000	Advanced Micro Devices, Inc. 144A sr. notes 7 3/4s, 2012	1,214,955
639,000	AMI Semiconductor, Inc. company guaranty 10 3/4s, 2013	747,630
1,960,000	Celestica, Inc. sr.sub. notes 7 7/8s, 2011 (Canada)	2,043,300
1,925,000	Freescale Semiconductor, Inc. sr. notes Ser. B, 7 1/8s, 2014	2,076,594
305,000	Iron Mountain, Inc. company guaranty 8 5/8s, 2013	322,156
770,000	Iron Mountain, Inc. sr. sub. notes 8 1/4s, 2011	793,100
100,000	Lucent Technologies, Inc. debs. 6 1/2s, 2028	89,000
1,435,000	Lucent Technologies, Inc. debs. 6.45s, 2029	1,280,738
465,000	SCG Holding Corp. 144A notes zero %, 2011	662,625
855,000	Seagate Technology Hdd Holdings company guaranty 8s, 2009 (Cayman Islands)	919,125
1,744,000	UGS Corp. 144A sr. sub. notes 10s, 2012	1,944,560
1,075,000	Xerox Capital Trust I company guaranty 8s, 2027	1,120,688
555,000	Xerox Corp. notes Ser. MTN, 7.2s,	

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	2016	585,525
1,565,000	Xerox Corp. sr. notes 7 5/8s, 2013	1,686,288
255,000	Xerox Corp. sr. notes 6 7/8s, 2011	269,025
		-----
		15,755,309
Transportation (0.5%)		
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760,000	American Airlines, Inc. pass-through certificates Ser. 01-1, 6.817s, 2011	718,200
1,075,000	Calair, LLC/Calair Capital Corp. company guaranty 8 1/8s, 2008	876,125
1,270,000	Kansas City Southern Railway Co. company guaranty 9 1/2s, 2008	1,422,400
260,000	Kansas City Southern Railway Co. company guaranty 7 1/2s, 2009	270,400
1,037,000	Navistar International Corp. sr. notes 7 1/2s, 2011	1,106,998
322,492	NWA Trust sr. notes Ser. A, 9 1/4s, 2012	338,617
260,000	Travel Centers of America, Inc. company guaranty 12 3/4s, 2009	292,500
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		5,025,240
Utilities & Power (3.8%)		
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77,000	AES Corp. (The) sr. notes 8 7/8s, 2011	86,433
43,000	AES Corp. (The) sr. notes 8 3/4s, 2008	46,870
1,085,000	AES Corp. (The) 144A sec. notes 9s, 2015	1,226,050
1,530,000	AES Corp. (The) 144A sec. notes 8 3/4s, 2013	1,713,600
740,000	Allegheny Energy Supply 144A bonds 8 1/4s, 2012	823,250
475,000	Allegheny Energy Supply 144A sec. notes 10 1/4s, 2007	532,000
1,190,000	CMS Energy Corp. sr. notes 8.9s, 2008	1,304,538
315,000	CMS Energy Corp. sr. notes 8 1/2s, 2011	351,619
250,000	CMS Energy Corp. sr. notes 7 3/4s, 2010	269,688
536,000	DPL, Inc. bonds 8 1/8s, 2031	609,039
875,000	DPL, Inc. sr. notes 6 7/8s, 2011	948,932
425,000	Dynegy Holdings, Inc. sr. notes 6 7/8s, 2011	395,250
1,990,000	Dynegy Holdings, Inc. 144A sec. notes 10 1/8s, 2013	2,208,900
525,000	Dynegy-Roseton Danskamme company guaranty Ser. A, 7.27s, 2010	530,250
800,000	Dynegy-Roseton Danskamme company guaranty Ser. B, 7.67s, 2016	776,000
370,000	Edison Mission Energy sr. notes 10s, 2008	427,350
15,000	Edison Mission Energy sr. notes 9 7/8s, 2011	17,531
750,000	El Paso Corp. sr. notes 8.05s, 2030	738,750
560,000	El Paso Corp. sr. notes 7 3/8s, 2012	564,200

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525,000	El Paso Corp. sr. notes Ser. MTN, 7 3/4s, 2032	510,563
265,000	El Paso Natural Gas Co. debs. 8 5/8s, 2022	307,400
1,390,000	El Paso Production Holding Co. company guaranty 7 3/4s, 2013	1,445,600
910,000	Ferrellgas Partners LP/Ferrellgas Partners Finance sr. notes 6 3/4s, 2014	905,450
1,135,000	FirstEnergy Corp. notes Ser. B, 6.45s, 2011	1,231,708
300,000	Kansas Gas & Electric debs. 8.29s, 2016	309,104
1,765,000	Midwest Generation, LLC sec. sr. notes 8 3/4s, 2034	1,972,388
1,180,000	Mission Energy Holding Co. sec. notes 13 1/2s, 2008	1,472,050
560,000	Monongahela Power Co. 144A 1st. mtge. 6.7s, 2014	628,600
739,000	Nevada Power Co. 2nd mtge. 9s, 2013	853,545
330,000	Nevada Power Co. 144A general ref. mtge. 5 7/8s, 2015	330,825
451,000	Northwest Corp. 144A sec. notes 5 7/8s, 2014	464,130
1,400,000	Northwest Pipeline Corp. company guaranty 8 1/8s, 2010	1,545,250
90,000	Northwestern Corp. debs. 6.95s, 2028 (In default) (NON) (F)	--
160,000	Northwestern Corp. notes 8 3/4s, 2012 (In default) (NON) (F)	--
2,186,000	NRG Energy, Inc. 144A sr. sec. notes 8s, 2013	2,355,415
805,000	Orion Power Holdings, Inc. sr. notes 12s, 2010	1,006,250
850,000	PSEG Energy Holdings, Inc. notes 7 3/4s, 2007	887,188
670,000	SEMCO Energy, Inc. sr. notes 7 3/4s, 2013	723,561
210,000	Sierra Pacific Power Co. general ref. mtge. 6 1/4s, 2012	218,400
1,285,000	Sierra Pacific Resources sr. notes 8 5/8s, 2014	1,427,956
130,000	Southern California Edison Co. notes 6 3/8s, 2006	133,545
440,000	Teco Energy, Inc. notes 10 1/2s, 2007	504,900
250,000	Teco Energy, Inc. notes 7.2s, 2011	271,563
400,000	Teco Energy, Inc. notes 7s, 2012	432,000
105,000	Tennessee Gas Pipeline Co. debs. 7s, 2028	106,050
555,000	Tennessee Gas Pipeline Co. unsecd. notes 7 1/2s, 2017	613,275
826,000	Texas Genco LLC/Texas Genco Financing Corp. 144A sr. notes 6 7/8s, 2014	854,910
135,000	Transcontinental Gas Pipeline Corp. debs. 7 1/4s, 2026	149,175
1,460,000	Utilicorp Canada Finance Corp. company guaranty 7 3/4s, 2011 (Canada)	1,511,100
510,000	Utilicorp United, Inc. sr. notes 9.95s, 2011	574,388

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547,000	Western Resources, Inc. sr. notes 9 3/4s, 2007	611,273
200,000	Williams Cos., Inc. (The) notes 8 3/4s, 2032	240,000
210,000	Williams Cos., Inc. (The) notes 8 1/8s, 2012	241,500
755,000	Williams Cos., Inc. (The) notes 7 5/8s, 2019	838,050
334,976	York Power Funding 144A notes 12s, 2007 (Cayman Islands) (In default) (NON) (F)	34
		39,247,396
	Total Corporate bonds and notes (cost \$355,214,506)	\$372,366,550
U.S. government and agency mortgage obligations (15.8%) (a)		
Principal amount		Value
<div style="padding-left: 40px;">Federal Home Loan Mortgage Corporation</div>		
\$7,500,000	6 1/2s, TBA, February 1, 2035	\$7,852,734
9,200,000	6 1/2s, TBA, March 1, 2035	9,616,875
18,938	7 1/2s, March 1, 2026	20,430
40,803,336	6 1/2s, with due dates from July 1, 2028 to September 1, 2034	42,767,407
Federal National Mortgage Association Pass-Through Certificates		
118,360	7 1/2s, with due dates from October 1, 2022 to January 1, 2030	127,089
10,767,379	6 1/2s, with due dates from April 1, 2024 to January 1, 2035	11,286,019
99,218	6 1/2s, April 1, 2016	104,299
47,900,000	6 1/2s, TBA, February 1, 2035	50,122,857
203,855	5s, June 1, 2019	207,398
3,100,000	5s, TBA, February 1, 2020	3,148,922
4,912,756	4 1/2s, with due dates from August 1, 2033 to June 1, 2034	4,805,096
32,600,000	4 1/2s, TBA, February 1, 2020	32,536,329
	Total U.S. government and agency mortgage obligations (cost \$162,259,306)	\$162,595,455
U.S. treasury obligations (13.1%) (a)		
Principal amount		Value
<div style="padding-left: 40px;">U.S. Treasury Bonds</div>		
\$21,600,000	7 1/2s, November 15, 2016	\$27,891,000
33,514,000	6 1/4s, May 15, 2030	41,395,025
12,260,000	6 1/4s, August 15, 2023	14,704,338
U.S. Treasury Notes		
22,594,000	4 1/4s, August 15, 2013	22,876,425
13,910,000	3 1/4s, August 15, 2008	13,791,548
6,273,000	1 1/8s, June 30, 2005	6,234,774
20,460,000	U.S. Treasury Strip zero %, November 15, 2024	7,948,624
	Total U.S. treasury obligations (cost \$127,539,353)	\$134,841,734

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Foreign government bonds and notes (11.3%) (a)			Value
Principal amount			
EUR	6,000,000	Austria (Republic of) 144A notes Ser. EMTN, 3.8s, 2013	\$8,016,692
	\$700,000	Brazil (Federal Republic of) bonds 10 1/2s, 2014	813,750
	2,415,000	Brazil (Federal Republic of) bonds 8 7/8s, 2019	2,493,488
	2,465,000	Brazil (Federal Republic of) notes 8 3/4s, 2025	2,430,737
	2,000,000	Brazil (Federal Republic of) unsub. notes 11s, 2040	2,318,000
	1,300,000	Bulgaria (Republic of) 144A bonds 8 1/4s, 2015	1,644,500
CAD	2,725,000	Canada (Government of) bonds 5 1/2s, 2010	2,384,512
CAD	930,000	Canada (Government of) bonds Ser. WL43, 5 3/4s, 2029	858,779
	\$560,000	Colombia (Republic of) bonds 10 3/8s, 2033	635,600
	1,285,000	Colombia (Republic of) bonds Ser. NOV, 9 3/4s, 2009	1,444,340
	1,480,000	Colombia (Republic of) notes 10 3/4s, 2013	1,726,420
	460,000	Dominican (Republic of) notes 9.04s, 2013	416,300
	2,085,000	Ecuador (Republic of) bonds stepped-coupon Ser. REGS, 7s (8s, 8/15/05), 2030 (STP)	1,928,625
	395,000	El Salvador (Republic of) bonds 8 1/4s, 2032	403,888
EUR	1,845,000	France (Government of) bonds 5 3/4s, 2032	3,086,526
EUR	4,830,000	France (Government of) bonds 5 1/2s, 2010	7,091,793
EUR	9,000,000	France (Government of) bonds 4s, 2013	12,240,881
EUR	1,080,000	France (Government of) deb. 4s, 2009	1,473,833
EUR	7,250,000	Germany (Federal Republic of) bonds Ser. 97, 6s, 2007	10,210,347
EUR	6,340,000	Germany (Federal Republic of) bonds Ser. 97, 6s, 2007	8,813,082
EUR	1,875,000	Greece (Hellenic Republic of) bonds 3 1/2s, 2008	2,500,817
	\$645,000	Indonesia (Republic of) FRN 3.205s, 2005	638,550
	260,000	Indonesia (Republic of) FRN 2.795s, 2006	256,100
	110,000	Indonesia (Republic of) 144A sr. notes 6 3/4s, 2014	112,200
	925,000	Intelsat Bermuda, Ltd. 144A sr. notes 8 5/8s, 2015	963,156
	520,000	Peru (Republic of) bonds 8 3/4s, 2033	556,400
	1,735,000	Philippines (Republic of) bonds 9 1/2s, 2030	1,724,156
	1,930,000	Philippines (Republic of) bonds 8 3/8s, 2011	1,981,145
	8,662,500	Russia (Federation of) 144A unsub. stepped-coupon 5s (7 1/2s,	

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	3/31/07), 2030 (STP)	9,095,625
1,335,000	Russia (Ministry of Finance) deb. Ser. V, 3s, 2008	1,246,623
1,195,000	South Africa (Republic of) notes 7 3/8s, 2012	1,368,275
1,210,000	South Africa (Republic of) notes 6 1/2s, 2014	1,327,975
SEK 37,600,000	Sweden (Government of) bonds Ser. 3101, 4s, 2008	6,719,304
SEK 43,075,000	Sweden (Government of) debts. Ser. 1041, 6 3/4s, 2014	7,642,209
\$3,610,000	United Mexican States bonds Ser. MTN, 8.3s, 2031	4,375,320
2,875,000	United Mexican States notes 6 5/8s, 2015	3,117,938
570,000	Venezuela (Republic of) bonds 9 3/8s, 2034	588,240
225,000	Venezuela (Republic of) notes 10 3/4s, 2013	259,425
495,000	Venezuela (Republic of) notes 8 1/2s, 2014	503,663
1,020,000	Venezuela (Republic of) unsub. bonds 5 3/8s, 2010	938,400
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	Total Foreign government bonds and notes (cost \$100,078,837)	\$116,347,614

### Asset-backed securities (9.9%) (a)

		Value
Principal amount		-----
\$507,774	ABSC NIMS Trust 144A Ser. 03-HE5, Class A, 7s, 2033 Aegis Asset Backed Securities Trust 144A	\$509,805
100,138	Ser. 04-1N, Class Note, 5s, 2034	100,138
255,730	Ser. 04-2N, Class N1, 4 1/2s, 2034	255,130
218,898	Ser. 04-4N, Class Note, 5s, 2034	219,035
427,000	Ameriquest Finance NIM Trust 144A Ser. 04-RN9, Class N2, 10s, 2034	395,530
4,491,818	Amortizing Residential Collateral Trust Ser. 02-BC1, Class A, IO (Interest only), 6s, 2005	17,921
54,558	AQ Finance NIM Trust 144A Ser. 03-N9A, Class Note, 7.385s, 2033 Arcap REIT, Inc. 144A	54,662
535,000	Ser. 03-1A, Class E, 7.11s, 2038	570,109
304,000	Ser. 04-1A, Class E, 6.42s, 2039 Argent NIM Trust 144A	310,033
44,689	Ser. 03-N6, Class A, 6.4s, 2034 (Cayman Islands)	44,801
61,553	Ser. 04-WN2, Class A, 4.55s, 2034 (Cayman Islands)	61,553
	Asset Backed Funding Corp. NIM Trust 144A	
5,538	Ser. 03-WF1, Class N1, 8.35s, 2032	5,538
220,000	Ser. 04-0PT1, Class N2, 6.9s, 2033	