

PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form N-CSRS
December 27, 2016

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: (811-07626)

Exact name of registrant as specified in charter: Putnam Municipal Opportunities Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service: Robert T. Burns, Vice President
One Post Office Square
Boston, Massachusetts 02109

Copy to: Bryan Chegwiddden, Esq.
Ropes & Gray LLP
1211 Avenue of the Americas
New York, New York 10036

Registrant's telephone number, including area code: (617) 292-1000

Date of fiscal year end: April 30, 2017

Date of reporting period: May 1, 2016 — October 31, 2016

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:

Putnam Municipal Opportunities Trust

Semiannual report 10 | 31 | 16

Message from the Trustees	1
About the fund	2
Interview with your fund's portfolio manager	5
Your fund's performance	10
Terms and definitions	12
Other information for shareholders	13
Summary of dividend reinvestment plans	14
Trustee approval of management contract	16
Financial statements	20

Consider these risks before investing: Lower-rated bonds may offer higher yields in return for more risk. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is greater for longer-term bonds, and credit risk is greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. Bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions of the risk of default, changes in government intervention, and factors related to a specific issuer or industry. These factors may also lead to periods of high volatility and reduced liquidity in the bond markets. You can lose money by investing in the fund. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

Message from the Trustees

December 16, 2016

Dear Fellow Shareholder:

The U.S. presidential election is now behind us, but the transitional period in Washington, D.C., may bring bouts of volatility to the financial markets. Election campaigns are often followed by uncertainty regarding the new administration, and new presidents may seek to make legislative changes to economic policies.

If recent history is a worthy guide, we believe it is important for investors to remain well diversified, maintain a long-term view, and not overreact to volatile markets. To help ensure that your portfolio is aligned with your

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individual goals, time horizon, and tolerance for risk, we believe it is a good idea to speak regularly with your financial advisor.

In today's environment, we favor the investment approach practiced at Putnam — active strategies based on fundamental research. Putnam portfolio managers, backed by a network of global analysts, bring years of experience to navigating changing market conditions and pursuing investment opportunities. In the following pages, you will find an overview of your fund's performance for the reporting period ended October 31, 2016, as well as an outlook for the coming months.

Thank you for investing with Putnam.

Data are historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return and net asset value 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 returns in the bar chart are at NAV. See below and pages 10–11 for additional performance information, including fund returns at market price Index and Lipper results should be compared with fund performance at NAV. Fund results reflect the use of leverage, while index results are unleveraged and Lipper results reflect varying use of, and methods for, leverage.

** Returns for the six-month period are not annualized, but cumulative.*

This comparison shows your fund's performance in the context of broad market indexes for the six months ended 10/31/16. See above and pages 10–11 for additional fund performance information. Index descriptions can be found on page 12.

4 Municipal Opportunities Trust

Thalia holds a B.A. from Williams College. She joined Putnam in 1989 and has been in the investment industry since 1983.

In addition to Thalia Meehan, your fund is managed by Paul M. Drury, CFA.

Thalia, how was the market environment for municipal bonds during the six-month reporting period ended October 31, 2016?

Municipal bonds started the reporting period in solid fashion, benefiting from falling U.S. Treasury, municipal, and global interest rates and, in some cases, negative yields on non-U.S. sovereign bonds. Negative yields, in particular, motivated many income-oriented investors to look beyond more traditional fixed-income investments. As such, international buyers and banking institutions have been drawn to the attractive yields offered by U.S. municipal bonds, joining the more traditional base of tax-averse investors. Demand for the asset class also increased when investors sought refuge during periods of heightened market volatility, as we saw immediately after the United Kingdom's surprise decision to leave the European Union in June 2016.

The Federal Reserve held its benchmark federal funds rate steady throughout the reporting period. The Fed's more dovish stance, which reflected concern about the risks that global developments posed for the U.S. economy, generally supported municipal bond prices as well, in our view.

Credit qualities are shown as a percentage of the fund's net assets (common and preferred shares) as of 10/31/16. A bond rated BBB or higher (SP-3 or higher, for short-term debt) is considered investment grade. This chart reflects the highest security rating provided by one or more of Standard & Poor's, Moody's, and Fitch. Ratings may vary over time.

Cash and net other assets, if any, represent the market value weights of cash, derivatives, and short-term securities in the portfolio. The fund itself has not been rated by an independent rating agency.

Top ten state allocations are shown as a percentage of the fund's net assets (common and preferred shares) as of 10/31/16. Investments in Puerto Rico represented 0.1% of the fund's net assets. Summary information may differ from the portfolio schedule included in the financial statements due to the differing treatment of interest accruals, the floating rate portion of tender option bonds, derivative securities, if any, the use of different classifications of securities for presentation purposes, and rounding. Holdings and allocations may vary over time.

6 Municipal Opportunities Trust

While municipal bonds closed out the reporting period in positive territory, performance moderated somewhat from the solid pace that we saw in the early months of the reporting period. As the fall months came into focus, uncertainty around the U.S. presidential election and the increasing likelihood that the Fed would raise interest rates before the end of 2016 created some headwinds for the asset class.

For the six-month reporting period ended October 31, 2016, the Bloomberg Barclays Municipal Bond Index [the fund's benchmark index] inched up 0.49%, outperforming the BofA Merrill Lynch U.S. 3-Month Treasury Bill Index, which returned 0.17%. Against this backdrop, higher-yielding, lower-rated municipal bonds outperformed lower-yielding, higher-rated municipal bonds. Municipal bonds with longer maturities outperformed those with shorter maturities.

How did the fund perform for the period?

For the six months ended October 31, 2016, the fund delivered positive absolute performance, outperforming its benchmark index but underperforming its Lipper peer group average.

How would you characterize the supply/demand picture at period-end?

The supply/demand [technical] backdrop for municipal bonds weakened in the third calendar quarter of 2016 compared with the preceding quarters, resulting in a more neutral technical picture overall, in our view. Fund inflows, a measure of investor demand, continued into the asset class, but at a slower pace. Despite the slowed pace of demand toward the end of the reporting period, the record amount of inflows through October 31, 2016, represented the largest year-to-date inflow during the past 25 years. Meanwhile, municipal bond issuance swelled to 30-year records in August, September, and October, with October representing the largest issuance month ever. The increased issuance put the asset class on pace to surpass the \$400 billion mark in 2016 and even exceed 2015's \$404 billion — one of the largest amounts on record for one year.

What contributed to the rise in municipal bond issuance?

Tax-exempt municipal bonds have long been a vital and effective tool for financing public projects such as roads, schools, and hospitals. With attention increasingly turning to the aging infrastructure in this country, cash-strapped

state and local governments have turned to the municipal bond market to fund these projects. Issuance in the health-care and utilities sectors has been especially strong. Another factor contributing to the spike in issuance was the decision by many issuers to move up their municipal bond offerings ahead of the presidential election and a potential year-end interest-rate hike by the Fed. Given the scale of recent issuance, we were pleasantly surprised to see how well the municipal bond market held up amid the slight technical imbalance.

What was your investment approach in this environment?

Given the market backdrop, many of our investment themes remained in place. They included duration positioning, or interest-rate sensitivity, that was slightly below the median of the Lipper peer group; overweight exposure, relative to the benchmark index, to municipal bonds rated BBB; a preference for higher-education, essential service utilities, and continuing-care retirement community bonds relative to the Lipper group; and an underweight position in Puerto Rico-based issuers relative to the fund's Lipper peers.

Municipal Opportunities Trust 7

We did not expect municipal credit spreads [the difference in yield between higher- and lower-quality municipal bonds] to widen by a large margin in the near term, nor did we believe that spreads would tighten much, as they remained close to their lowest point since the onset of the credit crisis. In our opinion, downside risks included flows to municipal bonds turning decidedly negative or interest rates spiking higher. At the end of the reporting period, we maintained a generally neutral duration position to help insulate the portfolio from any market pressure should the Fed move to raise short-term rates before year-end.

The fund reduced its dividend rate during the reporting period. What led to that decision?

Your fund has maintained a stable dividend since October 2013. However, the lower yields on municipal bonds held in the fund translated into less income earned in the portfolio given the low interest-rate environment. Accordingly, the fund's monthly dividend rate declined from \$0.0595 to \$0.0541 in November 2016.

What is your outlook for the Fed's rate policy in the coming months?

On several occasions, the central bank stated that it is predisposed to delaying further rate hikes until stronger evidence of U.S. economic growth materializes, especially in light of second-quarter gross domestic product [GDP] that was weaker than expected. However, as the third quarter of 2016 progressed, some members of the Fed's interest-rate-setting committee voiced disagreement with the decision to keep interest rates low as a way to boost the U.S. economy. With the labor market tightening, the dissenters argued that the time had come for modest gradual increases in interest rates to best promote a more sustainable and balanced economic recovery.

Following the Fed's September meeting, Chair Janet Yellen acknowledged that U.S. growth appeared stronger and that she expected one interest-rate increase this year if the job market continued to improve and no new macroeconomic risks materialized. Economic data continued to beat expectations in October, led by the third-quarter GDP, which

This chart shows how the fund's top weightings have changed over the past six months. Allocations are shown as a percentage of the fund's net assets (common and preferred shares). Current period summary information may differ from the information in the portfolio schedule notes included in the financial statements due to the inclusion of derivative securities, any interest accruals, the use of different classifications of securities for presentation purposes, and rounding. Holdings and allocations may vary over time.

was revised up to 3.2%. As such, many Fed observers were looking to the December policy meeting — after the presidential election — for the Fed to act on interest rates. With the likelihood of a second rate hike in a decade increasing, municipal bonds closely tracked Treasuries in the closing weeks of the reporting period, with yields adjusting higher.

As 2016 comes to a close, the technical picture may have weakened slightly, but we still view the asset class as fairly valued. With the markets anticipating issuance to taper off in December and early 2017, we expect that we may see technicals coming into a more attractive balance near term. Even if returns should continue to moderate, we believe that the \$3.8 trillion tax-free municipal bond market, with its relatively stable credit fundamentals and low default rate, is on solid footing and represents a high-quality investment option for income-oriented investors.

Thank you, Thalia, for your time and insights today.

The views expressed in this report are exclusively those of Putnam Management and are subject to change. They are not meant as investment advice.

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. Current and future portfolio holdings are subject to risk. Statements in the Q&A concerning the fund's performance or portfolio composition relative to those of the fund's Lipper peer group may reference information produced by Lipper Inc. or through a third party.

Municipal Opportunities Trust 9

Your fund's performance

This section shows your fund's performance, price, and distribution information for periods ended October 31, 2016, the end of the first half of its current fiscal year. In accordance with regulatory requirements for mutual funds, we also include performance information as of the most recent calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represent past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

Fund performance Total return and comparative index results for periods ended 10/31/16

	Annual average Life of fund (since 5/28/93)	10 years	Annual average	5 years	Annual average	3 years	Annual average	1 year	6 months
NAV	6.34%	80.78%	6.10%	46.62%	7.95%	31.49%	9.56%	7.09%	1.19%
Market price	5.89	94.76	6.89	42.86	7.40	36.39	10.90	8.36	-2.30
Bloomberg Barclays Municipal Bond Index	5.33	56.37	4.57	23.66	4.34	15.41	4.89	4.06	0.49

**Lipper General &
Insured Municipal
Debt Funds**

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(leveraged closed-end)

category average* 6.29 81.34 6.11 47.65 8.07 32.58 9.82 7.63 1.30

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

Index and Lipper results should be compared with fund performance at net asset value. Fund results reflect the use of leverage, while index results are unleveraged and Lipper results reflect varying use of, and methods for, leverage.

* Over the 6-month, 1-year, 3-year, 5-year, 10-year, and life-of-fund periods ended 10/31/16, there were 62, 62, 62, 57, 54, and 27 funds, respectively, in this Lipper category.

Performance includes the deduction of management fees and administrative expenses.

10 Municipal Opportunities Trust

Fund price and distribution information For the six-month period ended 10/31/16

Distributions

Number	6
Income ¹	\$0.3570
Capital gains ²	—
Total	\$0.3570

	Series B (3,417 shares)	Series C (3,737 shares)
Distributions— Preferred shares		
Income ¹	\$108.15	\$109.15
Capital gains ²	—	—
Total	\$108.15	\$109.15

Share value	NAV	Market price
4/30/16	\$13.72	\$13.10
10/31/16	13.53	12.46
Current dividend rate (end of period)	NAV	Market price

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Current dividend rate ³	5.28%	5.73%
<hr/>		
Taxable equivalent ⁴	9.33	10.12

The classification of distributions, if any, is an estimate. Final distribution information will appear on your year-end tax forms.

¹ For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

² Capital gains, if any, are taxable for federal and, in most cases, state purposes.

³ Most recent distribution, including any return of capital and excluding capital gains, annualized and divided by NAV or market price at end of period.

⁴ Assumes maximum 43.40% federal tax rate for 2016. Results for investors subject to lower tax rates would not be as advantageous.

Fund performance as of most recent calendar quarter Total return for periods ended 9/30/16

	Annual average Life of fund (since 5/28/93)	10 years	Annual average	5 years	Annual average	3 years	Annual average	1 year	6 months
NAV	6.44%	85.64%	6.38%	48.68%	8.26%	34.93%	10.50%	10.14%	4.34%
Market price	6.21	110.70	7.74	52.82	8.85	45.71	13.37	17.87	7.87

See the discussion following the fund performance table on page 10 for information about the calculation of fund performance.

Municipal Opportunities Trust 11

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 New York Stock Exchange.

Fixed-income terms

Current rate is the annual rate of return earned from dividends or interest of an investment. Current rate is expressed as a percentage of the price of a security, fund share, or principal investment.

Yield curve is a graph that plots the yields of bonds with equal credit quality against their differing maturity dates, ranging from shortest to longest. It is used as a benchmark for other debt, such as mortgage or bank lending rates.

Comparative indexes

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

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

BofA Merrill Lynch U.S. 3-Month Treasury Bill Index is an unmanaged index that seeks to measure the performance of U.S. Treasury bills available in the marketplace.

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.

12 Municipal Opportunities Trust

Other information for shareholders

Important notice regarding share repurchase program

In September 2016, the Trustees of your fund approved the renewal of a share repurchase program that had been in effect since 2005. This renewal allows your fund to repurchase, in the 12 months beginning October 8, 2016, up to 10% of the fund's common shares outstanding as of October 7, 2016.

Important notice regarding delivery of shareholder documents

In accordance with Securities and Exchange Commission (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, unless a shareholder requests otherwise. 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, 2016, are available in the Individual Investors section of putnam.com, and on the SEC's website, www.sec.gov. If you have questions about finding forms on the SEC's website, 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 Form N-Q on the SEC's website at www.sec.gov. In addition, the fund's Form 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 website or the operation of the Public Reference Room.

Trustee and employee fund ownership

Putnam employees and members of the Board of Trustees place their faith, confidence, and, most importantly, investment dollars in Putnam mutual funds. As of October 31, 2016, Putnam employees had approximately \$492,000,000 and the Trustees had approximately \$132,000,000 invested in Putnam mutual funds. These amounts include investments by the Trustees' and employees' immediate family members as well as investments through retirement and deferred compensation plans.

Municipal Opportunities Trust 13

Summary of Putnam Closed-End Funds' Amended and Restated Dividend Reinvestment Plans

Putnam High Income Securities Fund, Putnam Managed Municipal Income Trust, Putnam Master Intermediate Income Trust, Putnam Municipal Opportunities Trust and Putnam Premier Income Trust (each, a "Fund" and collectively, the "Funds") each offer **dividend reinvestment plan** (each, a "Plan" and collectively, the "Plans"). If you participate in a Plan, all income dividends and capital gain distributions are **automatically reinvested** in Fund shares by the Fund's agent, Putnam Investor Services, Inc. (the "Agent"). If you are not participating in a Plan, every month you will receive all dividends and other distributions in cash, paid by check and mailed directly to you.

Upon a purchase (or, where applicable, upon registration of transfer on the shareholder records of a Fund) of shares of a Fund by a registered shareholder, each such shareholder **will be deemed to have elected to participate** in that Fund's Plan. Each such shareholder will have all distributions by a Fund automatically reinvested in additional shares, unless such shareholder elects to terminate participation in a Plan by instructing the Agent to pay future distributions in cash. Shareholders who were not participants in a Plan as of January 31, 2010, will continue to receive distributions in cash but may enroll in a Plan at any time by contacting the Agent.

If you participate in a Fund's Plan, the Agent will automatically reinvest subsequent distributions, and the Agent will send you a confirmation in the mail telling you how many additional shares were issued to your account.

To change your enrollment status or to request additional information about the Plans, you may contact the Agent either in writing, at P.O. Box 8383, Boston, MA 02266-8383, or by telephone at 1-800-225-1581 during normal East Coast business hours.

How you acquire additional shares through a Plan If the market price per share for your Fund's shares (plus estimated brokerage commissions) is greater than or equal to their net asset value per share on the payment date for a distribution, you will be issued shares of the Fund at a value equal to the higher of the net asset value per share on that date or 95% of the market price per share on that date.

If the market price per share for your Fund's shares (plus estimated brokerage commissions) is less than their net asset value per share on the payment date for a distribution, the Agent will buy Fund shares for participating accounts in the open market. The Agent will aggregate open-market purchases on behalf of all participants, and the average price (including brokerage commissions) of all shares purchased by the Agent will be the price per share allocable to each participant. The Agent will generally complete these open-market purchases within five

business days following the payment date. If, before the Agent has completed open-market purchases, the market price per share (plus estimated brokerage commissions) rises to exceed the net asset value per share on the payment date, then the purchase price may exceed the net asset value per share, potentially resulting in the acquisition of fewer shares than if the distribution had been paid in newly issued shares.

How to withdraw from a Plan Participants may withdraw from a Fund's Plan at any time by notifying the Agent, either in writing or by telephone. Such withdrawal will be effective immediately if notice is received by the Agent with sufficient time prior to any distribution record date; otherwise, such withdrawal will be effective with respect to any subsequent distribution following notice of withdrawal. There is no penalty for withdrawing from or not participating in a Plan.

Plan administration The Agent will credit all shares acquired for a participant under a Plan to the account in which the participant's common shares are held. Each participant will

14 Municipal Opportunities Trust

be sent reasonably promptly a confirmation by the Agent of each acquisition made for his or her account.

About brokerage fees Each participant pays a proportionate share of any brokerage commissions incurred if the Agent purchases additional shares on the open market, in accordance with the Plans. There are no brokerage charges applied to shares issued directly by the Funds under the Plans.

About taxes and Plan amendments Reinvesting dividend and capital gain distributions in shares of the Funds does not relieve you of tax obligations, which are the same as if you had received cash distributions. The Agent supplies tax information to you and to the IRS annually. Each Fund reserves the right to amend or terminate its Plan upon 30 days' written notice. However, the Agent may assign its rights, and delegate its duties, to a successor agent with the prior consent of a Fund and without prior notice to Plan participants.

If your shares are held in a broker or nominee name If your shares are held in the name of a broker or nominee offering a dividend reinvestment service, consult your broker or nominee to ensure that an appropriate election is made on your behalf. If the broker or nominee holding your shares does not provide a reinvestment service, you may need to register your shares in your own name in order to participate in a Plan.

In the case of record shareholders such as banks, brokers or nominees that hold shares for others who are the beneficial owners of such shares, the Agent will administer the Plan on the basis of the number of shares certified by the record shareholder as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

Municipal Opportunities Trust 15

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 Investment Management, LLC ("Putnam Management") and the sub-management contract with respect to your fund between Putnam Management and its affiliate, Putnam Investments Limited ("PIL"). The Board, with the assistance of its Contract Committee, requests and evaluates all information it deems reasonably necessary under the circumstances in connection with its annual contract review. The Contract Committee consists solely of Trustees who are not "interested persons" (as this term is defined in the Investment Company Act of 1940, as amended (the "1940 Act")) of The Putnam Funds ("Independent Trustees").

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At the outset of the review process, members of the Board's independent staff and independent legal counsel discussed with representatives of Putnam Management the annual contract review materials furnished to the Contract Committee during the course of the previous year's review, identifying possible changes in these materials that might be necessary or desirable for the coming year. Following these discussions and in consultation with the Contract Committee, the Independent Trustees' independent legal counsel requested that Putnam Management and its affiliates furnish specified information, together with any additional information that Putnam Management considered relevant, to the Contract Committee. Over the course of several months ending in June 2016, the Contract Committee met on a number of occasions with representatives of Putnam Management, and separately in executive session, to consider the information that Putnam Management provided, as well as supplemental information provided in response to an additional request made by the Contract Committee. Throughout this process, the Contract Committee was assisted by the members of the Board's independent staff and by independent legal counsel for The Putnam Funds and the Independent Trustees.

In May 2016, the Contract Committee met in executive session to discuss and consider its recommendations with respect to the continuance of the contracts. At the Trustees' June 24, 2016 meeting, the Contract Committee met in executive session with the other Independent Trustees to review a summary of the key financial, performance and other data that the Contract Committee considered in the course of its review. The Contract Committee then presented its written report, which summarized the key factors that the Committee had considered and set forth its recommendations. The Contract Committee then recommended, and the Independent Trustees approved, the continuance of your fund's management and sub-management contracts, effective July 1, 2016. (Because PIL is an affiliate of Putnam Management and Putnam Management remains fully responsible for all services provided by PIL, the Trustees have not attempted to evaluate 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.)

The Independent Trustees' approval was based on the following conclusions:

- That the fee schedule in effect for your fund represented 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 services to the fund; and
- That the fee schedule in effect for your fund represented 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 management 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 some aspects of the arrangements may receive greater scrutiny in some years than others, and that the Trustees' conclusions

16 Municipal Opportunities Trust

may be based, in part, on their consideration of fee arrangements in previous years.

Management fee schedules and total expenses

The Trustees reviewed the management fee schedules in effect for all Putnam funds, including fee levels and breakpoints. The Trustees also reviewed the total expenses of each Putnam fund, recognizing that in most cases management fees represented the major, but not the sole, determinant of total costs to shareholders. (In a few instances, funds have implemented so-called "all-in" management fees covering substantially all routine fund operating costs.)

In reviewing fees and expenses, the Trustees generally focus their attention on material changes in circumstances — for example, changes in assets under management, changes in a fund's investment style, changes in Putnam Management's operating costs or profitability, or changes in competitive practices in the mutual fund industry — that suggest that consideration of fee changes might be warranted. The Trustees concluded that the circumstances did not indicate that changes to the management fee structure for your fund would be appropriate at this time.

Under its management contract, your fund has the benefit of breakpoints in its management fee schedule that provide shareholders with economies of scale in the form of reduced fee rates as the fund's assets under management increase. The Trustees noted, however, that because your fund is a closed-end management investment company, it has relatively stable levels of assets under management and is not expected to be affected significantly by breakpoints in its management fee schedule. The Trustees concluded that the fee schedule in effect for your fund represented an appropriate sharing of economies of scale between fund shareholders and Putnam Management.

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The Trustees reviewed comparative fee and expense information for a custom group of competitive funds selected by Broadridge Financial Solutions, Inc. ("Broadridge"). This comparative information included your fund's percentile ranking for effective management fees and total expenses, which provides a general indication of your fund's relative standing. In the custom peer group, your fund ranked in the first quintile in effective management fees (determined for your fund and the other funds in the custom peer group based on fund asset size and the applicable contractual management fee schedule) and in the second quintile in total expenses as of December 31, 2015. The first quintile represents the least expensive funds and the fifth quintile the most expensive funds. The fee and expense data reported by Broadridge as of December 31, 2015 reflected the most recent fiscal year-end data available in Broadridge's database at that time.

In connection with their review of fund management fees and total expenses, the Trustees also reviewed the costs of the services provided and the profits realized by Putnam Management and its affiliates from their contractual relationships with the funds. This information included trends in revenues, expenses and profitability of Putnam Management and its affiliates relating to the investment management, investor servicing and distribution services provided to the funds. In this regard, the Trustees also reviewed an analysis of Putnam Management's revenues, expenses and profitability, allocated on a fund-by-fund basis, with respect to the funds' management, distribution, and investor servicing contracts. For each fund, the analysis presented information about revenues, expenses and profitability for each of the agreements separately and for the agreements taken together on a combined basis. The Trustees concluded that, at current asset levels, the fee schedules in place represented reasonable compensation for the services being provided and represented an appropriate sharing between fund shareholders and Putnam Management of such economies of scale as may exist in the management of the Putnam funds at that time.

The information examined by the Trustees as part of their annual contract review for the Putnam funds included information regarding fees charged by Putnam Management and its affiliates to institutional clients such as defined benefit pension plans, college endowments, sub-advised third-party mutual funds, and the like. This information included comparisons of those fees with fees charged to the Putnam funds, as well as an assessment of the differences in the services provided to these different types of clients. The Trustees observed that the differences in fee rates between these clients and the Putnam 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 may reflect, among other things, historical competitive forces operating in separate markets. The Trustees

Municipal Opportunities Trust 17

considered the fact that in many cases fee rates across different asset classes 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 its other clients. The Trustees did not rely on these comparisons to any significant extent in concluding that the management fees paid by your fund are reasonable.

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 Putnam funds' investment process and performance by the work of the investment oversight committees of the Trustees, which meet on a regular basis with the funds' portfolio teams and with the Chief Investment Officer and other senior members of Putnam Management's Investment Division throughout the year. The Trustees concluded that Putnam Management generally provides a high-quality investment process — based on the experience and skills of the individuals assigned to the management of fund portfolios, the resources made available to them, and in general Putnam Management's ability to attract and retain high-quality personnel — but also recognized that this does not guarantee favorable investment results for every fund in every time period.

The Trustees considered that 2015 was a year of mixed performance results for the Putnam funds, with generally strong results for the international equity, global sector and global asset allocation funds, but generally disappointing results for the U.S. and small-cap equity, Spectrum and fixed income funds. They noted that the longer-term performance of the Putnam funds generally continued to be strong, exemplified by the fact that the Putnam funds were ranked by the Barron's/Lipper Fund Families survey as the 18th-best performing mutual fund complex out of 58 complexes for the five-year period ended December 31, 2015. They also noted, however, the disappointing investment performance of some funds for periods ended December 31, 2015 and considered information provided by Putnam Management regarding the factors contributing to the underperformance and actions being taken to improve the performance of these particular funds. The Trustees indicated their intention to continue to monitor performance trends to assess the effectiveness of these efforts and to evaluate whether additional actions to address areas of underperformance are warranted.

For purposes of evaluating investment performance, the Trustees generally focus on a competitive industry ranking of each fund's total net return over a one-year, three-year and five-year period. For a number of Putnam funds with relatively unique investment mandates for which meaningful competitive performance rankings are not considered to be available, the Trustees evaluated performance based on their total gross and net returns and, in most cases, comparisons of those returns with the returns of

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selected investment benchmarks. In the case of your fund, the Trustees considered that its common share cumulative total return performance at net asset value was in the following quartiles of its Lipper Inc. ("Lipper") peer group (Lipper General & Insured Muni Debt Funds (Leveraged) (closed-end)) for the one-year, three--year and five-year periods ended December 31, 2015 (the first quartile representing the best--performing funds and the fourth quartile the worst-performing funds):

One-year period	2nd
Three-year period	2nd
Five-year period	3rd

Over the one-year, three-year and five-year periods ended December 31, 2015, there were 76, 74 and 71 funds, respectively, in your fund's Lipper peer group. (When considering performance information, shareholders should be mindful that past performance is not a guarantee of future results.)

The Trustees also considered Putnam Management's continued efforts to support fund performance through initiatives including structuring compensation for portfolio managers and research analysts to enhance accountability for fund performance, emphasizing accountability in the portfolio management process, and affirming its commitment to a fundamental--driven approach to investing. The Trustees noted further that Putnam Management continued to strengthen its fundamental research capabilities by adding new investment personnel.

Brokerage and soft-dollar allocations; investor servicing

The Trustees considered various potential benefits that Putnam Management may receive

18 Municipal Opportunities Trust

in connection with the services it provides under the management contract with your fund. These include benefits related to brokerage allocation and the use of soft dollars, whereby a portion of the commissions paid by a fund for brokerage may be used to acquire research services that are expected to be useful to Putnam Management in managing the assets of the fund and of other clients. Subject to policies established by the Trustees, soft dollars generated by these means are used primarily to acquire brokerage and research services (including third-party research and market data) that enhance Putnam Management's investment capabilities and supplement Putnam Management's internal research efforts. However, the Trustees noted that a portion of available soft dollars continues to be used to pay fund expenses. The Trustees indicated their continued intent to monitor regulatory and industry developments in this area with the assistance of their Brokerage Committee and also indicated their continued intent to monitor the allocation of the Putnam funds' brokerage in order to ensure that the principle of seeking best price and execution remains paramount in the portfolio trading process.

Putnam Management may also receive benefits from payments that the funds make to Putnam Management's affiliates for investor services. In conjunction with the annual review of your fund's management and sub-management contracts, the Trustees reviewed your fund's investor servicing agreement with Putnam Investor Services, Inc. ("PSERV"), which is an affiliate of Putnam Management. The Trustees concluded that the fees payable by the funds to PSERV for such services are reasonable in relation to the nature and quality of such services, the fees paid by competitive funds, and the costs incurred by PSERV in providing such services.

Municipal Opportunities Trust 19

Financial statements

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

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The fund's portfolio lists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and non-investment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of preferred shares.)

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

20 Municipal Opportunities Trust

The fund's portfolio 10/31/16 (Unaudited)

Key to holding's abbreviations

ABAG Association Of Bay Area Governments

AGC Assured Guaranty Corp.

AGM Assured Guaranty Municipal Corporation

AMBAC AMBAC Indemnity Corporation

BAM Build America Mutual

COP Certificates of Participation

FGIC Financial Guaranty Insurance Company

FRB Floating Rate Bonds: the rate shown is the current interest rate at the close of the reporting period

G.O. Bonds General Obligation Bonds

NATL National Public Finance Guarantee Corp.

Q-SBLF Qualified School Board Loan Fund

U.S. Govt. Coll. U.S. Government Collateralized

VRDN Variable Rate Demand Notes, which are floating-rate securities with long-term maturities that carry coupons that reset and are payable upon demand either daily, weekly or monthly. The rate shown is the current interest rate at the close of the reporting period.

MUNICIPAL BONDS AND NOTES (140.9%)*	Rating**	Principal amount	Value
Alabama (1.4%)			
Jefferson Cnty., Swr. Rev. Bonds, Ser. D, 6.50%, 10/1/53	BBB-	\$2,000,000	\$2,465,220

Lower AL Gas Dist. Rev. Bonds (Gas Project), Ser. A,

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5.00%, 9/1/46	A3	3,150,000	3,938,823
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Selma, Indl. Dev. Board Rev. Bonds (Gulf Opportunity Zone Intl. Paper Co.), Ser. A, 5.80%, 5/1/34	Baa2	750,000	858,293
<hr/>			
			7,262,336
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Arizona (3.1%)			
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Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7.625%, 12/1/29 (escrow) F	D/P	3,025,000	9,042
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Coconino Cnty., Poll. Control Rev. Bonds (Tucson Elec. Pwr. Co. — Navajo), Ser. A, 5.125%, 10/1/32	A3	1,500,000	1,630,125
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Glendale, Indl. Dev. Auth. Rev. Bonds (Midwestern U.), 5.125%, 5/15/40	A	2,125,000	2,348,911
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Maricopa Cnty., Indl. Dev. Auth. Ed. Rev. Bonds (Reid Traditional Schools Painted Rock Academy), 5.00%, 7/1/36	Baa3	350,000	385,466
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Maricopa Cnty., Poll. Control Rev. Bonds (El Paso Elec. Co.), Ser. A, 7.25%, 2/1/40	Baa1	2,400,000	2,702,808
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Phoenix, Civic Impt. Corp. Arpt. Rev. Bonds, Ser. A, 5.00%, 7/1/40	A1	1,000,000	1,103,140
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Phoenix, Indl. Dev. Auth. Ed. Rev. Bonds (Great Hearts Academies), 3.75%, 7/1/24	BBB-	710,000	723,731
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Pinal Cnty., Elec. Rev. Bonds			
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(Dist. No. 3), 5.25%, 7/1/36 (Prerefunded 7/1/21)	A	500,000	591,520
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5.00%, 7/1/35 ##	A	550,000	639,854
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Salt Verde, Fin. Corp. Gas Rev. Bonds, 5.50%, 12/1/29	Baa1	1,350,000	1,686,218
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U. Med. Ctr. Corp. Hosp. Rev. Bonds, U.S. Govt. Coll., 6.50%, 7/1/39 (Prerefunded 7/1/19)	AAA/P	1,000,000	1,142,920
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Yavapai Cnty., Indl. Dev. Auth. Hosp. Fac. Rev. Bonds (Yavapai Regl. Med.), 5.00%, 8/1/34	Baa1	500,000	563,650
			15,885,016

Yuma, Indl. Dev. Auth. Hosp. Rev. Bonds (Yuma Regl. Med. Ctr.), Ser. A, 5.00%, 8/1/32	A-	2,065,000	2,357,631
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Municipal Opportunities Trust 21

MUNICIPAL BONDS AND NOTES (140.9%)* cont.	Rating**	Principal amount	Value
California (21.3%)			
ABAG Fin. Auth. for Nonprofit Corps. Rev. Bonds (Episcopal Sr. Cmnty.), Ser. A, 5.00%, 7/1/32	BBB+/F	\$550,000	\$602,058