Putnam Core Bond Fund

Class Y: PYTRX Class A: PTRNX | **Commentary | as of March 31, 2025**

Key Takeaways

- **Markets:** There was a significant swing in financial market sentiment during the first quarter of 2025, as market participants digested the first few months of US President Donald Trump's new administration. January saw positive excess returns across several sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetites in February and March as unclear tariff policies became the market's focus. This led to widening spreads, especially in corporate securities. Over the period, US Treasury (UST) yields fell across much of the curve. Very short-dated bonds witnessed modest declines, while intermediate-maturity UST yields had larger decreases. By the end of the quarter, the yield on the benchmark 10-year UST note moved 36 basis points lower to 4.21%.
- **Contributors:** Mortgage credit exposures; Term structure positioning.
- **Detractors:** Corporate credit exposures (investment grade and high yield); prepayment strategies (mortgage basis positioning).

Performance Review

- During the first quarter of 2025, the fund performed in line with its benchmark, the Bloomberg US Aggregate Index.
- Performance was driven primarily by mortgage credit exposures, including commercial mortgage-backed securities (CMBS), which produced attractive carry, and non-agency residential mortgage-backed securities (RMBS), which have continued to benefit from US housing market strength and solid borrower fundamentals.
- Within corporate credit, investment-grade exposures detracted from performance, as investment-grade corporate spreads widened over the period. By mid-March, investment-grade spreads had peaked at 97 basis points, their widest level since September.
- The fund's modest overweight to the mortgage basis was a slight detractor as agency mortgage-backed securities (MBS) underperformed late in the period.

Outlook

- Credit markets witnessed positive absolute returns over the period, as contributions from falling UST yields outweighed negative impacts from increased spreads. Within the US Investment Grade Corporate sub-index of the Bloomberg US Aggregate Index, higher-rated credits generally fared better than their lower-rated counterparts. With equity multiple compression, declining earnings expectations and elevated uncertainty, debt-to-enterprise values have moved higher. We expect domestic sectors like utilities, insurance and wireless to be more resilient, while consumer discretionary sectors and those with global supply chains are more at risk for disruption. Technicals have deteriorated as well, with domestic flows turning negative for the first time this year and new issuance grinding to a halt. While valuations have adjusted, we are far from pricing in a material slowdown in growth and therefore continue to favor a balanced risk posture with a bias toward non-cyclical sectors.
- Within CMBS, the broad commercial real estate (CRE) market continues to face headwinds and increased risks, including elevated interest rates, rate volatility and tighter credit conditions. However, CRE is showing signs of improvement, and rising transaction volumes are providing more price transparency. Signs of optimism include payoff and refinancing rates that continue to surprise to the upside among all property types (including office), as well as the potential for higher economic growth and bank deregulation under the new administration. Commercial property prices have rebounded off the lows, but large dispersions persist between different property types and geographies. We expect loan modifications and extensions to be prevalent as sponsors and servicers pursue work-out solutions, and liquidations should pick up with property price discovery. The prevalence of modifications and extensions on existing debt has helped mitigate maturity wall issues and the immediate need for new financing. Furthermore, given the higher rate environment and attractive opportunities away from top-tier stabilized assets, private debt funds have raised capital specifically for CRE lending, which has helped fill the void left by regional banks. CMBS market liquidity remains significantly improved from 2023 levels as dealers have increased their trading activity and more end investors have been active, but bid-ask spreads remain wide by historical standards. While we are neutral on CRE as a whole, we believe CMBS offers good opportunities for security selection when utilizing detailed loan level analysis, particularly when considering value relative to other fixed income sectors.
- Within RMBS, US homeowner balance sheets generally remain well positioned, supported by locked in home price appreciation, lower household leverage, strong underwriting standards and a healthy labor market. A lack of inventory and steady household formation should keep the housing supply and demand mismatch supportive of home prices. Home prices are likely to rise modestly over the next year, but regional variances are likely to persist. We maintain a neutral view of the sector overall, given rich valuations and our modest expectations for home price growth, but find value in certain subsectors. Given the flat credit curve, we favor opportunities near the top of the capital stack, such as recent issue non-qualified mortgage and credit risk transfer bonds.
- Within agency MBS, prepayment speeds for the universe remain low, and we do not expect a material increase in 2025, with any notable pickup in prepayments likely experienced by higher coupons that are "in-the-money." While mortgage rates rallied to start the year, they have remained higher than the recent lows seen in September, and the majority of borrowers remain "out-of-the-money." We do not expect a material increase in involuntary prepayments as mortgage credit fundamentals remain robust, borrowers have locked in home price appreciation and macroeconomic conditions remain relatively healthy. Money managers continue to hold a significant overweight to the agency MBS sector, albeit lower in recent months, so further demand will depend on inflows. US banks have been buying agency MBS and collateralized mortgage obligations, and demand could increase as the yield curve steepens, deposits grow and the regulatory

Morningstar Rating™

Overall Rating as of March 31, 2025

★★★★★ **(5-Star)** Class Y

★★★★★ **(5-Star)** Class A

As of 03/31/2025 the fund's Class A and Class Y shares received a 5 star overall Morningstar rating™, measuring risk-adjusted returns against 422, 380 and 276 Intermediate Core Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Fund Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	5.85 Years
30-Day SEC Yield (Class Y)—With Waiver	4.56%
30-Day SEC Yield (Class Y)—Without Waiver	4.56%

Sector Exposure (% of Total)

Sector	Fund
U.S. Treasury/Agency	31.89
Agency Pass-through	29.92
Corporate Bond - Investment Grade	27.24
Residential MBS (Non-agency)	6.39
Commercial MBS	4.95
Collateralized Loan Obligation	4.51
Asset-Backed Securities	3.41
Investment Vehicle	1.51
Other	2.65
Net Cash	9.48

Credit Quality Allocation (% of Total)

Rating	Fund
AAA	54.98
AA	3.30
A	10.25
BBB	19.17
BB	0.93
B	0.10
CCC and Below	0.06
NR	1.72
Cash & Cash Equivalents	9.48

environment potentially becomes more favorable for banks. In addition, US Federal Reserve rate cuts and a weaker dollar could draw demand from overseas investors due to improved hedging costs. We continue to favor agency mortgages over the near term with a favorable fundamental and technical outlook for the sector. We also find value in "out-of-the-money" agency interest-only bonds, which we believe offer attractive carry with lower volatility since they remain largely insulated from prepayment risk. Bonds backed by "in-the-money" collateral offer the potential for significant upside if prepayment speeds slow or stabilize.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

Average annual total returns and fund expenses (%)

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Class Y	746764323	PYTRX	2.79	2.79	5.39	3.13	2.90	2.26	2.58	2.79	2.79	5.39	3.13	2.90	2.26	2.58	0.39	0.39	–	–	12/23/2008
Class A	746764372	PTRNX	2.71	2.71	5.08	2.83	2.62	1.99	2.32	-1.40	-1.40	0.87	1.44	1.78	1.58	2.06	0.64	0.64	4.00	–	12/23/2008
Benchmark 1	–	–	2.78	2.78	4.88	0.52	-0.40	1.46	–	2.78	2.78	4.88	0.52	-0.40	1.46	–	–	–	–	–	–
Benchmark 2	–	–	2.78	2.78	4.88	3.74	2.25	1.73	–	2.78	2.78	4.88	3.74	2.25	1.73	–	–	–	–	–	–

Benchmark(s)

Benchmark 1=Bloomberg U.S. Aggregate Index

Benchmark 2=Putnam Core Bond Linked Benchmark

Performance data quoted represents past performance, which does not guarantee future results. *Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com.*
The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

What are the Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Active management** does not ensure gains or protect against market declines. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

A **Credit Risk Transfer (CRT)** is a channel for government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac to transfer credit risk to private investors and away from taxpayers.

Enterprise value (EV) is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization.

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

Effective 2/28/23, the fund's name changed from Putnam Fixed Income Absolute Return Fund and was repositioned to a core bond strategy.

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices. The **Putnam Core Bond Linked Benchmark** represents the performance of the ICE BofA U.S. Treasury Bill Index through February 27, 2023, and the performance of the Bloomberg U.S. Aggregate Bond Index thereafter.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

Credit Quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, if two or more of the agencies have assigned differing ratings to a security, the highest rating is used. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the fund's portfolio does not apply to the stability or safety of the fund. These ratings are updated monthly and may change over time. **Please note, the Fund itself has not been rated by an independent rating agency.**

Morningstar Rating™: Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year

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overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Class A shares received a Morningstar Rating of 5, 5 and 5 and fund's Class Y shares received a Morningstar Rating of 5, 5 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Class Y shares only. Other share classes may have different Morningstar ratings.

Putnam funds are not exchangeable for other funds distributed by Franklin Distributors, LLC. Prior to August 2, 2024, Putnam Retail Management, LP served as distributor of Putnam funds and services.

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