

Active income strategies built for today's diverse markets

Q3 | 19



Putnam Income Fund (PNCYX)

A core bond strategy

Putnam Diversified Income Trust (PDVYX)

A nontraditional income strategy

Not FDIC insured | May lose value | No bank guarantee

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We research many opportunities inside and outside of indexes

Active research uncovers sources of attractive risk-adjusted returns

Sectors within the aggregate index have higher interest-rate risk and less attractive potential returns than other market sectors. We research and invest across all sectors to look for the best potential risk-adjusted returns.

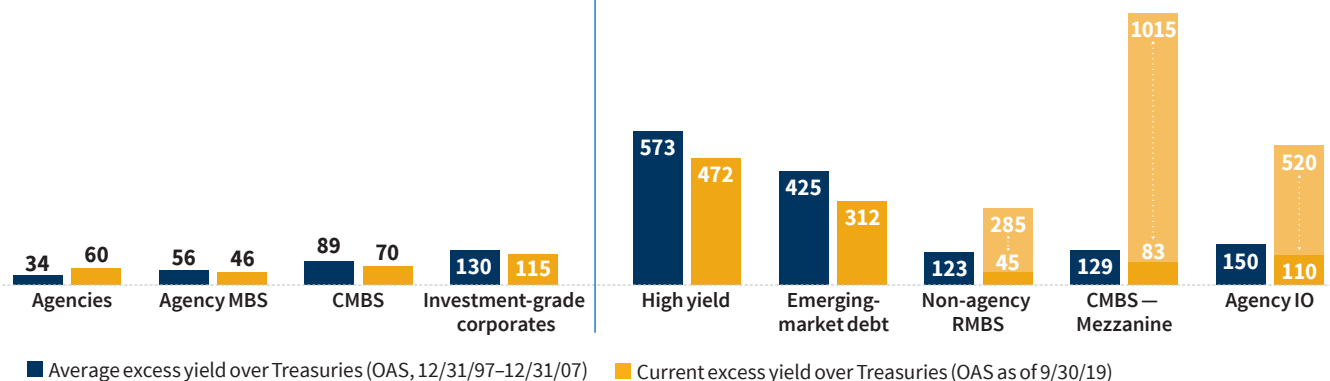
Some sectors are overcrowded, while other sectors remain somewhat overlooked

In the index

We believe opportunities in the heavily traded benchmark sectors are scarce.

Outside the index

Non-benchmark strategies may be compelling, but they require specialized research.



Sources: Barclays, Bloomberg, Putnam as of 9/30/19.

The chart above compares 10-year pre-crisis average OAS to current period OAS to illustrate the degree of liquidity premium we believe is embedded in the current OAS. Ten years of pre-crisis data is used as certain sectors, such as CMBS, do not have a materially longer history.

Data is provided for informational use only. Past performance is no guarantee of future results. All spreads are in basis points and measure option-adjusted yield spread relative to comparable maturity U.S. Treasuries with the exception of non-agency RMBS and mezzanine CMBS, which are loss-adjusted spreads to swaps calculated using Putnam's projected assumptions on defaults and severities, and agency IO, which is calculated using assumptions derived from Putnam's prepayment model. Agencies are represented by BBG Barclays U.S. Agency Index. Agency MBS are represented by BBG Barclays U.S. Mortgage Backed Securities Index. Investment-grade corporates are represented by BBG Barclays U.S. Corporate Index. High yield is represented by JPMorgan Developed High Yield Index. CMBS is represented by both agency and non-agency CMBS that are eligible for inclusion in the BBG Barclays U.S. Aggregate Bond Index; mezzanine CMBS is represented by the same index using the AA, A, and BBB components. Average OAS for Mezzanine CMBS is for the 2000–2007 time period. Emerging-market debt is represented by the BBG Barclays EM Hard Currency Aggregate Index. Non-agency RMBS is estimated using average market level of a sample of below-investment-grade securities backed by various types of non-agency mortgage collateral (excluding prime securities) and agency credit risk transfer securities. Mezzanine CMBS is estimated from a scenario-weighted average spread among baskets of Putnam-monitored CMBS securities and synthetic (CMBX) indices. Agency IO is estimated from a basket of Putnam-monitored interest-only (IO) and inverse IO securities. Option-adjusted spread (OAS) measures the yield over duration equivalent Treasuries for securities with different embedded options.



“ You can’t rely on one top-down view in fixed-income markets today. We pursue income by structuring our team of more than 90 investment specialists to analyze the broad range of opportunities. ”

BILL KOHLI
CIO, Fixed Income

Flexibility to invest across sectors allows us to better diversify portfolios

As an example of our approach, we find various securitized sectors to be attractive from an overall valuation perspective. They compare favorably on many attributes versus other types of risky fixed-income assets, such as high-yield and emerging-market debt. Securitized sectors also have low historic performance correlation with other fixed-income sectors, creating a diversification opportunity.

We uncover better diversification potential outside of the high-yield and emerging-market sectors

	Investment-grade corporates	High yield	Emerging-market debt	Non-agency RMBS	Agency IO	CMBS	Agency MBS
Investment-grade corporates	—						
High yield	0.90	—					
Emerging-market debt	0.85	0.88	—				
Non-agency RMBS	0.43	0.35	0.32	—			
Agency IO	0.35	0.42	0.38	0.20	—		
CMBS	0.57	0.48	0.39	0.39	0.01	—	
Agency MBS	0.23	0.25	0.25	0.21	0.19	0.29	—

Diversification does not guarantee a profit or ensure against loss. It is possible to lose money in a diversified portfolio.

Sources: Barclays, Putnam, as of 9/30/19.

For illustrative purposes only. Indices used in the above calculation include the BBG Barclays U.S. Corporate Index (IG), BBG Barclays U.S. High Yield Index (HY), S&P/LSTA Leveraged Loan Index, and the BBG Barclays EM USD Sovereign Indices (EM USD). Where there is no available representative index, data is based on a universe of securities selected by Putnam that are representative of various fixed-income sectors and subsectors within the mortgage market.

Numbers less than 1 indicate a diminishing correlation. The maximum correlation is 1 and the minimum is 0, with values between 0 and -1 indicating negative correlation.

We diversify Income Fund and Diversified Income Trust with four sources of returns

We construct portfolios using a risk-based approach focused on four key areas in pursuit of alpha generation: rates, credit, prepayment, and liquidity. We view interest-rate risk as only one source of potential returns, and it isn't always the most attractive.

Putnam Income Fund (PNCYX)

A core bond fund favoring investment-grade bonds

The fund can invest in multiple sectors (X)		
INSIDE THE INDEX	Agencies	X
	Agency MBS	X
	Investment-grade corporates	X
	CMBS	X
OUTSIDE THE INDEX	High yield	
	Non-agency RMBS	X
	CMBS-Mezzanine	X
	Agency IO	X
	Emerging-market debt	

Average historic duration

5.43

INCOME FUND

5.78

BBG BARCLAYS
U.S. AGGREGATE BOND INDEX

Correlation to the index

0.91

Even as a core bond fund, the portfolio has a relatively low correlation to the aggregate index.

Putnam Income Fund Team

Michael Salm

Co-Head of Fixed Income

30 years of investing

22 years at Putnam

Brett Kozlowski, CFA

Portfolio Manager

22 years of investing

11 years at Putnam

Emily Shanks

Portfolio Manager

20 years of investing

7 years at Putnam



Michael Salm describes Income Fund's approach to risk allocation

Rates

We actively manage rate risk. The portfolio's duration has often been lower than the Aggregate Index while still positive.

Credit

We pursue credit risk in both corporate and mortgage-backed securities, researched by experienced and specialized analysts.

Prepayment

We seek to add value by positioning in IOs and other securities as interest rates and mortgage refinancing trends change.

Liquidity

We invest in securities that we believe adequately compensate investors for liquidity risk.

Sources: Bloomberg Barclays, Putnam, as of 9/30/19. Duration and correlation are for the 3-year period ended 9/30/19 and use monthly data.



Rates

Interest-rate risk (also called term structure risk) is a bond's sensitivity to changes in the level, slope, and shape of interest rates.



Credit

Credit risk is the possibility a borrower may fail to make payments to investors.



Prepayment

Prepayment risk involves borrowers paying off debt early, typically in a falling-rate environment, which reduces the number of payments and interest received by investors.



Liquidity

Liquidity risk refers to the relative difficulty of trading a security in a reasonable amount of time.

Putnam Diversified Income Trust (PDVYX)

A nontraditional income strategy with increased flexibility

The fund can invest in multiple sectors (X)		
INSIDE THE INDEX	Agencies	X
	Agency MBS	X
	Investment-grade corporates	X
	CMBS	X
OUTSIDE THE INDEX	High yield	X
	Non-agency RMBS	X
	CMBS-Mezzanine	X
	Agency IO	X
	Emerging-market debt	X

Average historic duration

0.61

DIVERSIFIED INCOME TRUST

5.78

BBG BARCLAYS
U.S. AGGREGATE BOND INDEX

Correlation to the index

-0.23

The fund's broad diversification and active duration strategy has produced negative historical correlation to the aggregate index.

Putnam Diversified Income Trust Team

D. William Kohli

CIO, Fixed Income

31 years of investing

25 years at Putnam

Michael Atkin

Portfolio Manager

31 years of investing

22 years at Putnam

Robert Davis, CFA

Portfolio Manager

20 years of investing

20 years at Putnam

Brett Kozlowski, CFA

Portfolio Manager

22 years of investing

11 years at Putnam

Michael Salm

Co-Head of Fixed Income

30 years of investing

22 years at Putnam

Paul Scanlon, CFA

Co-Head of Fixed Income

33 years of investing

20 years at Putnam



Bill Kohli describes Diversified Income Trust's approach to risk allocation

Rates

We actively manage rate risk with great flexibility. We make dynamic adjustments, and have often taken duration to negative levels.

Credit

We can pursue credit risk in corporates and mortgages as well as in below investment-grade debt and non-U.S. opportunities.

Prepayment

We seek to add value by positioning in IOs and other securities as interest rates and mortgage refinancing trends change.

Liquidity

We can pursue some opportunities with return potential that others may avoid due to constrained liquidity.

Choose one or both funds to customize your client's income portfolio

Putnam Income Fund is a core bond fund that can serve a wide variety of investors. Putnam Diversified Income Trust offers a nontraditional strategy and can serve as a complement for clients seeking a broader range of income sources. Both funds benefit from Putnam's deep fixed-income research capabilities.

Competitive returns over all major time periods

Putnam Income Fund (PNCYX)

Total returns as of 9/30/19

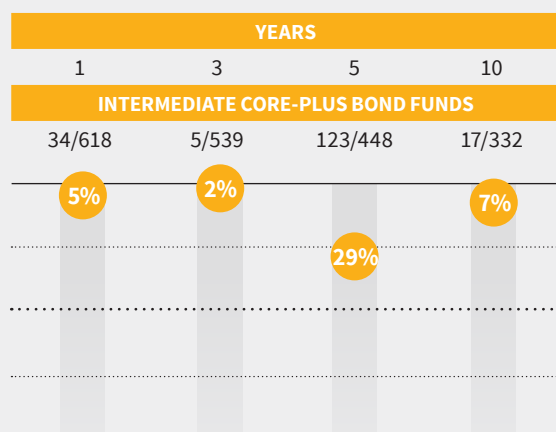
	Class Y shares	BBG Barclays U.S. Aggregate Bond Index
1 year	11.05%	10.30%
3 years	5.19	2.92
5 years	3.61	3.38
10 years	5.57	3.75
Life of fund	7.53	—

Total expense ratio: 0.63%

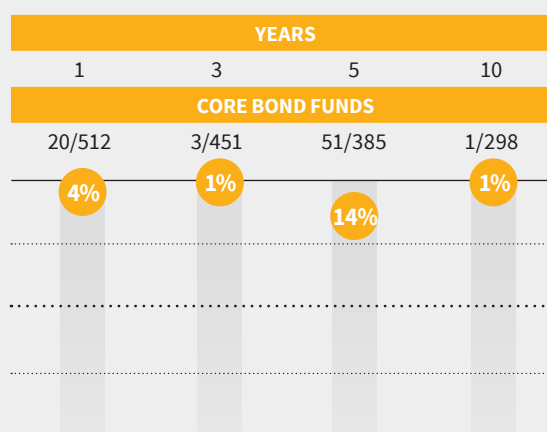


The fund received a 5-star Overall Morningstar Rating™ among 539 funds in the Intermediate Core-Plus Bond category

Morningstar rankings as of 9/30/19



Lipper rankings as of 9/30/19



Putnam Income Fund was the winner of a Lipper Fund Award in 2019 for Best Fund over 10 years in the Core Bond Fund category, in recognition of its long-term performance.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, 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. For the most recent month-end performance, please visit putnam.com. Class Y shares before their inception are derived from the historical performance of the fund's class A shares, which have not been adjusted for the lower expenses; had they, returns would have been higher. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

Indexes are unmanaged and do not incur expenses. You cannot invest directly in an index.

Putnam Income Fund

Invests across all sectors of the U.S. bond market, in mainly investment-grade securities.

Putnam Diversified Income Trust

Invests more broadly, including in high-yield, emerging-market debt, currencies, and convertibles.

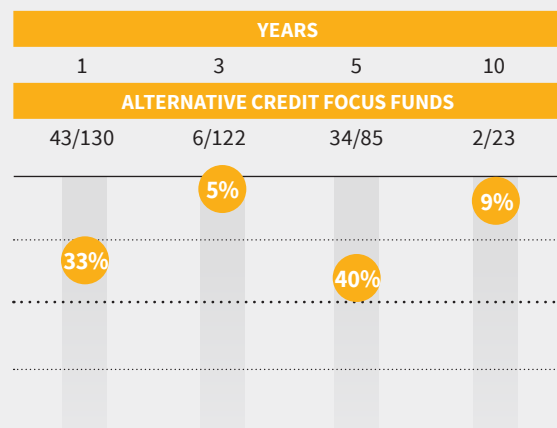
Putnam Diversified Income Trust (PDVYX)

Total returns as of 9/30/19

	Class Y shares	ICE BofAML U.S. Treasury Bill Index
1 year	5.30%	2.46%
3 years	6.14	1.54
5 years	2.92	1.00
10 years	5.61	0.56
Life of fund	6.25	—

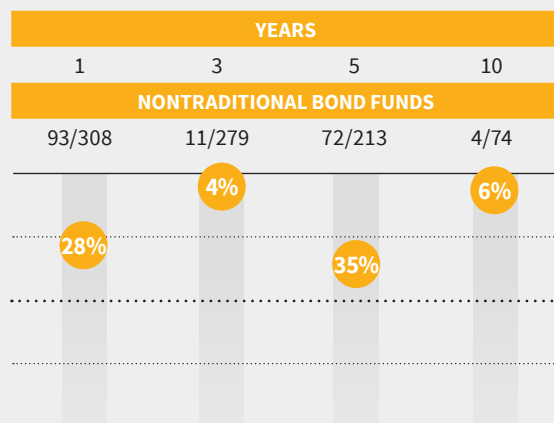
Total expense ratio: 0.73%

Lipper rankings as of 9/30/19



The fund received a 4-star Overall Morningstar Rating™ among 279 funds in the Nontraditional bond category

Morningstar rankings as of 9/30/19



The Lipper Fund Awards annually recognize funds and fund management firms for their consistently strong risk-adjusted three-, five-, and 10-year performance relative to their peers based upon Lipper's quantitative, proprietary methodology. The awards are sponsored by Refinitiv, formerly the Financial and Risk business of Thomson Reuters. For more information, visit www.lipperfundawards.com. Lipper and Morningstar rankings for class Y shares are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Lipper and Morningstar. Morningstar rankings may differ significantly from Morningstar's risk-adjusted star ratings.

The Morningstar Rating™ for funds, or “star rating,” is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product 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 Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads.

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may

increase in value less when interest rates decline and decline in value more when interest rates rise. 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. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. Unlike bonds, funds that invest in bonds have fees and expenses. The value of investments in the fund’s portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund’s portfolio. You can lose money by investing in the funds.

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A world of investing.®



Your clients should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus, or a summary prospectus if available, containing this and other information for any Putnam fund or product, call the Putnam Client Engagement Center at 1-800-354-4000. Your clients should read the prospectus carefully before investing.