

Objective

The fund seeks as high a level of current income as Putnam Management believes is consistent with preservation of capital.

Portfolio Managers

- Michael V. Salm**
(industry since 1989)
- Brett S. Kozlowski, CFA**
(industry since 1997)
- Jatin Misra, PhD, CFA**
(industry since 2004)

Morningstar category

Intermediate Core-Plus Bond

Lipper category

U.S. Mortgage

Primary benchmark

Bloomberg Barclays U.S. MBS Index

Secondary benchmark

Bloomberg Barclays GNMA-Bloomberg Barclays U.S. MBS Linked Benchmark

Credit qualities are shown as a percentage of the fund's net assets. A bond rated BBB or higher (A-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. To-be-announced (TBA) mortgage commitments, if any, are included based on their issuer ratings. Ratings may vary over time. Cash, derivative instruments, and net other assets are shown in the not-rated category. Payables and receivables for TBA mortgage commitments are included in the not-rated category and may result in negative weights. **The fund itself has not been rated by an independent rating agency.**

MBS: Mortgage-backed securities

CMO: Collateralized mortgage obligations

RMBS: Residential mortgage-backed securities

CMBS: Commercial mortgage-backed securities

ABS: Asset-backed securities.

**Not FDIC insured
May lose value
No bank guarantee**

Putnam Mortgage Securities Fund

Seeking opportunities throughout the universe of mortgage-related bonds

Broad securitized opportunities

The fund invests in mortgage sectors, including agency MBS and CMOs, and non-agency RMBS and CMBS, and ABS.

Higher potential returns

By investing in mortgage-backed bonds, the fund can offer the potential for higher returns than an investment strategy focused only on agency MBS.

Leading research

The fund's portfolio managers use proprietary models to assist in the evaluation of mortgage-backed bonds and to manage the fund's interest-rate risk.

Diversification across bond market sectors

Agency pass-through	49.9%
Commercial MBS	45.2
Agency CMO	40.3
Residential MBS (non-agency)	20.9
Asset-backed securities (ABS)	5.4
Net cash	5.5

Allocations will vary over time. Allocations may not total 100% of net assets because the table includes the notional value of derivatives (the economic value for purposes of calculating periodic payment obligations), in addition to the market value of securities.

Maturity breakdown

0 to 1 year	-21.6%
1 to 5 years	80.1
5 to 10 years	41.1
10 to 15 years	0.9
Over 15 years	-0.5

Portfolio quality

AAA	102.6%
AA	6.1
A	4.0
BBB	12.1
BB	4.8
B	4.4
CCC and below	2.0
Not rated	-35.9

Holdings represent 100% of the portfolio and will vary over time. Negative weights may result from timing differences between trade and settlement dates of securities, such as TBAs, or by the use of derivatives.

Securitized sectors offer attractive diversification potential

- Securitized debt excess returns have had low correlations with other asset types
- Exposure to different underlying risk factors than corporates and emerging markets
- Homeowners' option to repay their mortgages creates additional diversification within a mortgage-focused portfolio

Correlations of monthly duration hedged excess returns since 2009

	IG	HY	Loans	EM USD	S&P	MSCI World	NA RMBS	Agency IO	CMBS	Agency MBS
IG	—									
HY	0.90	—								
Loans	0.73	0.82	—	≥ 0.6						
EM USD	0.87	0.87	0.70	—						
S&P	0.65	0.72	0.56	0.64	—					
MSCI World	0.71	0.77	0.61	0.73	0.96	—				
NA RMBS	0.52	0.52	0.59	0.43	0.23	0.30	—			
Agency IO	0.32	0.37	0.43	0.32	0.16	0.18	0.23	—		
CMBS	0.51	0.52	0.54	0.43	0.36	0.39	0.46	0.32	—	
Agency MBS	0.24	0.23	0.22	0.24	0.16	0.18	0.12	0.25	0.32	—

→ Lower correlations < 0.6 ←
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Source: Barclays, Putnam as of 3/31/21. For illustrative purposes only. Indices used in the above calculation include the BBG Barclays U.S. Corporate Index, BBG Barclays U.S. High Yield Index, S&P/LSTA Leveraged Loan Index, and the BBG Barclays EM USD Sovereign Indices. 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. Past performance is not a guarantee of future results. Diversification does not assure a profit or protect against loss. It is possible to lose money in a diversified portfolio.

Correlation is a measure of how similar the historical performances of two different asset classes or securities have been. The maximum correlation is 1.0 and the minimum is 0 with values between 0 and -1 indicating negative correlation. A positive correlation close to 1.0 indicates that the historical returns of the two asset classes being compared have been very similar. A negative correlation close to -1.0 indicates that the historical returns of the two asset classes being compared have been opposite each other; for example, when one gained 5%, the other declined 5%. Correlations near zero indicate that there has been little discernible relationship between the two asset classes being compared.

Fund symbols

Class A	PGSIX
Class B	PGSBX
Class C	PGVCX
Class R	PGVRX
Class R6	POLYX
Class Y	PUSYX

Expense ratio

(Y shares)	
Total expense ratio	0.64%
What you pay	0.50%
(A shares)	
Total expense ratio	0.89%
What you pay	0.75%

“What you pay” reflects Putnam Management’s decision to contractually limit expenses through 1/30/22.

Net assets

\$736.78M

Number of holdings

1,104

Dividend frequency

Monthly

Average effective duration

2.37

30-day SEC yield

(Y shares)	
Without subsidy	3.79%
With subsidy	3.91%

Annual performance (all distributions reinvested)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
Y shares at net asset value	3.6%	-0.2%	5.7%	0.0%	0.9%	1.1%	-0.6%	12.7%	-0.4%	1.7%
A shares before sales charge	3.3	-0.5	5.5	-0.3	0.6	0.8	-0.8	12.4	-0.7	1.7
Primary benchmark	2.6	-1.4	6.1	1.5	1.7	2.5	1.0	6.4	3.9	-1.1
Secondary benchmark	2.4	-2.1	6.0	1.4	1.6	1.9	1.0	6.4	3.9	-1.1

Source: Bloomberg Index Services Limited.

Annualized total return performance

	1 year	3 years	5 years	10 years	Life of fund
Y shares (Inception 4/11/94)	11.17%	4.44%	3.14%	2.74%	6.16%
A shares (Inception 2/8/84) before sales charge	10.85	4.20	2.89	2.49	5.98
A shares after sales charge	6.41	2.80	2.05	2.07	5.86
Primary benchmark	-0.09	3.75	2.43	2.83	6.85
Secondary benchmark	-0.09	3.79	2.34	2.81	6.83

Source: Bloomberg Index Services Limited.

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 of class A and Y shares assumes reinvestment of distributions and does not account for taxes. After-sales-charge returns for class A reflect a maximum 4.00% load. Returns for class Y shares prior to their inception are derived from the historical performance of class A shares, which have not been adjusted for their lower expenses; had they, returns would have been higher. Class Y shares, available to investors through an asset-based fee program or for institutional clients, are sold without an initial sales charge and have no CDSC. For the most recent month-end performance, please visit putnam.com.

Highlights of five-year performance periods (2/8/84–3/31/21)*

	Best 5-year return	Best period end date	Worst 5-year return	Worst period end date	Average 5-year return	% of 5-year periods with positive returns	Number of positive 5-year periods	Number of negative 5-year periods
Y shares	12.45%	6/30/89	0.73%	3/31/20	5.97%	100%	129	0
A shares	12.45	6/30/89	0.50	3/31/20	5.78	100	129	0

* Based on annualized returns for quarterly rolling periods.

The Bloomberg Barclays U.S. MBS Index is an unmanaged index of agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac. Bloomberg Barclays GNMA-Bloomberg Barclays U.S. MBS Linked Benchmark represents performance of the Bloomberg Barclays GNMA Index through April 18, 2018, and performance of the Bloomberg Barclays U.S. MBS Index thereafter. You cannot invest directly in an index. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, “Barclays”), used under license. Bloomberg or Bloomberg’s licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or limited, as to the results to be obtained therefrom, and to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith. You cannot invest directly in an index.

Average effective duration provides a measure of a fund’s interest-rate sensitivity. The longer a fund’s duration, the more sensitive the fund is to shifts in interest rates.

Not all share classes are available on all platforms.

Consider these risks before investing: Funds that invest in government securities are not guaranteed. Mortgage- and asset-backed securities are subject to prepayment risk, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. The fund may have to invest the proceeds from prepaid investments, including mortgage- and asset-backed investments, in other investments with less attractive terms and yields. The fund’s investments in mortgage-backed securities and asset-backed securities, and in certain other securities and derivatives, may be or become illiquid. The fund’s exposure to privately issued mortgage-backed securities and mortgage-backed securities issued or guaranteed by the U.S. government or its agencies or instrumentalities may make the fund’s net asset value more susceptible to economic, market, political and other developments affecting the housing or real estate markets. 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 generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Default risk is generally higher for non-qualified mortgages. 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 (such as a region of the United States), industry, or sector, such as the housing or real estate markets. These and other factors may lead to increased volatility and reduced liquidity in the fund’s portfolio holdings or in relevant markets. Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund’s other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

Request a prospectus or a summary prospectus, if available, from your financial representative or by calling Putnam at 1-800-225-1581. These prospectuses include investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

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Putnam Retail Management
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