How were market conditions in the third quarter?
Persistent volatility challenged bond markets. In July, U.S. bond yields rose after the Federal Reserve raised interest rates by 0.25%. The cost of borrowing climbed to a 22-year high of 5.25%–5.50%. Inflation eased, and the U.S. economy continued to grow. The probability of a near-term recession declined, and risk assets rallied. Investment-grade [IG] and high-yield credit spreads began to tighten. [Credit spreads are the yield advantage credit-sensitive bonds offer over comparable-maturity U.S. Treasuries. Bond prices rise as yield spreads tighten and decline as spreads widen.] In August, the yields on U.S. Treasuries soared after Fitch Ratings downgraded the U.S. government’s credit rating.

In September, the Fed held interest rates steady but indicated one more rate hike was possible in the fourth quarter. U.S. inflation remained above the central bank’s target rate of 2% and supported its rhetoric to keep rates higher for longer. Investors pushed expectations for a U.S. recession to mid–2024. Floating-rate loans outperformed other fixed income markets for the third quarter. The Morningstar LSTA US Leveraged Loan Index, the fund’s benchmark, returned 3.43%. IG corporate bonds, as measured by the Bloomberg U.S. Corporate Bond Index, returned –3.09%. High-yield corporate bonds, as measured by the JPMorgan Developed High Yield Index, fared better, with a return of 0.71%. The yield on the 10-year U.S. Treasury note increased from 3.84% on June 30 to 4.59% on September 29. Short-term yields rose even more, keeping the yield curve inverted.

Security selection within bank loans was the key driver of fund performance.

Floating-rate loans continue to provide stability against interest-rate volatility.

We expect loan price dispersion to remain elevated, presenting new, attractive investment opportunities.
How did the fund perform for the three months ended September 30, 2023?
The fund’s class Y shares returned 2.98%, underperforming the Morningstar LSTA US Leveraged Loan Index.

Which factors had the biggest influence on the fund’s relative performance?
Security selection within bank loans was the key driver of fund performance for the third quarter. While the summer months are typically quieter in the loan market, secondary market activity was robust, which benefited the fund’s tactical loan positioning.

Loan price dispersion [a proxy for risk that is calculated as one standard deviation of loan prices in the benchmark index divided by the index level] rose to 14.86% in May and declined to 12.31% in September, its lowest reading year to date. Consistent with previous periods of significant credit volatility, once loan price dispersion inflects downward from such elevated levels, a longer-term recovery is underway. Moreover, the recovery marches through a period of rising defaults as investors gain confidence for a lower expected default environment.

What is the team’s near-term outlook for the bank loan market?
Floating-rate loans continue to provide stability against interest-rate volatility. If inflation remains high, loans will benefit from higher rates, with elevated SOFR [Secured Overnight Financing Rate] levels providing higher yields. On the other hand, if inflation falls and the Fed begins to reduce rates, floating-rate income will decrease, but prices will generally remain stable.

With loan price dispersion expected to remain elevated, attractive investment opportunities have presented themselves, in our view. That said, prudent credit selection will be an important driver of alpha [excess return on investment relative to the return of a benchmark index]. Most non-IG issuers continue to be challenged by shrinking profit margins due to inflationary pricing and a more discerning consumer. However, we are encouraged by the resiliency of our portfolio companies. Many companies have adopted operational measures to preserve cash flows and maintain durable balance sheets to counter macro-driven headwinds.

We believe confidence is coming back to the leveraged loan market. The loan market currently offers better yields than the high-yield bond market. This is important because while both provide debt exposure to non-IG borrowers, the loan market is senior in the capital structure and secured, while the high-yield bond market is primarily unsecured. The yield to maturity, or the total return anticipated if the bond is held to maturity, was 10.3% for leveraged loans compared with 9.0% for high-yield bonds as of quarter-end.
Putnam Floating Rate Income Fund (PFRYX)

Annualized total return performance as of 9/30/23

<table>
<thead>
<tr>
<th></th>
<th>Class Y shares Inception 10/4/05</th>
<th>Morningstar LSTA US Leveraged Loan Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last quarter</td>
<td>2.98%</td>
<td>3.43%</td>
</tr>
<tr>
<td>1 year</td>
<td>13.04</td>
<td>13.02</td>
</tr>
<tr>
<td>3 years</td>
<td>4.73</td>
<td>6.07</td>
</tr>
<tr>
<td>5 years</td>
<td>3.25</td>
<td>4.46</td>
</tr>
<tr>
<td>10 years</td>
<td>3.35</td>
<td>4.29</td>
</tr>
<tr>
<td>Life of fund</td>
<td>3.71</td>
<td>4.74</td>
</tr>
</tbody>
</table>

Total expense ratio: 0.78%

Returns for periods of less than one year are not annualized. 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 class A shares (inception 8/4/04), 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.

The Bloomberg U.S. Corporate Bond Index is an unmanaged index of U.S. corporate investment-grade fixed income securities. The JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed income securities issued in developed countries. The Morningstar® LSTA® US Leveraged Loan Index is an unmanaged index of U.S. leveraged loans. You cannot invest directly in an index. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg’s licensors approve or endorse this material, or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, 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.
The views and opinions expressed are those of the portfolio managers as of September 30, 2023, are subject to change with market conditions, and are not meant as investment advice.

**Consider these risks before investing:** 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 holdings.

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 generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. 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. Floating-rate loans may reduce, but not eliminate, interest-rate risk. These loans are typically secured by specific collateral or assets of the issuer (so that holders of the loan, such as the fund, have a priority claim on those assets in the event of the issuer’s default or bankruptcy). The value of collateral may be insufficient to meet the issuer’s obligations, and the fund’s access to collateral may be limited by bankruptcy or other insolvency laws.

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.

Credit qualities are shown as a percentage of the fund’s net assets. A bond rated BBB or higher (A–3/SP–3 or higher, for short-term debt) is considered investment grade. The information provided reflects the highest security rating provided by one or more of Standard & Poor’s, Moody’s, and Fitch. Ratings and portfolio credit quality will vary over time. The fund itself has not been rated by an independent rating agency.

For informational purposes only. Not an investment recommendation.