

# High Yield / Floating Rate

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## **Paul D. Scanlon, CFA**

Co-Head of Corporate and Tax-exempt Credit

## **Robert L. Salvin**

Co-Head of Corporate and Tax-exempt Credit

## **Jennifer L. Karpinski, CFA**

Senior Investment Director, Fixed Income

## Evolution of the U.S. high-yield market

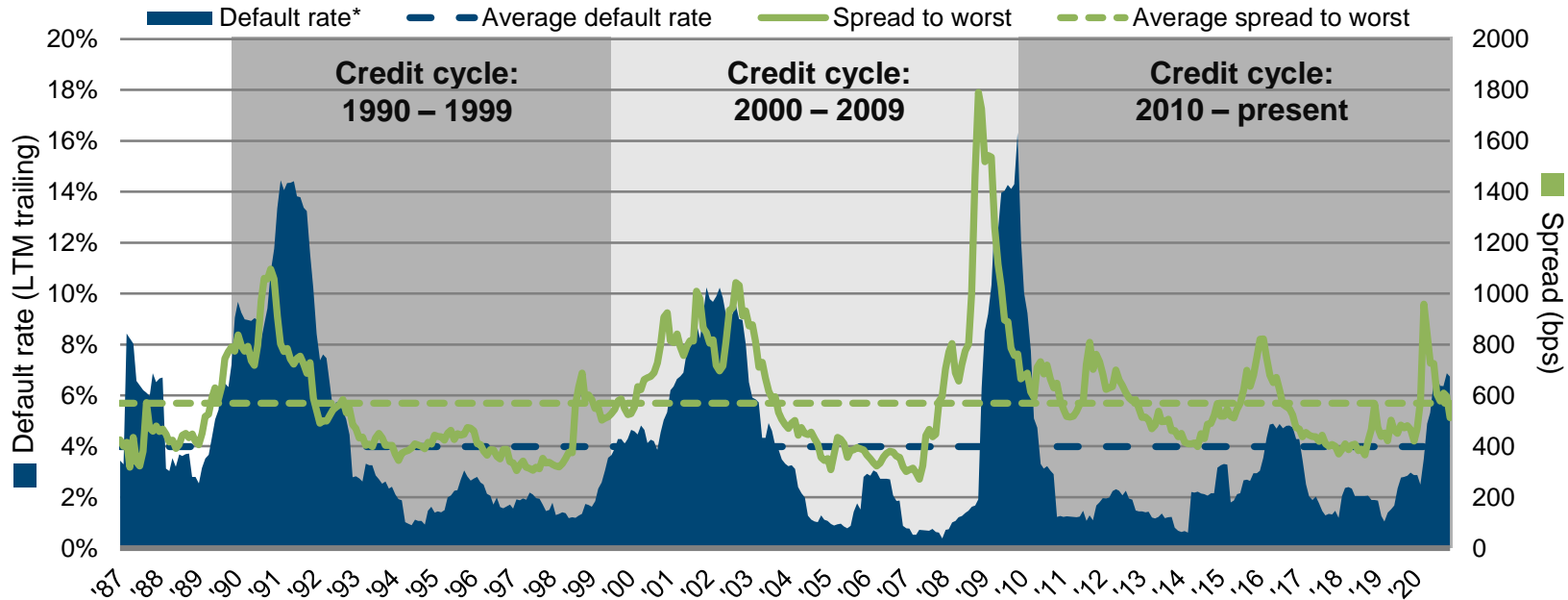
	December 31, 2000		December 31, 2006		December 31, 2019		November 30, 2020	
<b>Number of issuers</b>	713		866		855		856	
<b>Size</b>	\$267 billion		\$685 billion		\$1,239 billion		\$1,506 billion	
<b>Ratings mix</b>	BB	35.7%	BB	38.2%	BB	48.9%	BB	55.4%
	B	55.1	B	46.1	B	39.0	B	32.6
	CCC	8.8	CCC	15.1	CCC	11.5	CCC	11.3
	Below CCC/NR	0.4	Below CCC/NR	0.6	Below CCC/NR	0.6	Below CCC/NR	0.7
	<b>Total</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>	<b>Total</b>	<b>100.0%</b>
<b>Sector Composition (Top 5)</b>	Telecom	18.7%	Basic industry	13.0%	Energy	12.5%	Energy	13.0%
	Media	15.4	Automotive	12.8	Media	10.8	Basic industry	9.3
	Services	15.4	Media	11.3	Telecom	10.5	Media	9.2
	Basic industry	7.7	Energy	8.9	Health care	10.4	Health care	8.8
	Health care	5.8	Telecom	8.1	Basic industry	10.4	Telecom	7.0
<b>Total</b>	<b>63.0%</b>	<b>Total</b>	<b>54.1%</b>	<b>Total</b>	<b>54.7%</b>	<b>Total</b>	<b>47.3%</b>	

Source: ICE BofA US High Yield Master II Index, Bloomberg, Putnam, as of 11/30/20.  
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# Evaluation of the current corporate credit cycle

Within the context of past credit cycles, current U.S. spreads are near fair value and defaults remain low



Credit cycle	1990 – 1999	2000 – 2009	2010 – present
Spread high (bps)	1,096	1,790	958
Spread low (bps)	304	271	366
Average default rate*	4.37%	4.70%	2.67%
Average total return**	11.60%	8.66%	7.62%
# of negative total return years	2	3	2

Current spread (bps)	512
Current default rate*	6.74%

\* Current and average default rates include distressed exchanges.

\*\* As measured by the BBG Barclays High Yield Index, as of 11/30/20.

Sources: JPMorgan High Yield Market Monitor, Barclays U.S. High Yield Update, Putnam. As of 11/30/20, unless otherwise noted. Spread to worst prior to 1/31/95 represents global high yield spread to worst. Past performance is not a guarantee of future results.

## Historical return profiles of the high-yield market

	High yield	S&P 500	Government
2020 YTD	5.13%	14.01%	8.18%
<b>Historical returns</b>			
Mean 1984–2019	8.93	11.83	6.55
Mean 1990–1999	10.48	17.75	7.32
Mean 2000–2009	7.18	0.36	6.07
Mean 2010–2020	7.73	14.07	3.50
<b>Standard deviation</b>			
1984–2019	8.17	14.63	4.48
1990–1999	7.22	13.43	4.21
2000–2009	11.46	16.13	4.62
2010–2020	7.18	13.77	3.44
<b>Monthly return correlations</b>			
1984–2020	—	0.60	0.04

Source: Barclays U.S. High Yield Corporate Update, as of 11/30/20. All returns are annualized, except for YTD.

Fixed income indexes referenced: BBG Barclays High Yield and U.S. Treasury Bond.

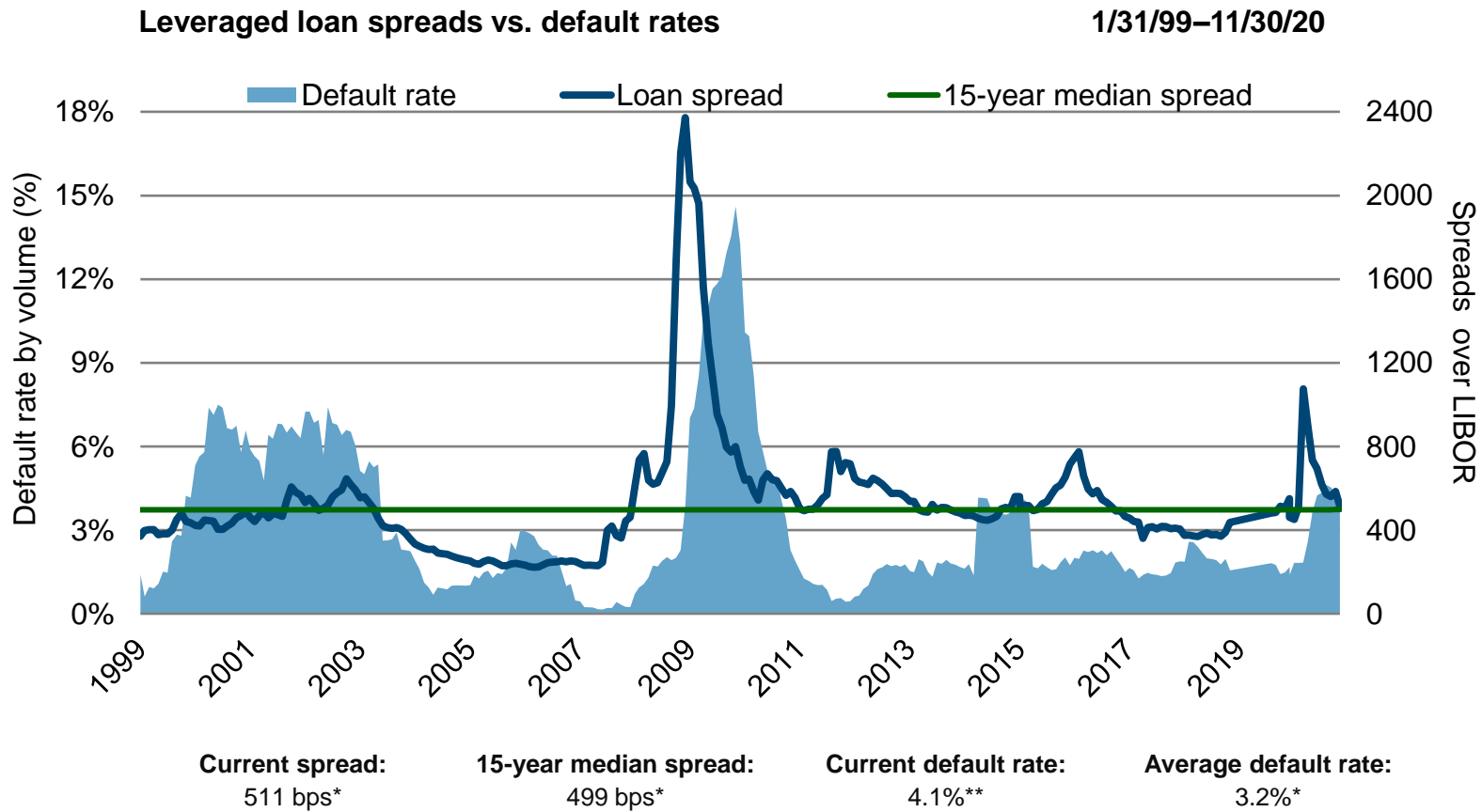
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## High yield vs. bank loans

	U.S. high yield	Bank loans
<b>Valuation</b>		
Average price	\$103.33	\$95.11
Coupon   spread	6.01%   412 bps	4.94%   372 bps
Yield to worst	4.70%	4.13%
Duration	3.65	-0.06
<b>Credit</b>		
Average rating	BB-	BB-
Energy (%)	12.71%	3.09%
Ccc (%)	11.96%	8.50%
Default rate (par weighted)	6.74%	4.11%
LTM recovery rate	18.1%	48.3%
<b>Structural Features</b>		
Secured	No	Yes
Principal amortization	No	Yes

Sources: Bloomberg Barclays U.S. High Yield Index, S&P/LSTA Loan Index, JPMorgan, as of 11/30/20.  
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# Leveraged loan spreads vs. defaults



\* Sources: S&P/LSTA Loan Index (3-year discounted spread), Putnam, as of 11/30/20.  
 \*\* Source: JPMorgan, as of 11/30/20. Current default rate includes distressed exchanges.

## Low correlation to other asset classes

Correlation	15 years ended November 30, 2020					
	BBG Barclays 10-year Bellwether	BBG Barclays U.S. Agg Bond	JPMorgan Global HY	S&P 500	JPM EMBIG	Leveraged loans
BBG Barclays 10-year Bellwether	—					
BBG Barclays U.S. Agg Bond	0.85	—				
JPMorgan Global HY	-0.27	0.22	—			
S&P 500	-0.33	0.03	0.73	—		
JPM EMBIG	0.15	0.55	0.80	0.58	—	
Leveraged loans	-0.43	0.02	0.90	0.62	0.60	—

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.

Source: Putnam, as of 11/30/20, most recent available. Leveraged loans index referenced: S&P/LSTA Loan Index.

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# Putnam Corporate & Tax-exempt Credit team

## Robert L. Salvin

Co-Head of Corporate & Tax-exempt Credit  
Industry since 1986

## Paul D. Scanlon, CFA

Co-Head of Corporate & Tax-exempt Credit  
Industry since 1986

## Navin H. Belani

Head of Credit Research  
Industry since 2000

### Corporate & Tax-exempt Credit

#### Corporate

Yannick Aron, <i>Portfolio Manager*</i>	25
European High Yield	
Andrew C. Benson, <i>Portfolio Manager</i>	12
Investment Grade, ESG	
Norman P. Boucher, <i>Portfolio Manager</i>	36
High Yield Cyclical	
Steven Horner, CFA, <i>Portfolio Manager</i>	30
Stable Value	
Emily E. Shanks, <i>Portfolio Manager</i>	22
Investment Grade	
Geoffrey Trawick, <i>Portfolio Analyst</i>	27
Thomas Hanrahan, <i>Trader</i>	5
Justin Schneider, <i>Trader</i>	15

#### Tax-exempt

<b>Paul Drury, CFA, <i>Portfolio Manager</i></b>	<b>31</b>
Garrett Hamilton, CFA, <i>Portfolio Manager</i>	15
April Goodman, <i>Trader</i>	15
Daniel Riordan, <i>Trader</i>	13

Average 22 years of experience

### Credit Research

#### Corporate Research

Joseph F. Cushing, CFA, <i>Analyst</i>	30
Sydney E. Cushing, <i>Analyst</i>	6
Kelsey Gottschall, <i>Analyst</i>	9
Nicholas T. Gower, CFA, <i>Analyst</i>	9
Lawrence T. Lawler, CFA, CAIA, <i>Analyst</i>	16
Michael J. Lima, CFA, <i>Analyst</i>	24
Craig R. Oliver, CFA, <i>Analyst</i>	28
Joseph L. Russo, <i>Analyst</i>	6
Caitlin A. Schlesinger, CFA, <i>Analyst</i>	8
David R. Thomlinson, <i>Analyst*</i>	22
T.L. Tsang, CFA, <i>Analyst</i>	26
Justin Hori, <i>Investment Associate</i>	
Bradley J. Potter, <i>Investment Associate</i>	1

#### Tax-exempt Research

<b>James DiPetrillo, CFA, <i>Analyst</i></b>	<b>16</b>
Harold Burger, CFA, <i>Analyst</i>	18
Rafael Cabral, <i>Analyst</i>	8
Michael Maresca, CFA, <i>Analyst</i>	6
Ross P. Milne, CFA, <i>Analyst</i>	9
Valerie Farren, <i>Investment Associate</i>	1
Brandon Lee, <i>Investment Associate</i>	

Average 12 years of experience

**Macroeconomic Research:** 5 total professionals

Average 16 years of experience

**Equity Research:** 27 total professionals

Average 15 years of experience

**Risk Management:** 4 total professionals

Average 14 years of experience

**Global Investment Strategies:** 9 total professionals

Average 12 years of experience

As of 12/31/20. Numbers reflect years of industry experience, unless otherwise noted. \*Located in London.

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# Fundamentally driven credit investment process

## Fundamental credit research

Employ classic financial analysis and also evaluate companies based on the following characteristics across all sectors and issuers:

- Sustainable competitive advantage
- Viable capital structure
- Trajectory to free cash flow/debt service
- Adequate downside protection

## Issuer evaluation

### Fundamental trend:

- Improving,
- Stable, or
- Declining

### Relative value opinion:

- Buy,
- Outperform,
- Underperform, or
- Sell

## Research focus

Identifying investment in improving companies within profitable sectors by avoiding:

- Price erosion
- Deteriorating credits in less attractive sectors
- Credits vulnerable to changing industry or economic variables

## Research process

### Meetings/Communication

- Open floor plan at Putnam – cultivates collaboration
- Bi-weekly research meetings; monthly outlook meeting
- Industry conferences
- Roadshows and company meetings (onsite and offsite)

### Research deliverables

- Proprietary research platform – post written research
- Quarterly sector outlooks
- Research for every issuer owned
- Research updates on sector trends, new issues, credit updates, etc.

## Morningstar high yield competitors (Y shares)

Product name	Fund size \$M (11/2020)	Fund net flows \$M (11/2020)	Returns – 1 Yr. (11/2020)	Rank – 1 Yr.	Returns – 3 Yrs. (11/2020)	Rank – 3 Yrs.	Returns – 5 Yrs. (11/2020)	Rank – 5 Yrs.	Returns – 10 Yrs. (11/2020)	Rank – 10 Yrs.
Putnam High Yield	1,264	-155	5.98	37	4.96	34	6.71	24	6.05	26
Vanguard High Yield	28,372	1,127	5.46	46	5.53	14	6.55	32	6.51	11
BlackRock High Yield	27,319	7,516	5.98	37	5.40	18	6.92	16	6.78	7
PGIM High Yield	21,774	8,362	5.84	39	6.00	9	7.53	6	6.86	7
American Funds High Yield	17,734	-22	7.59	17	5.08	30	6.98	15	5.46	66
MainStay MacKay High Yield	12,469	1,997	4.97	57	4.94	34	6.73	24	6.29	18
PIMCO High Yield	11,672	2,418	5.35	50	5.13	29	6.54	32	6.09	24
Federated High Yield	9,910	2,271	6.68	29	5.30	23	7.05	13	6.77	8
JPMorgan High Yield	9,633	2,810	2.96	81	3.77	72	5.69	65	5.46	66
T. Rowe Price High Yield	8,534	-199	5.04	56	4.86	37	6.76	23	6.33	18
Lord Abbett High Yield	8,378	862	5.00	57	4.14	62	6.73	24	6.88	6
Fidelity Advisors High Income	7,727	2,272	2.75	83	4.16	62	6.60	30	5.78	47
Eaton Vance Income	6,618	1,502	5.26	53	4.65	45	6.16	47	6.10	24
<b>Universe average</b>	<b>3,167</b>	<b>440</b>	<b>5.84</b>	<b>-</b>	<b>4.98</b>	<b>-</b>	<b>6.54</b>	<b>-</b>	<b>6.12</b>	<b>-</b>

Source: Morningstar, as of 11/30/20.

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## Morningstar floating rate competitors (Y shares)

Product name	Fund size \$M (11/2020)	Fund net flows \$M (11/2020)	Returns – 1 Yr. (11/2020)	Rank – 1 Yr.	Returns – 3 Yrs. (11/2020)	Rank – 3 Yrs.	Returns – 5 Yrs. (11/2020)	Rank – 5 Yrs.	Returns – 10 Yrs. (11/2020)	Rank – 10 Yrs.
<b>Putnam Floating Rate Income</b>	<b>335</b>	<b>-78</b>	<b>1.14</b>	<b>65</b>	<b>2.63</b>	<b>52</b>	<b>3.74</b>	<b>46</b>	<b>3.79</b>	<b>30</b>
Fidelity Advisor Floating Rate	6,696	-2,746	1.94	48	3.01	34	4.22	21	3.45	49
Lord Abbett Floating Rate	5,737	-3,029	-1.50	90	1.53	85	3.49	61	3.84	23
Eaton Vance Floating Rate	5,363	-1,526	2.52	35	3.30	19	5.16	2	4.76	1
Invesco Senior Floating Rate	3,709	-3,028	-4.36	95	-1.07	99	2.20	95	3.05	70
T. Rowe Price Floating Rate	2,901	-652	2.24	41	3.46	12	4.25	21	4.13	8
BlackRock Floating Rate	2,197	-755	2.77	26	3.29	21	4.09	26	4.12	9
Credit Suisse Floating Rate	1,992	-197	2.75	28	2.74	47	4.09	27	4.55	-
Hartford Floating Rate	1,803	-1,073	1.93	48	2.83	41	4.48	12	3.98	17
Virtus Seix Floating Rate	1,750	-1,404	0.21	82	2.15	71	3.84	39	3.76	31
<b>Universe average</b>	<b>1,133</b>	<b>-436</b>	<b>1.53</b>	<b>-</b>	<b>2.63</b>	<b>-</b>	<b>3.94</b>	<b>-</b>	<b>3.81</b>	<b>-</b>

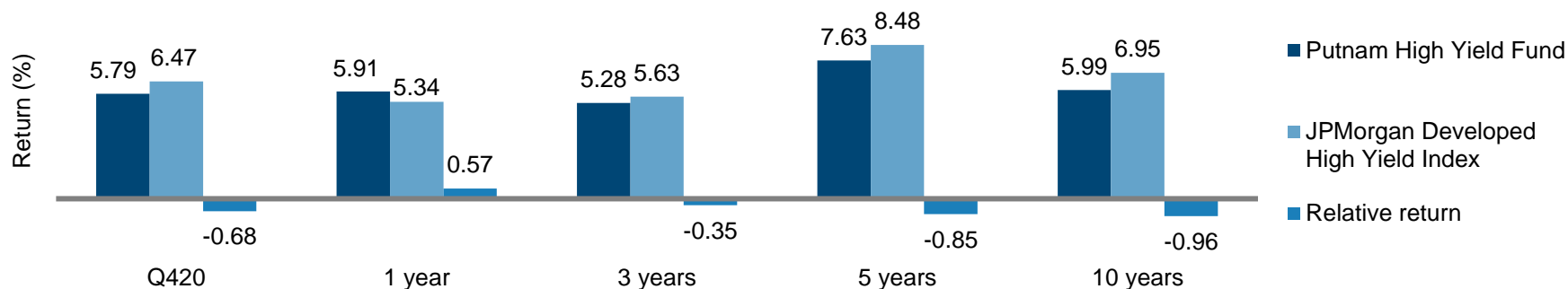
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## Putnam High Yield Fund

# Performance (Y shares)

Annualized performance at net asset value as of December 31, 2020



### Calendar-year performance (%)

Inception date: Dec 31, 1998	2020	2019	2018	2017	2016
Putnam High Yield Fund	5.91	14.22	-3.53	7.16	15.51
JPMorgan Developed High Yield Index	5.34	14.60	-2.36	7.80	18.22
Relative return	0.57	-0.38	-1.17	-0.64	-2.71

**Expense ratio: 0.77%**

Periods less than one year are not annualized.

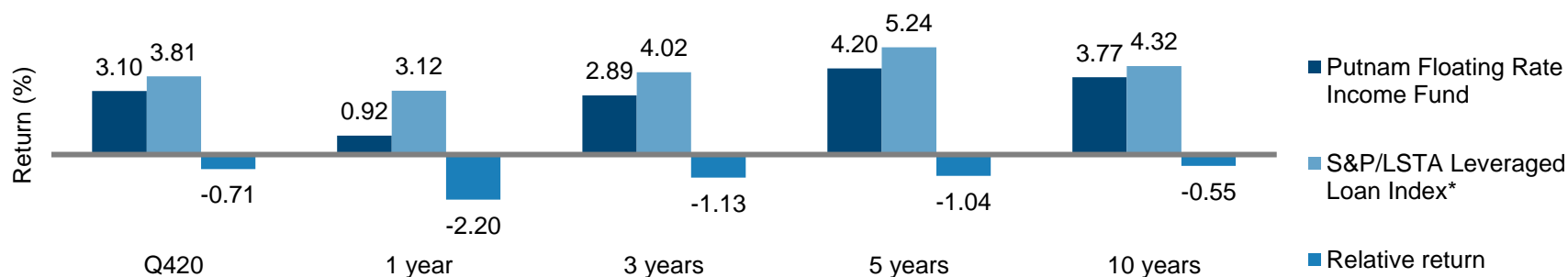
Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit [putnam.com](http://putnam.com). Class Y shares are generally only available for corporate and institutional clients.

JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed income securities issued in developed countries. You cannot invest directly in an index.

## Putnam Floating Rate Income Fund

# Performance (Y shares)

Annualized performance at net asset value as of December 31, 2020



### Calendar-year performance (%)

Inception date: Oct 4, 2005	2020	2019	2018	2017	2016
Putnam Floating Rate Income Fund	0.92	8.39	-0.44	3.54	8.92
S&P/LSTA Leveraged Loan Index*	3.12	8.64	0.47	4.11	10.14
Relative return	-2.20	-0.25	-0.91	-0.57	-1.22

**Expense ratio: 0.78%**

- Inception of the index is 1/1/06. Prior to this date, the fund tracked the S&P/LSTA Loan Index. The S&P/LSTA Leveraged Loan Index replaces the Bloomberg Barclays U.S. High Yield Loan Index as the benchmark for this fund because Bloomberg retired its U.S. High Yield Loan Index as of September 30, 2016.

Periods less than one year are not annualized.

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