

Putnam Short Duration Bond Fund

Class Y: PARYX Class A: PARTX

Commentary | as of December 31, 2024

Key Takeaways

- **Markets:** A stronger-than-expected US economy and sticky US inflation prints led to a hawkish pivot from the US Federal Reserve (Fed), which lowered rates twice during the quarter but signaled only two rate cuts were likely during 2025.
- **Contributors/Detractors:** Performance has been broad based across corporate and mortgage credit strategies in 2024.
- **Outlook:** The fund continues to diversify across short-duration corporate and mortgage credit sectors, while maintaining a focus on liquidity through a structural allocation to cash and commercial paper.

Performance Review

- Performance has been broad based across corporate and mortgage credit strategies in 2024.
- Within corporate credit, security selection in the banking sector has been a notable contributor to relative returns, while positioning in utilities and technology also proved beneficial.
- Within mortgage credit, non-agency residential mortgage-backed securities (RMBS) continue to benefit from US housing market strength, solid borrower fundamentals, and low expectations for a US recession. Meanwhile, exposure to commercial mortgage-backed securities (CMBS) has contributed to returns as the outlook for commercial real estate has improved, fundamentals have stabilized, and supply and demand technicals remain positive.
- The fund's structural allocation to cash and commercial paper continued to provide liquidity and returns to the fund.

Outlook

- Near-term Fed policy is unlikely to change because of the election. The US economy continues to grow at or above potential, and while inflation has largely been brought under control, it remains stubbornly above target. We expect one to two cuts to come in 2025.
- Corporate credit: The team is primarily focused on investment-grade corporate debt with a spread duration of five years or less. Additionally, while the fund can invest a portion of assets in high-yield securities, this is typically limited to higher-quality BB and "crossover" rated corporates that have a credible path toward investment grade. Fundamentals remain in supportive territory, but we are mindful of deterioration in certain consumer discretionary sectors where lower-income consumers continue to contend with high prices and still-elevated borrowing costs. With respect to valuations, spreads are compressed and are back to the top decile of observations over the last 20 years. As a result, we favor a more balanced risk posture at this time.
- Mortgage credit: The team sources ideas across asset-backed securities, RMBS and CMBS and remains focused on the higher-quality, more liquid areas of the market that add a desirable form of diversification to our corporate allocation and offer attractive relative value. With expectations of increased risks in the sector, the focus in CMBS exposure remains on securities with robust collateral and enough structural protection (credit enhancement) to withstand any principal losses even in deeper recessionary scenarios. Within residential mortgage credit, we expect home prices will 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 we find value in certain subsectors. The team favors bonds higher in the capital stack with shorter spread duration and with seasoned collateral that can withstand home price declines.
- The fund is expected to maintain approximately duration-neutral positioning versus the benchmark and does not take active currency risk.

Morningstar Rating™

Overall Rating as of December 31, 2024

★★★★ (4-Star) Class Y

★★★★ (4-Star) Class A

As of 12/31/2024 the fund's Class Y and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 522, 482 and 364 Short-Term 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 Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	1.64 Years
30-Day SEC Yield (Class Y)—With Waiver	4.65%
30-Day SEC Yield (Class Y)—Without Waiver	4.65%

Sector Allocation (% of Total)

Sector	Fund
Corporate Bond - Investment Grade	53.34
Residential MBS (Non-agency)	6.73
Asset-Backed Securities	5.35
Commercial MBS	5.33
Collateralized Loan Obligation	2.55
Emerging Markets Bonds	1.16
Corporate Bond - High Yield	1.13
Agency Pass-through	0.21
Investment Vehicle	0.18
Net Cash	24.00

Credit Quality Allocation (% of Total)

Rating	Fund
AAA	12.33
AA	4.93
A	20.48
BBB	34.15
BB	1.69
B	0.56
CCC and Below	0.10
NR	1.76
Cash & Cash Equivalents	24.00

Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Class Y	746764380	PARYX	0.14	5.56	5.56	2.59	2.33	2.43	2.14	0.14	5.56	5.56	2.59	2.33	2.43	2.14	0.37	0.37	—	—	12/23/2008
Class A	746764448	PARTX	0.18	5.41	5.41	2.33	2.09	2.18	1.89	-2.07	3.04	3.04	1.56	1.62	1.95	1.74	0.62	0.62	2.25	—	12/23/2008
Benchmark 1	—	—	0.21	5.40	5.40	2.22	2.15	2.31	—	0.21	5.40	5.40	2.22	2.15	2.31	—	—	—	—	—	—
Benchmark 2	—	—	0.21	5.40	5.40	2.22	2.15	1.95	—	0.21	5.40	5.40	2.22	2.15	1.95	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=ICE BofA 1-3 Year US Corporate Index

Benchmark 2=Putnam Short Duration 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. 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.

Important Information

Before June 1, 2018, the fund was managed with a materially different investment strategy and may have achieved materially different performance results.

The ICE BofA 1-3 Year U.S. Corporate Index is an unmanaged index of U.S. investment-grade corporate debt with a remaining term to maturity of less than 3 years. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use. The Putnam Short Duration Bond Linked Benchmark represents the performance of the ICE BofA U.S. Treasury Bill Index through May 31, 2018, and the performance of the ICE BofA 1-3 Year U.S. Corporate 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®, 12/31/2024. 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 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 4, 3 and 4 and fund's Class Y shares received a Morningstar Rating of 4, 4 and 4 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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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.