

# Putnam Short Duration Bond Fund

Class Y: PARYX Class A: PARTX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** There was a significant swing in financial market sentiment during the first quarter of 2025, as market participants digested the first few months of US President Donald Trump's new administration. January saw positive excess returns across several sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetites in February and March as unclear tariff policies became the market's focus.
- Within short-term rates, the secured overnight lending rate (SOFR) fell 8 basis points (bps) and ended the quarter at 4.41%. Meanwhile, the two-year US Treasury note's yield fell by 36 bps to 3.88% as market participants recalibrated expectations for more aggressive US Federal Reserve (Fed) policy. Short-term corporate spreads were modestly wider during the quarter. The Bloomberg US 1-3 Year Corporate Bond Index's spread settled at +58 bps after reaching +46 bps in mid-February.
- **Contributors:** Securitized credit exposures, especially commercial mortgage-backed securities (CMBS)
- **Detractors:** Investment-grade exposures within corporate credit
- **Outlook:** We believe the macroeconomic outlook will be heavily influenced by the administration's entire economic policy package, including not just tariffs and immigration, but also deregulation and tax cuts (which are expected to follow). Against this backdrop, we think the overall balance of risks should limit the Fed to at most one rate cut this year.

## Performance Review

- During the first quarter of 2025, the fund performed in line with its benchmark, the ICE BofA 1-3 Year US Corporate Index.
- Performance was driven by term structure positioning and securitized credit exposures, especially CMBS, which produced attractive carry.
- Within corporate credit, investment-grade exposures detracted from performance, as investment-grade corporate spreads widened over the period. By mid-March, investment-grade spreads peaked at 97 bps, their widest level since September.

## Outlook

- **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 its assets in high-yield securities, this is typically limited to higher quality BB and "crossover" rated corporates that have a credible path toward an investment-grade rating. Prior to the tariff announcements, corporate balance sheets were generally in good shape, but with equity multiple compression, declining earnings expectations and elevated uncertainty, debt-to-enterprise values have moved higher. We expect domestic sectors like utilities, insurance and wireless to be more resilient, while consumer discretionary sectors and those with global supply chains are more at risk for disruption. While valuations have adjusted, we are far from pricing in a material slowdown in growth and therefore continue to favor a balanced risk posture with a bias toward non-cyclical sectors.
- **Commercial mortgage credit:** The broad commercial real estate (CRE) market continues to face headwinds and increased risks, including elevated interest rates, rate volatility and tighter credit conditions. However, CRE is showing signs of improvement, and rising transaction volumes are providing more price transparency. Signs of optimism include payoff and refinancing rates that continue to surprise to the upside among all property types (including office) and the potential for higher economic growth and bank deregulation under the new administration. While we are neutral on CRE, we believe CMBS offers good opportunities for security selection when utilizing detailed loan level analysis, particularly when considering value relative to other fixed income sectors.
- **Residential mortgage credit:** We expect home prices to 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 find value in certain subsectors. Given the flat credit curve, we favor opportunities near the top of the capital stack, such as recent issue non-qualified mortgage and credit risk transfer bonds.
- The fund is expected to maintain approximately neutral duration positioning versus the benchmark and does not take active currency risk.

## Morningstar Rating™

Overall Rating as of March 31, 2025



**(4-Star)** Class Y



**(4-Star)** Class A

As of 03/31/2025 the fund's Class A and Class Y shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 529, 485 and 365 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	1.58 Years
30-Day SEC Yield (Class Y)—With Waiver	4.19%
30-Day SEC Yield (Class Y)—Without Waiver	4.19%

## Sector Allocation (% of Total)

Sector	Fund
Corporate Bond - Investment Grade	48.07
Residential MBS (Non-agency)	6.77
Asset-Backed Securities	5.63
Commercial MBS	4.16
Collateralized Loan Obligation	3.12
Investment Vehicle	1.57
Corporate Bond - High Yield	1.19
Emerging Markets Bonds	1.14
Agency Pass-through	0.21
Net Cash	28.14

## Credit Quality Allocation (% of Total)

Rating	Fund
AAA	12.72
AA	4.41
A	18.36
BBB	31.36
BB	1.72
B	0.57
CCC and Below	0.11
NR	2.62
Cash & Cash Equivalents	28.14

## 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	1.65	1.65	6.22	4.08	3.23	2.57	2.21	1.65	1.65	6.22	4.08	3.23	2.57	2.21	0.37	0.37	—	—	12/23/2008
Class A	746764448	PARTX	1.59	1.59	5.96	3.86	2.99	2.32	1.96	-0.70	-0.70	3.57	3.07	2.52	2.09	1.81	0.62	0.62	2.25	—	12/23/2008
Benchmark 1	—	—	1.64	1.64	6.25	3.88	2.83	2.39	—	1.64	1.64	6.25	3.88	2.83	2.39	—	—	—	—	—	—
Benchmark 2	—	—	1.64	1.64	6.25	3.88	2.83	2.12	—	1.64	1.64	6.25	3.88	2.83	2.12	—	—	—	—	—	—

## 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](http://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.

## Glossary

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

A Credit Risk Transfer (CRT) is a channel for government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac to transfer credit risk to private investors and away from taxpayers.

Enterprise value (EV) is a measure of a company's total value, often used as a more comprehensive alternative to equity market capitalization.

## 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 information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

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](http://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®, 03/31/2025. 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.

**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](http://www.franklintempleton.com). Please read it carefully.**

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