FRANKLIN TEMPLETON

Putnam Short Duration Bond Fund

Class Y: PARYX Class A: PARTX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year UST yield rose 58 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield (HY) sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries.
- **Contributors**: Out-of-index holdings of collateralized loan obligations (CLOs), residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS).
- **Detractors:** Term structure positioning. Underweight allocation and security selection within investment-grade (IG) corporate bonds. Out-of-index holdings of collateralized mortgage obligations (CMOs).
- **Outlook:** The September FOMC meeting reinforced our view that the Fed is committed to a higher-for-longer path. Following the September hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes. While geopolitical developments and labor market signals warrant close monitoring, the greater near-term focus is on whether incoming inflation data validate further tightening.

Performance Review

- During the third quarter of 2026, the Fund's Y share class returned -0.37% on a net of fees basis and fared worse than its benchmark, the ICE BofA 1-3 Year US Corporate Index, which returned -0.18%.
- Term structure positioning was the main detractor to performance during the period, as US Treasury (UST) yields shifted higher across the quarter.
- Underweight allocation and security selection within IG corporate bonds curbed returns. However, within corporate credit, out-of-index holdings of CLOs lifted returns.
- Within mortgage credit, losses from our out-of-index holdings of CMOs were more than offset by gains from our exposure to RMBS and CMBS.

Outlook

- **Corporate credit:** US IG corporate bond spreads are modestly wider since the start of the year, and finished the quarter at +80 bps. This, however, masks notable volatility in which spreads have moved between a wide of +93 bps and a tight of +71 bps in the year to date. The conflict in Iran and related spike in oil and related petrochemicals drove the initial widening, which has since been partially retraced; spreads currently remain range-bound despite no clear path to full resolution. The uptick in Treasury volatility and resulting total return declines in the asset class have also put pressure on spreads more recently. Year-to-date supply is still trending at a record pace, with over US$1.6 trillion of new issuance. While deals have been well absorbed thus far, Hyperscaler and artificial intelligence (AI)-related supply have exceeded 20% of net issuance for the IG market, and these deals are increasingly demanding greater new issue concessions which has pressured secondary spreads. To frame the impact, Hyperscalers have widened by 23 bps in the year to date while the broader index has remained roughly flat. On the demand side, we continue to see strong demand from liability-management based buyers given the attractive all-in yield backdrop, consistent retail driven inflows and an uptick in foreign buying. We expect AI data center infrastructure supply to increasingly become a technical headwind that will persist over a multi-year period as Alphabet, Amazon, Meta, Microsoft and Oracle expect to spend over US$800bn in capital expenditure (capex) this year and US$1.3 trillion in 2027, a large portion of which will be funded in the IG credit market. Related to that, we are seeing certain sectors like technology, insurance and BDCs decouple from the broader market as AI disruption risk weighs on software and private credit. Syndicate desks are broadly calling for roughly US$2 trillion of gross corporate supply in 2026, which would make it a record-breaking year. In our view, corporate balance sheets remain in good shape, affording most investment grade issuers substantial flexibility to manage through shifting economic conditions, which provides further support to the market. Banks' earnings largely showed credit quality to be in good condition, with benign levels of delinquencies and loan-loss provisioning, but we have seen pockets of stress within subprime auto and student loans. Finally, we are mindful of the K-shaped economy as greater price elasticity amongst middle- and lower-income consumers continues to be discussed on earnings calls, and Fed policy could further pressure those consumers as they respond to AI-related growth drivers. Going forward, we expect sectors like aerospace, defense and tobacco to be more resilient, while consumer discretionary sectors and chemicals will likely face greater volatility. We continue to be comfortable with credit risk in sectors like utilities and parts of technology, but expect elevated supply to weigh on spreads and therefore we will be more tactical in those sectors. The wireless space is facing incremental competition from SpaceX and elevated capex related to fiber and fixed wireless build outs, so we have become incrementally cautious there. While valuations have adjusted modestly, the market is still pricing in a sanguine outlook with minimal room for policy errors, and therefore we continue to favor a balanced risk posture with a bias towards non-cyclical sectors.
- **Commercial mortgage credit:** Our outlook on CMBS has shifted to neutral with reasons for concern, reflecting the increased pressure that elevated interest rates could place on commercial real estate borrowers. Higher financing costs and the potential for further cap-rate expansion increase refinancing risk, while current generic CMBS spreads do not fully

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★★ **(5-Star)** Class Y

★★★★ **(4-Star)** Class A

As of 09/30/2026 the fund's Class Y shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 522, 493 and 389 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	4.34%
30-Day SEC Yield (Class Y)—Without Waiver	4.34%

Not FDIC Insured | No Bank Guarantee | May Lose Value

compensate investors for these risks, in our view. Commercial real estate fundamentals remain broadly resilient but highly differentiated across property types, markets, and individual assets. Limited new construction remains supportive across much of the market, while retail and multifamily fundamentals have generally improved. Office remains highly idiosyncratic and continues to account for much of the sector's distress, while industrial and hotels face more mixed operating trends. Technicals remain an important offset to these fundamental concerns. Strong institutional demand, investment-grade fund inflows and annuity-related buying continue to provide significant support to the market. At the same time, strong demand has contributed to some weakening in underwriting standards, while elevated financing costs are likely to keep loan modifications and maturity extensions prevalent. We continue to favor shorter-spread-duration, loan-specific opportunities where detailed underwriting can identify attractive risk-adjusted value. Extension bonds remain appealing because higher rates are already reflected in expected maturity profiles, while select seasoned idiosyncratic deals continue to offer compelling opportunities. Within SASB, we prefer a barbell approach emphasizing AAA and BBB/BB exposure, where relative value is more attractive than in the middle of the capital structure. We also continue to find value in select CMBS IO securities, which could benefit from slower refinancing activity, while maintaining selective credit hedges against weaker outcomes.

- **Residential mortgage credit:** We maintain a neutral outlook on securitized credit, with selectivity the common theme across sectors. In Agency MBS, we have a modestly constructive near-term bias following recent spread widening, as valuations have improved relative to investment-grade corporates and the sector continues to offer compelling carry and high-quality liquidity; we favor 30-year conventionals over 15-year and Ginnie Mae pass-throughs, with selective exposure across seasoned lower coupons and higher coupons, and while agency floaters offer attractive spread income, we are more cautious on longer-average-life floaters given uncertainty around front-end rates. In CMBS, our outlook has shifted to neutral with reasons for concern, as elevated rates raise refinancing risk for commercial real estate borrowers and generic spreads do not fully compensate for it, in our view, so we prefer shorter-spread-duration, loan-specific opportunities, including extension bonds and select seasoned idiosyncratic deals. In non-agency RMBS, housing and borrower fundamentals remain healthy, but tighter valuations, elevated issuance, higher mortgage rates and greater extension and convexity risk have reduced the appeal of broad exposure. As a result, we favor senior profiles with limited extension risk and shorter spread duration. We are cautious on down-in-stack (lower-rated, subordinated tranches that absorb losses first), on-the-run (most recently issued) credit risk transfer (CRT) bonds, given the flat credit curve. We see attractive opportunities in senior non-performing loan (NPL), re-performing loan (RPL) and residential transition loan (RTL) securities for investors seeking higher returns.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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	Date
Class Y	746764380	PARYX	-0.37	0.62	1.88	5.12	2.72	2.94	2.30	-0.37	0.62	1.88	5.12	2.72	2.94	2.30	0.38	0.38	—	—	12/23/2008
Class A	746764448	PARTX	-0.43	0.43	1.63	4.83	2.47	2.68	2.04	-2.67	-1.83	-0.66	4.04	2.00	2.45	1.91	0.63	0.63	2.25	—	12/23/2008
Benchmark 1	—	—	-0.18	1.01	2.23	5.12	2.58	2.63	—	-0.18	1.01	2.23	5.12	2.58	2.63	—	—	—	—	—	—
Benchmark 2	—	—	-0.18	1.01	2.23	5.12	2.58	2.60	—	-0.18	1.01	2.23	5.12	2.58	2.60	—	—	—	—	—	—

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.

Glossary

An **agency CMO** is a Chief Marketing Officer who leads and oversees all marketing strategy, brand management, and client engagement initiatives within a marketing or advertising agency.

An **asset backed security (ABS)** is a financial security such as a bond or note which is collateralized by a pool of assets such as loans, leases, credit card debt, royalties, or receivables.

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.

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

Non-agency RMBS are residential mortgage-backed securities created by private issuers and backed by home loans that do not meet federal agency guidelines and therefore carry no government guarantee.

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 **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. 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.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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.

Morningstar Rating™: Source: Morningstar®, 09/30/2026. 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 Y shares received a Morningstar Rating of 4, 4 and 5 and fund's Class A shares received a Morningstar Rating of 3, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class Y and Class A shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

The fund is not exchangeable for other funds distributed by Franklin Distributors, LLC.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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.

FRANKLIN TEMPLETON