FRANKLIN TEMPLETON

Putnam Ultra Short Duration Income Fund

Class Y: PSDYX Class A: PSDTX | **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 US Treasury (UST) yield rose 82 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:** Investment-grade (IG) corporate credit, asset-backed securities (ABS) and collateralized mortgage obligations (CMOs).
- **Detractors:** Yield curve exposure.
- **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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	4.19%
30-Day SEC Yield (Class Y)—Without Waiver	4.16%

Performance Review

- During the third quarter of 2026, the Fund's Y share class returned 0.65% on a net of fees basis and underperformed its benchmark, the ICE BofA US Treasury Bill Index, which returned 0.92%.
- Within short-term rates, the secured overnight financing rate (SOFR) rose 22 bps and ended the period at 3.90%. Short-term Treasury yields rose during the quarter amid inflation concerns and hawkish Fed rhetoric. The one-year UST bill rose by 56 bps to 4.54%. Yields climbed further, by 72 bps to 4.89% on the two-year UST note, and by 82 bps to 5.00% on the two-year UST note.
- IG corporate credit allocations were the primary contributor to relative returns, despite a modest spread widening over the quarter. The sector remains supported by strong technicals, healthy corporate balance sheets, and positive banks' earnings.
- On the other hand, yield curve exposures detracted from performance as short-term Treasury yields (1- to 30-year US Treasuries) rose meaningfully. A continued stalemate in the Middle East and the Fed raising the policy rate in September drove volatility across the UST yield curve.
- Securitized exposures within ABS, particularly auto loans, and CMOs had a modest positive impact on returns, as constrained supply and improved valuations were supported by elevated mortgage rates, healthy bank demand, and resilient fundamental conditions.

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

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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 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.

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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	74676P698	PSDYX	0.65	2.44	3.59	4.99	4.00	2.80	2.12	0.65	2.44	3.59	4.99	4.00	2.80	2.12	0.37	0.32	—	—	10/17/2011
Class A	74676P755	PSDTX	0.63	2.36	3.49	4.88	3.90	2.70	2.01	0.63	2.36	3.49	4.88	3.90	2.70	2.01	0.47	0.42	—	—	10/17/2011
Benchmark	—	—	0.92	2.69	3.74	4.57	3.72	2.44	—	0.92	2.69	3.74	4.57	3.72	2.44	—	—	—	—	—	—

Benchmark(s)

Benchmark =ICE BofA U.S. Treasury Bill Index

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.*
Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 11/30/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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. **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 **ABS, or asset-backed security**, is a financial instrument whose value and income are derived from a pool of underlying assets, such as loans or receivables, which are securitized and sold to investors.

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.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

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 U.S. Treasury Bill Index** is an unmanaged index that tracks the performance of U.S. dollar-denominated U.S. Treasury bills publicly issued in the U.S. domestic market.

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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.

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

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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.

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