FRANKLIN TEMPLETON

Putnam Ultra Short Duration Income Fund

Class Y: PSDYX Class A: PSDTX | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** The fourth quarter of 2025 saw monthly shifts in market sentiment as uncertainties increased in the first part of the quarter. The US federal government went into a shutdown on October 1 as the US Senate was unable to pass a spending bill. This delayed or canceled the publication of key economic data leading to a lack of clarity on the economic condition of the United States. The shutdown was lifted mid-November, and subsequent data showed that economic growth in the United States remained resilient. The US Federal Reserve delivered three consecutive 25-basis point cuts in Q4, helping market sentiment improve in December. Global economies continued to reset themselves due to US tariffs, with many looking to spur domestic growth.
- **Contributors:** Investment grade corporate credit; Non-agency RMBS
- **Detractors:** N/A
- **Outlook:** Although the Fed has signaled one more cut for 2026, we continue to believe that so long as growth remains resilient and the expansion continues in line with our expectations, the Fed will remain on pause at least through Powell's term ending in May 2026, and potentially through 2026. That said, the Fed's reaction function does lean dovish, and any signs of labor market weakness could force additional "risk-management" cuts under Powell or his successor.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Class Y)—With Waiver	3.96%
30-Day SEC Yield (Class Y)—Without Waiver	3.92%

Performance Review

- During the fourth quarter of 2025, the Fund's Y share class returned 1.13% and outperformed its benchmark, the ICE BofA US Treasury Bill Index, which returned 1.02%.
- Within short-term rates, the secured overnight financing rate (SOFR) decreased by 37 basis points and ended the period at 3.87%. Short-term treasury yields, measured by 1- to 3-year US Treasuries, fell over the period and ended 6 to 20 basis points lower.
- Corporate credit was the primary contributor to the fund's relative performance during the quarter. Issuer selection in the banking sector, the largest sector allocation within the fund, was the top contributor.
- The fund's allocations to commercial paper contributed to returns as well.
- Lastly, the fund's allocation in securitized sectors, namely non-agency residential mortgage-backed securities, augmented performance.

Outlook

- **Corporate credit:** Spreads are now 2bps tighter since the start of last year and finished December at +77. This point-to-point move, however, masks considerable intra-period volatility with spreads trading as wide as +119 post Liberation Day to the mid-September tights of +71 (a 48bp range). Throughout the period, widening has generally been met with buyers as the technical strength of the IG corporate market has superseded policy and tariff uncertainty, despite its potential to impact demand and cost structures across sectors. Lower net supply, strong demand from liability-management based buyers, and consistent inflows have all contributed to this technical strength, however, recent deals to fund AI data center infrastructure have become a technical headwind that will persist over a multi-year period. Syndicate desks are broadly calling for roughly $2 Trillion of gross corporate supply in 2026, which would make it a record-breaking year. 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. While banks' earnings largely showed credit quality to be in good condition, we have seen pockets of stress with subprime auto and student loan delinquencies rising. 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. 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 the credit risk in sectors like Utilities and Wireless and Technology, but expect elevated supply to weigh on spreads and therefore we will be more tactical in those sectors. With valuations now back towards the tight end of the range, the market is pricing in a sanguine outcome with minimal room for policy errors, and therefore we continue to favor balanced a risk posture with a bias towards non-cyclical sectors.
- **Commercial mortgage credit:** Elevated long-term interest rates remain a headwind for commercial real estate, but the sector should benefit from resilient economic growth and improved access to capital via floating-rate markets including Single Asset Single Borrower transactions and private credit. Demand for commercial real estate has been resilient in the face of labor market softness, sticky inflation and tariffs impacts. The main theme across property types is that new supply is constrained given the low rate of new construction which helps temper downside risks. While delinquencies have been on the rise, they are mostly driven by maturity defaults with sponsors angling for modification and extensions, and by defaults within the office sector where we are already modelling punitive outcomes. Nonetheless, the recovery within the office sector is now extending beyond New York City with a strong rebound in demand on a national level as net absorption has turned significantly positive and vacancies are declining for the first time since 2019. We continue to believe generic spreads do not currently reflect risks, namely higher rates and the potential for further labor market deterioration. Furthermore, underwriting standards are loosening, which suggests future refinancing may prove difficult without a lower interest rate environment. We see the credit curve as being too flat, but we also see CMBS as offering good opportunities for security selection when utilizing detailed loan level analysis, particularly when considering relative value to other sectors.
- **Residential mortgage credit:** Elevated mortgage rates and all time high median home prices continue to pressure affordability. Nonetheless, low unemployment, modest wage growth and steady household formation should continue to support home prices and help contain delinquencies. Although housing supply has increased from the historical lows, driven by new homes supply particularly in southern states such as Florida and Texas, existing home inventory remains constrained.

We anticipate total home sales will remain anemic unless there is a substantial decline in mortgage rates. Given this backdrop we expect home price growth will be modest over the next year with risks skewed to downside and high regional variance. Overall, we maintain a neutral view of the sector given rich valuations and our expectations for modest home price growth, but we continue to 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.

Average annual total returns and fund expenses (%) - as of December 31, 2025

			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	1.13	4.98	4.98	5.57	3.55	2.64	2.06	1.13	4.98	4.98	5.57	3.55	2.64	2.06	0.37	0.32	—	—	10/17/2011
Class A	74676P755	PSDTX	1.10	4.87	4.87	5.47	3.44	2.54	1.95	1.10	4.87	4.87	5.47	3.44	2.54	1.95	0.47	0.42	—	—	10/17/2011
Benchmark	—	—	1.02	4.28	4.28	4.88	3.18	2.20	—	1.02	4.28	4.28	4.88	3.18	2.20	—	—	—	—	—	—

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

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

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.

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.

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.

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

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 **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.

Putnam funds are 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.