

Putnam Short-Term Municipal Income Fund

Class Y: PSMYX Class A: PSMEX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. In early April, US President Donald Trump announced significant increases in US tariff rates as part of his "Liberation Day." Subsequently, a temporary pause (in many cases 90 days) in increased levies helped calm some of the market nerves. The passage of the "One Big Beautiful Bill" spending package after quarter-end further reduced the uncertainties that had been a strong headwind to municipal (muni) bond markets as it affirmed the tax-exempt status of muni securities.
- **Contributors:** Security selection in BBB rated bonds. Overweight muni bonds with five years to maturity.
- **Detractors:** Overweight to BBB and below investment grade rated bonds.
- **Outlook:** Municipal bond valuations continue to appear attractive to us, particularly on a tax-adjusted basis, with yields near multi-year highs. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and potentially preserving portfolio quality.

Performance Review

- Over the quarter, Putnam Short-Term Municipal Income Fund underperformed its benchmark, Bloomberg 3-year Municipal Bond Index.
- The fund's yield curve positioning detracted from relative performance during the second quarter, primarily driven by an overweight to muni bonds with 20 years or more to maturity and underweight to muni bonds with two years to maturity as the muni bond yield curve steepened over the period. This was only partially offset by an overweight to muni bonds with five years to maturity.
- Rating allocations had a neutral impact on returns for the period, as gains from exposure to bonds with no external ratings were offset by negative results stemming from our overweight to lower rated BBB bonds and those rated below investment grade. Security selection detracted from relative results, particularly due to selection in AA and A rated securities. Meanwhile selection in BBB rated securities added to returns..

Outlook

- We still feel that technical conditions in the market favor investors. Fund flows have moved to be positive, and the additional supply of munis has been well absorbed. The summer months typically see an increase in coupon payments and maturing bonds, which will require reinvestment that should provide a strong base to support valuations.
- Fundamentals remain broadly stable, with Moody's reporting that credit upgrades continued to outpace downgrades. However, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive to us, particularly on a tax-adjusted basis. In a more challenging environment, we believe strong bottom-up research and disciplined security selection will be essential to identifying relative value and potentially preserving portfolio quality.

Morningstar Rating™

Overall Rating as of June 30, 2025



(4-Star) Class Y



(3-Star) Class A

As of 06/30/2025 the fund's Class Y shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 215, 198 and 155 Muni National Short 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	2.16 Years
30-Day SEC Yield (Class Y)—With Waiver	3.30%
30-Day SEC Yield (Class Y)—Without Waiver	3.21%
Taxable Equivalent Yield (Class Y)—With Waiver	5.57%
Taxable Equivalent Yield (Class Y)—Without Waiver	5.42%

State / U.S. Territory Allocation (% of Total)

State	Fund
California	11.20
Texas	10.66
Florida	7.83
Washington	5.07
Ohio	4.77
Kentucky	4.56
Alabama	4.03
Tennessee	3.72
Other	47.55
Cash & Cash Equivalents	0.61

Average annual total returns and fund expenses (%) - as of June 30, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
			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	74676A824	PSMYX	0.96	1.92	3.97	3.28	1.86	1.71	1.51	0.96	1.92	3.97	3.28	1.86	1.71	1.51	0.47	0.36	—	—	3/18/2013
Class A	74676A865	PSMEX	0.79	1.79	3.71	3.02	1.60	1.45	1.26	-1.48	-0.50	1.38	2.24	1.14	1.22	1.07	0.72	0.61	2.25	—	3/18/2013
Benchmark	—	—	1.05	2.08	4.08	2.55	1.10	1.52	—	1.05	2.08	4.08	2.55	1.10	1.52	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg 3-year Municipal Bond 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 03/31/2026 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. **Active management** does not ensure gains or protect against market declines. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. These and other risks are discussed in the fund's prospectus.

Glossary

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. 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 **Bloomberg 3-Year Municipal Bond Index** is a subset of the Bloomberg Municipal Bond Index that measures the performance of investment-grade issues with remaining maturities of two to four years. Source: Bloomberg Indices.

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.

Morningstar Rating™: Source: Morningstar®, 06/30/2025. 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 Y shares received a Morningstar Rating of 4, 5 and 4 and fund's Class A shares received a Morningstar Rating of 3, 3 and 3 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.

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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.