How were market conditions in the third quarter?

Short-term fixed income delivered positive performance amid considerable market volatility. Worries about higher interest rates and inflation weighed on investor sentiment for much of the quarter. In the final weeks of the period, a growing realization that interest rates might stay higher for longer pushed bond yields to their highest levels in more than a decade.

In July, the Federal Reserve raised the federal funds target rate by 0.25% to a range of 5.25%–5.50%. This was the Fed’s 11th interest-rate increase since it began its campaign to tame inflation in March 2022. Fed Chair Jerome Powell stated that the central bank would continue to make data-driven decisions on a meeting-by-meeting basis. At the same time, recession fears eased, with many investors embracing a soft-landing narrative.

At the Fed’s annual conference in August 2023, it stated it would “proceed carefully” and continue relying on incoming data to make policy decisions. As part of this process, the Fed mentioned it would try to balance the risk of doing too much and slowing growth against the risk of doing too little and increasing inflation.

The Fed left its benchmark rate unchanged at the September meeting, but its commentary took on a more hawkish tone. The Fed suggested another interest-rate hike was possible before the end of 2023. Policymakers also indicated the need to keep interest rates high well into 2024 to ensure inflation drops back down to its 2% target rate and that, when rates eventually come down, it may happen more slowly than previously projected. Yields on U.S. Treasuries rose, and prices fell further, as
investors ratcheted up their expectations for the Fed’s terminal interest rate. This amplified recession concerns and weighed on interest-rate-sensitive investments from bonds to high-growth technology stocks.

Despite low unemployment, moderate growth, and inflation trending lower, Powell indicated the U.S. economy faces uncertain headwinds. These headwinds included high oil prices, a possible government shutdown, and the resumption of student-loan repayments, which could dampen consumer spending.

The ICE BofA U.S. Treasury Bill Index, the fund’s benchmark, rose 1.32%. The Bloomberg U.S. Aggregate Bond Index, which is composed largely of U.S. Treasuries, highly rated corporate bonds, and mortgage-backed securities, returned –3.23%.

How did the fund perform? What were the drivers of performance during the period?

The fund outperformed its benchmark for the three months ended September 30, 2023. The fund returned 1.47% on a net basis versus a return of 1.32% for the benchmark index. Short-term yields also rose throughout the quarter. The fund’s SEC yield increased by 17 basis points to end the quarter at 5.46%. [One basis point is one-hundredth of one percentage point.] The fund’s NAV finished the quarter at $10.05, two pennies higher than where it began.

Corporate credit was the largest contributor to the fund’s relative performance during the three-month period. The fund benefited from more range-bound short-term corporate credit spreads relative to the volatility experienced during the banking crisis this past spring. [Spreads are the yield advantage bonds carrying credit risk offer over comparable-maturity U.S. Treasuries. Bond prices rise as yield spreads tighten and decline as spreads widen.] Issuer selection in the banking sector, the largest sector allocation within the fund, was the top contributor to performance. The fund’s allocation in the automotive sector was also a notable contributor.

The fund’s allocations to commercial paper contributed to returns as well. We keep a balance of short-maturity commercial paper for liquidity purposes. As interest rates increased, commercial paper yields rose. This allowed us to reinvest the maturing paper at higher interest rates.

Lastly, the fund’s allocation in securitized sectors, including non-agency residential mortgage-backed securities and asset-backed securities, augmented performance. The portfolio management team continues to focus allocations in this area on highly rated securities that are senior in the capital structure. We believe these holdings help broaden diversification within our corporate exposure.

What is your near-term outlook for short-term fixed income markets?

Following the Fed’s decision to hike interest rates at its July meeting and keep rates unchanged at its September meeting, we believe future monetary policy decisions will be influenced by incoming economic data. With that in mind, we do not envision quick Fed rate cuts due to a resilient labor market and sticky core inflation. Healthy market technicals and supportive macroeconomic data have kept credit spread volatility low, and valuations are now trending toward the lower end of the range. While the probability of near-term recession has come down, we remain focused on risks associated with tighter financial conditions and higher rates. Additionally, signs of lower-end consumer stress have increased with the depletion of pandemic-era savings and cuts to government stimulus programs. With that backdrop, we continue to seek out and find pockets of idiosyncratic opportunity but remain cautious on overall valuations.

We expect balance sheets for the banking sector to remain stable, particularly within the larger systemically important banks, which dominate that exposure in the fund. We believe most banks will continue to maintain
levels of capitalization at or above long-term targets. Meanwhile, current asset quality profiles remain on solid footing, in our view, helping these institutions to weather this potentially more challenging period.

**How have you positioned the fund to reflect that outlook?**

We have positioned Putnam Ultra Short Duration Income Fund to take advantage of a sustained higher interest-rate environment. The fund holds a balanced allocation across fixed rate securities and securities with a floating-rate coupon tied to the Secured Overnight Financing Rate. Additionally, given our belief that we are nearing a pause in the Fed's hiking cycle, we marginally extended the fund’s duration by purchasing fixed-rate securities. After beginning the fiscal year with a duration of 0.23 years, the fund ended the period with a duration of 0.48 years.

From a credit quality standpoint, the portfolio is structured with a combination of lower-tier investment-grade securities [BBB or equivalent], generally maturing in one year or less, and upper-tier investment-grade securities [A or AA rated], generally maturing in a range of 1 to 4 years. Within investment-grade corporates, we continue to have a high level of confidence in the creditworthiness of our banking exposure despite the banking turmoil experienced in March 2023. We believe the names the fund owns will remain resilient, even in a deteriorating economic environment.

Overall, the Ultra Short Duration Income team is actively monitoring portfolio exposures as market events evolve. We continue to structure the portfolio with capital preservation and liquidity as the primary objectives and will dynamically position more conservatively or moderately as we anticipate different risk environments. We believe our disciplined portfolio construction is key to reducing volatility and providing consistent liquidity.

### Putnam Ultra Short Duration Income Fund (PSDYX)

**Annualized total return performance as of 9/30/23**

<table>
<thead>
<tr>
<th>Class Y shares</th>
<th></th>
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<tbody>
<tr>
<td>Inception 10/17/11</td>
<td>ICE BofA U.S. Treasury Bill Index</td>
</tr>
<tr>
<td>Last quarter</td>
<td>1.47%</td>
</tr>
<tr>
<td>1 year</td>
<td>5.19</td>
</tr>
<tr>
<td>3 years</td>
<td>1.80</td>
</tr>
<tr>
<td>5 years</td>
<td>1.99</td>
</tr>
<tr>
<td>10 years</td>
<td>1.52</td>
</tr>
<tr>
<td>Life of fund</td>
<td>1.41</td>
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</tbody>
</table>

Total expense ratio: 0.36%

What you pay: 0.30%

Returns for periods of less than one year are not annualized.

“What you pay” reflects Putnam Management’s decision to contractually limit expenses through 11/30/23. Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed income securities. 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. Qualifying securities must have a remaining term of at least one month to final maturity and a minimum amount outstanding of $1 billion. You cannot invest directly in an index. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg’s licensors approve or endorse this material, or guarantee the accuracy or completeness of any information herein, or make any warranty, express or implied, as to the results to be obtained therefrom, and to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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Duration measures the sensitivity of bond prices to interest-rate changes. A negative duration indicates that a security or fund may be poised to increase in value when interest rates increase.
For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers of Putnam Ultra Short Duration Income Fund as of September 30, 2023. They are subject to change with market conditions and are not meant as investment advice.

**Consider these risks before investing:** Putnam Ultra Short Duration Income Fund is not a money market fund. The effects of inflation may erode the value of your investment over time. Funds that invest in government securities are not guaranteed. Mortgage-backed investments, unlike traditional debt investments, are also subject to prepayment risk, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. The fund may have to invest the proceeds from prepaid investments, including mortgage-backed investments, in other investments with less attractive terms and yields.

The value of investments in the fund’s portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund’s portfolio holdings.

Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Credit risk is generally greater for debt not backed by the full faith and credit of the U.S. government.

Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. Unlike bonds, funds that invest in bonds have fees and expenses.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund’s other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.