

Q4 2018 | Putnam Multi-Cap Core Fund Q&A

Opportunities emerge from a turbulent quarter



Gerard P. Sullivan
Portfolio Manager
Industry since 1982

Arthur Yeager
Assistant Portfolio Manager
Industry since 1984
(Photo not available)

In a challenging fourth quarter for stocks, the fund underperformed its benchmark index.

Many stocks were hit hard with price declines without any deterioration of company fundamentals.

While continued volatility is possible, our goal is to put assets to work to take advantage of attractive valuations in many sectors.

The closing months of 2018 were difficult for equity investors. What is your perspective on market conditions?

It was a challenging fourth quarter for stocks, with heightened volatility and increasingly nervous investors. Rising interest rates and geopolitical issues such as the U.S.–China trade conflict were among the top investor worries. At the start of the quarter, the Russell 3000 Index — our benchmark for the fund — was up by nearly 11% for the year. In the fourth quarter, it declined by over 14%.

While this was not a pleasant way to end the year, we believe the downturn has presented new investment opportunities. Many stocks were hit hard with price declines without any deterioration of company fundamentals. While we continue to monitor macroeconomic conditions and risks, we are also conducting rigorous research. Our goal is to put assets to work to take advantage of attractive valuations in many sectors.

What can you tell us about fund performance in the quarter?

It was a difficult quarter for the fund, which posted a decline and underperformed its benchmark index. Within the portfolio, the sectors that detracted most were consumer discretionary and financials. These cyclical sectors are closely tied to the economy and were among the weakest in the market overall. On the other hand, energy and industrials, the two worst-performing sectors overall for the quarter, helped the fund's performance due to our stock selection.

Where are you seeing opportunities in the wake of the fourth-quarter declines?

We are very interested in oil-related stocks, which pulled back severely as oil prices plummeted late last year. Energy was the worst-performing sector for the quarter as well as for the calendar year, declining over 20% in 2018. Rather than reducing these positions, we are more interested in the opportunities they present.

The same is true for holdings in the financials sector. Stocks of financial services companies, particularly banks, struggled with significant losses in 2018. Based on the extent of the declines, the market appeared to be pricing in a recession. We believe the financial companies we own in the fund remain fundamentally strong, with solid balance sheets and loan portfolios, even in an environment of slowing economic growth.

What is your outlook as we begin 2019?

In my view, the U.S. economy remains relatively robust. It has weakened somewhat in the past few months, and many indicators point to a slight softening in economic growth. However, cyclical stocks are now trading at significant discounts. Based on stock price declines in a number of industries, such as banks, energy, and home-building, it appears that the market may be anticipating a recession. We believe this is a bit premature. We believe more market volatility is possible, and we will continue to dig deep in our research of companies, looking for opportunities to take advantage of attractive prices.

Putnam Multi-Cap Core Fund (PMYXX)

Annualized total return performance as of 12/31/18

Class Y shares Inception 9/24/10	Net asset value	Russell 3000 Index
Last quarter	-15.35%	-14.30%
1 year	-7.91	-5.24
3 years	9.06	8.97
5 years	7.47	7.91
Life of fund	13.39	12.02

Total expense ratio: 0.77%

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

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.

Recent performance benefited from a settlement from Household International, a unit of HSBC Holdings Plc.

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For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of December 31, 2018. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: Investments in small and/or midsize companies increase the risk of greater price fluctuations. Growth stocks may be more susceptible to earnings

disappointments, and value stocks may fail to rebound. Stock prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions, changes in government intervention in the financial markets, and factors related to a specific issuer or industry. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. You can lose money by investing in the fund.

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