

Q3 2018 | Putnam Multi-Cap Core Fund Q&A

Stock selection boosts returns in a solid quarter for U.S. equities



Gerard P. Sullivan
Portfolio Manager
Industry since 1982

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

For the life-of-fund period, Putnam Multi-Cap Core Fund ranked in the top 1% [2/479] of its Lipper peer group.

For the quarter and 3-year and 5-year periods, the fund outperformed its benchmark.

While our sector positioning was not ideal during the quarter, our stock selection was quite strong, outperforming in 9 out of 11 sectors.

How did the equity market and the fund perform in the third quarter?

U.S. stocks were the strongest performers across global equity markets in the third quarter. Stocks were boosted by strong corporate earnings, rising wages, low unemployment, continued economic growth, and positive investor sentiment. However, investors also grew increasingly concerned about the U.S.–China trade conflict as well as rising interest rates. And it is worth noting that shortly after the close of the quarter, the U.S. equity market encountered a steep decline, falling more than 6% from its recent record highs, due in large part to those concerns.

For the quarter, the fund outperformed its benchmark, the Russell 3000 Index, and we continue to be pleased with the fund's performance over longer time periods, particularly its outperformance versus the benchmark for the 3-year, 5-year, and life-of-fund periods ended September 30, 2018. We also observed a milestone during the quarter — the 8-year anniversary of the fund's inception. I am proud to have managed the fund for the entire period, and I am pleased with its competitive performance over the years. For this life-of-fund period, the fund ranks in the top 1% of funds in its Lipper peer group [2 out of 479 Multi-Cap Core Funds].

What were some challenges and successes in the quarter?

While our sector positioning was not ideal during the period, our stock selection was quite strong. As active portfolio managers, our goal is to drive performance based on our assessment of individual stocks, using bottom-up, fundamental research. From a stock-selection perspective, we outperformed in 9 out of 11 sectors for the quarter.

Our holdings in the consumer discretionary and real estate sectors detracted somewhat from performance. Our real estate exposure is quite low, so consumer discretionary was the only meaningful trouble spot for the quarter. Specifically, the rising-interest-rate environment was a drag on performance of stocks in the auto and housing industries.

Although the fund had underweight positions in health care and industrials — the top-performing sectors for the quarter — our stock selection was particularly successful. Stock selection was also strong across a range of companies in the energy sector.

How are you positioning the portfolio as we enter the final months of 2018?

For most of 2018, we hadn't made significant shifts in portfolio positioning. We continued to dig deep in our research of companies, looking for opportunities to take advantage of more attractive prices or improving business fundamentals. Many of the market's bargain stocks, however, were companies with fundamental problems, and it was challenging to find new investment ideas. The market pullback in early October provided opportunities to add some high-quality companies at more attractive prices. We are proceeding with caution regarding many of the high-momentum growth stocks that have been outperforming, and we are watching for some sector and industry rotation to bring us new opportunities.

Putnam Multi-Cap Core Fund (PMYX)

Annualized total return performance as of 9/30/18

Class Y shares Inception 9/24/10	Net asset value	Russell 3000 Index
Last quarter	7.23%	7.12%
1 year	16.61	17.58
3 years	17.14	17.07
5 years	13.74	13.46
Life of fund	16.23	14.60

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.

Lipper ranked Putnam Multi-Cap Core Fund 33% (256/775), 9% (56/664), 7% (35/564), and 1% (2/479) for the 1-, 3-, 5-year, and lifetime periods as of September 30, 2018, in the Multi-Cap Core category. Lipper rankings for class Y shares are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Lipper. Past performance is not indicative of future results.

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

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The views and opinions expressed are those of the portfolio managers, as of September 30, 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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