Q2 2018 | Putnam Multi-Cap Core Fund Q&A

A preference for value restrains quarterly results

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Industry since 1982

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(Photo not available)

The fund delivered a modest advance for the quarter, with energy stocks contributing to returns while financials detracted.

Compared with its peers and benchmark, the portfolio consists of relatively inexpensive stocks as we continue to focus on attractive valuations.

We are prepared for more disruption in the equity markets and will take advantage of the opportunities that presents.

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

The overall U.S. equity market delivered a positive return, improving upon the first quarter's slight decline, but markets remained choppy. Investors seem to have less appetite for risk in 2018, and trading sessions have become more volatile. For the quarter, the fund delivered a modest advance, but slightly underperformed its benchmark index. We continue to be pleased with the fund's performance over longer time periods, particularly its outperformance versus the benchmark for the one- and five-year periods.

What were some challenges and successes in the quarter?

The weakest area of the portfolio was the financials sector, specifically bank stocks, which struggled in the quarter, partly due to concerns over the flattening yield curve. Banks tend to benefit from a steep yield curve, which allows them to lend on higher long-term rates and borrow on lower short-term rates. Despite the recent weakness, I have maintained an overweight position in financials. In my view, nothing is broken, fundamentally, with these companies, and their stocks are very inexpensive, with many trading close to book value. I believe they could be nearing a rebound and are poised to benefit from a still-improving economy.

On the positive side, energy stocks contributed to the fund's return for the quarter. I believe many energy companies have demonstrated their ability to allocate capital more efficiently. They are cleaning up their balance sheets, they are not overspending, and they're living within their cash flows. In addition, energy stocks benefited from rising oil prices during the quarter.

How are you positioning the portfolio as we enter the second half of 2018?

Compared with our peers and benchmark, the portfolio consists of relatively inexpensive stocks as we continue to focus on attractive valuations. We haven't made any significant shifts in allocations, and we continue to target businesses with strong balance sheets.

Going forward, we are watching the industrials sector, which has struggled a bit recently and has been an underweight allocation for the fund. Another sector worth watching is consumer staples, where stocks have pulled back considerably and many are now trading below market multiples. The fund has slight overweight exposure to retail, another sector that has underperformed due primarily to investor concerns over the dominance of online retailers like Amazon. We believe stocks of traditional retailers may have been punished too harshly, and we have maintained positions in retail stocks that we find to be compellingly inexpensive.

Looking at overall market conditions, including growing concerns over a potential trade war, I am surprised equities have held up as well as they have this year. We are prepared for more disruption in the equity markets and will take advantage of the opportunities that it might present to find more attractively valued stocks.

Putnam Multi-Cap Core Fund (PMYYX)

Annualized total return performance as of 6/30/18

Class Y shares Inception 9/24/10	**Net asset value**	**Russell 3000 Index**
Last quarter	2.21%	3.89%
1 year	15.98	14.78
3 years	10.59	11.58
5 years	13.96	13.29
Life of fund	15.75	14.09

Total expense ratio: 0.78%

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

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

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