Putnam INVESTMENTS

Q2 2020 | Putnam Multi-Cap Core Fund Q&A

Research and a long-term perspective remain vital

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Industry since 1982

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Industry since 1984
(Photo not available)

The fund delivered a solid return for the quarter but underperformed its benchmark index.

We were focused on stocks that we believe offer attractive valuations and the potential for strong earnings in a recovering economy.

We continue to believe cheaper stocks are poised for meaningful appreciation, and our portfolio has overweight exposure to banking, energy, and airline stocks, all of which are deeply depressed.

How did equity markets and the fund fare in the second quarter?

Although markets remained volatile, the second quarter brought a strong rebound for U.S. stocks, with the S&P 500 Index posting its best quarterly return in over 20 years. After posting double-digit losses in March, equities experienced a historic turnaround in April, when indexes recorded double-digit gains. During much of the quarter, improving economic data and investor sentiment about the reopening of the economy drove stocks higher. The Federal Reserve held interest rates steady and vowed to act appropriately to support the economy, introducing several programs to support liquidity and stability in funding markets. However, worries persisted about the COVID-19 pandemic, and equity returns were modest in June as coronavirus cases began to surge again. The fund posted a solid return for the quarter but underperformed its Russell 3000 Index benchmark.

How was the fund positioned in the quarter?

We were focused on stocks that we believe offer attractive valuations and the potential for strong earnings in a recovering economy. During the quarter, investors continued to be attracted to the market's fastest and most consistent top-line growers, without much regard for their high and expanding valuations.

You have observed that the market is set up for a massive rotation. Could you explain your perspective?

In today's market, we are seeing significant valuation disparities. The gap between the market's most expensive and least expensive stocks is very wide. Historically, this type of disparity has not held for very long, and we believe this current gap is unsustainable. Many times throughout history, once the market shifted from such wide disparities, the cheapest quintile of stocks outperformed the most expensive quintile over the following 12 months.

We are positioning the portfolio to exploit this anomaly. The fund is generally cheaper than its peers and the Russell 3000 Index on many standard valuation metrics, such as price to earnings, price to book, and price to sales. This strategy began to pay off late last year, but it was upended by the onslaught of the COVID-19 pandemic. We continue to believe cheaper stocks are poised for meaningful appreciation, and our portfolio has overweight exposure to banking, energy, and airline stocks, all of which are deeply depressed.

What is your outlook as we enter the second half of 2020?

There is still much uncertainty about when economic growth will recover, but it is clearly dependent on getting the coronavirus under control. The most encouraging event would be the development and approval of an effective vaccine for COVID-19.

We believe the broad equity market could experience significant declines over the next 12 months. However, in our research, we are looking ahead a year from now and beyond, and assessing each company's earnings power to determine which businesses offer the strongest long-term growth prospects. We believe many holdings in our portfolio have the financial strength to weather this disruption.

Putnam Multi-Cap Core Fund (PMYYX)

Annualized total return performance as of 6/30/20

Class Y shares Inception 9/24/10	**Net asset value**	**Russell 3000 Index**
Last quarter	21.41%	22.03%
1 year	6.18	6.53
3 years	9.34	10.04
5 years	8.80	10.03
Life of fund	13.72	12.76

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.

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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 June 30, 2020. 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. 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. 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.

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