

Q1 2019 | Putnam Multi-Cap Core Fund Q&A

Targeting both laggards and winners for growth potential



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(Photo not available)

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We believe many large-cap growth companies have room to grow further, despite signs of a global economic slowdown.

We hold a number of cyclical stocks that are a bit depressed, but have the potential to rebound meaningfully.

How did equity markets and the fund perform in the first quarter?

It was a surprisingly strong period for the equity market, which bounced back meaningfully from a very difficult end to 2018. U.S. equities, as measured by the S&P 500 Index, completely recouped their losses — from their decline of 13.52% in Q418 to a gain of 13.65% in the 2019 first quarter.

For the period, U.S. equities of all sizes and styles fared well, but the top performers among all markets globally were U.S. large-cap growth stocks. The fund benefited from the rebound, delivering a solid absolute return, but it underperformed its benchmark, the Russell 3000 Index.

What were some strengths and weaknesses in the portfolio?

One notable area of weakness was biotechnology, where a failed late-stage drug trial by one company hurt the performance of stocks across the industry. Declines in biotech companies in the portfolio, where we had overweight positions, dampened relative performance. A number of overweight positions in the retail sector were also detractors. Pharmacy retailers, in particular, were weakened by ongoing drug pricing pressure and competition from drug delivery services. Contributors to performance came from select holdings across a range of industries and sectors, including health care and technology.

How are you positioning the portfolio in the current environment?

We are pursuing a barbell-type strategy for the portfolio. It includes large-cap growth stocks that have delivered strong returns but still offer upside potential, in our view. We believe these companies, many of which are in the technology sector, have room to grow further despite signs of a global economic slowdown.

At the same time, within the portfolio we hold a number of cyclical stocks that are a bit depressed, but have the potential to rebound meaningfully, in our view. These include holdings in areas such as financials, energy, and housing. Financials, particularly bank stocks, have felt the pain of the flattening yield curve, but we believe that the flattening has peaked. Improvement will be more likely if we see progress on Brexit and a global trade resolution, along with an accommodative Federal Reserve. In our view, the bank stocks we own are very inexpensive relative to their earnings growth potential. We believe they offer solid balance sheets, strong credit, moderate loan growth, and decent expense controls.

We have a favorable outlook for the energy sector, which has been an underperformer recently. The stocks are attractively valued, oil prices have surged this year, supply is tightening, and OPEC is likely to continue cutting production. Another catalyst that may further tighten supply is IMO 2020 — a ruling by the International Maritime Organization that will ban ships from carrying high-sulfur fuel starting in 2020.

Putnam Multi-Cap Core Fund (PMYXX)

Annualized total return performance as of 3/31/19

Class Y shares Inception 9/24/10	Net asset value	Russell 3000 Index
Last quarter	11.96%	14.04%
1 year	3.87	8.77
3 years	13.78	13.48
5 years	9.27	10.36
Life of fund	14.48	13.38

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 March 31, 2019. 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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