

Q1 2018 | Putnam Multi-Cap Core Fund Q&A

Searching for value in underappreciated sectors



Gerard P. Sullivan
Portfolio Manager
Industry since 1982

The fund performed in line with the broader market and its benchmark index for the quarter.

We believe the energy sector offers great potential, where companies have demonstrated their ability to allocate capital more efficiently.

We are adding to positions in areas that were weak in the first quarter, including financials and consumer staples.

It was a volatile first quarter for the equity market. How did the fund fare?

The fund performed in line with the broader market and its benchmark index for the quarter, posting a slight decline. The portfolio had a cyclical focus, and these areas of the market struggled most during the quarter. In particular, the fund's energy stocks were weak, as this was among the worst performing S&P sectors for the first three months of 2018.

In looking at returns to date, we are pleased with the fund's performance over longer time periods, particularly its outperformance versus the benchmark for one- and five-year periods. Our investment ideas often require patience as we wait for the market to recognize their potential. Also, we often avoid stocks that we believe are too expensive, maintaining underweight positions even if they are delivering strong short-term outperformance.

What areas of the market are you avoiding, and which do you like?

We continue to maintain underweight exposure to the so-called FANG stocks — those large-cap technology stocks that soared throughout 2017 and have continued to do well into 2018. I maintain my conviction that these stocks are too expensive and are vulnerable to a sharp pullback. Information technology was the top-performing sector for the quarter, and we continued to focus on smaller companies where we can leverage compelling

growth trends in technology without paying up for the stretched multiples that we are seeing in the large-cap growth space.

We continue to believe that the energy sector offers great potential. Investors have neglected this group, but 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 are living within their cash flows. These stocks look attractively valued to us, and I believe our current preference for energy stocks is a differentiator for the fund.

We are interested in some other areas that were weak in the first quarter, including financials, which we believe are attractively priced and poised to benefit from a still-improving economy. Also, we have been adding some positions in the consumer staples sector, which is the second-worst performing sector to date in 2018.

What is your perspective on the recent market correction and volatility?

The sharp declines were not a surprise to many investors, and we had been mentioning them as a possibility for quite some time. For several quarters, I have been prepared for a correction, and the opportunity it offers to search for new bargains. Interestingly, this recent downturn was disappointing in that respect. Because it was a very uniform pullback — stocks across all sectors declined — no particular sector stood out as compelling. We continue to conduct in-depth research, searching for anomalies and mispricings, staying focused, and making sure we are comfortable with how the portfolio is positioned, even during periods of market turbulence.

Putnam Multi-Cap Core Fund (PMYXX)

Annualized total return performance as of 3/31/18

Class Y shares Inception 9/24/10	Net asset value	Russell 3000 Index
Last quarter	-0.74%	-0.64%
1 year	16.53	13.81
3 years	10.11	10.22
5 years	14.42	13.03
Life of fund	15.97	14.01

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.

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.

The Russell 3000 Index is an unmanaged index of the 3,000 largest U.S. companies. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. You cannot invest directly in an index.

The views and opinions expressed are those of Gerard P. Sullivan, Portfolio Manager, as of March 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.

This material is for informational and educational purposes only. It is not a recommendation of any specific investment product, strategy, or decision, and is not intended to suggest taking or refraining from any course of action. It is not intended to address the needs, circumstances, and objectives of any specific investor. Putnam, which earns fees when clients select its products and services, is not offering impartial advice in a fiduciary capacity in providing this sales and marketing material. This information is not meant as tax or legal advice. Investors should consult a professional advisor before making investment and financial decisions and for more information on tax rules and other laws, which are complex and subject to change.

A world of investing.®



Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.