Q4 2017 | Putnam Investors Fund and Putnam Multi-Cap Core Fund Q&A

Despite 2017 rally, equities still may offer upside potential

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(Photo not available)

Prompted in part by tax reform, business leaders should be more willing to put money to work in the form of capital expenditures.

I believe my focus on corporate governance is one reason Putnam Multi-Cap Core Fund ranks high on the* Barron's *list of sustainable portfolios.

A market pullback could be met with more buying as investors take advantage of price declines in an economy that remains fundamentally strong.

Tax reform was an important development at the close of the quarter. What are your thoughts about its potential impact?

I believe tax reform will have a positive impact on businesses, economic growth, and the equity market. The Tax Cuts and Jobs Act will bring more cash for companies to increase their dividends or buy back shares, but the benefits extend beyond that, in my view. Partly as a result of the Trump administration's pro-business stance, corporate leaders have gained confidence over the past year, and they should be more willing to put this money to work in the form of capital expenditures for the future growth of their businesses.

Tax reform should also help the economy, and even a small boost in economic growth could be meaningful enough to move corporate earnings. Tax reform could be especially helpful to certain sectors, such as retail, as tax breaks for consumers encourage more discretionary spending. Although some of this has already been priced into retail stocks, I believe the sector remains attractively valued.

Both funds outperformed their benchmarks for the fourth quarter and the full year. What contributed to their strength?

One strategy that helped was avoiding the so-called bond proxies. These are stocks that tend to be viewed as safe and predictable — offering bond-like qualities but with higher returns. These companies typically have stable earnings, but they are not fast-growing businesses. In

2017, I found these stocks to be too expensive and looked for opportunities elsewhere, which was helpful as they underperformed.

The powerful rally in technology stocks was also helpful for fund performance, although I stayed away from many of the top performers in the sector. I looked for companies that I believed could leverage compelling growth trends in technology without the stretched multiples that we saw in the large-cap growth space.

I continued to focus on stocks that appeared inexpensive, especially in cyclical sectors that are levered to an improving economy. For example, I stuck with financials even as they struggled somewhat in 2017. My view on financials remains constructive. The stocks are not too expensive, and banks in particular are poised to benefit from deregulation, tax reform, and rising interest rates.

Putnam Multi-Cap Core Fund ranked number four on a list of "most sustainable" portfolios published by *Barron's.* Can you tell us more about this?

It was based on a study of 203 U.S. large-company actively managed funds and, as *Barron's* noted, the fund does not have a sustainable mandate, but the portfolio made the list as a result of our stock selections. I believe one reason it ranks high on the list is my focus on corporate governance. I have always looked for company managements whose interests are aligned with those of their shareholders. One way to measure this is to study insider buying, which is a key component of my research strategy.

After such a strong year for equities, how are you feeling about the market going into 2018?

Equity investors probably have fewer opportunities than they did at this time last year, but I continue to feel optimistic about conditions overall. Of course, after such a strong run, the market may be due for a pullback. But a correction of 5% or 10% would likely be met with more buying as investors take advantage of price declines in an economy that remains fundamentally strong, in my view. I would take it as an opportunity to search for some new bargains.

Valuations have expanded considerably in the past year, but the market seems to be ahead of earnings in many cases. I believe earnings still have room to grow — particularly in cyclical sectors. At the same time, I am watching these elevated valuation levels to make sure I am not putting too much emphasis on stocks that may be overvalued.

Putnam Investors Fund (PNVYX)

Annualized total return performance as of 12/31/17

Class Y shares Inception 1/7/97	**Net asset value**	**S&P 500 Index**
Last quarter	7.54%	6.64%
1 year	23.16	21.83
3 years	10.58	11.41
5 years	15.86	15.79
10 years	8.19	8.50
Life of fund	9.41	—*

Total expense ratio: 0.79%

Putnam Multi-Cap Core Fund (PMYYX)

Annualized total return performance as of 12/31/17

Class Y shares Inception 9/24/10	**Net asset value**	**Russell 3000 Index**
Last quarter	7.19%	6.34%
1 year	24.01	21.13
3 years	11.01	11.12
5 years	17.20	15.58
Life of fund	16.68	14.63

Total expense ratio: 0.78%

* Putnam Investors Fund predates the S&P 500 Index by more than 25 years.

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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