Q2 2017 | Putnam Dynamic Asset Allocation Funds Q&A

Markets maintain stability late in cycle

James A. Fetch
Co-Head, GAA
Industry since 1994

Robert J. Kea, CFA
Co-Head, GAA
Industry since 1988

Robert J. Schoen
CIO, GAA
Industry since 1990

Jason R. Vaillancourt, CFA
Co-Head, GAA
Industry since 1993

Equity markets are buoyed by strong earnings.

Falling oil prices have contributed to lower inflation.

The Fed continues to move cautiously toward rate normalization.

What characterized the global investment environment during the quarter ended June 30, 2017?

Equity markets proved resilient both in the United States and globally, though less robust than in previous months, as investors responded to mostly positive economic data by continuing to favor riskier assets. Geo-political concerns subsided somewhat as moderate candidates won elections in France and the Netherlands, and trade policies in the United States remained largely unchanged several months into the Trump presidency. Strong corporate earnings in the United States over the first two quarters also supported equity prices. The U.S. dollar continued to weaken further, returning to the range it traded in before its late 2016 rally. Oil prices also trended lower, falling 20% since February highs, but not enough to negatively affect non-energy sectors.

For the three months ended June 30, 2017, the Dow Jones Industrial Average and the S&P 500 indexes were both up, returning 3.95% and 3.09%, respectively. The MSCI EAFE Index [ND], a benchmark for developed-market stock performance outside the United States and Canada, ended the period up 6.12%. Emerging-market stocks were also similarly positive for the quarter as reflected in the MSCI Emerging Markets Index [ND] return of 6.27%.

How did bond markets perform during the quarter?

As mostly expected, the Federal Open Market Committee (FOMC) raised its short-term interest rate on June 14 by one-quarter point, the third increase since December. Short-term rates continued to increase during the quarter, but maturities over three years adjusted lower. This flattening of the yield curve is typical during a tightening cycle by the Fed. The Bloomberg Barclays U.S. Aggregate Bond Index rose 1.45% during the quarter, reflecting mixed returns across maturities. The index is a proxy for investment-grade bonds, and is sensitive to changes in interest rates as it contains a broad range of government and corporate debt securities issued in the United States.

In credit-sensitive fixed income, as defined by the performance of high-yield bonds, prices ticked higher, with the JPMorgan Developed High Yield Index returning 2.21% for the quarter.

How did Putnam Dynamic Asset Allocation Funds perform during the second quarter of 2017?

Each of the three Dynamic Asset Allocation Funds performed as we would expect given the relative outperformance of risk assets during the quarter. As might be expected, the Growth Fund had the strongest absolute return at 3.31%. The Conservative Fund's more fixed-income-centric construction produced a lower absolute return of 2.16% while the Balanced Fund's return of 2.69% represented stronger performance within equities and lower relative performance in rate-sensitive fixed-income.

What were the principal factors affecting the funds' performance results?

During the quarter, asset allocations were kept close to benchmark weights, resulting in little contribution, positive or negative, from dynamic asset allocation. All three strategies did add value through active implementation and security selection. Within the fixed-income selection, we maintained allocations to sectors that are less sensitive to interest-rate risk, including a strategy focused on structured credit — primarily mortgages — that performed well. The strategies also benefited from security selection strength in international developed equity markets. U.S. large-cap equity selection was one area of weakness, though not enough to offset positive performance elsewhere in each portfolio. Specific to the Growth fund, selection within emerging-market equities was also a notable strength.

What is your investment outlook for the third quarter of 2017?

President Trump and his cabinet, as well as members of Congress, have spoken a great deal about various policy proposals for regulatory and income tax reform, as well as the potential for increased infrastructure spending. Attempts have also been made to repeal and replace the Affordable Care Act. Thus far, however, none of these programs has been approved and implemented.

The declining U.S. unemployment rate suggests wage pressures could start to build as businesses compete for fewer workers, though wage increases so far have been modest. It also means, in our view, that the Fed, after raising rates in June, is likely to do so again before the end of the year.

Globally, we think more central banks may begin to seriously consider raising interest rates. For example, in light of recent upside surprises in growth and inflation data, we think the European Central Bank may soon be in a position to begin gradually reducing its highly accommodative policy.

As always, there is potential for a correction in equity markets. To date, investors have been patient with the lack of progress on the stimulus agenda in Washington. Our current belief is that the pro-growth agenda items have not been permanently impaired. With heightened political uncertainty in mind, we will keep a close eye on our asset allocations and could take advantage of tactical opportunities as they present themselves. After a strong period of U.S. stock returns, markets outside the United States may provide relative opportunity. Finally, even with nominal yields still well below normal, our allocations to fixed income within the portfolios will be key to helping to provide diversification and stable returns.

Putnam Dynamic Asset Allocation Balanced Fund (PABYX)

Annualized total return performance as of 6/30/17

Class Y shares Inception 7/5/94	**Net asset value**	**Russell 3000 Index**	**Putnam Balanced Blended Benchmark**
Last quarter	2.69%	3.02%	2.73%
1 year	12.63	18.51	11.58
3 years	5.89	9.10	5.88
5 years	9.98	14.58	9.31
10 years	5.68	7.26	6.03
Life of fund	7.35	9.40	—

Total expense ratio: 0.75%

Class A share inception: 2/7/94

Putnam Dynamic Asset Allocation Conservative Fund (PACYX)

Annualized total return performance as of 6/30/17

Class Y shares Inception 7/14/94	**Net asset value**	**Bloomberg Barclays U.S. Aggregate Bond Index**	**Putnam Conservative Blended Benchmark**
Last quarter	2.16%	1.45%	2.11%
1 year	6.88	-0.31	5.84
3 years	4.30	2.48	4.28
5 years	6.77	2.21	5.88
10 years	5.12	4.48	5.47
Life of fund	6.17	5.37	—

Total expense ratio: 0.79%

Class A share inception: 2/7/94

Putnam Dynamic Asset Allocation Growth Fund (PAGYX)

Annualized total return performance as of 6/30/17

Class Y shares Inception 7/14/94	**Net asset value**	**Russell 3000 Index**	**Putnam Growth Blended Benchmark**
Last quarter	3.31%	3.02%	3.37%
1 year	16.73	18.51	15.86
3 years	6.43	9.10	6.41
5 years	11.78	14.58	11.01
10 years	5.56	7.26	5.95
Life of fund	8.03	9.39	—

Total expense ratio: 0.86%

Class A share inception: 2/8/94

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. Class Y shares, available to investors through an asset-based fee program or for institutional clients, are sold without an initial sales charge and have no CDSC. For the most recent month-end performance, please visit putnam.com.

The funds' benchmarks are administered by Putnam Investments and have the following compositions: For Putnam Balanced Blended Benchmark, 50% Russell 3000 Index, 35% Bloomberg Barclays U.S. Aggregate Bond Index, 10% MSCI EAFE Index (ND), and 5% JPMorgan Developed High Yield Index; for Putnam Conservative Blended Benchmark, 65% Bloomberg Barclays U.S. Aggregate Bond Index, 25% Russell 3000 Index, 5% JPMorgan Developed High Yield Index, and 5% MSCI EAFE Index (ND); and for Putnam Growth Blended Benchmark, 60% Russell 3000 Index, 15% MSCI EAFE Index (ND), 15% Bloomberg Barclays U.S. Aggregate Bond Index, 5% JPMorgan Developed High Yield Index, and 5% MSCI Emerging Markets Index (GD). The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities. The JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed-income securities issued in developed countries. The MSCI EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. The MSCI Emerging Markets Index (GD) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell 3000 Index is an unmanaged index of the 3,000 largest U.S. companies. Securities in the funds do not match those in the indexes, and performance of the funds will differ. It is not possible to invest directly in an index.

The views and opinions expressed are those of the portfolio managers as of June 30, 2017, are subject to change with market conditions, and are not meant as investment advice.

Consider these risks before investing: Allocation of assets among asset classes may hurt performance. Stock and bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, factors related to a specific issuer or industry, and, with respect to bond prices, changing market perceptions of the risk of default and changes in government intervention. These factors may also lead to increased volatility and reduced liquidity in the bond markets. International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. 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. Funds that invest in government securities are not guaranteed. Mortgage-backed investments, unlike traditional debt investments, are also subject to prepayment risk, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Default risk is generally higher for non-qualified mortgages. Interest-rate risk is greater for longer-term bonds, and credit risk is greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. The use of derivatives may increase these risks by increasing investment exposure (which may be considered leverage) or, in the case of over-the-counter instruments, because of the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. You can lose money by investing in the funds.

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.®

Putnam INVESTMENTS

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.

Putnam Retail Management

Putnam Investments | One Post Office Square | Boston, MA 02109 | putnam.com

TL059 307038 7/17