

Q3 2019 | Putnam Sustainable Leaders Fund Q&A

How we engage to advance the field of sustainable investing



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How were market conditions and fund performance in the third quarter?

U.S. stocks delivered modest gains for the quarter. All areas of the U.S. equity market were volatile as the continuing U.S.–China trade conflict, geopolitical concerns, and mounting fears over slowing global economic growth pressured stocks. For the quarter, Putnam Sustainable Leaders Fund posted a slight decline and underperformed its benchmark. The underperformance was due mainly to security selection in selected health-care and technology companies.

In September, the United Nations and the City of New York hosted Climate Week to showcase climate action and address climate change. What is your perspective on the event?

While addressing several important topics, the gathering in New York focused on the pledges that companies and organizations have made to climate improvement. Some observers naturally wonder whether these pledges represent real commitments to action.

As researchers, it is important for us to examine both the “what” and the “how” of corporate climate pledges. Which companies are helping to create new collaborations or to accelerate solutions? Which are taking less ambitious action? Where do we see alignment between climate action and benefits to certain businesses, and where do we see risk?

In some cases, businesses will need meaningful help from their own suppliers or service providers. In fact, some suppliers are already able to offer both effective solutions and effective measurement and monitoring of progress.

It is a knitting together of action that goes beyond any one organization's boundaries. We believe this has the potential to create terrific opportunities, both for environmental progress and for financial return.

Putnam is a signatory to the United Nations Principles for Responsible Investing (UN PRI). Could you tell us more about this?

The PRI works to understand the investment implications of environmental, social, and governance [ESG] factors and to support its international network of investor signatories as they incorporate these factors into their investment and ownership decisions. Putnam has been a signatory to the UN PRI since 2011. This means we are committed to thoughtfully and appropriately integrating ESG issues into investment analysis, decision-making, policies, and practices across the firm. Underlying our broad PRI commitment is our investment research process, which focuses on understanding how ESG issues may influence performance and/or mitigate risk for both corporate issuers and investment portfolios.

What are some other examples of ESG progress from the business community?

In 2019, there has been a healthy wave of initial public offerings in the market, and we have noticed a strong theme of ESG integration with many of these companies. In some cases, their core business propositions include improving efficiency of customer operations, increasing recycling and re-use of goods and materials, or improving the well-being of individuals. Even when the core business is not sustainability-centric, many companies have embedded environmental, social, and governance priorities at their core from the start. This marks a significant shift, in terms of tone and substance, for IPOs in a wide variety of businesses.

Could you describe the strategy for Putnam Sustainable Leaders Fund?

With this fund, we seek companies with excellent environmental, social, and/or governance [ESG] practices in areas that are relevant and material to their businesses. Companies in the portfolio are believed to offer durable financial performance with potentially lower risk profiles. We look for performance that demonstrates true leadership — not just compliance — in areas such as clean and efficient materials use, reductions in carbon or water intensity, improvements in workplace equality and diversity, and alignment of management incentives with the company's sustainability objectives. We aim for a combination of three key elements: strong fundamental prospects, reasonable valuation, and sustainability leadership.

Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 9/30/19

Class Y shares Inception 7/19/94	Net asset value	S&P 500 Index	Russell 3000 Growth – S&P 500 Linked Benchmark
Last quarter	-0.37%	1.70%	2.43%
1 year	7.41	4.25	4.05
3 years	17.31	13.39	16.87
5 years	12.64	10.84	13.37
10 years	14.39	13.24	14.89
Life of fund	11.94	10.22	10.04

Total expense ratio: 0.74%

Returns for periods of less than one year are not annualized.

The S&P 500 Index is an unmanaged index of common stock performance.

The Russell 3000 Growth - S&P 500 Linked Benchmark represents performance of the Russell 3000 Growth Index through July 31, 2019, and performance of the S&P 500 Index thereafter. You cannot invest directly in an index.

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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 of class Y shares 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. Performance for class Y shares before their inception are derived from the historical performance of class A shares (inception 8/31/90), which have not been adjusted for the lower expenses; had they, returns would have been higher. For the most recent month-end performance, please visit putnam.com.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of September 30, 2019. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: 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. Growth stocks may be more susceptible to earnings disappointments, and the market may not favor growth-style investing. Investments in small and/or midsize companies increase the risk of greater price fluctuations. International investing

involves currency, economic, and political risks. Emerging-market securities have illiquidity and volatility risks. The fund's investment strategy of investing in companies that exhibit a commitment to sustainable business practices may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds that do not invest with a sustainable focus. From time to time, the fund may invest a significant portion of its assets in companies in one or more related industries or sectors, which would make the fund more vulnerable to adverse developments affecting those industries or sectors. In evaluating an investment opportunity, we may make investment decisions based on information and data that is incomplete or inaccurate. Due to changes in the products or services of the companies in which the fund invests, the fund may temporarily hold securities that are inconsistent with its sustainable investment criteria. You can lose money by investing in the fund.

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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.