Q2 2019 | Putnam Multi-Asset Absolute Return Fund Q&A

Fund gains as interest rates fall and equities climb

Robert J. Schoen
CIO, Global Asset Allocation
Industry since 1990

James A. Fetch
Co-Head of Global Asset Allocation
Industry since 1994

Jason R. Vaillancourt, CFA
Co-Head of Global Asset Allocation
Industry since 1993

Brett S. Goldstein, CFA
Portfolio Manager
Industry since 2010

For the first half of 2019, U.S. stocks posted their best performance in 22 years.

Directional strategies fueled the fund's performance, with exposure to interest-rate, equity, and credit risks adding value.

During the quarter, we decreased the fund's exposure to equity, credit, and interest-rate risks.

What was the fund's investment environment like during the second quarter of 2019?

Despite a sell-off in May, U.S. stocks posted solid gains in the second quarter, fueled by a shift in policy direction by the U.S. Federal Reserve.

Markets began the quarter with a strong April. First-quarter corporate earnings topped beaten-down expectations and investors embraced the belief that the U.S and China were close to reaching a trade agreement. That optimism vanished in May, however, after President Trump said he would dramatically ramp up U.S. tariffs on Chinese imports as talks stalled. In early June, Fed Chair Jerome Powell addressed the fears of how the continuing trade dispute could hurt the economy, saying the central bank could respond by cutting interest rates if the economic outlook deteriorated. Investors cheered the news, and U.S. stocks rallied back toward record levels. Stocks received a further boost at the end of June when President Trump and his Chinese counterpart, Xi Jinping, agreed to resume formal trade talks following a meeting at the G-20 summit in Japan.

Against this backdrop, the S&P 500 Index rose 4.3% in the quarter, pushing its year-to-date advance to 18.5%, its best first half since 1997. This recovery followed a sharp market correction in the fourth quarter of 2018. Gains were powered mostly by cyclical sectors, such as information technology and consumer discretionary, which comprise stocks of companies that tend to do well when economic growth is strong.

In the second quarter, U.S. equities outperformed international stocks in both developed and emerging markets in U.S.-dollar terms, although foreign developed-market shares notched solid gains. Large- and mid-cap stocks topped small caps, and growth stocks continued to outpace value stocks.

U.S. investment-grade credit and global government debt led the way in fixed-income markets amid declining interest rates. U.S. government-bond yields fell for a third consecutive quarter, reflecting investor concerns about slowing growth and global trade tensions. The yield on the benchmark 10-year U.S. Treasury note — which falls when bond prices rise — declined by 0.49 percentage point during the quarter, finishing at 2%. The 10-year yield has declined by more than a full percentage point during the past three quarters, its biggest drop over such a period since 2011. Meanwhile, global government bonds responded favorably to the more accommodative posture evident across various central banks.

Oil prices declined for most of the quarter before bouncing back during the second half of June. Expectations that the Organization of Petroleum Exporting Countries [OPEC] was likely to extend its output cuts into next year helped U.S. crude finish the quarter above $58 per barrel.

Before we discuss performance, would you summarize the fund's overall investment objective and strategy?

Putnam Multi-Asset Absolute Return Fund seeks a positive return exceeding the return of Treasury bills over a reasonable period of time, regardless of market conditions. The fund seeks to achieve risk-and-return characteristics by dynamically allocating assets using a combination of directional [or market sensitive] and non-directional [or market neutral] strategies. In addition, both the composition and total level of risk can be dynamically managed depending on market conditions and the prevailing opportunity set. The fund also employs strategies that may produce lower volatility over time.

How did the fund perform, and what factors had the biggest influence on performance?

Putnam Multi-Asset Absolute Return Fund had a solid second quarter, following an outstanding first quarter, when the fund posted one of the strongest quarterly returns in its history.

Our directional strategies drove the fund's results, with exposure to interest-rate, equity, and credit risk adding value. Long exposure to interest-rate risk was the biggest contributor, as rates moved meaningfully lower [and prices higher] during the quarter. Long exposure to equity and credit risk also helped.

Our non-directional strategies also aided the fund's performance. Alternative-beta strategies, which worked against our non-directional strategies last quarter, were the biggest contributors in the second quarter. A strategy that is designed to capitalize on trends across a range of asset classes drove our alternative-beta performance. Two additional strategies — fixed-income selection alpha and regional fixed-income long/short — provided a further boost to our non-directional performance.

Our equity-selection alpha strategies, which are market-neutral trades designed to perform independently of global stock markets, slightly detracted, hampered by a few equity long/short strategy that underperformed. Weakness here was not enough to offset the contribution from our non-directional strategies.

How is the fund positioned as of June 30?

During 2018's fourth quarter, we sought to capitalize on market weakness by increasing the fund's exposure to stocks and commodities, moving to overweight allocations in both asset classes. Given the robust rally in equities during the first half of 2019, we decreased the fund's allocation to neutral. We believe equity-market momentum is weakening, and we think valuation metrics are likely to worsen. Also, we remain wary of a short-term reversion to the mean, given the substantial rally that has occurred this year.

The fund also had a neutral position in commodities. Our stance here is based on the absence of strong qualitative or quantitative signals after the rally in oil prices at the beginning of 2019.

In fixed income, we reduced the fund's exposure to credit risk to a slight underweight. As of June 30, spreads were close to their tightest levels of the current market cycle. Moreover, our quantitative model had become more bearish. From a risk-management perspective, we are also aware that uncertainty surrounding U.S.–China trade negotations could lead to periods of volatility and wider spreads.

We extended the fund's underweight exposure to interest-rate risk. We think bond yields may drift higher during 2019, as interest rates continue to move toward levels that are historically more normal at this late stage of the economic cycle. We also think interest rates are unattractive due to the low yield carry resulting from the flat shape of the yield curve.

Given our muted outlook for directional risks, as of quarter-end, the fund's overall portfolio risk is tilted toward non-directional strategies. Our equity-selection alpha strategies account for the greatest portion of non-directional risk.

Putnam Multi-Asset Absolute Return Fund (PDMYX)

Annualized total return performance as of 6/30/19

Class Y shares *Inception 12/23/08*	**Net asset value**	**ICE BofAML U.S. Treasury Bill Index**
Last quarter	2.40%	0.67%
1 year	0.96	2.39
3 years	3.29	1.38
5 years	2.40	0.89
10 years	4.28	0.52
Life of fund	4.54	0.51

Total expense ratio: 0.79%
What you pay: 0.76%

"What you pay" reflects Putnam Management's decision to contractually limit expenses through 2/28/20.

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, the 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 ICE BofAML U.S. Treasury Bill Index is an unmanaged index that tracks the performance of U.S. dollar-denomi¬nated U.S. Treasury bills publicly issued in the U.S. domestic market. Qualifying securities must have a remaining term of at least one month to final maturity and a minimum amount outstanding of $1 billion. You cannot invest directly in an index. The index data referenced herein is the property of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofAML") and/or its licensors and has been licensed for use by Putnam Investments. BofAML and its licensors accept no liability in connection with its use. See prospectus for a full copy of the Disclaimer.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of June 30, 2019, are subject to change with market conditions, and are not meant as investment advice. All performance and economic information is historical and is not indicative of future results.

The fund is not intended to outperform stocks and bonds during strong market rallies.

Consider these risks before investing: Allocation of assets among asset classes may hurt performance. 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, asset class, 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 value stocks may fail to rebound. 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). Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are 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. The fund may have to invest the proceeds from prepaid investments, including mortgage- and asset-backed investments, in other investments with less attractive terms and yields. International investing involves currency, economic, and political risks. Emerging-market securities have illiquidity and volatility risks. Our alpha strategy may lose money or not earn a return sufficient to cover associated trading and other costs. Our use of leverage obtained through derivatives increases these risks by increasing investment exposure. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. The fund's efforts to produce lower-volatility returns may not be successful. The fund may not achieve its goal, and it is not intended to be a complete investment program. You can lose money by investing in the fund. The fund's prospectus lists additional risks.

The fund is not intended to outperform stocks and bonds during strong market rallies.

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 | 100 Federal Street | Boston, MA 02110 | putnam.com

TL104 317783 7/19