Q1 2019 | Putnam Multi-Asset Absolute Return Fund Q&A

Fund posts one of its strongest-ever quarterly gains as risk assets recover

Robert J. Schoen
CIO, GAA
Industry since 1990

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

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

Brett S. Goldstein, CFA
Portfolio Manager, GAA
Industry since 2010

The Federal Reserve signaled a more flexible policy approach, sparking renewed demand for risk.

Directional strategies fueled the fund's performance, with exposure to all four directional risks adding value.

We have a favorable outlook for stocks and credit-sensitive fixed income, but trimmed the fund's equity exposure following the strong first-quarter rally.

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

In the wake of a pronounced downturn in 2018's fourth quarter, markets rebounded strongly in the first quarter, as investors re-embraced risk. Sentiment improved following comments from Federal Reserve Chair Jerome Powell that mild inflation would give the central bank greater flexibility to set policy in 2019. Market participants also welcomed Powell's announcement that the Fed was not on a "pre-set" path to push its benchmark rate higher, after hiking rates every quarter in 2018. Progress in U.S.-China trade talks, better-than-expected corporate earnings, and a rebound in oil prices were additional factors fueling the recovery.

Despite concerns that the Fed's pivot may indicate weakening growth, the overall effect of the policy shift was positive for both U.S. and international stocks. A low-interest-rate environment makes equity valuations more reasonable.

Against this backdrop, the S&P 500 Index advanced 13.7%, registering its best quarterly result since 2009, led by gains in information technology and energy stocks. U.S. equities outperformed international stocks in both developed and emerging markets in U.S.-dollar terms, although foreign shares notched solid gains. Mid-cap stocks topped their large- and small-cap counterparts, and growth stocks continued to outpace value stocks.

U.S. high-yield bonds led the way in fixed-income markets, closely followed by emerging-market debt. Both asset classes, as well as investment-grade credit, handily outperformed U.S. and foreign government bonds. This was a notable reversal from the risk aversion that drove investors to the perceived safety of Treasuries and other government securities during 2018's fourth quarter.

U.S. oil prices rose by 32% to $60 per barrel — their biggest quarterly gain since 2009 — fueling a 15% gain in the S&P GSCI.

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 posted one of the strongest quarterly returns in its history. January 2019 was the fund's best-ever single month, and performance in March was also notably positive.

Our directional strategies drove the fund's results, with exposure to all four directional risks adding value to start the year. Long exposures to equity risk and to inflation risk via commodities were the biggest contributors. Exposure to rate-sensitive fixed income also helped, as 10-year U.S. Treasury yields declined and prices rose during the quarter. Directional credit risk also modestly contributed.

Non-directional strategies slightly detracted this quarter. Our equity mean-reversion strategy, which seeks to capitalize on short-term fluctuations in the S&P 500, was caught on the wrong side of a few trades.

In aggregate, our equity-selection alpha strategies — which are market-neutral trades designed to perform independently of global stock markets — had a neutral impact on performance. Positive results from our quantitative international developed-market long/short strategy was offset by weakness in a similar strategy focused on the U.S. market. Our regional fixed-income long/short positions and our active currency strategies meaningfully contributed.

What is your near-term outlook, and how have you positioned the fund in light of this?

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 and oil prices in the first quarter of this year, we decreased the fund's exposure to a slight overweight in stocks and a neutral allocation in commodities. From a risk-management perspective, we also thought it was prudent to moderate the fund's positioning in these asset classes due to uncertainty about the ultimate outcome of U.S.-China trade negotiations.

In fixed income, we increased the fund's exposure to credit risk, based on strong quantitative signals, tighter but still-attractive yield spreads, and reduced new-issue supply. 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.

As of quarter-end, the fund's overall risk positioning is balanced between directional and non-directional exposures. Within directional risk, the fund is positioned to benefit if stock prices continue to rise and/or credit-sensitive fixed-income securities continue to perform well. 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 3/31/19

Class Y shares *Inception 12/23/08*	**Net asset value**	**ICE BofAML U.S. Treasury Bill Index**
Last quarter	5.03%	0.62%
1 year	–1.16	2.17
3 years	3.10	1.19
5 years	2.22	0.76
10 years	4.47	0.46
Life of fund	4.41	0.46

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

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

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

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

The S&P GSCI Index is a composite index of commodity sector returns that represents a broadly diversified, unleveraged, long-only position in commodity futures.

The ICE BofAML U.S. Treasury Bill Index is an unmanaged index that tracks the performance of U.S. dollar-denominated 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.

ICE Data Indices, LLC (ICE BofAML), used with permission. ICE BofAML permits use of the ICE BofAML indices and related data on an "as is" basis; makes no warranties regarding same; does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML indices or any data included in, related to, or derived therefrom; assumes no liability in connection with the use of the foregoing; and does not sponsor, endorse, or recommend Putnam Investments, or any of its products or services.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of March 31, 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 stocks and bonds in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general financial market conditions, changing market perceptions (including, in the case of bonds, perceptions about the risk of default and expectations about monetary policy or interest rates), changes in government intervention in the financial markets, and factors related to a specific issuer or industry. These and other factors may also 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 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. 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 and the risk that they may increase in value less when interest rates decline and decline in value more when interest rates rise. 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 and may make it more difficult at times for the fund to achieve its targeted return. Under certain market conditions, the fund may accept greater-than-typical volatility to seek its targeted return. 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.

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 316480 4/19