Q2 2020 | Putnam Multi-Asset Absolute Return Fund Q&A

Equity underperformance eclipses gains in other strategies

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Global equity markets rallied significantly in response to government and central bank stimulus measures.

Non-directional strategies detracted from performance, while directional strategies contributed.

The fund had near-neutral positioning at quarter-end as markets continued to absorb the economic impact of the COVID-19 pandemic.

What was the investment environment during the second quarter of 2020?

In sharp contrast to the first quarter, global equity markets rose quickly during the second quarter. Stimulus measures introduced by governments and central banks to help ensure the orderly functioning of financial markets and ease recessionary pressures resulting from the pandemic had a positive effect. These aggressive and historic policies eased investors' fears, sparking the rally in risk assets. With prospects for economies reopening and infection rates declining, April was an exceptionally strong month. The S&P 500 Index, a broad measure of U.S. stocks, and the MSCI World Index (ND) registered returns of 20.54% and 19.36%, respectively, for the quarter.

Rate-sensitive fixed income held up as well, as interest rates and inflation risk remained low. With investor sentiment improving, high-yield bonds saw significant gains. Commodity prices rose as economies reopened, and member nations of the Organization of the Petroleum Exporting Countries [OPEC] continued to reduce inventories. The Bloomberg Barclays U.S. Aggregate Bond Index posted a return of 2.90% for the three-month period. The yield on the benchmark 10-year Treasury note declined to 0.66% by the end of the quarter from 0.70% at the start of the period.

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. We can manage both the composition and total level of risk, 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 for the three months ended June 30, 2020?

The fund's class Y shares recorded a -1.21% decline, underperforming the cash benchmark, the ICE BofA U.S. Treasury Bill Index, which posted a return of 0.02%.

What factors had the biggest influence on performance?

Directional strategies were positive contributors in the second quarter. The fund benefited most from its exposure to commodities during the quarter. Equity market performance was positive, but active management led to a slightly negative contribution from directional equity performance overall. This result was due to the portfolio's slight underweight position in equities. Rate-sensitive fixed-income outperformed, but active management offset some of these gains. Our slight underweight position to interest-rate risk also detracted from performance results. Credit exposures were slightly additive.

Non-directional performance detracted from results in the second quarter. Equity-selection alpha strategies weighed on performance. Quantitative equity long/short strategies in emerging markets and our low-beta stock selection strategy accounted for this result. These strategies are designed to perform independently of global stock markets. Our forensic accounting strategy, which seeks to identify companies that utilize aggressive accounting practices and profit from their stock price movement, was a notable positive.

Within fixed income, our selection alpha strategy detracted from results. This was largely due to a selection strategy focused on structured mortgage credit. Our regional fixed-income strategy slightly underperformed mostly due to its underweight duration positioning. Our alternative beta strategy was a detractor, driven by underperformance in cross-asset trend strategies. Finally, our commodity alpha strategy was a notable positive within non-directional.

How was the fund positioned at the start of the third quarter?

The fund is positioned close to neutral as we enter the third quarter and global economies are slowly opening. The portfolio is currently positioned to be slightly underweight equity and interest-rate risk, neutral in terms of commodity risk, and slightly overweight credit risk. Diversification, a hallmark of our strategy, has continued to be beneficial.

What is your outlook for the global economy?

Markets rebounded in the second quarter as governments and central banks introduced historic stimulus measures to offset the effects of economic shutdowns. Credit market liquidity continues to improve. Spreads have tightened, and yields have fallen. [Credit spreads represent the difference in yield between two bonds of similar maturity but different credit quality.] The Fed continues to stand as a backstop to spread widening with the purchase of investment-grade corporates.

In equities, we remain close to neutral as the situation remains highly fluid. Markets are still working to assess the economic impact of this public health challenge. U.S. Treasuries continue to be in high demand relative to other developed government bonds. That said, economic weakness and a potential second wave of COVID-19 and ensuing economic shutdowns could cause the bellwether 10-year Treasury to test the lower bounds of the Fed's target range of 0%–0.25%.

Oil prices continue to increase in response to improved investor sentiment. OPEC has managed to re-establish cooperation among its members. However, we see downside risks until demand becomes more robust and the ongoing OPEC cuts lower inventories further.

Against this backdrop, we continue to look for signs of stabilization and any progress on the medical front to help stop the spread of COVID-19.

Putnam Multi-Asset Absolute Return Fund (PDMYX)

Annualized total return performance as of 6/30/20

Class Y shares *Inception 12/23/08*	**Net asset value**	**ICE BofA U.S. Treasury Bill Index**
Last quarter	–1.21%	0.02%
1 year	–8.15	1.71
3 years	–1.72	1.80
5 years	–0.13	1.22
10 years	2.56	0.66
Life of fund	3.37	0.61

Total expense ratio: 0.71%
What you pay: 0.68%

"What you pay" reflects Putnam Management's decision to contractually limit expenses through 2/28/21.

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 S&P 500 Index is an unmanaged index of common stock performance. The MSCI World Index (ND) is an unmanaged index of equity securities from developed countries. The Bloomberg (BBG) Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities. The ICE BofA 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.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of June 30, 2020, 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. Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. 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.

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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.

Putnam Retail Management

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