Q2 2021 | Putnam Multi-Asset Absolute Return Fund Q&A

Directional strategies help fund advance amid global recovery

Robert J. Schoen
Co-Chief Investment Officer, Global Asset Allocation
Industry since 1990

Brett S. Goldstein, CFA
Co-Chief Investment Officer, Global Asset Allocation
Industry since 2010

Adrian H. Chan, CFA
Portfolio Manager
Industry since 2003

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

Global financial markets mostly moved higher in response to economic recovery.

Directional strategies enhanced performance, while non-directional strategies detracted from results.

The fund was positioned with a modestly bullish outlook at quarter-end.

Not FDIC insured | May lose value | No bank guarantee

What was the investment environment like during the second quarter of 2021?

Global financial markets ended the period mostly higher. Key equity market indexes advanced, supported by widespread Covid-19 vaccinations, fiscal stimulus, low interest rates, and signs of economic recovery. However, stocks and other higher-risk assets came under pressure at times due to concerns about rising inflation and a strong economic recovery that could prompt central bankers to pare back their accommodative monetary policies. The S&P 500 Index, a broad measure of U.S. stocks, rose 8.55% for the quarter, repeatedly setting new highs. International stocks, as measured by the MSCI EAFE Index [ND], climbed 5.17%.

The Federal Reserve surprised investors by signaling it might raise short-term interest rates sooner than anticipated if inflationary pressures stemming from the rebounding U.S. economy persisted. These concerns eased somewhat when Fed policymakers called the rise in inflation "transitory" and stated they would not rush into raising rates. Some central banks across Europe and Latin America have already started to lift rates. However, the European Central Bank has pledged to maintain its accommodative money policies. The rate-sensitive Bloomberg Barclays U.S. Aggregate Bond Index, a measure of investment-grade corporate bonds, rose 1.83% for the period. Yields on the benchmark 10-year U.S. Treasury note began the quarter at 1.74% and moved lower to end at 1.45%. Global bond yields, including high-yield and investment-grade corporate debt, also trended slightly lower due to easing inflation fears.

Commodity markets experienced further gains, adding to their momentum from the first quarter. Demand rose higher due to the reopening of economies, a return to global travel, and potential infrastructure spending by the Biden administration. Temporary supply bottlenecks caused by the pandemic also contributed to rising prices.

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.

The directional portion of the portfolio consists of two components: a risk-balanced portfolio of stocks and bonds designed to efficiently capture long-term market returns and a dynamic asset allocation overlay to reflect tactical views. The overlay consists of tactical longs and shorts to equities, rates, credit, and commodities based on the portfolio management team's expectations for each of these asset classes. The team manages both the composition and total level of risk, depending on market conditions and the prevailing opportunity set.

The non-directional portion of the portfolio consists of long/short market neutral strategies that provide flexible, uncorrelated sources of alpha.

How did the fund perform for the three months ended June 30, 2021?

The fund's class Y shares rose 2.43%, outperforming the cash benchmark, the ICE BofA U.S. Treasury Bill Index, which posted a return of 0.00%.

What factors had the biggest influence on performance?

Overall, directional strategies enhanced performance in the second quarter. The equity portion of the risk-balanced portfolio finished positive, and our modest tactical long position to equity risk also enhanced results. The portfolio was net long equity risk overall, resulting in a positive contribution from directional equity exposure. The fixed income portion of the risk-balanced portfolio ended positive, while our modest tactical short position to interest-rate risk led to a slight loss. The portfolio was net long rates overall, resulting in a positive contribution from directional rates exposure. A tactical long position to commodity risk boosted performance during the period. A modest tactical long position to credit risk was slightly additive.

Overall, non-directional strategies detracted from results. Fixed income sector alpha experienced the greatest weakness due to a strategy that shorts U.S. real yields. Currency alpha ended with a similar loss. Fixed income-selection alpha finished negative due to a strategy focused on structured mortgage credit. Alternative beta contributed a small loss driven by volatility carry underperformance. Strength from commodity alpha and a small positive contribution from equity-selection alpha helped to mitigate losses.

How is the fund positioned at the start of the third quarter of 2021?

The fund is positioned with a modestly bullish stance entering the third quarter. Within our dynamic allocation overlay, we are modestly long equity risk and credit risk, long commodity risk, and modestly short interest-rate risk. Within the overall directional component, which includes the structural risk-balanced portfolio and the dynamic allocation overlay, we are long all asset classes.

What is your outlook for the global economy?

Widespread vaccine distribution continues to facilitate the global economic recovery and a return to normal life. We are encouraged by the current tailwinds for financial markets in the United States, especially the impact of fiscal stimulus, an improving labor market, and significant pent-up demand, which can help support recovering economies abroad. Still, we anticipate some volatility in the months ahead as investors weigh the continued rollout of vaccines and the pace of reopening, with its implications for inflation and higher interest rates.

Given the current environment, we are bullish on equities in the second half of 2021 until the Fed is close to signaling a taper of its asset purchase program. The combination of pent-up demand and the Fed's accommodative monetary policy makes a compelling case for equities.

In fixed income, our outlook on credit is modestly bullish. Banks have eased credit conditions for large corporate commercial and industrial loans. In addition, average total leverage for new high-yield issues has declined to low levels that were last seen in 2013. Our outlook on interest-rate risk is slightly bearish, as we believe risks are skewed to higher yields given the expectations for continued economic momentum and the potential for an overreaction to some temporary inflation spikes. Upward pressure on yields could extend into the second half of the year as an eventual taper and change in the Fed's rate policy slowly approaches.

Our view on commodities is favorable. We expect that increased distribution of vaccines, fiscal support, and favorable monetary conditions will stimulate global demand for commodities in 2021 from levels seen during the pandemic-induced downturn. Against this backdrop, we continue to have conviction in our investment strategies based on their strong long-term results.

Putnam Multi-Asset Absolute Return Fund (PDMYX)

Annualized total return performance as of 6/30/21

	Class Y shares *Inception 12/23/08*	**ICE BofA U.S. Treasury Bill Index**
Last quarter	2.43%	0.00%
1 year	-0.47	0.10
3 years	-2.64	1.40
5 years	0.15	1.19
10 years	1.65	0.65
Life of fund	3.06	0.57

Total expense ratio: 0.69%

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 EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. 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.

Alpha is a measure of performance on a risk-adjusted basis. Alpha takes the volatility of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of June 30, 2021, 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.

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

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

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