Q4 2020 | Putnam Retirement Advantage Trusts Q&A

Markets pin hope on vaccines and stimulus

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Rising COVID-19 cases across the globe will create challenges for policy makers.

How were market conditions in the fourth quarter?

Despite some weakness during the three-month period, global financial markets advanced overall. Equity indices reached record highs, continuing the market's run from the downturn earlier in the year. The rally was fueled by the development of COVID-19 vaccines, signs of economic recovery, and the U.S. election results. President-elect Joe Biden will be sworn in as the 46th president of the United States in January 2021. As equity markets trended higher, COVID-19 infection rates surged and new travel and business restrictions went into effect. The S&P 500 Index, a broad measure of stocks, rose 12.15% during the period. International stocks, as measured by the MSCI EAFE Index [ND], gained 16.05%.

Fixed-income assets finished with mixed results in the fourth quarter. U.S. Treasury bond yields moved slightly higher, and prices fell as the passage of a $900 billion pandemic relief package boosted investor optimism. Investment-grade bonds ended the period roughly flat, after months of strong gains. The rate-sensitive Bloomberg Barclays U.S. Aggregate Bond Index rose 0.67% during the period. High-yield bonds finished with strong positive returns as credit spreads tightened, reflecting equity market strength.

What strategies affected performance?

All of the Retirement Advantage Funds had positive returns for the quarter, reflecting global equity market strength. Over the quarter, our tactical allocation calls resulted in a positive contribution from dynamic allocation. On balance, the portfolios were slightly overweight to equity risk, neutral to credit risk, and slightly underweight to interest-rate risk relative to their benchmarks. Early in the period, we moved our equity position from neutral to modestly overweight. This aided performance as stock markets soared to record highs. In fixed income, our slight underweight position to interest-rate risk led to a small positive contribution. We moved that position to neutral toward the end of the quarter. Our slight overweight position to credit risk at the beginning of the period was a small positive contributor. We moved that position to neutral about midway through the period.

Our active implementation decisions detracted from performance relative to the benchmarks. Security selection within U.S. large-cap equities drove this negative result as there was significant weakness across both our quantitative and fundamental strategies. Fixed income selection experienced strength, specifically a strategy focused on structured mortgage credit. These gains helped to mitigate the loss from equity selection. International equity selection also slightly added to performance. In longer-dated vintages, emerging-market equity selection was a slight detractor.

What role did the glide path play in performance?

The glide path of Retirement Advantage strategies is an important feature that distinguishes Putnam from its peers. Our glide path is more aggressive early on. It has a higher stock market weight than the average for our peer group for funds serving people retiring in the 2050s or 2060s. Our glide path becomes more conservative relative to peers for funds serving investors nearing retirement in the 2020s. As one would expect, portfolios with larger equity allocations, designed for investors further from retirement, delivered the highest quarterly returns.

What is your near-term outlook for the markets?

While rising virus infections could lead to weaker-than-expected economic activity in the coming months, the vaccine progress has reduced the chances of much slower growth in 2021.

In November, several drugmakers released positive news about vaccines against COVID-19, including vaccines with efficacy in excess of 90%. The U.S. Food and Drug Administration in December approved two vaccines just as infection rates and shutdowns were spiking globally. The financial markets are now pinning hope on widespread vaccinations by the middle of 2021.

As we enter the new year, we are mildly bullish on equities but tactically wary of overextended sentiment and additional virus-related setbacks. We believe credit markets, supported by the Fed's promise to maintain quantitative easing, will continue to recover. With interest rates pinned near zero and asset purchases becoming the main stimulus tool, Fed officials said they wouldn't lift rates before the labor market recovers. And there is risk to growth over the next few months amid rising COVID-19 cases across the globe. That will continue to create challenges for consumers, businesses, and policy makers.

Putnam Retirement Advantage Trusts

Annualized total return performance as of 12/31/20

Class I	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam Retirement Advantage Maturity: I	1/3/08	5.77%	10.96%	6.87%	7.67%	6.70%	5.68%
Retirement Advantage Maturity Benchmark	—	4.97	10.18	7.36	7.03	6.30	5.75
Putnam Retirement Advantage 2025: I	1/3/08	5.70	10.10	6.15	7.54	7.81	5.94
Retirement Advantage 2025 Benchmark	—	5.76	11.01	7.96	8.71	8.10	6.18
Putnam Retirement Advantage 2030: I	1/3/08	8.27	12.08	7.09	8.86	8.70	6.43
Retirement Advantage 2030 Benchmark	—	8.69	13.69	9.50	10.43	9.16	6.88
Putnam Retirement Advantage 2035: I	1/3/08	9.95	13.62	7.69	9.80	9.40	6.85
Retirement Advantage 2035 Benchmark	—	10.56	14.94	10.15	11.42	9.83	7.27
Putnam Retirement Advantage 2040: I	1/3/08	11.27	14.87	8.24	10.38	9.87	7.06
Retirement Advantage 2040 Benchmark	—	12.03	15.87	10.66	12.04	10.29	7.48
Putnam Retirement Advantage 2045: I	1/3/08	11.96	15.52	8.58	10.73	10.22	7.24
Retirement Advantage 2045 Benchmark	—	12.79	16.45	11.01	12.48	10.66	7.65
Putnam Retirement Advantage 2050: I	1/3/08	12.57	15.94	8.86	11.03	10.53	7.47
Retirement Advantage 2050 Benchmark	—	13.49	16.99	11.32	12.91	11.00	7.89
Putnam Retirement Advantage 2055: I	12/22/10	13.15	16.32	9.10	11.32	10.74	10.76
Retirement Advantage 2055 Benchmark	—	14.15	17.47	11.61	13.28	11.24	11.26
Putnam Retirement Advantage 2060: I	2/10/16	13.56	16.71	9.27	—	—	14.44
Retirement Advantage 2060 Benchmark	—	14.63	17.88	11.83	—	—	16.20
S&P 500 Index	—	12.15	18.40	14.18	15.22	13.88	9.91
Bloomberg Barclays U.S. Aggregate Bond Index	—	0.67	7.51	5.34	4.44	3.84	4.26

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. Performance data reflect the impact of a 0.50% management fee. In certain cases, your plan's management fee may be higher and your return lower. For the most recent month-end performance, call your plan's toll-free number.

The Retirement Advantage Custom Benchmarks are unmanaged indexes administered by Putnam Management, consisting of various indexes that follow the underlying strategies of the portfolios. The S&P 500 Index is an unmanaged index of common stock performance. The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities. The Dow Jones Industrial Average Index (DJIA) is an unmanaged price-weighted index composed of 30 blue-chip stocks. The MSCI EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. You cannot invest directly in an index.

Each Putnam Retirement Advantage Trust has a different target date indicating when the trust's investors expect to retire and begin withdrawing assets from their account, typically at retirement. The funds are generally weighted more heavily toward more aggressive, higher-risk investments when the target date of the fund is far off, and more conservative, lower-risk investments when the target date of the fund is near. The principal value of the funds is not guaranteed at any time, including the target date.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of December 31, 2020, are subject to change with market conditions, and are not meant as investment advice.

The funds are a collective trust managed and distributed by Putnam Fiduciary Trust Company, a non-depository New Hampshire trust company. However, they are not FDIC insured; they are not a deposit or other obligation of, and are not guaranteed by, Putnam Fiduciary Trust Company or any of its affiliates. The funds are not a mutual fund registered under the Investment Company Act of 1940, and their units are not registered under the Securities Act of 1933. The funds are only available for investment by eligible, qualified retirement plan trusts, as defined in the declaration of trust and participation agreement.

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Investments in small and/or midsize companies increase the risk of greater price fluctuations. 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.

Money market options are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.

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. 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. Unlike bonds, funds that invest in bonds have fees and expenses. 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 funds. See the fund's offering statement for more information.

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You should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. To request the offering document of the fund, call your financial representative or call Putnam at 1-800-225-1581. You should read the offering document carefully before investing.

Putnam Retail Management

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