Q3 2017 | Putnam Retirement Advantage Funds Q&A

Steady markets offer few surprises

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Equity markets extended gains, reaching historical highs.

Yield-curve flattening continued as the Fed scheduled initial balance sheet reduction.

Inflation remained subdued as commodity prices were range-bound.

What were overall market conditions during the third quarter of 2017?

Equity markets experienced low volatility and positive momentum in the United States and globally, against a backdrop of increasing tensions with North Korea and a dramatic start to hurricane season. Investors continued to display a preference for riskier assets, with technology and financial stocks leading the way. Lack of legislative progress on health care gave way to other administration priorities, with tax reform next on the agenda. The U.S. dollar tested lows before recovering slightly, though it remains well below its early 2017 highs. Oil prices trended above $50 per barrel at the end of the quarter, but commodity prices overall remained flat.

For the three months ended September 30, 2017, the S&P 500 Index was up 4.48%. The MSCI EAFE Index [ND], a benchmark for developed-market stock performance outside the United States and Canada, ended the period up 5.40%. Emerging-market stocks led equity returns for the quarter as reflected in the MSCI Emerging Markets Index [ND] return of 7.89%.

How did bond markets perform during the quarter?

The Federal Open Market Committee [FOMC] met in July and September without taking further direct rate action. This was as markets anticipated, and investors were more interested in knowing the details of how the Federal Reserve intends to begin unwinding its balance sheet of over $4 trillion, amassed since the 2008 financial crisis. The Fed’s lack of urgency has been reflective of tame inflation readings and its desire to not repeat the events of June 2013, when hints of aggressive action set off the “taper tantrum” and a sharp increase in longer-term rates.

The Bloomberg Barclays U.S. Aggregate Bond Index rose 0.85%, reflecting continued flattening of the yield curve during the quarter as longer maturities were mostly static and short-end yields increased. In credit-sensitive fixed income, as defined by the performance of high-yield bonds, prices ticked higher, with the JPMorgan Developed High Yield Index returning 2.05 % for the quarter.

How did Putnam Retirement Advantage Funds perform during this three-month span?

Across the glide path, each of the target-date funds had positive returns for the quarter, generally performing in line with our expectations, as the funds are currently invested close to our strategic allocations. As is typical, performance varied based on each fund's exposure to stocks and bonds. The longer-dated, more stock-focused portfolios benefited from the continued strength of equity markets during the quarter. Putnam's target-date glide path also favors relatively greater equity exposure for the longer-dated funds — those serving shareholders who still have a couple of decades or more until retirement — than can be found in the average target-date fund. These allocations further contributed to results on a relative basis for this period.

Although the shorter-dated funds have equity allocations below the industry average, positive returns across asset classes helped these funds achieve positive results. While stocks outperformed bonds, fixed income still delivered a positive return for the quarter, which helped the near-retirement strategies deliver solid absolute returns.

What was the funds' tactical allocation strategy during the period, and how did it affect the funds' performance?

We kept allocations mostly in line with the benchmark of each fund during the quarter. We did have the funds positioned with a small preference for equities over rate-sensitive fixed income, which contributed modestly to performance. Allocations to small caps also added value.

The majority of value added over benchmark came not from tactical allocation but from security selection and strategy implementation. In particular, our quantitative equity selection strategy produced strong results within U.S. large-cap equities. In addition, we experienced strong security selection in international developed markets. We also delivered returns above benchmark within emerging-market equities, which we have exposure to in our longer-dated funds. Within fixed income, our selection strategy added value with good performance from outside of the index, primarily in mortgages. No allocation or implementation decisions resulted in a significant loss against benchmarks during the quarter.

What is your outlook for the fourth quarter of 2017?

We expect value to continue to be added from active implementation and security selection, given that asset allocations are generally close to benchmark weights to start the quarter. This view is predicated on what we perceive as a complicated global economic picture. Within dynamic allocation, we expect to remain tactical in our approach across various markets.

Within the U.S. equity market, we believe it will likely take some time for the crosscurrents of domestic political and economic forces to sort themselves out, making flexibility important. We see strong but competing forces within both equity markets and credit markets, where stretched valuations and tighter spreads are balanced by continued momentum within each asset class. In rate-sensitive fixed income, we believe the long-term trend is for rates to increase, though global demand for U.S. rates dampens the near-term impact. Entering the fourth quarter, we are constructive on commodities, where we have recently taken a small position. Our quantitative model is bullish, and macroeconomic data suggest the global economy is firing on all cylinders, which is supportive of commodity prices.

Within security selection we continue to pursue opportunities in both equities and fixed income and continue to focus on less rate-sensitive sectors within fixed income, such as mortgages.

Putnam Retirement Advantage Funds

Annualized total return performance as of 9/30/17

Class I	Inception	Last quarter	1 year	3 years	5 years	Life of fund
Putnam RA Maturity Portfolio	1/3/08	2.56%	8.27%	5.44%	6.70%	5.26%
RA Maturity Custom Benchmark		1.78	4.51	4.78	5.09	5.20
Putnam RA 2020 Portfolio	1/3/08	2.36	7.36	5.07	7.18	5.15
RA 2020 Custom Benchmark		1.98	6.12	4.86	6.50	4.74
Putnam RA 2025 Portfolio	1/3/08	3.20	11.09	6.50	9.11	5.65
RA 2025 Custom Benchmark		2.75	9.85	6.31	8.42	5.46
Putnam RA 2030 Portfolio	1/3/08	3.91	13.75	7.40	10.30	5.92
RA 2030 Custom Benchmark		3.41	12.49	7.14	9.51	5.84
Putnam RA 2035 Portfolio	1/3/08	4.50	15.97	8.12	11.18	6.23
RA 2035 Custom Benchmark		3.90	14.53	7.80	10.31	6.10
Putnam RA 2040 Portfolio	1/3/08	4.82	16.97	8.49	11.72	6.32
RA 2040 Custom Benchmark		4.16	15.64	8.21	10.88	6.20
Putnam RA 2045 Portfolio	1/3/08	4.98	17.66	8.69	12.17	6.42
RA 2045 Custom Benchmark		4.36	16.56	8.50	11.37	6.29
Putnam RA 2050 Portfolio	1/3/08	5.23	18.41	8.94	12.60	6.63
RA 2050 Custom Benchmark		4.56	17.45	8.81	11.82	6.49
Putnam RA 2055 Portfolio	12/22/10	5.41	18.96	9.12	12.82	10.99
RA 2055 Custom Benchmark		4.73	18.17	9.06	12.07	10.64
Putnam RA 2060 Portfolio	2/10/16	5.42	19.05	—	—	22.78
RA 2060 Custom Benchmark		4.76	18.27	—	—	23.28
S&P 500 Index		4.48	18.61	10.81	14.22	8.17*
Bloomberg Barclays U.S. Aggregate Bond Index		0.85	0.07	2.71	2.06	4.00*

* Returns reflect the period 1/2/08–9/30/17.

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. You cannot invest directly in an index.

The MSCI EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. MSCI Emerging Markets Index (ND) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. JPMorgan Developed High Yield Index is an unmanaged index of high-yield fixed-income securities issued in developed countries. You cannot invest directly in an index.

Each Putnam Retirement Advantage Fund has a different target date indicating when the fund'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.

The views and opinions expressed are those of the portfolio managers as of September 30, 2017, are subject to change with market conditions, and are not meant as investment advice.

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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. You can lose money by investing in the funds. See the fund's offering statement for more information.

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Putnam Retail Management

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