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Q3 2020 | Putnam Retirement Advantage Trusts Q&A

The virus, the election, and the market outlook

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U.S. economic recovery will likely flatten without more fiscal policy support from Congress.

High valuations and volatility, driven by the pandemic and the presidential election, keep us mostly on the sidelines.

We believe that longer-dated U.S. Treasury bonds are an effective diversifier to risky assets.

How were market conditions in the third quarter?

Equity markets corrected a bit in the waning days of the third quarter but ended the period on a strong note. All major U.S. equity indices have climbed for a second consecutive quarter, continuing the market's run from the downturn earlier in the year. The S&P 500 Index, a broad measure of U.S. stocks, rose 8.93% and the Dow Jones Industrial Average rallied 8.22% over the past three months. The Bloomberg Barclays U.S. Aggregate Bond Index, a broad measure of U.S. investment-grade fixed-income securities, gained 0.62%.

The rally was largely fueled by signs of economic recovery, stimulus from the Federal Reserve and Congress, and progress toward a coronavirus vaccine. In September, the Fed committed to keep its policy rate anchored at zero until average inflation over time reaches the central bank's 2% target and the economy achieves maximum employment. The Fed's shift in how it sets the policy rate indicates it will tolerate "lower for longer" rates. The yield on the 10-year Treasury note ended September at 0.69% from 1.88% at the beginning of the year. Central banks across Europe, Asia, and other regions also rolled out COVID-19 stimulus measures.

Still, investors are bracing for potential headwinds, including slower global growth, spikes in COVID-19 cases, and prolonged U.S. legislative gridlock on a new stimulus package. U.S. legislators — Democrats and Republicans — have been at an impasse over the next virus relief bill. In addition, the November election campaigns have kicked into full gear.

What strategies affected performance?

All of the Retirement Advantage Trusts had positive returns for the quarter, reflecting global equity market strength. During the quarter, we held allocations relatively close to the benchmark, which resulted in a roughly flat contribution from dynamic allocation. On balance, the portfolios were slightly underweight equity risk and interest-rate risk, and slightly overweight credit risk relative to the benchmark. Entering the period, we were slightly underweight equity risk, which detracted from performance as equity markets rallied. We moved our position back to neutral toward the end of the quarter. In fixed income, our slight overweight position to credit risk aided results as spreads tightened, offsetting the loss from equities. Our slight underweight position to interest-rate risk had a muted impact on performance.

Our active implementation decisions slightly 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. International equity selection slightly added to performance. Fixed income selection, specifically a strategy focused on structured mortgage credit, experienced strength, helping to mitigate the loss from equity selection.

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 — with 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?

The global economy is recovering at an uneven pace after an initial burst of activity and somewhat of a slowdown in the early part of the summer. The development of a vaccine or vaccines for COVID-19 could help provide a boost to economic growth. That said, risks to steady growth and corporate earnings included newly emerging coronavirus hotspots, slowing job gains, and cooling investment. The recovery in the United States has continued but is likely to flatten out without more fiscal policy support.

We don't expect to see a significant pullback in equity markets. Investors are waiting for clues on what will come next, either on the economy or action from lawmakers in another stimulus bill for Americans. The Fed has also signaled that rates would stay near zero until at least 2023. We conclude that, on the surface, the Fed's message of looser policy should be bullish for risky assets as long as the United States does not experience outright deflation. We also believe that longer-dated U.S. Treasury bonds will continue to be an effective diversifier to risky assets while inflation and inflation expectations stay low and the yield curve remains upward sloping.

As we near the end of 2020, high valuations and bouts of volatility driven by the pandemic and the U.S. presidential election keep us mostly on the sidelines with tactical asset allocation. The election has the possibility of an uncertain outcome and could drag on for weeks or months. However, the removal of concerns about monetary policy becoming restrictive will provide a tailwind once we view risks as being properly priced. We see in the Fed's policy shift reasons for bullishness after the election is resolved.

Putnam Retirement Advantage Trusts

Annualized total return performance as of 9/30/20

Class I	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam Retirement Advantage Maturity: I	1/3/08	3.91%	7.65%	5.54%	6.81%	6.42%	5.33%
Retirement Advantage Maturity Benchmark	—	3.21	7.83	6.27	6.24	5.98	5.46
Putnam Retirement Advantage 2020: I	1/3/08	3.83	7.61	5.49	6.07	6.95	5.23
Retirement Advantage 2020 Benchmark	—	3.23	8.04	6.47	6.68	6.97	5.14
Putnam Retirement Advantage 2025: I	1/3/08	3.21	7.18	5.44	7.04	7.96	5.60
Retirement Advantage 2025 Benchmark	—	3.62	9.07	7.07	8.16	8.23	5.84
Putnam Retirement Advantage 2030: I	1/3/08	4.62	7.82	5.83	7.99	8.66	5.90
Retirement Advantage 2030 Benchmark	—	5.19	10.34	7.89	9.40	9.08	6.32
Putnam Retirement Advantage 2035: I	1/3/08	5.66	8.67	6.08	8.70	9.24	6.20
Retirement Advantage 2035 Benchmark	—	6.11	10.76	8.12	10.10	9.62	6.57
Putnam Retirement Advantage 2040: I	1/3/08	6.55	9.38	6.29	9.07	9.62	6.31
Retirement Advantage 2040 Benchmark	—	6.81	10.93	8.26	10.49	9.99	6.68
Putnam Retirement Advantage 2045: I	1/3/08	6.99	9.67	6.48	9.34	9.95	6.44
Retirement Advantage 2045 Benchmark	—	7.20	11.19	8.46	10.85	10.34	6.80
Putnam Retirement Advantage 2050: I	1/3/08	7.30	9.87	6.60	9.60	10.23	6.63
Retirement Advantage 2050 Benchmark	—	7.55	11.46	8.63	11.19	10.65	6.99
Putnam Retirement Advantage 2055: I	12/22/10	7.60	10.05	6.71	9.80	—	9.66
Retirement Advantage 2055 Benchmark	—	7.87	11.68	8.78	11.47	—	10.07
Putnam Retirement Advantage 2060: I	2/10/16	7.85	10.15	6.77	—	—	12.17
Retirement Advantage 2060 Benchmark	—	8.10	11.79	8.86	—	—	13.75
S&P 500 Index	—	8.93	15.15	12.28	14.15	13.74	9.13
Bloomberg Barclays U.S. Aggregate Bond Index	—	0.62	6.98	5.24	4.18	3.64	4.29

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 World Index (ND) is an unmanaged index of equity securities from developed countries. 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 September 30, 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.