

Q1 2021 | Putnam Sustainable Future Fund and Sustainable Leaders Fund Q&A

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# Solid long-term returns backed by rigorous sustainability research



**Katherine Collins, CFA, MTS**  
Head of Sustainable Investing  
Portfolio Manager  
Industry since 1990



**Stephanie Dobson**  
Portfolio Manager  
Industry since 2011

*Both funds outperformed their benchmarks for the 1-, 3-, 5-, and 10-year, and life-of-fund periods ended March 31, 2021.*

*Environmental health is an important sustainability theme that the funds have exposure to across several holdings.*

*Our latest research report explores insights and investment implications of mental health (available to financial professionals at [Putnam.com/advisor](https://www.putnam.com/advisor)).*

## How have the funds performed?

**Katherine:** For the quarter, Sustainable Future outperformed its benchmark, and Sustainable Leaders modestly underperformed. However, both funds outperformed over longer time periods, including the 1-, 3-, 5-, and 10-year, and life-of-fund periods ended March 31, 2021. It's important to note that the funds' sustainable approaches began in March 2018.

## Could you highlight one of the sustainability themes in your investment research?

**Stephanie:** Environmental health is one notable area of focus. The effects of climate change — extreme weather events, temperature change, and ocean and soil degradation — are becoming more common and more acute. As a result, many companies are looking to build climate resiliency into their business models, while others seek to generate solutions to mitigate climate change and its impacts. Our portfolios include companies focused on a number of solutions within this broad theme. Examples include renewable energy such as solar and wind power, sustainable agriculture, and commitments to reduce carbon footprints and waste. An example of the latter is single-use plastics.

**Katherine:** In terms of our sustainability themes and research, we have discovered that so many of our social, economic, climate, and health-related issues are intertwined. All these systems influence one another in important ways. We believe companies that are taking a more systemic and holistic view of how their businesses fit into these bigger systems are very well equipped to address these issues, to mitigate risks, and to create long-term business opportunities.

### Could you describe the strategy for Putnam Sustainable Leaders Fund?

**Stephanie:** With this fund, we seek companies with strong fundamentals that are linked to leadership in financially material sustainability issues. The stocks of these companies are typically, but not always, considered to be growth stocks, and in most cases they are large-cap in size. We look for performance that demonstrates true leadership — not just compliance — in areas that are relevant to the companies we invest in. These areas can include clean and efficient materials use, reductions in carbon or water intensity, improvements in workplace equality and diversity, and alignment of management incentives with the company's sustainability objectives. We invest in companies where strength in relevant sustainability issues is increasing their long-term business potential. In addition to differentiated leadership in material sustainability areas, we look for companies to display transparency in goal-setting and in reporting progress, and for companies to have impact that extends beyond company walls. By focusing on material ESG issues for each individual business, we aim to identify companies with durable financial performance and potentially lower risk profiles.

### Could you describe the strategy of Putnam Sustainable Future Fund?

**Katherine:** Our emphasis for this fund is on solutions-oriented companies — those that offer innovative ways to address our greatest sustainability challenges. The stocks of these companies are typically, but not always, considered to be growth stocks, and often are mid-cap or small-cap in size. We seek to invest in companies whose products and services contribute to positive environmental, economic, or social impact. By providing these solutions, the companies in the portfolio offer potential for strong financial growth and profitability, in our view. Again, we always seek a combination of three attributes: strong fundamental prospects, reasonable valuation, and positive impact.

### What are some examples of positive impact that you seek from companies?

**Stephanie:** We are always looking for positive impact that is linked to long-term fundamental prospects and financial performance. From an environmental perspective, positive impact could mean improving water quality or reducing greenhouse gas emissions. Positive social impact could include improvements in health and well-being or better access to information and opportunity. Throughout our research process for both portfolios, we take a tailored, company-specific approach, including first-hand interactions with management teams of companies and ongoing collaboration with Putnam's research analysts.

**Putnam Sustainable Leaders Fund (PNOYX)**

Annualized total return performance as of 3/31/21

<b>Class Y shares</b> Inception 7/19/94	<b>Net asset value</b>	<b>S&amp;P 500 Index</b>
Last quarter	5.54%	6.17%
1 year	61.45	56.35
3 years	21.20	16.78
5 years	21.20	16.29
10 years	15.39	13.91
Life of fund	12.78	10.83

Total expense ratio: 0.78%

**Putnam Sustainable Future Fund (PMVYX)**

Annualized total return performance as of 3/31/21

<b>Class Y shares</b> Inception 4/2/02	<b>Net asset value</b>	<b>Russell Midcap Growth Index</b>
Last quarter	2.37%	-0.57%
1 year	86.03	68.61
3 years	24.70	19.41
5 years	18.48	18.39
10 years	14.33	14.11
Life of fund	11.80	8.95

Total expense ratio: 0.82%

Returns for periods of less than one year are not annualized.

The S&amp;P 500 Index is an unmanaged index of common stock performance.

The Russell Midcap Growth Index is an unmanaged index of those companies in the Russell Midcap Index chosen for their growth orientation.

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*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 of class Y shares assumes reinvestment of distributions and does not account for taxes. Class Y shares, available to investors through an asset-based fee program or for institutional clients, are sold without an initial sales charge and have no CDSC. Performance for class Y shares before their inception are derived from the historical performance of class A shares (inception 11/1/99 for Sustainable Future Fund, 8/31/90 for Sustainable Leaders Fund), which have not been adjusted for the lower expenses; had they, returns would have been higher. For the most recent month-end performance, please visit putnam.com.*

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of March 31, 2021. They are subject to change with market conditions and are not meant as investment advice.

**Consider these risks before investing:** 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, 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, technological obsolescence, falling prices and profits, and the market may not favor growth-style investing. Investments in small and midsize companies increase the risk of greater price fluctuations. International investing involves currency, economic, and political risks. Emerging-market securities have illiquidity and

volatility risks. The fund's sustainable and environmental, social, and/or corporate governance (ESG) investment strategy may result in the fund investing in certain types of companies, industries or sectors that the market may not favor. From time to time, the fund may invest a significant portion of its assets in companies in one or more related industries or sectors, which would make the fund more vulnerable to adverse developments affecting those industries or sectors. In evaluating an investment opportunity, we may make investment decisions based on information and data that is incomplete or inaccurate. Due to changes in the products or services of the companies in which the fund invests, the fund may temporarily hold securities that are inconsistent with its sustainable investment criteria. 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.

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