

Q2 2020 | Putnam Sustainable Future Fund and Sustainable Leaders Fund Q&A

A strong quarter of performance for both portfolios



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 quarter despite continued volatility in equity markets.

We are invested in companies providing sustainability leadership and solutions that have become even more important in recent months.

In our view, current conditions will illuminate new opportunities and new solutions that contribute to a thriving society, planet, and economy.

Both funds delivered strong relative performance for the quarter despite continued market volatility. What contributed to this strength?

Katherine: The outperformance is the result of our continued focus on high-quality, well-managed companies that exhibit excellent sustainability performance. If an investor is focused on a narrow approach — valuation or momentum, for example — performance can be more vulnerable when the market shifts. What has worked with our process, we believe, is that we always aim for a combination of three key elements: strong fundamental prospects, reasonable valuation, and sustainability leadership. In our portfolios, all three of these requirements must be present. We won't, for example, own a company with superior sustainability qualities but poor business prospects. By requiring strength in all three areas, we are more likely to find companies that can do well regardless of the macroeconomic environment.

Stephanie: Putnam Sustainable Leaders Fund focuses on companies that excel in management of material sustainability issues, and Putnam Sustainable Future Fund seeks companies that provide solutions to key sustainability challenges. Many of these leadership activities and product solutions have become even more relevant during the COVID-19 crisis. Examples include technology companies that provide work from home capabilities, consumer companies that provide alternatives to traditional retail outlets, and health-care companies that provide testing, diagnostics, and remote access to care. For many of these businesses, the shifts brought on by the pandemic accelerated prior trends and enhanced their growth potential. Our exposure to high-quality businesses in a number of these areas has been beneficial to fund performance in 2020.

You recently released your 2020 sustainability and impact report. What can you tell us about this?

Katherine: We are proud of this comprehensive report, which is available to read or download at putnam.com. It provides an in-depth look at our investment process; an analysis of our portfolios according to a number of ESG-related metrics; and a discussion of the positive social and environmental impact of some of our investment themes and portfolio holdings.

Stephanie: This type of detailed reporting is important, not just for our team, but also for the broader field of sustainable investing as it continues to advance. Reporting on sustainability and impact is still evolving and is a challenge for investment managers across the industry. Our ultimate goal is to have reporting in these areas that is just as robust and complete as reporting on financial metrics, so that the links we see between sustainability issues and long-term company success are clear.

Could you highlight a topic you cover in the report?

Katherine: One important — and timely — topic is our examination of U.S. health-care costs and their impact on financial security. The COVID-19 pandemic is causing serious and widespread health consequences, creating personal financial insecurity for tens of millions of people, revealing continued racial inequity in health outcomes, and costing trillions of dollars in economic impact for world economies.

In our work as sustainable investors, we are looking for companies that are creating thriving businesses by improving current health-care systems and shaping the systems of the future. In the report, we highlight health-care innovations that can have a positive impact, such as telemedicine and digital health platforms, and companies that we believe are leaders in providing solutions.

How has the COVID-19 crisis shaped your outlook and strategy?

Katherine: We are experiencing the intersection of four related systems in simultaneous crisis: the COVID-19 health crisis and related economic crisis have set conditions that illuminate the long-term crisis of racial injustice and the ongoing climate crisis in new and profound ways. These conditions have caused widespread suffering in many dimensions, and at the same time they have reminded us of what is constant. Now more than ever, we believe that sustainable companies could prove to be more financially resilient and more beneficial than others over the long term, creating meaningful value. While highlighting current fragilities, this period will also reveal new opportunities and solutions that contribute to a thriving society, planet, and economy.

We are identifying new investment ideas in three main types of companies: those that are providing solutions to some of our current challenges, those whose strong long-term prospects have been only temporarily dampened, and those whose businesses are well-positioned for an eventual recovery. In all of these cases, our sustainability research links directly to our fundamental and valuation assessments, providing a “through line” to follow during these turbulent times.

Could you describe the strategy for Putnam Sustainable Leaders Fund?

Stephanie: With this fund, we seek companies with excellent sustainability leadership in areas that are relevant and financially material to their businesses. 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 such as 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 always aim for a combination of three key elements: strong fundamental prospects, reasonable valuation, and sustainability leadership. 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 products and services that result in 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: 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. We monitor these potential social or environmental benefits, as well as potential financial returns, as part of our investing discipline. 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 6/30/20

Class Y shares Inception 7/19/94	Net asset value	S&P 500 Index
Last quarter	23.81%	20.54%
1 year	13.59	7.51
3 years	16.56	10.73
5 years	13.86	10.73
10 years	15.96	13.99
Life of fund	12.12	10.15
Total expense ratio: 0.79%		

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 6/30/20

Class Y shares Inception 4/2/02	Net asset value	Russell Midcap Growth Index
Last quarter	33.27%	30.26%
1 year	18.82	11.91
3 years	13.00	14.76
5 years	9.85	11.60
10 years	13.96	15.09
Life of fund	10.46	7.93
Total expense ratio: 0.84%		

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

The S&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 June 30, 2020. 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 cause the fund to forego otherwise attractive investment opportunities or may increase or decrease the fund's exposure to certain types of companies and, therefore, to underperform funds that do not invest with a similar focus. 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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