

# A challenging quarter for financial markets and growth stocks



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*The first quarter was very challenging for financial markets, and particularly for growth stocks.*

*We remained attuned to macroeconomic concerns while also focusing on our disciplined process, fundamental research and valuation analysis, and active risk management.*

*Our research report, “Investing to thrive,” explores insights and themes of our sustainable investing approach (available to financial professionals at [Putnam.com/advisor](https://www.putnam.com/advisor)).*

## **How were investing conditions in the first quarter?**

It was a very challenging time for financial markets, and particularly for growth stocks, which are a focus of these funds. The Russia-Ukraine War rattled global financial markets, volatility surged, and uncertainty grew over the long-term impact of this humanitarian and geopolitical crisis. At the same time, inflation remained a top concern for investors, as did the potential for interest-rate hikes and continued supply chain disruptions.

## **Your team’s research report, “Investing to thrive,” details themes of your sustainable investing approach. Could you share an example of one of those themes?**

Within the overarching category of Thriving Planet™, we examine sustainable agriculture. Roughly 24% of global greenhouse gas emissions come from the agriculture, forestry, and land use sectors of the economy. More sustainable farming practices like crop rotation, decreasing or eliminating tillage, and reducing the use of chemical pesticides can help improve the environmental impact of farms and drive higher profits for farmers. As the global population grows, there is a need to employ increasingly efficient and sustainable farming practices to meet growing demand with limited supply. Additionally, consumers increasingly are willing to pay a premium for sustainably sourced ingredients. The report highlights investment themes and examples of companies in our portfolios related to them.

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

The Sustainable Leaders portfolio invests in companies that have demonstrated leadership in the sustainability issues that are financially material to their businesses. Our investment thesis is that companies that exhibit this type of commitment also often demonstrate potential for strong long-term financial performance. The stocks of these companies are typically, but not always, considered to be growth stocks, and often are large cap in size.

We characterize leadership in sustainability using four criteria: (1) a focus on material, or relevant, sustainability issues; (2) creativity to go beyond compliance or box checking; (3) transparency demonstrated by specific company goals and clear and consistent progress reporting; and (4) impact, or sustainability characteristics that create benefit beyond a company's "borders." Some examples of areas for leadership could include clean and efficient materials use, reductions in environmental intensity, or improvements in workplace equality and diversity.

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

The Sustainable Future portfolio invests in companies whose products and services provide solutions to essential sustainability challenges. Our investment thesis is that solutions-oriented companies with potential to create positive social and environmental impact also demonstrate potential for strong growth and long-term financial performance. The stocks of these companies are typically, but not always, considered to be growth stocks, and are often mid cap or small cap in size. Some examples of areas where a company might offer sustainable solutions include prevention and treatment of chronic disease, access to information and opportunity, growth of the renewable energy supply, or development of the circular economy.

### What is your outlook for the coming months?

We are aware, as seasoned investors, that continued stock market volatility is likely in the months ahead. We remained attuned to macroeconomic concerns while also focusing on our disciplined process, fundamental research and valuation analysis, and active risk management.

### Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 3/31/22

	Class Y shares Inception 7/19/94	S&P 500 Index
Last quarter	-9.45%	-4.60%
1 year	6.01	15.65
3 years	18.73	18.92
5 years	18.13	15.99
10 years	15.39	14.64
Life of fund	12.56	10.98

Total expense ratio: 0.80%

### Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 3/31/22

	Class Y shares Inception 4/2/02	Russell Midcap Growth Index
Last quarter	-14.86%	-12.58%
1 year	-11.80	-0.89
3 years	15.26	14.81
5 years	12.42	15.10
10 years	12.45	13.52
Life of fund	10.62	8.49

Total expense ratio: 0.77%

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 March 31, 2022. 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 and the market may not favor growth-style investing. Investments in small and midsize companies increase the risk of greater price fluctuations. 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 companies, industries, or sectors. International investing involves currency, economic, and political risks. Investing with a focus on companies whose products and services produce positive environmental, social, and economic development impact may result in the fund investing in certain types of companies, industries, or sectors that underperform the market as a whole. 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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**Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.**