

Q4 2020 | Putnam Sustainable Future Fund and Sustainable Leaders Fund Q&A

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# Solid annual performance driven by active, fundamental research



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



**Stephanie Dobson**  
Portfolio Manager  
Industry since 2011

*Both funds underperformed their benchmarks for the quarter, but they outperformed by a considerable margin for the 1-year period ended December 31, 2020.*

*We believe our active investment approach and fundamental research was key to the outperformance in an extremely challenging year.*

*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 fourth quarter, both funds underperformed their benchmarks, but we are pleased to report that they outperformed by a considerable margin for the 1-year period ended December 31, 2020. It was a challenging year that helped us test our processes and performance in an extreme set of conditions. We believe our active investment approach and fundamental research was key to the outperformance.

## Your team recently published a research report titled “Mental health: Insights and investment implications.” What can you tell us about it?

**Stephanie:** Mental illness was already widespread and undertreated prior to the COVID-19 pandemic, with an estimated 10% of the U.S. population suffering from either major depressive disorder or generalized anxiety disorder. Less than half of those affected received treatment, and there is evidence that these numbers increased in 2020. Given the prevalence of mental illness, we believe this is a topic that matters to society at large and to businesses, and therefore should be relevant for investors.

In addition to the human toll on patients and families, there are economic and social costs to mental illness. Mental disorders accounted for the most costly set of health conditions as of 2013, at an estimated \$201 billion, or 9% of total health-care expenditures. Indirect costs, while hard to measure, include lost time at work and lower productivity. Companies that show leadership in addressing mental illness are likely to see both human and financial benefits. Solutions-oriented companies, like

those in the telemedicine arena, are helping to increase access to mental health care, especially in rural areas, which is driving faster growth. Recent regulatory changes also play an important role.

**Katherine:** In addition to the costs of mental illness, the report explores a number of other mental health topics. They include the impact of the COVID-19 pandemic; the current government response and potential implications; the impact on businesses and their efforts to support employees' mental health; examples of companies showing leadership in this area; and potential solutions and innovations to watch.

### **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. 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 12/31/20

<b>Class Y shares</b> Inception 7/19/94	<b>Net asset value</b>	<b>S&amp;P 500 Index</b>
Last quarter	11.10%	12.15%
1 year	28.84	18.40
3 years	20.34	14.18
5 years	19.47	15.22
10 years	15.44	13.88
Life of fund	12.69	10.71

Total expense ratio: 0.78%

**Putnam Sustainable Future Fund (PMVYX)**

Annualized total return performance as of 12/31/20

<b>Class Y shares</b> Inception 4/2/02	<b>Net asset value</b>	<b>Russell Midcap Growth Index</b>
Last quarter	17.18%	19.02%
1 year	53.11	35.59
3 years	22.94	20.50
5 years	18.49	18.66
10 years	14.65	15.04
Life of fund	11.82	9.09

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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For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of December 31, 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 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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