

Sustainable strategies show resilience in pandemic



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Portfolio Manager
Industry since 1990



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Industry since 2011

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Our active portfolios pursue excellence in financial performance that is intrinsically linked to excellence in sustainability performance.

How have the funds performed?

Stephanie: We are pleased to report that both funds outperformed their benchmarks for the third quarter as well as for the challenging one-year period ended September 30, 2020. The complexities of 2020 have given us an opportunity to test our processes and performance in an extreme set of conditions. During this time, sustainable investing strategies have fared well, as has our active investment approach.

What has contributed to the funds' outperformance?

Katherine: We believe that our active investment approach gives us insights and opportunities in all market environments. In our view, thoughtful fundamental analysis is required to identify the relevant and financially material sustainability issues that will impact the future performance of a given company. This perspective is also required to assess the areas with greatest potential for sustainability-oriented solutions. With our integrated fundamental approach to research, we identify companies whose sustainability leadership and innovative solutions will contribute to long-term financial success. We seek excellence in financial performance that is intrinsically linked to excellence in sustainability performance.

You provide several examples of the team's research in your 2020 sustainability and impact report. Could you highlight one of the topics?

Katherine: Diversity of board members, leadership groups, and employee teams at companies — including gender and racial diversity — can have a positive impact on performance, especially when these groups are tasked with decision-making in complex environments. Companies that are actively committed to diversity and gender equity may also improve corporate culture, management capacity, and value to shareholders over time. We consider diversity, equity, and inclusion as key sustainability issues that can create value over the long term.

Stephanie: For example, our portfolios have a higher-than-market representation of companies where women comprise 30% or more of total board membership. This level is important because, around the 30% mark, the inputs a woman gives shift from being perceived as “a woman's point of view” to “a different point of view.” In short, this level of participation makes women's inputs a more meaningful contributor to corporate governance.

Our research process extends beyond the specific metric of women membership on corporate boards. Though data on diversity in all forms is still relatively incomplete, we focus on understanding how companies prioritize diversity in all forms and at all levels of the organization. Teams with diverse perspectives and experiences have stronger decision-making ability, particularly when facing dynamic and multifaceted problems.

Katherine: There is more detail in the report, which is available to read or download at putnam.com/impact. 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.

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 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 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 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.

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 are always looking for positive impact that is linked to long-term fundamental prospects and financial performance. 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 9/30/20

Class Y shares Inception 7/19/94	Net asset value	S&P 500 Index
Last quarter	11.21%	8.93%
1 year	26.79	15.15
3 years	18.51	12.28
5 years	18.40	14.15
10 years	15.70	13.74
Life of fund	12.41	10.38

Total expense ratio: 0.79%

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 9/30/20

Class Y shares Inception 4/2/02	Net asset value	Russell Midcap Growth Index
Last quarter	16.37%	9.37%
1 year	42.52	23.23
3 years	17.71	16.23
5 years	15.15	15.53
10 years	14.25	14.55
Life of fund	11.13	8.30

Total expense ratio: 0.82%

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 September 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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