Q2 2020 | Putnam Emerging Markets Equity Fund Q&A

Emerging markets are making a comeback

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Emerging-market equities outperformed broader markets as price/earnings multiples appealed to investors.

Coronavirus pandemic provided boost to e-commerce companies and food retailers.

We remain bullish on the outlook for emerging-market equities as valuations and currencies remain supportive.

How were market conditions in the second quarter? How did the fund perform?

The risk and rewards were extremely positive for emerging-market equities as we entered the second quarter of this year. The MSCI Emerging Markets Index [ND] was trading at trough valuations on absolute and relative terms. In addition, emerging-market currencies were at the cheapest levels since 1998, having depreciated during the first few months of the year. Emerging-market equities recovered strongly in the second quarter, rising 18% driven by record stimulus measures and improving economic indicators amid the coronavirus pandemic.

The rally started with beneficiaries of the crisis including food retailers and e-commerce platforms, and eventually broadened across all sectors including travel.

Putnam Emerging Markets Equity Fund is built to be agnostic to the direction of the market. The fund was able to outperform during the strong bull market of the second quarter of this year and the volatile bear market of the first quarter. The fund rose 24.76% in the second quarter, outperforming its benchmark, the MSCI Emerging Markets Index, by 6.68%. The outperformance during the period was driven by bottom-up stock selection with contributions from nearly all countries and sectors.

Could you describe your strategy for the fund?

The fund's strategy of investing in high-quality businesses — where we have a differentiated view of future earnings — continued to pay dividends during the quarter. Every week we try to connect with the management teams of at least five businesses. These late-night calls uncovered some big winners in the second quarter.

Universal Vision Biotechnology, a Taiwanese eye care company, was another big winner and an undiscovered company with underappreciated earnings power. Revenue and profitability are inflecting as management is closing loss-making retail locations and opening higher margin clinics and reducing losses in China. The CEO hosted a call with international investors during the first week of May, and the increased awareness of this name served as a catalyst for the stock. Earnings-per-share estimates are at least 35% too low, and we believe shares can double again from here.

What is your outlook going into the second half of 2020?

We remain extremely bullish on the outlook for emerging market equities. The valuations [the price/earnings multiple] of equities and currencies remain supportive. Lower global interest rates could also provide a tailwind for the asset class. While the Nasdaq is up over 10% year to date, the EM index would need to rise over 15% to return to peak levels achieved in January. For those who remain concerned about the long-lasting impact of COVID-19 in the United States and can't stomach paying a price of 40-times revenue for Zoom, there are lots of opportunities in North Asia where the pandemic is under control and life is returning to normalcy.

In Thailand, there are no new cases, and the country has reopened malls to very large crowds. Mobility trends in South Korea and Taiwan are down less than 10% from last year's levels.

And in Shanghai, China, life is back to normal as schools and businesses have all reopened and there are lines to get into restaurants.

Within emerging markets, Brazil and India remain trouble spots, but high frequency indicators suggest that the trough has passed, and economic data has started to surprise on the upside. Mobility and electricity consumption by country are two indicators that we have been following more closely. These suggest a continued sequential recovery across most markets.

Percentages of each security held in the portfolio as of 6/30/20

1. Universal Vision Biotechnology Co. 1.17%

Putnam Emerging Markets Equity Fund (PEMYX)

Annualized total return performance as of 6/30/20

Class Y shares Inception 9/29/08	**Net asset value**	**MSCI Emerging Markets Index [ND]**
Last quarter	24.76%	18.08%
1 year	10.24	-3.39
3 years	7.45	1.90
5 years	6.28	2.86
10 years	4.82	3.27
Life of fund	4.86	4.61

Total expense ratio: 1.49%

What you pay: 1.04%

"What you pay" reflects Putnam Management's decision to contractually limit expenses through 12/30/20.

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

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 assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

The MSCI Emerging Markets Index (ND) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. You cannot invest directly in an index.

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

The views and opinions expressed are those of the portfolio managers as of June 30, 2020, are subject to change with market conditions, and are not meant as investment advice.

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Investments in small and/or 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 industries or sectors. Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. 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. 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.

Putnam Retail Management

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