

Q4 2018 | Putnam Sustainable Future Fund and Putnam Sustainable Leaders Fund Q&A

Seeking growth with a focus on sustainability



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The funds seek companies with excellent ESG practices and those that address our greatest sustainability challenges.

The volatile markets provided us with some valuable insight. We used our rigorous analysis to sift through the short-term market “noise.”

We are seeing more businesses across every sector that are focused on sustainability, which should fuel continuous investment opportunities.

Katherine, what is your perspective on market conditions in the fourth quarter?

The fourth quarter brought quite a bit of volatility, which provided us with interesting challenges and opportunities. For these funds, I believe our sustainability focus — which includes taking a long-term perspective — has been helpful. In times of volatility, we use our rigorous analysis to sift through the short-term market “noise.” We evaluate whether a stock-price decline is due to a genuine fundamental problem or rather a transient, short-lived issue. In the latter case, we seek to take advantage of the more attractive valuations that result from the market declines.

How did the funds perform in this environment?

Both funds had a difficult quarter of performance, though they outperformed their benchmarks. Overall, stocks were punished quite harshly as investor fears mounted over a number of geopolitical and macroeconomic issues. Within this difficult context, growth stocks performed even worse than value stocks, and so the growth orientation of the portfolios was an additional challenge.

While investors never enjoy such turbulent markets, we found that they provided us with some valuable insight. In the brief time that the portfolios have been managed with a sustainability mandate, we have experienced both extreme advances and extreme declines in the equity market. This backdrop served as a test of the portfolios’ positioning, and we found the strategies have performed in line with our expectations. Generally, on days when the growth benchmarks were up dramatically, the funds

would advance as well, but often lag slightly. On days with extreme declines, the funds have tended to hold up a bit better than the indexes. Given our focus on high-quality, growth-oriented businesses, these results are aligned with what the portfolios are designed to do.

Turning to the funds themselves, could you tell us about the strategy and recent performance of Putnam Sustainable Future Fund?

Our emphasis with this fund is on solutions-oriented companies — those that offer innovative ways to address our greatest sustainability challenges. We seek products and services that result in positive environmental, economic, or social impact. Companies in the portfolio are believed to offer strong financial growth and profitability.

During the difficult fourth quarter, the fund declined slightly less than its benchmark, helped by holdings in the consumer staples and materials sectors. Stocks of consumer discretionary companies — one of the cyclical sectors that was hardest hit by the declines — were the greatest detractors.

From a sustainability perspective, a number of themes could be found across the portfolio's better-performing holdings. One theme was a focus on creating healthier environments through better-quality food ingredients or products that reduce negative environmental impact. Another theme was improving access to high-quality, effective health care. Also prevalent was a theme of increased efficiency and decreased waste — whether in work processes or use of materials.

What are some examples of positive impact that you seek from companies?

From an environmental perspective, positive impact could mean improved water quality or reduction of greenhouse gas emissions. Positive social impact could mean innovative practices around employee well-being or supply chain management — monitoring the standards and practices of suppliers, manufacturers, or other business partners. Our investing approach involves setting explicit expectations for both financial return and social or environmental benefit. We take a tailored, industry-specific approach to this analysis, through first-hand interaction with management teams and close ongoing collaboration with our research analysts.

Could you describe Putnam Sustainable Leaders Fund and tell us how it performed in the quarter?

With this fund, we seek companies with excellent environmental, social, and/or governance [ESG] practices. Companies in the portfolio are believed to offer more durable financial performance with lower risk profiles.

We look for excellence in areas such as clean and efficient materials use, plans to reduce carbon or water intensity, improvements in workplace equality and diversity, and alignment of management incentives with the company's sustainability objectives.

The fund declined in the fourth quarter, although its loss was less than that of its benchmark. As with Sustainable Future Fund, the sector that detracted most was consumer discretionary, while consumer staples and materials stocks helped offset the detractors somewhat.

What is your outlook as we begin 2019, and how are you positioning the portfolios?

There is no question that we are pretty late in the economic cycle, and to prepare for the possibility of greater economic pressures, we are reexamining our downside scenarios and making adjustments as necessary to holdings and allocations. As always, we conduct thoughtful analysis to determine what macroeconomic issues might affect the portfolios.

However, these are actively managed funds, and regardless of the economic backdrop, our focus remains on individual stock selection. With our research-driven investment process, we always consider fundamentals, valuation, and sustainability analysis for the companies we examine. Looking ahead, we believe that our range of investment opportunities will continue to expand. Across every sector, we are seeing many more companies increasing their focus on relevant, strategic sustainability performance.

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 12/31/18

Class Y shares Inception 4/2/02	Net asset value	Russell Midcap Growth Index
Last quarter	-15.07%	-15.99%
1 year	-6.78	-4.75
3 years	5.42	8.59
5 years	4.52	7.42
10 years	13.12	15.12
Life of fund	9.14	6.65
Total expense ratio: 0.82%		

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 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), 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.

The Russell Midcap Growth Index is an unmanaged index of those companies in the Russell Midcap Index chosen for their growth orientation.

Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 12/31/18

Class Y shares Inception 7/19/94	Net asset value	Russell 3000 Growth Index
Last quarter	-13.75%	-16.33%
1 year	-0.65	-2.12
3 years	11.53	10.85
5 years	9.49	9.99
10 years	14.24	15.15
Life of fund	11.41	9.48
Total expense ratio: 0.74%		

Returns for periods of less than one year are not annualized.
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The Russell 3000 Growth Index is an unmanaged index of those companies in the broad-market Russell 3000 Index chosen for their growth orientation.

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not favor growth-style investing. Investments in small and/or 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 investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have a sustainable focus. The fund's investment strategy of investing in companies that exhibit a commitment to sustainable business practices may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds that do not invest with a similar focus. 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. You can lose money by investing in the fund.

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