Seeking growth with a focus on sustainability

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. We used our rigorous analysis to sift through the short-term market “noise.”

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.

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

Katherine Collins, CFA, MTS
Head of Sustainable Investing
Portfolio Manager, Sustainable Future Fund and Sustainable Leaders Fund
Industry since 1990

Stephanie Henderson
Portfolio Manager, Sustainable Future Fund and Sustainable Leaders Fund
Industry since 2011

Shep Perkins, CFA
Co-Head of Equities
Portfolio Manager, Sustainable Leaders Fund
Industry since 1993
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

<table>
<thead>
<tr>
<th>Class Y shares</th>
<th>Inception 4/2/02</th>
<th>Net asset value</th>
<th>Russell Midcap Growth Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last quarter</td>
<td>−15.07%</td>
<td>−15.99%</td>
<td></td>
</tr>
<tr>
<td>1 year</td>
<td>−6.78</td>
<td>−4.75</td>
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</tr>
<tr>
<td>3 years</td>
<td>5.42</td>
<td>8.59</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>4.52</td>
<td>7.42</td>
<td></td>
</tr>
<tr>
<td>10 years</td>
<td>13.12</td>
<td>15.12</td>
<td></td>
</tr>
<tr>
<td>Life of fund</td>
<td>9.14</td>
<td>6.65</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Class Y shares</th>
<th>Inception 7/19/94</th>
<th>Net asset value</th>
<th>Russell 3000 Growth Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last quarter</td>
<td>−13.75%</td>
<td>−16.33%</td>
<td></td>
</tr>
<tr>
<td>1 year</td>
<td>−0.65</td>
<td>−2.12</td>
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<tr>
<td>3 years</td>
<td>11.53</td>
<td>10.85</td>
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<tr>
<td>5 years</td>
<td>9.49</td>
<td>9.99</td>
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</tr>
<tr>
<td>10 years</td>
<td>14.24</td>
<td>15.15</td>
<td></td>
</tr>
<tr>
<td>Life of fund</td>
<td>11.41</td>
<td>9.48</td>
<td></td>
</tr>
</tbody>
</table>

Total expense ratio: 0.74%

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 8/31/90), 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 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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