

Q1 2019 | Putnam Sustainable Future Fund and Putnam Sustainable Leaders Fund Q&A

Reflections on our first year



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Toward the close of the first quarter, the funds marked their one-year anniversary as sustainable investing portfolios. What are your thoughts on this milestone?

We are very pleased with our first year, in terms of both the research foundation we have built within our equity organization and the funds' performance. It was quite a year for the equity market, which brought both extreme advances and extreme declines in stock prices. Interestingly, we found those conditions to be helpful in assessing our positioning. No matter how much thoughtful risk-oriented analysis you conduct, you cannot be sure it's effective until the portfolios are tested in actual challenging market conditions.

What did you learn from the challenges?

We found that the funds 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 tended to hold up a bit better than the indexes. Our overall outperformance versus benchmarks therefore reflected the mix of growth orientation and risk mitigation elements that are at the core of our portfolio construction process.

In your view, what differentiates these funds in the growing and evolving sustainable investing landscape?

One important advantage is that Putnam believes sustainability research and ESG analysis are core components of a strategic investment process. Ours is a thoughtful, integrated investment approach; it is not simply a marketing program or a compliance requirement. Second, Putnam has an 80-year heritage that is grounded in active portfolio management backed by fundamental, bottom-up research. This backdrop is aligned with our investment process and our ongoing discussions with company managements.

Some investors misunderstand the characteristics of sustainable investing. What is a common myth you've come across?

Some people assume that we might have an adversarial relationship with company management teams, focusing only on issues that need to be improved or corrected. Others may believe we have a very narrow form of engagement, discussing only a few specific issues such as governance or board-related issues.

Since we are fundamental investors and active managers, we are able to have ongoing dialogue with the management teams of companies in which we invest, across a wide range of topics and with a long-term investment horizon. This form of engagement allows us to better understand key sustainability-related opportunities and challenges, and how they relate to overall corporate strategy.

Consistent and continuous conversations like these add context to our more quantitative research and help us identify more nuanced opportunities for investment and impact.

Could you describe the strategy 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. By providing these solutions, the companies in the portfolio offer strong financial growth and profitability, in our view.

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 the strategy for Putnam Sustainable Leaders Fund?

With this fund, we seek companies with excellent environmental, social, and/or governance [ESG] practices in areas that are relevant and material to their businesses. Companies in the portfolio are believed to offer durable financial performance with potentially 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.

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 3/31/19

Class Y shares Inception 4/2/02	Net asset value	Russell Midcap Growth Index	Russell 3000 Value - Russell Midcap Growth Linked Benchmark
Last quarter	17.55%	19.62%	19.62%
1 year	11.70	11.51	11.51
3 years	10.38	15.06	12.22
5 years	7.31	10.89	8.56
10 years	16.31	17.60	15.03
Life of fund	9.92	7.55	7.01

Total expense ratio: 0.82%

Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 3/31/19

Class Y shares Inception 7/19/94	Net asset value	Russell 3000 Growth Index
Last quarter	17.26%	16.18%
1 year	12.76	12.06
3 years	18.31	16.40
5 years	12.55	13.10
10 years	16.64	17.44
Life of fund	11.93	9.97

Total expense ratio: 0.74%

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

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

The Russell 3000 Value - Russell Midcap Growth Linked Benchmark represents performance of the Russell 3000 Value Index through March 20, 2018 and performance of the Russell Midcap Growth Index thereafter.

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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For informational purposes only. Not an investment recommendation.

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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. You can lose money by investing in the fund.

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