

Sustainability and performance go hand-in-hand



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How were market conditions and fund performance in the second quarter?

U.S. stocks delivered gains for the quarter, but they also encountered turbulence as investor fears mounted over a slowing economic growth and the potential consequences of the U.S.–China trade conflict. For the quarter, Putnam Sustainable Leaders Fund and Putnam Sustainable Future Fund delivered solid absolute returns. Sustainable Leaders Fund outperformed its benchmark by a considerable margin due mainly to strong performance in certain technology and consumer sector holdings, while Sustainable Future Fund underperformed its benchmark due mainly to poor performance in certain communications and financials sector holdings.

During the second quarter, you completed your first sustainability and impact report for the funds. What can you tell us about it?

We are proud of this comprehensive report, which was released in May and is available in the Sustainable Investing section of the Putnam Investments website. In it, we share a wealth of information, including an in-depth look at our investment process; an analysis of our portfolios according to a number of ESG-related metrics; and a look at some of our investment themes and how they translate into social and environmental impact.

Reporting on sustainability and impact is still evolving and is a challenge for investment managers across the industry. Metrics are still in development, and data is not yet complete. We believe this inaugural report offers a solid start to pursuing important questions for both our portfolios and the broader field.

Could you highlight an example of a theme you cover?

In the final section of the report, we aim to illustrate the connections between our investments and the real world. We provide examples of positive social and environmental impact and how they are linked to positive financial performance.

One example is the goal of decreasing antibiotic use in food production. Antibiotics are pervasive in the U.S. agricultural system, and this intensive use increases the threat of antibiotic resistance, creating meaningful health risks. Each year, about two million people are hospitalized with antibiotic-resistant infections, and thousands die as a result. Many of us have found that our own doctors are becoming much more cautious about prescribing antibiotics.

In the report, we highlight Chipotle Mexican Grill — a holding in our sustainable portfolios. The company was one of only three to earn an industry-leading “A” score for its comprehensive policies restricting the use of antibiotics. We believe the company, known for its competitive advantage with the use of fresh ingredients, offers further capital appreciation potential for its shareholders, including our funds.

You interact frequently with company leaders. Could you tell us more about this?

As fundamental investors and active managers, we have ongoing dialogue with the management teams of companies in which we invest, covering a wide range of topics. These conversations add context to our empirical research and help us identify more nuanced opportunities for investment and impact.

An extension of this dialogue came early in 2019, when we sent individual letters to the CEOs of every company owned by the funds. In the letters, we highlighted sustainability considerations that we believe are most important and that are key drivers of our investment decisions. Also, for each company, we outlined specific areas where we are monitoring ongoing progress and welcome additional dialogue. We’ve had a strong response to these letters, and expect that the resulting discussions will continue to enhance our investment research.

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 potential for 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 and improving the standards and practices of suppliers, manufacturers, or other business partners. Our investing approach involves analysis of potential financial returns as well as potential social or environmental benefits. We take a tailored, industry-specific approach to this research 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 performance that demonstrates true leadership 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.

As of 3/31/19, Chipotle Mexican Grill represented 1.69% of Putnam Sustainable Leaders Fund assets and 2.89% of Putnam Sustainable Future Fund assets. Portfolio holdings as of 6/30/19 will be available on 8/1/19.

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 6/30/19

Class Y shares Inception 4/2/02	Net asset value	Russell Midcap Growth Index
Last quarter	4.66%	5.40%
1 year	11.55	13.94
3 years	11.23	16.49
5 years	7.29	11.10
10 years	14.25	16.02
Life of fund	10.05	7.73

Total expense ratio: 0.82%

Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 6/30/19

Class Y shares Inception 7/19/94	Net asset value	Russell 3000 Growth Index
Last quarter	6.61%	4.50%
1 year	15.75	10.60
3 years	20.33	17.81
5 years	12.88	13.02
10 years	15.74	16.13
Life of fund	12.07	10.04

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 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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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 June 30, 2019. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: Stock values may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions, changes in government intervention in the financial markets, and factors related to a specific issuer, 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. You can lose money by investing in the fund.

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