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BEST ETFS & MUTUAL FUNDS

Putnam Sustainable Leaders' Dobson Unearths Profit From ESG Champions

Q&A

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Are you looking for a mutual fund whose investments reflect your values and which also outperforms? Consider one of the best mutual funds, $6.8 billion Putnam Sustainable Leaders Fund **(PNOPX)**.

The fund invests only in stocks that are, as the fund's name suggests, leaders in embracing sustainability practices.

And that focus has not prevented the fund from shining in traditional terms. The fund's total return has a long track record of topping the broad market in the form of the S&P 500 index.

It's been able to do that in part because the portfolio includes market leaders that CAN SLIM investors would recognize. Software titan Microsoft **(MSFT)**, chipmaker Nvidia **(NVDA)** and drugmaker Vertex Pharmaceuticals **(VRTX)** were recent members of the IBD Leaderboard.

Semiconductor gear maker Applied Materials **(AMAT)** and drugmaker Regeneron Pharmaceuticals **(REGN)** were some of the fund's recent members of the IBD 50.

Leaderboard is IBD's curated list of leading stocks that stand out for their technical and fundamental prospects. The IBD 50 is IBD's flagship screen of leading growth stocks that show strong relative price strength and top-notch fundamentals.

Further, the sustainable investing fund offers a smoother ride to shareholders than the broad market provides. During

Sustainable Leaders Fund's Stephanie Dobson, 32, looks for companies moving toward environmental goals.

the three years ended Jan. 31, for every 100% gain notched by the big-cap bogey, the fund advanced 102%, according to Morningstar Direct. But the fund lost just 94% for every 100% drop suffered by the benchmark.

ESG stands for environmental, social and governance. Broadly, environmental is concerned with pollution. Social focuses on such issues as privacy, human rights and labor standards. Governance assesses issues from corporate honesty to whistleblower activities.

This sustainable investing growth fund became a 2021 IBD Best Mutual Funds Awards winner by outperforming the S&P 500 in 2020 and in the prior three, five and 10 calendar years.

Its total return in 2021 was 23.25% vs. 28.71% for the S&P 500 and 20.45% for its large-cap growth mutual fund rivals tracked by Morningstar Direct.

The fund outperformed over the three, five and 10 years ended Dec. 31, 2021.

In a conversation with IBD from her home office in Boston, 32-year-old Stephanie Dobson also described how she and co-manager Katherine Collins, head of Putnam's Sustainable Investing, manage the fund overall.

IBD: Does this fund's approach to ESG investing differ from some other funds' ESG investing strategy?

Stephanie Dobson: One thing that differentiates this fund is its inclusionary approach. We're not screening out ideas that don't fit some third-party ESG criteria or screens. Rather, we look to include fantastic companies that display sustainability leadership that's linked to strong fundamentals and reasonable valuation as well.

IBD: And you look for businesses that embrace sustainable investing value overall, right? In contrast, another fund that you help manage, $582 million Putnam Sustainable Future Fund **(PMVAX)**, looks for stocks with ESG-oriented products or services, correct?

Dobson: In Future Fund, we're looking more at what the company sells or what they do. In Leaders, we focus more on how they operate the business.

IBD: How else would you characterize Sustainable Leaders?

Dobson: Companies must meet four criteria. First, we're focused on materiality. We're looking for sustainability issues that are relevant and matter to financials.

Second, we're looking for proactiveness. Is the company going beyond checking boxes for ESG compliance? Is it aiming to create true sustainability leadership?

Third, we're looking for companies with clear and transparent goals, that track and report their progress.

Fourth, we're looking for companies whose sustainability characteristics have impact beyond their own four walls — on suppliers, customers and competitors.

IBD: You hold Applied Materials. Is the crux of their sustainability appeal that they facilitate the creation of computer chips, which make life better for people and help companies cut costs and energy usage?

Dobson: Right. Applied Materials makes equipment that enables semiconductor manufacturers to make products that increase efficiency and computing power and help improve the world around them. They touch sustainable themes like renewable energy.

IBD: What about Applied Materials' financial fundamentals?

Dobson: Their leading position in semiconductor capital equipment should continue to benefit from really strong semiconductor demand. That's especially true in less cyclical areas like industrials, autonomous driving and data application.

IBD: Nvidia makes fast-computing chips. Its CUDA software development platform enables developers to access libraries of operating code to build and deploy applications. In turn, that encourages them to use Nvidia chips. It's a virtuous circle, right?

Dobson: Yes, the integration of those software capabilities helps drive accelerated applications development and shifts Nvidia's financial profile in a positive way.

Secondly, its addressable markets are quickly moving beyond traditional strengths in gaming, cryptocurrency and data centers.

New uses include a wide range of artificial intelligence and the omniverse. They include virtual factories and industrial design. Those applications have potential to meaningfully improve customer efficiency.

Nvidia's core sustainability focus focuses on people and technology that move humanity forward in energy efficient computing. It helps contribute to 50% plus annual revenue and earnings growth.

IBD: Speedy computer chips are vital to the emerging processes that you're referring to. ASML Holding **(ASML)** is the only manufacturer of chipmaking machines that use extreme ultraviolet light (EUV). Their tiny wavelengths enable creation of chips with very small nodes or transistor gates. The more gates on a chip, the faster its calculations. And everyone knows there is a chip shortage. Is that the thesis for ASML?

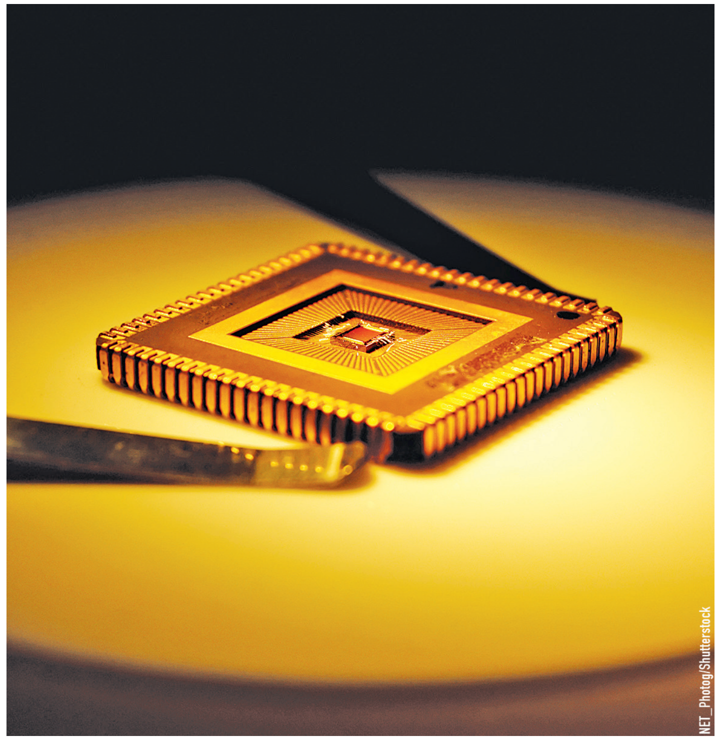
Dobson: Yup. These semiconductor-related businesses all have similar themes related to efficiency and effectiveness for customers.

And, yes, demand is strong. Also, ASML leads in environmental goals like decreased energy consumption. That lowers customers' costs and improves efficiency.

IBD: OK, something different: Hilton Worldwide **(HLT)**. Is this more than a play on a recovering economy?

Dobson: That cyclical element doesn't hurt. But what we love about Hilton is its even more compelling secular story. It's one of the leading hotel franchise stories. It has strong market share in the U.S. and in properties under development in the U.S.

Hilton has a range of price points across its various brands. It appeals to 100 million travelers. It has a growing room count. Its franchise model drives its recurring cash flow operating model, which needs very little capital expenditure and leads to above-average free cash generation and share repurchase rates.



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Some semiconductor-related businesses are stressing sustainability.

The market underappreciates the duration of growth and low volatility of this cash flow stream business.

IBD: What are its sustainability strengths?

Dobson: The market underappreciates Hilton's lead in environmental issues. They've developed a measurement system that helps owners measure their footprints. That links to franchisee costs and returns on investment metrics.

Their sustainability issues include energy, laundry, cleaning services and water usage. Hilton has also done work in training employees and tracking for signs of human trafficking.

IBD: Is your Apple **(AAPL)** stake a hardware bet or a software bet?

Dobson: It's increasingly some of both. Also, they've set a goal for making a carbon-neutral product by 2030. Bringing along their vast supply chain, that's very ambitious.

They've been carbon-neutral in their own operations for a couple years.

Also, they fiercely protect data privacy for users. Positions like those have made theirs a very strong ecosystem.

Growth in services means more of Apple's revenues are moving toward a recurring basis. That's not necessarily reflected in their valuation. The stock is close to a 4% free cash flow yield as that mix shift (between hardware and services) continues.

IBD: What are the traditional financial and ESG appeals of Home Depot **(HD)**?

Dobson: First of all, it dominates the home improvement space. And Home Depot has high return on invested capital. That means strong free cash flow generation, since they're not increasing their number of stores as fast as they used to.

Their sustainability practices include sharing profits with associates. HD views them as key customer contact points. And HD promotes from within.

Roughly speaking, the do-it-yourself business grew faster than contractor business in year one of the pandemic. Currently, the pro-business is growing faster than the DIY business.

IBD: Why do you like industrial gas manufacturer Linde **(LIN)**?

Dobson: They help customers run their businesses and operate more efficiently. A big part of their business is providing on-site industrial gasses. They have long-term contracts that are vital to customers. I like that type of business.

Their solutions help customers reduce emissions. They provide lifesaving oxygen to hospitals, special gasses for electronics manufacturers, hydrogen for clean fuel.

And they continue to capture the tail end of benefits from their merger with Praxair (which was approved by the Federal Trade Commission in 2018). They have more secular growth than in the past. And more than investors perhaps appreciate.

Q1 | 2022

★★★★

The fund received a 4-star Overall Morningstar Rating as of 3/31/22 among 1,124 funds in the Large Growth category (Y shares, based on risk-adjusted returns)

Katherine Collins, CFA, MTS
Portfolio Manager
(industry since 1990)

Stephanie Dobson
Portfolio Manager
(industry since 2011)

Objective
The fund seeks long-term capital appreciation.

Morningstar category
Large Growth

Lipper category
Large-Cap Core

Primary benchmark
S&P 500 Index

Secondary benchmark
Putnam Sustainable Leaders Linked Benchmark

Fund symbols

Class A	PNOPX
Class B	PNOBX
Class C	PNOCX
Class R	PNORX
Class R6	PSLGX
Class Y	PNOYX

Net assets
$6,055.64M

Number of holdings
63

Turnover
24%

Not FDIC insured
May lose value
No bank guarantee

A world of investing.®

Putnam INVESTMENTS

Putnam Sustainable Leaders Fund

Investing in sustainability leadership

Committed companies

The fund invests in companies we believe have strong fundamentals linked to leadership in financially material sustainability issues.

Active research process

A framework grounded in fundamental research, enhanced by a focus on material sustainability issues, drives investment decisions.

Experienced team

An experienced, dedicated sustainable investing team is integrated with Putnam's equity research group.

Top 10 holdings

Microsoft	8.26%
Apple	8.12
Amazon	4.66
Walmart	2.66
Bank of America	2.43
Danaher	2.30
Adobe	2.27
NVIDIA	2.14
Visa	2.11
Thermo Fisher Scientific	2.08

Holdings represent 37.03% of the portfolio and will vary over time.

Market-cap breakdown

Over $95B	62.86%
$22B–$95B	20.28
$4.7B–$22B	13.83
Less than $4.7B	0.00
Cash and other assets	3.04

"Cash and other assets" includes cash, short-term securities, ETFs, bonds excluding convertible bonds, and other securities not able to be classified by market capitalization.

Risk (Y shares, as of 3/31/22)

Beta	0.96
Tracking error	3.92%
Up capture ratio	98.41%
Down capture ratio	97.85%

Sector weightings

	Underweight	Overweight	Portfolio	Primary benchmark
Materials		4.3	6.9%	2.6%
Information technology		2.9	30.9	28.0
Health care		1.6	15.2	13.6
Utilities		0.9	3.6	2.7
Industrials		0.8	8.7	7.9
Consumer discretionary		0.4	12.4	12.0
Consumer staples		0.3	6.4	6.1
Financials	-1.2		9.9	11.1
Real estate	-1.3		1.4	2.7
Energy	-3.9		0.0	3.9
Communication services	-7.8		1.6	9.4

Cash and net other assets represent 3.0% of the portfolio.

Allocations will vary over time. Due to rounding, percentages may not equal 100%.

The unclassified sector, where applicable, includes exchange-traded funds and other securities not able to be classified by sector.

Top active weights

Top 5 overweights	Portfolio	Primary benchmark	Over/under
Microsoft	8.3%	6.0%	2.3%
Walmart	2.7	0.6	2.1
Hilton Worldwide	2.0	0.1	1.9
Danaher	2.3	0.5	1.8
Adobe	2.3	0.6	1.7

Top 5 underweights	Portfolio	Primary benchmark	Over/under
Alphabet	0.0%	4.2%	-4.2%
Tesla	0.0	2.4	-2.4
Berkshire Hathaway	0.0	1.7	-1.7
Meta Platforms	0.0	1.3	-1.3
UnitedHealth	0.0	1.3	-1.3

Capture ratios are used to evaluate how well an investment manager performed relative to an index during specific periods (periods of positive return in the case of up capture, negative return in the case of down capture). The ratio is calculated by dividing the manager's returns by the returns of the index during the period and multiplying that factor by 100. **Turnover** is the rate at which the fund buys and sells securities each year. For example, if a fund's assets total $100 million and the fund bought and sold $100 million of securities that year, its portfolio turnover rate would be 100%. **Beta** is defined as a fund's sensitivity to market movements and is used to evaluate market related, or systematic, risk. It is a historical measure of the variability of return earned by an investment portfolio. Risk statistics are measured using a 3-year regression analysis. For funds with shorter track records, Since Inception analysis is used. **Tracking error** assesses how closely a fund's performance tracks that of the fund's benchmark by calculating the standard deviation of the difference between the fund's returns and its benchmark returns over a given time period, typically 5 years.

Not all share classes are available on all platforms.

Total expense ratio

(Y shares)
0.80%

(A shares)
1.05%

Adjustable management fee examples

(Y shares, based on performance versus benchmark)

Base fee	0.54%
Higher fee after 1% outperformance	0.57%
Lower fee after 1% underperformance	0.51%
Maximum performance adjustment	+/-0.12%

Annual performance (all distributions reinvested)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 YTD
Y shares at net asset value	36.63%	13.64%	-0.16%	7.91%	29.39%	-0.65%	36.17%	28.84%	23.56%	-9.45%
A shares before sales charge	36.28	13.35	-0.40	7.65	29.05	-0.90	35.83	28.50	23.26	-9.51
Primary benchmark	32.39	13.69	1.38	11.96	21.83	-4.38	31.49	18.40	28.71	-4.60
Secondary benchmark	34.23	12.44	5.09	7.39	29.59	-2.12	35.64	18.40	28.71	-4.60

Annualized total return performance	1 year	3 years	5 years	10 years	Life of fund
Y shares (Inception 7/19/94)	6.01%	18.73%	18.13%	15.39%	12.56%
A shares (Inception 8/31/90) before sales charge	5.73	18.43	17.83	15.10	12.31
A shares after sales charge	-0.35	16.12	16.44	14.42	12.10
Primary benchmark	15.65	18.92	15.99	14.64	10.98
Secondary benchmark	15.65	19.29	18.15	15.66	10.82

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 A and Y shares assumes reinvestment of distributions and does not account for taxes. After-sales-charge returns for class A reflect a maximum 5.75% load. Returns for class Y shares prior to their inception are derived from the historical performance of class A shares, which have not been adjusted for their lower expenses; had they, returns would have been higher. 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. For the most recent month-end performance, please visit putnam.com.

The S&P 500® Index is an unmanaged index of common stock performance. The Putnam Sustainable Leaders Linked Benchmark represents the performance of the Russell 3000® Growth Index through July 31, 2019, and the performance of the S&P 500® Index thereafter. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. You cannot invest directly in an index.

Because the dollar amount of the monthly performance fee adjustment is based on the fund's average assets during the rolling performance period, the amount of any dollar adjustment as a percentage of a fund's current assets could exceed the "maximum annualized performance adjustment rates." Performance fee adjustments will not commence until a fund has been operating under a shareholder-approved management contract with a performance fee adjustment for at least 12 months.

The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36–59 months of total returns, 60% 5-year rating/40% 3-year rating for 60–119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads. Putnam Sustainable Leaders Fund received 3, 3, and 4 stars for the 3-, 5-, and 10-year periods among 1,124, 1,025, and 765 Large Growth funds, respectively.

Consider these risks before investing: 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.
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.

Investing with a focus on companies that exhibit a commitment to sustainable business practices may result in the fund investing in certain types of companies, industries, or sectors that underperform the market as a whole. In evaluating an investment opportunity, we may make investment decisions based on information and data that is incomplete or inaccurate. In addition, a company's business practices, products, or services may change over time. As a result of these possibilities, among others, the fund may temporarily hold securities that are inconsistent with the fund's sustainable investment criteria.

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.

Request a prospectus or a summary prospectus, if available, from your financial representative or by calling Putnam at 1-800-225-1581. These prospectuses include investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

For informational purposes only. Not an investment recommendation.

Putnam Retail Management

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