

New research report explores portfolio themes



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U.S. stocks recorded a solid second quarter despite intermittent volatility.

Our latest research report, “Investing to thrive,” explores insights and themes of our sustainable investing approach (available to financial professionals at [Putnam.com/advisor](https://www.putnam.com/advisor)).

One investment theme, within the overarching category of “Thriving People,” is human health and well-being, with elements of preventive care, chronic disease treatment, and mental health support.

How were investing conditions and how did the funds perform in the second quarter?

U.S. stocks recorded a solid second quarter despite intermittent volatility brought on by concerns about rising inflation and an increasing number of Covid-19 variants. One notable trend has been a similarity in equity performance across styles and regions. For the quarter, both funds delivered solid absolute returns but underperformed their benchmarks slightly.

Your team recently published a report, *Investing to thrive*, which details themes of your sustainable investing approach. Could you share an example of one of those themes?

Within the overarching category of “Thriving People,” we examine human health and well-being. This theme includes elements of preventive care, chronic disease treatment, and mental health support. Companies that support human health include conventional healthcare products and service providers as well as those that focus on holistic wellness through nutrition and fitness. As of May 2021, this theme represented approximately 16% of the Sustainable Leaders portfolio and 30% of the Sustainable Future portfolio.

One example from chronic disease treatment is our investment in an innovative and growing medical device company that helps individuals monitor and control their blood sugar levels, a key metric for diabetics. Chronic diseases are a significant challenge for individuals and the broader healthcare system. Nearly half of all Americans suffer from at least one chronic disease, and this number is growing. Chronic diseases also account for almost 90% of total healthcare spending and an even larger proportion of public insurance [Medicare and Medicaid] spending.

Can you explain how the United Nations Sustainable Development Goals [SDGs] fit into your research?

The SDGs are a set of 17 global priorities developed by countries, non-governmental organizations, businesses, scientific communities, and other stakeholders. This widely endorsed framework represents a way to assess and address the imminent challenges facing our world. While they are not explicitly devised as an investment framework, the SDGs can serve as a guide for both companies and investors, as they help to assess long-term social and environmental impact.

As investment managers, we believe that an effective, sustainable global economy is essential to the creation of potential long-term value. In our *Investing to thrive* research paper, we discuss the connections between the companies selected for our portfolios and the priorities reflected in the SDGs.

Could you describe the strategy of Putnam Sustainable Leaders Fund?

The Sustainable Leaders portfolio invests in companies that have demonstrated leadership in the sustainability issues that are financially material to their businesses. Our investment thesis is that companies that exhibit this type of commitment also often demonstrate potential for strong long-term financial performance. The stocks of these companies are typically, but not always, considered to be growth stocks, and often are large cap in size. Some examples of areas where a company might demonstrate leadership include clean and efficient materials use, reductions in environmental intensity, or improvements in workplace equality and diversity.

Could you describe the strategy of Putnam Sustainable Future Fund?

The Sustainable Future portfolio invests in companies whose products and services provide solutions to essential sustainability challenges. Our investment thesis is that solutions-oriented companies with potential to create positive social and environmental impact also demonstrate potential for strong growth and long-term financial performance. The stocks of these companies are typically, but not always, considered to be growth stocks, and are often mid cap or small cap in size. Some examples of areas where a company might offer sustainable solutions include prevention and treatment of chronic disease, access to information and opportunity, growth of the renewable energy supply, or development of the circular economy.

Putnam Sustainable Leaders Fund (PNOYX)

Annualized total return performance as of 6/30/21

	Class Y shares Inception 7/19/94	S&P 500 Index
Last quarter	8.26%	8.55%
1 year	41.17	40.79
3 years	22.89	18.67
5 years	22.81	17.65
10 years	16.29	14.84
Life of fund	12.96	11.03

Total expense ratio: 0.78%

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 6/30/21

	Class Y shares Inception 4/2/02	Russell Midcap Growth Index
Last quarter	10.12%	11.07%
1 year	53.72	43.77
3 years	26.77	22.39
5 years	20.24	20.52
10 years	15.57	15.13
Life of fund	12.16	9.37

Total expense ratio: 0.82%

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

The S&P 500 Index is an unmanaged index of common stock performance.

The Russell Midcap Growth Index is an unmanaged index of those companies in the Russell Midcap 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, 2021. They are subject to change with market conditions and are not meant as investment advice.

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. The fund's sustainable and environmental, social, and/or corporate governance (ESG) investment strategy may result in the fund investing in certain types of companies, industries or sectors that the market may not favor. 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. 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.

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