

Q3 2021 | Putnam Sustainable Future Fund and Sustainable Leaders Fund Q&A

Thematic focus continues through challenging quarter for growth stocks



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U.S. stocks had a challenging third quarter, as economic concerns weighed on investor sentiment.

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 we examine is the “circular economy,” an economic model that emphasizes cycles of reuse, recycling, and reduction.

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

Most U.S. equity indexes posted losses in the third quarter, as economic concerns weighed on investor sentiment in the final weeks of the period. The Sustainable Leaders portfolio and its benchmark posted modest gains for the quarter, while the Sustainable Future portfolio and its benchmark posted modest losses.

Stock markets struggled as worries mounted over rising inflation and the spread of the Delta variant of Covid-19, which led to an increase in cases worldwide. Growth stocks in particular struggled in the quarter, due in large part to rising 10-year Treasury yields. Yields rose as investors grew concerned that inflation trends — described by the Fed as “transitory” earlier in the year — might be more durable. A number of businesses were challenged by shortages in parts and labor as well as cost pressures for materials, shipping, and labor. However, U.S. stocks were also boosted at times by positive economic data and strong second-quarter 2021 earnings results from businesses.

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 Planet™, we examine the circular economy. This refers to an economic model that emphasizes cycles of reuse, recycling, and reduction as opposed to a linear model of extraction, consumption, and disposal. For example, single-use plastics have a negative impact on our planet, especially our oceans. The use of plastics has increased 20-fold over the past 50 years, and recycling rates for plastic

are low. Clothing is another example, as 36 billion items of clothing are thrown away in the United States each year. Increasingly, consumers are recognizing the harm to the environment and are looking for alternatives. We seek companies that provide innovative solutions to this challenge through materials innovation, supplier partnerships, and products designed for durability and reuse.

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.

We characterize leadership in sustainability using four criteria: (1) a focus on material, or relevant, sustainability issues, (2) creativity, proactiveness, or considerations that go beyond compliance or box-checking, (3) transparency demonstrated by specific company goals and clear and consistent progress reporting, and (4) impact, or sustainability characteristics that create benefit beyond a company's "borders." Some examples of 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 9/30/21

	Class Y shares Inception 7/19/94	S&P 500 Index
Last quarter	0.29%	0.58%
1 year	27.31	30.00
3 years	20.13	15.99
5 years	21.11	16.90
10 years	18.89	16.63
Life of fund	12.86	10.96

Total expense ratio: 0.78%

Putnam Sustainable Future Fund (PMVYX)

Annualized total return performance as of 9/30/21

	Class Y shares Inception 4/2/02	Russell Midcap Growth Index
Last quarter	-1.61%	-0.76%
1 year	29.97	30.45
3 years	23.37	19.14
5 years	19.01	19.27
10 years	17.80	17.54
Life of fund	11.93	9.22

Total expense ratio: 0.77%

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 September 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 and the market may not favor growth-style investing. Investments in small and midsize companies increase the risk of greater price fluctuations. 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 companies, industries, or sectors. International investing involves currency, economic, and political risks. Investing with a focus on companies whose products and services produce positive environmental, social, and economic development impact 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. 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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Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.