Expected portfolio impact from a rising interest rate environment

The Putnam Total Return strategy employs an active management philosophy. This philosophy, called Dynamic Risk Allocation, is centered on the premise that market and economic conditions change and, consequently, the risk adjusted return profile for asset classes will also change. "Parity" implies no differential view on the risk adjusted returns of an asset class. The Putnam Global Asset Allocation team has different asset class views and expresses them by allocating more risk to favorable risk adjusted asset classes and less to asset classes with an unfavorable risk adjusted return profile per our investment methodology. Our investment process and decision making is founded in empirical research and is validated by informed judgment.

Here are the sector weights and risk weights in the Putnam Return portfolio as of April 1, 2013:

Attached are the latest sector weights and associated risk in the portfolio:

EndDt	Portfolio	CurrWt	RiskWt	IndexProxy
4/1/2013	Cash	-52.52%		3 month U.S. Treasury Bill
4/1/2013	US TIPs	14.92%	3.55%	Barclays TIPS Index
4/1/2013	US Debt	19.17%	1.87%	Barclays Aggregate Bond Index
4/1/2013	Int'l Gov't Debt	28.36%	3.93%	Citi WGB ex US Index
4/1/2013	US HY	29.75%	20.81%	JP Morgan High Yield Developed Index
4/1/2013	EM Debt	4.96%	2.68%	JPM EM Global Bond Index
4/1/2013	Real Estate	3.30%	5.00%	MSCI REIT Index
4/1/2013	US Equity	19.78%	20.89%	Russell 3000 Index
4/1/2013	Int'l Equity	11.99%	13.30%	MSCI EAFE Index
4/1/2013	Commodities	15.35%	19.80%	GSCI Index
4/1/2013	EM Equity	4.96%	8.18%	MSCI Emerging Markets Index

Portfolio Observations & Instructive Points

The Putnam "Neutral / Policy Portfolio", although not shown graphically here, starts with the following risk allocations:

Equity = 50%
Credit = 16%
Rates = 16%
Inflation = 16%

As of April 1, 2013, the Putnam Total Return portfolio has the following risk profile:

Equity =	42.37% (US Equity, EM Equity, International Equity)
Credit =	20.81% (US High Yield, EM debt)
Rates =	8.48% (US Govt debt, Int'l Gov debt)
Inflation =	28.35% (Commodities, REITS, TIPS)

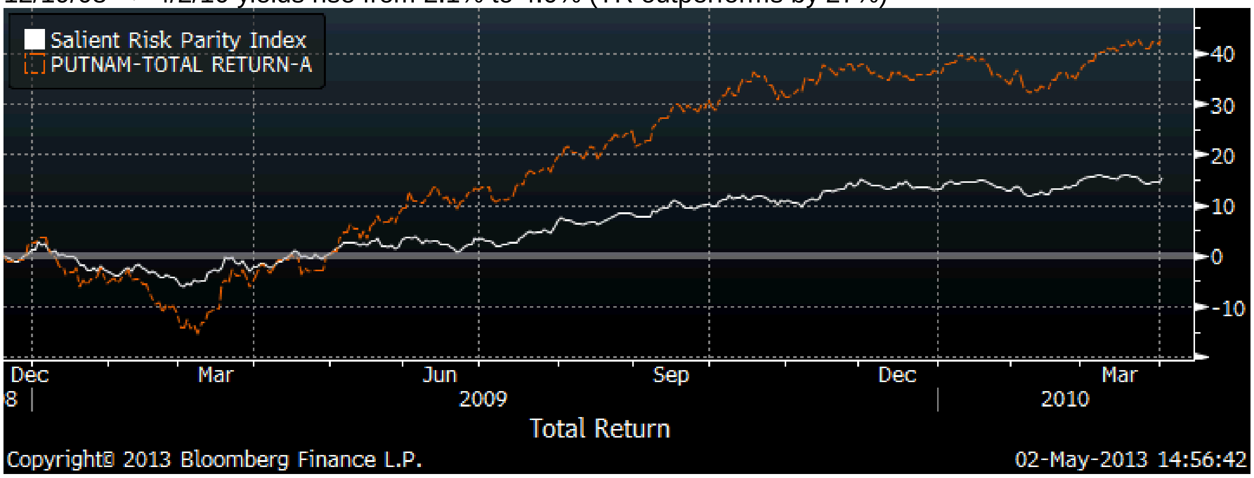
A traditional Risk Parity portfolio may have the following risk allocations:

Equity =	25%
Credit =	25%
Rates =	25%
Inflation =	25%

As you can see from the April 1, 2013 portfolio composition of Total Return, we have 8.48% of our risk budget allocated to interest rates – *approximately 50% below our neutral / policy portfolio and significantly below what a traditional risk parity portfolio may hold*. We believe the risk adjusted return from US Government bonds is not favorable relative to other risk adjusted return profiles in our investable universe.

Finally, as you can see from the charts below, this flexibility has allowed Putnam Total Return to perform well against the Salient Risk Parity Index during recent periods of rising interest rates.

12/19/08 --> 4/2/10 yields rise from 2.1% to 4.0% (TR outperforms by 27%)



10/8/10 --> 2/10/11 yields rise from 2.4% to 3.6% (TR outperforms by 6%)