

Q4 2022 | Putnam Large Cap Value Fund Q&A

In a challenging year, the fund delivers solid relative performance



Darren A. Jaroch, CFA
Portfolio Manager
Industry since 1996



Lauren B. DeMore, CFA
Portfolio Manager
Industry since 2002

The fund slightly underperformed the benchmark for the fourth quarter, but outperformed for the 1-, 3-, 5-, and 10-year periods ended December 31, 2022.

In 2022, large-cap value stocks outperformed large-cap growth by more than 21%.

While we foresee an end to interest-rate hikes in 2023, we do not expect cuts any time soon.

How did value stocks perform in the challenging year for financial markets?

Lauren: Large-cap value stocks had a strong fourth quarter, delivering solid gains in October and November but declining in December. For the year overall, value stocks had much better performance than growth. In 2022, large-cap value outperformed large-cap growth by more than 21%.

How did the fund perform?

Darren: For the full year, the fund outperformed its Russell 1000 Value Index benchmark by a considerable margin. This performance strength was broad based, with no individual sector or name dominating returns. Consistent with our strategy, stock selection was the largest driver of outperformance for the year. The fund has also outperformed for longer periods, including the 3-, 5-, and 10-year periods ended December 31, 2022.

For the fourth quarter, the fund slightly underperformed the benchmark. Stock selection in consumer staples, energy, and utilities were the main sources of stock-specific weakness. This was offset somewhat by strength in financials and industrials. The fund also benefited from underweight positions in communication services and real estate.

What are your thoughts on economic conditions as we enter 2023?

Lauren: As the economy shows signs of slowing, we still see surprising strength and durability in the consumer sector. This, we believe, is the result of low unemployment and still-high levels of savings for consumers at all income levels. However, this may shift as Federal Reserve tightening continues. At the same time, we are watching for inflections in key indicators such as supply chains, inflation, labor markets, and consumer spending that may give the Fed a reason to pause.

We are paying close attention to corporate earnings estimates and the potential for downward revisions as the global economy slows in response to aggressive central bank policies. Strength in the U.S. dollar has been a headwind for U.S. exporters, but they could find relief as the Fed reaches the end of its hiking phase while other central banks continue tightening.

How have you positioned the portfolio in this environment?

Lauren: We don't try to predict the magnitude or duration of macroeconomic forces. Instead, we focus on how they might impact the profitability of the companies we own. For example, many sectors in our value universe are relatively immune to inflationary pressures. However, for those that are challenged, we aim to find companies that have pricing power. We tend to see pricing power in companies with concentrated end markets. However, for larger discretionary products like furniture and electronics, it depends on whether consumers are willing and able to spend in this inflationary climate.

What is your outlook for the months ahead?

Darren: For the foreseeable future, we expect continued volatility and modest returns for equity markets. Labor markets remain tight, which will make inflation an ongoing threat, especially for services, a key component of the Consumer Price Index. While we do foresee an end to interest-rate hikes in 2023, we do not expect cuts any time soon. We believe the Fed is likely to hold rates at the peak level for longer than many investors expect. As always, we seek to manage the fund's sensitivity to macroeconomic challenges through careful portfolio construction and stress testing.

Putnam Large Cap Value Fund (PEIYX)

Annualized total return performance as of 12/31/22

	Class Y shares Inception 10/1/98	Russell 1000 Value Index
Last quarter	12.09%	12.42%
1 year	-2.84	-7.54
3 years	9.44	5.96
5 years	9.44	6.67
10 years	11.86	10.29
Life of fund	10.38	—
Total expense ratio: 0.63%		

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

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 assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. Class Y shares before their inception are derived from the historical performance of class A shares (inception 6/15/77), which have not been adjusted for the lower expenses; had they, returns would have been higher. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

The Russell 1000® Value Index is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their value orientation. 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. There are no guarantees that a company will continue to pay dividends.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed here are those of the portfolio managers as of December 31, 2022, are subject to change with market conditions, and are not meant as investment advice.

Consider these risks before investing: Value stocks may fail to rebound, and the market may not favor value-style investing. Income provided by the fund may be reduced by changes in the dividend policies of, and the capital resources available at, the companies in which the fund invests. 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.

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.

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.

A world of investing.®



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.