

Q3 2023 | Putnam Large Cap Growth Fund Q&A

Large-cap growth rally takes a pause in third quarter



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The ability of certain companies to grow through the headwinds will differentiate individual stock returns.

What can you tell us about market conditions in the third quarter?

After very strong performance all year, stocks lost some momentum in the third quarter. Along with most of the broad market, large-cap growth stocks posted a decline. The Russell 1000 Growth Index has recovered considerably from its drawdown in 2022 and is up nearly 25% year to date. Throughout the quarter, stocks struggled due to persistent inflation, uncertainty about the path of monetary tightening, and concern about economic growth and the possibility of recession. The yield on the 10-year Treasury note surged, reaching a 16-year high and sparking a sell-off for equities. Mortgage rates also surged, hitting multidecade highs.

A thematic overlay is a distinctive feature of your investment process. Could you tell us about one of your growth themes?

We identify key themes — trends or problems, for example — that businesses are working to address. We constantly monitor the themes to determine which companies are poised to benefit from them. One theme example is autonomous and electric vehicles. Electric vehicles represent less than 3% of new car sales today, and self-driving vehicles are only in the testing phase. However, the revenue opportunity for semiconductor companies that supply these end markets is already meaningful and growing at above-market rates.

One of our holdings within this theme is Cadence Design Systems, the second-largest player in the electronic design automation (EDA) market. The company produces hardware, software, and silicon used to facilitate and enable chip design. We believe we are at the start of a multiyear, potentially a decade-long, shift in growth rates

for EDA companies. Cadence stock has been resilient in a variety of market conditions — notably in 2022 — as revenues grew ahead of consensus on strong demand for its software and chip designs.

What is your outlook as we begin the final quarter of 2023?

We anticipate a reasonably slow-growth economy for the remainder of this year and into 2024. Interest rates are likely to move a bit higher, and the impact of higher mortgage rates and student loan repayments will impact consumer sentiment. The ability of certain companies to grow through the headwinds will differentiate individual stock returns.

We believe that the portfolio is fundamentally positioned to succeed in a variety of economic conditions given the types of businesses that we own. We are focused on businesses with pricing power, longer-term contracts, price escalators, a lack of customer concentration, and high barriers to entry. We conduct rigorous analysis that is based on growth prospects over time periods of years rather than months or quarters. At a high level, the companies we seek tend to be in areas of the market that are less vulnerable to fluctuations in the economy.

Putnam Large Cap Growth Fund (PGOYX)

Annualized total return performance as of 9/30/23

	Class Y shares Inception 7/1/99	Russell 1000 Growth Index
Last quarter	-4.20%	-3.13%
1 year	27.65	27.72
3 years	5.18	7.97
5 years	11.78	12.42
10 years	14.28	14.48
Life of fund	9.30	9.72

Total expense ratio: 0.67%

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 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 10/2/95), which have not been adjusted for the lower expenses; had they, returns would have been higher. Recent performance may have benefited from one or more legal settlements. For the most recent month-end performance, please visit putnam.com.

The Russell 1000® Growth Index is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their growth 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.

As of 9/30/23, Cadence Design Systems represented 1.87% of Putnam Large Cap Growth Fund assets.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of September 30, 2023. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: Growth stocks may be more susceptible to earnings disappointments, and the market may not favor growth-style 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. 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.

The fund may invest a significant portion of its assets in companies in the information technology sector. The information technology sector may be significantly affected by technological obsolescence or innovation, short product cycles, falling prices and profits, competitive pressures, and general market conditions. The fund is considered non-diversified and can invest a greater portion of its assets in securities of individual issuers than can a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in a more diversified fund.

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.