

# Putnam Large Cap Value Fund



Class A PEYAX

Class Y PEIYX

Commentary | March 31, 2024

## Key Takeaways

- **Markets:** U.S. stocks delivered solid returns for the first quarter, fueled in part by strong corporate earnings, led by the technology sector. Investor sentiment fluctuated around central bank policy.
- **Contributors:** Overweights in Constellation Energy, NRG Energy, United Rentals, Citigroup, General Motors; out-of-benchmark CRH.
- **Detractors:** Overweight in Humana; out-of-benchmark Charter Communications; lack of exposure to Berkshire Hathaway, Walt Disney, and General Electric.
- **Outlook:** While value stocks were strong in the quarter, they have room for further catch-up in what is still a narrow market. We have conviction in strong and improving fundamentals in areas such as health care, utilities, and energy.

## Performance review

- For the quarter, the portfolio posted a **strong positive return, outperforming its benchmark**, the Russell 1000 Value Index.
- **Security selection drove relative performance**, with 9 of 11 sectors contributing positively. Sector allocation decisions had a slight negative impact.
- From a sector perspective, stock selection contributed most in utilities, information technology, and consumer discretionary.
- **Detractors included underweight positions in financials and industrials**, two of the strongest sectors in the benchmark. Weakness in communication services holdings and real estate had a modest negative offset.
- Holdings contributing most to performance were overweight positions in utilities companies Constellation Energy and NRG Energy, as well as overweight positions in United Rentals (industrials), Citigroup (financials), and General Motors (consumer discretionary). Performance also benefited from out-of-benchmark holding in CRH (materials).
- Top individual detractors included an out-of-benchmark position in Charter Communications (communication services) and an overweight position in Humana (health care). Lack of exposure to strong-performing benchmark holdings Berkshire Hathaway (financials), Walt Disney (communication services), and General Electric (industrials) also weighed on relative results.

## Outlook

- The U.S. economy has remained strong, but we are starting to see some softening economic data. Other potential challenges include sticky inflation and higher interest rates for longer than expected.
- Earnings growth expectations are becoming more reserved, and market volatility could result from an increased focus on the U.S. presidential election.
- Ongoing geopolitical events could have broad impacts, particularly to the global supply chain.
- Value stocks have room for further catch-up in what is still a narrow market. We continue to find attractive valuations and opportunities in our investment universe.
- We have conviction in strong and improving fundamentals in health care, utilities, and energy, all of which underperformed in 2023.
- We are reasonably optimistic about the prospect for corporate earnings, with the assumption that gross margins have reached their trough now that inflation pressures have declined.
- While the Federal Reserve has offered the potential for three rates cuts in 2024, we are mindful that the Fed's ability to execute a soft landing for the economy is not certain.
- We have positioned the portfolio to succeed in any path. We continue to analyze the overall market in the context of how it affects our individual holdings. Our focus is stock selection, while aiming to keep the portfolio as immune as possible to macroeconomic challenges.
- By sector, we remain within +/-5% of benchmark weight. Currently, the largest overweights are to the materials, consumer staples, and consumer discretionary sectors. The financials sector is the largest absolute weight, but is currently our most underweighted sector. The industrials and real estate sectors also remain below benchmark weight.
- Notable positions purchased for the portfolio since the end of 2023 include Philip Morris International and UnitedHealth Group. Eliminated positions were Assured Guaranty, Meta Platforms, Keurig Dr. Pepper, and Altria Group.

## Morningstar Rating™

Overall Rating as of March 31, 2024

★★★★★ Class Y

The fund received a 5-star Overall Morningstar Rating as of 3/31/24 among 1,118 funds in the Large Value category (Y shares, based on risk-adjusted returns)

## Top Holdings (% of Total)

|                 | Fund |
|-----------------|------|
| Exxon Mobil     | 3.19 |
| Pulte Homes     | 2.97 |
| Microsoft       | 2.86 |
| Citigroup       | 2.81 |
| Bank of America | 2.53 |
| Walmart         | 2.49 |
| Coca-Cola       | 2.38 |
| Oracle          | 2.35 |
| Qualcomm        | 2.27 |
| Regeneron       | 2.21 |

## Sector Allocation (% of Total)

|                        | Fund |
|------------------------|------|
| Financials             | 17.1 |
| Health Care            | 15.3 |
| Consumer Staples       | 10.6 |
| Industrials            | 10.3 |
| Information Technology | 9.0  |
| Materials              | 7.8  |
| Energy                 | 7.5  |
| Consumer Discretionary | 7.1  |
| Utilities              | 5.1  |
| Communication Services | 2.8  |
| Real Estate            | 2.0  |
| Cash/Other             | 5.4  |

## Average annual total returns and fund expenses (%)

|           | CUSIP     | Ticker | Without Sales Charge (%) |       |       |       |       |       |           | With Maximum Sales Charge (%) |       |       |       |           | Expenses |      | Sales Charges (%) |      | Inception Date |
|-----------|-----------|--------|--------------------------|-------|-------|-------|-------|-------|-----------|-------------------------------|-------|-------|-------|-----------|----------|------|-------------------|------|----------------|
|           |           |        | 3-Mo                     | YTD   | 1-Yr  | 3-Yr  | 5-Yr  | 10-Yr | Inception | 1-Yr                          | 3-Yr  | 5-Yr  | 10-Yr | Inception | Gross    | Net  | Max               | CDSC |                |
| Class A   | 746745108 | PEYAX  | 12.52                    | 12.52 | 27.59 | 12.82 | 14.44 | 11.13 | 10.56     | 20.25                         | 10.61 | 13.09 | 10.47 | 10.42     | 0.90     | 0.90 | 5.75              | 1.0  | 6/15/1977      |
| Class Y   | 746745405 | PEIYX  | 12.62                    | 12.62 | 27.94 | 13.11 | 14.73 | 11.42 | 10.72     | 27.94                         | 13.11 | 14.73 | 11.42 | 10.72     | 0.65     | 0.65 | —                 | —    | 10/1/1998      |
| Benchmark |           |        | 8.99                     | 8.99  | 20.27 | 8.11  | 10.32 | 9.01  | —         | 20.27                         | 8.11  | 10.32 | 9.01  | —         |          |      |                   |      |                |

**Benchmark:**

Russell 1000 Value Index

**Performance data quoted represents past performance, which does not guarantee future results.** 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 A and Y shares assumes reinvestment of distributions and does not account for taxes. After-sales-charge returns for class A reflect a maximum 5.75% load. Returns for class Y shares prior to their inception are derived from the historical performance of class A shares, which have not been adjusted for their lower expenses; had they, returns would have been higher. 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. For the most recent month-end performance, please visit [putnam.com](http://putnam.com).

**What should I know before investing?**

**All investments involve risks, including possible loss of principal.** The **investment style** may become out of favor, which may have a negative impact on performance. **Dividends** may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time. **Active management** does not ensure gains or protect against market declines. The manager **may consider environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

**Important Information**

**Putnam funds are not exchangeable for funds distributed by Franklin Distributors, LLC.**

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.

**The Morningstar Rating™** for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% 3-year rating for 36–59 months of total returns, 60% 5-year rating/40% 3-year rating for 60–119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. Ratings do not take into account the effects of sales charges and loads. Putnam Large Cap Value Fund received 5, 5, and 5 stars for the 3-, 5-, and 10-year periods among 1,118, 1,058, and 816 Large Value funds, respectively.

Morningstar rankings for class Y shares are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Morningstar. Morningstar rankings may differ significantly from Morningstar's risk-adjusted star ratings. Past performance is not indicative of future results.

**Glossary**

**The Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

**BEFORE INVESTING, CAREFULLY CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES. YOU CAN FIND THIS AND OTHER INFORMATION IN EACH PROSPECTUS, AND SUMMARY PROSPECTUS, IF AVAILABLE, AT [WWW.PUTNAM.COM](http://WWW.PUTNAM.COM). PLEASE READ THE PROSPECTUS CAREFULLY.**