

# PUTNAM U.S. SMALL CAP GROWTH EQUITY

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## Market review

After a weak start, the small-cap growth equity universe ended the first quarter in positive territory, as measured by the Russell 2000 Growth Index. Much of the market's attention was focused on the Federal Reserve after late-2023 comments from Chair Jerome Powell confirmed the market's hopes that the rate-hiking cycle was over. Now, despite inflation remaining above the target 2% rate and stronger-than-anticipated employment data, the conversation has shifted to how many rate cuts we might see in 2024.

## Portfolio performance

The portfolio posted strong absolute and relative results during the quarter. Outperformance during the period was driven by stock selection, though sector allocation efforts also proved beneficial. The portfolio saw positive total attribution in 11 of 11 sectors during the period. The industrials and health care sectors drove relative results, while the real estate sector was the smallest contributor during the period.

The portfolio's long-term position in Kinsale Capital (financials), an out-of-benchmark holding, was the top contributor during the period. Other strong performers included out-of-benchmark holding EMCOR (industrials) and an overweight position in Comfort Systems (industrials). Both companies are in the mechanical and electrical construction and facilities services segment. Elsewhere in the portfolio, an out-of-benchmark position in Five Below (consumer discretionary) weighed on relative results, as did overweight positions in Cytokinetics (health care) and ConMed (health care). The portfolio's underweight positioning in Microstrategy

(information technology) was also a relative detractor from results.

## Positioning

Because our investment criteria are grounded on company fundamentals, the least favorable environments for our approach would be abnormal or irrational market conditions. For example, when fundamentals matter less and/or the market is focused on a narrow subset of sectors or factors. During periods of short-term market dislocations, the strategy may generate returns that differ materially from its benchmark.

By sector, we typically remain within +/-10% of benchmark weight for major growth sectors and within +/-5% for minor growth sectors. As of quarter-end, the largest overweight allocations relative to the benchmark are to the industrials, materials, and consumer discretionary sectors. The portfolio's largest sector underweights are to the health care and communication services sectors.

During the period, we exited several positions in the health care sector as we lost conviction in medium-term prospects for a few individual companies. We also exited a position in Integral Ad Science after weaker earnings results tempered the outlook for profits..

## Top 10 Holdings<sup>1</sup>

	Portfolio weight (%)
Super Micro Computer	3.50
Comfort Systems USA	2.68
Medpace	2.24
Kinsale Capital Group	2.19
Emcor	2.09
Installed Building Products	2.09
Eagle Materials	1.94
Nova	1.77
HealthSouth	1.74
Manhattan Associates	1.73
<b>Total number of holdings</b>	<b>87</b>

## Composite Performance

### U.S. Small Cap Growth Equity

#### Annualized returns net and gross of fees

(%) as of March 31, 2024

	QTR	YTD	1-yr	3-yr	5-yr	10-yr
Gross of fees	16.34	16.34	34.94	5.59	16.11	12.91
Net of fees	16.11	16.11	33.85	4.74	15.18	11.96
Russell 2000 Growth Index	7.58	7.58	20.35	-2.68	7.38	7.89

#### Calendar Year returns (gross & net of fees) (%)

	Gross of fees	Net of fees	Russell 1000 Value Index
<b>2023</b>	24.42	23.42	18.66
<b>2022</b>	-27.20	-27.78	-26.36
<b>2021</b>	15.51	14.58	2.83
<b>2020</b>	49.49	48.29	34.63
<b>2019</b>	39.32	38.21	28.48
<b>2018</b>	-1.26	-2.05	-9.31
<b>2017</b>	21.69	20.72	22.17
<b>2016</b>	9.54	8.66	11.32
<b>2015</b>	-1.95	-2.90	-1.38
<b>2014</b>	3.21	2.18	5.60

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**Past performance is not a guarantee of future results.** An investment in this strategy can lose value. Returns are stated in U.S. dollars and include the reinvestment of dividends and interest. Periods less than one year are not annualized. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

**Fees:** Gross performance includes the deduction of transaction costs but does not include the deduction of management fees and other expenses that may be incurred in managing an investment account. A portfolio's return will be reduced by advisory and other fees. Net performance reflects the deduction of a model fee applied on a monthly basis, equal to the actual management fee incurred by a portfolio in the composite or the highest management fee that would be charged to a prospect of the strategy, whichever is higher. The model fee may change over time. Actual advisory fees may vary among clients with the same investment strategy. The composite includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy.

<sup>1</sup> Source: Putnam. Portfolio characteristics and holdings are based on representative accounts within the composite. Portfolio characteristics and holdings of individual client portfolios in the program may differ, sometimes significantly, from those shown above. The representative account assumes no withdrawals, contributions, or client-imposed restrictions. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors listed and should not be used as a sole basis to make any investment decisions.

Portfolio positioning and any mention of specific securities in the summary commentary are intended to help illustrate the investment process and should not be considered a recommendation or solicitation to purchase or sell the securities. The securities identified do not represent all the securities purchased, sold or recommended for client accounts. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein.

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## Definitions and additional information

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.

The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.



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### What should I know before investing?

**All investments involve risks, including possible loss of principal. Small- and midcap stocks** involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. 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.

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