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Putnam INVESTMENTS

Q1 2022 | Putnam Large Cap Value Fund Q&A

Fund weathers a difficult quarter for markets

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Portfolio Manager
Industry since 1996

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Portfolio Manager
Industry since 2002

In a challenging first quarter for financial markets, the fund delivered a positive return, while its benchmark posted a loss.

We aim to find companies that have pricing power — the ability to raise prices to cover their increased costs without negatively impacting demand.

We also seek to manage interest-rate risk by maintaining a mix of holdings with varying interest-rate sensitivity.

Effective March 30, 2021, the fund's name changed from Putnam Equity Income Fund.

How has the fund performed?

Darren: In a challenging first quarter for financial markets, the fund delivered a positive return, while its benchmark posted a loss. The fund also outperformed the benchmark Russell 1000 Value Index for the 1-, 3-, 5-, and 10-year periods ended March 31, 2022. In terms of sectors for the quarter, holdings in health care and industrials contributed most to performance, while financials were the largest detractor.

Inflation is a top concern for investors. How is it affecting your investment strategy?

Lauren: We've clearly seen that inflation can have wide-ranging effects — from the labor markets to transportation to raw materials and beyond. U.S. inflation reached a 40-year high in February, which has broad implications for the global economy. As portfolio managers, we don't try to predict the duration or magnitude of inflationary forces. However, we do focus on how it might impact the profitability of the companies we own. We aim to find companies that have pricing power — the ability to raise prices to cover their increased costs without negatively impacting demand. But we're also mindful of instances where pricing power will be challenged. For example, we've seen banks reporting higher levels of wage inflation. This tends to be a cost that is not easy to pass on, especially in an industry as competitive as banking.

Through careful portfolio construction and stress testing, we seek to manage the portfolio's sensitivity to inflation as well as to interest-rate and bond-yield movements. Looking back to last summer, the market wasn't expecting any hikes from the Federal Reserve in 2022. Fast-forward eight months, and the Fed is projecting six or more hikes this year. With our risk management process, we work to keep the portfolio from meaningfully underperforming in a rising-rate environment. We also seek to manage interest-rate risk by maintaining a mix of holdings with varying interest-rate sensitivity.

Volatility can be an advantage for actively managed portfolios. How has it influenced your strategy?

Lauren: There are two basic strategies for taking advantage of volatility — offense and defense. On the defense side, we have trimmed or liquidated holdings that outperformed significantly over a short time frame. For offense, it's about exploring new ideas and finding stocks the market has sold off due to short-term issues. Recently, supply chain problems have been a common theme, and they have caused investors to overlook improving fundamentals for many businesses.

You also manage non-U.S. value portfolios. Are you seeing opportunities in value stocks outside the United States?

Darren: We believe non-U.S. markets currently offer more value opportunities than U.S. markets. For example, we see rich opportunity sets in Europe and Japan, which are lagging the U.S. in their macroeconomic cycles. In many cases, valuations in these markets are significantly more attractive, and we anticipate improving earnings growth will boost share prices.

Lauren: Non-U.S. markets are also lagging in terms of fiscal stimulus. Here in the U.S., we saw significant stimulus measures implemented early in the Covid-19 pandemic. In Europe, on the other hand, the stimulus push will be greater over the next few years. This is likely to be a tailwind for value stocks in Europe. Also, many of the classic value sectors in international markets haven't recovered nearly as much as they have in the U.S.

What is your outlook as we begin a new quarter?

Darren: The financial markets are likely to face continued volatility due in large part to uncertainty over the Russia-Ukraine War. Inflation, supply chain disruptions, and shortages of critical goods will also be headwinds for the markets. For value stocks specifically, it's important to focus on quality over cheapness. The winners in a value portfolio are those that are underappreciated and undervalued. They are companies that are poised to exceed expectations for earnings and revenue growth, that are more disciplined in their capital expenditures, and that will return more capital to shareholders than anticipated.

Putnam Large Cap Value Fund (PEIYX)

Annualized total return performance as of 3/31/22

	Class Y shares Inception 10/1/98	**Russell 1000 Value Index**
Last quarter	0.44%	–0.74%
1 year	14.85	11.67
3 years	16.42	13.02
5 years	13.01	10.29
10 years	12.94	11.70
Life of fund	10.65	—

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.

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The views and opinions expressed here are those of the portfolio managers as of March 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.

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.

Putnam Retail Management

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