The second quarter brought volatility along with gains for U.S. equities. What are your thoughts as we reach the midpoint of 2019?

Coming into the quarter, we saw considerable weakness across global economies. At the same time, investors were preoccupied with the U.S.–China trade conflict and its potential impact on economic growth. After a strong April, the market became volatile and only recovered late in the quarter, when several trends lifted investor optimism.

We saw China implementing stimulus measures while central banks turned dovish. The European Central Bank said it would delay interest-rate hikes while the U.S. Federal Reserve held rates steady and signaled possible rate cuts this year. This “do whatever it takes” approach from central banks reinvigorated animal spirits and brought liquidity back to the market. As a result, I believe we could expect some growth in the economy over the next year.

The other main headlines for equity investors involved the trade war. How much does this issue influence your investment process?

From a macroeconomic perspective, the trade dispute can be a hindrance to global economic growth, and it is happening at a time when growth is already slowing. This provides some context for the portfolio, but as active investors, we are more concerned about its impact at the individual stock level.

Today, for the first time in a while, we view the equity universe as fertile ground for attractive, undervalued companies.

The headlines and debate around trade can cause investors to lose sight of the fundamentals and long-term growth potential of individual businesses.

In many cases, cheap stocks are cheap for a reason. We assess the equity universe daily to differentiate between cheap and undervalued.
The consequences of the trade and tariff issue vary depending on the sector, industry, and company. Certainly, in our research, we take the conflict into account, but the debate around trade — and the news flow that sometimes moves the market — can be arbitrary and capricious. It can cause investors to lose sight of the fundamentals and long-term growth potential of businesses.

Value stocks continued to underperform growth stocks. Do you view this as a hindrance or an opportunity for your portfolio?

Over the past three years, many stocks have been left behind by investors who were only attracted to a select group of high-multiple growth stocks. However, in fairness, it was challenging to find value in those “left behind” names. Until recently, that is. While some of these businesses are permanently impaired, we believe many others were unfairly punished in the 2018 fourth-quarter downturn. Today, for the first time in a while, we view the equity universe as fertile ground for attractive, undervalued companies.

Across this promising landscape, we look for relative value. This means identifying companies that are attractively valued relative to businesses within the same sector. The most attractively priced technology stock, for example, could be considerably more expensive than most utility stocks. That doesn’t preclude it from being an attractive value opportunity, in our view. This is how our portfolio can differ from the benchmark and, ideally, outperform it.

Your process can bring you to investments outside of traditional value sectors. Could you explain your approach to value?

Cheap stocks are easy to identify. The issue is that, in many cases, they are cheap for a reason. In our view, a passive benchmark is not the way to target value in the market. Our strategy is to differentiate between cheap and undervalued. To do this, we assess the equity universe daily — across both growth and value styles. We combine a six-factor quantitative model with classic fundamental research. Defining value in this way keeps us on top of the changing market and brings us to places beyond traditional value sectors.

Putnam Equity Income Fund (PEIYX)
Annualized total return performance as of 6/30/19

<table>
<thead>
<tr>
<th>Class Y shares</th>
<th>Net asset value</th>
<th>Russell 1000 Value Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inception 10/1/98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Last quarter</td>
<td>4.22%</td>
<td>3.84%</td>
</tr>
<tr>
<td>1 year</td>
<td>6.82</td>
<td>8.46</td>
</tr>
<tr>
<td>3 years</td>
<td>11.89</td>
<td>10.19</td>
</tr>
<tr>
<td>5 years</td>
<td>7.97</td>
<td>7.46</td>
</tr>
<tr>
<td>10 years</td>
<td>13.15</td>
<td>13.19</td>
</tr>
<tr>
<td>Life of fund</td>
<td>10.29</td>
<td>—</td>
</tr>
</tbody>
</table>

Total expense ratio: 0.66%

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 June 30, 2019, 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. You can lose money by investing in the fund.

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.