Q1 2023 | Putnam U.S. Large Cap Value Equity Concentrated Q&A

Strategy outperforms in a quarter of modest returns for value stocks

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No assurance can be given that the investment objective will be achieved or that an investor will receive a return of all or part of their initial investment. Actual results could be materially different from the stated goals. Investors should carefully consider the risks involved before deciding to invest. As with any investment, there is a potential for profit as well as the possibility of loss. A stress test does not protect against loss of principal.

How did value stocks perform in the first quarter?

Large-cap value stocks delivered modest gains in a quarter characterized by many macroeconomic challenges. Equity markets experienced volatility due to persistent inflation, concerns about economic growth, and continued interest-rate hikes by the Federal Reserve. The quarter also brought significant turmoil to the banking industry with the widely publicized bankruptcies of two U.S. regional banks as well as a Swiss government-engineered takeover of Credit Suisse by UBS. For the quarter, large-cap growth stocks outperformed large-cap value by a wide margin.

How did the strategy perform?

The composite strategy outperformed the benchmark for the first quarter and for the 1-, 3-, 5-, and 10-year periods ended March 31, 2023. Stock selection drove the outperformance, while sector allocation decisions had a minimal overall impact. Positions in communication services, health care, and consumer discretionary were top contributors to performance. Stock selection in the industrials, financials, and real estate sectors detracted from returns. The benefit of our underweight position in the challenged financials sector was offset by an underweight position in the top-performing communication services sector.

Financials make up a significant portion of the value universe. What are your thoughts on the regional bank crisis?

It's important to note that this was not a systemic problem like that of the global financial crisis in 2008. It was not a solvency issue, but rather a liquidity issue, which the Fed has both the tools and the experience to manage. The Fed moved quickly and effectively, with a focus on regional banks most at risk — those with less diversified business models. The second-order effects of the crisis may be more challenging for investors. Deposits have flowed out of smaller banks and into the larger institutions. This has had the effect of drying up credit availability and tightening financial conditions beyond what the Fed is already doing in terms of raising interest rates. As financial conditions get tougher, the chances of a recession increase.

In terms of our portfolio, we believe our positioning, which favored large banks over regional banks, was beneficial in navigating the challenges. Also, within regional banks, we owned PNC, which held up better than many other regional banks. It is known as a "super regional" bank, is the fifth-largest bank in the country, and is well diversified. No single industry represents more than 15% of its loan book.

Going forward, PNC and the largest banks should benefit from consumers' flight to quality. Also, the size and scale of these banks should enable them to handle any increased regulation or compliance requirements in the wake of the crisis. At the same time, smaller banks may have a harder time keeping up with any new regulation or capital requirements.

What is your outlook for the months ahead?

We expect continued volatility and modest returns for equity markets. Labor markets remain tight, which will make inflation an ongoing threat, especially for services, a key component of the Consumer Price Index. While we do foresee an end to interest-rate hikes in 2023, we do not expect cuts any time soon. We believe the Fed is likely to hold rates at the peak level for longer than many investors expect.

Along with the ongoing tightening of financial conditions, particularly among regional banks, we are generally more cautious after the recent market advance, which was largely due to multiple expansion rather than earnings growth. The market appears to be setting itself up for a negative surprise as first-quarter earnings are expected to show an overall decline.

As always, we don't try to predict the magnitude or duration of macroeconomic forces. Instead, we focus on how they might impact the profitability of the companies we own. And we seek to manage the strategy's sensitivity to these challenges through careful portfolio construction and stress testing.

Putnam U.S. Large Cap Value Equity Concentrated

Composite performance (annualized) as of 3/31/23

	Gross	Net	Russell 1000 Value Index
Q1	2.84%	2.70%	1.01%
1 year	–0.48	–1.02	–5.91
3 years	25.03	24.46	17.93
5 years	12.11	11.67	7.50
Since inception (11/30/16)	13.07	12.65	7.97

Past performance is not a guarantee of future results. An investment in this strategy can lose value.

Periods less than one year are not annualized. Performance is stated in U.S. dollars and includes the reinvestment of dividends and interest. 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. Please see the composite disclosures located at the end of the presentation for strategy-specific risk disclosures.

Portfolio characteristics and holdings are for a representative account. Each account is managed individually. Accordingly, account characteristics may vary. Portfolio positioning and any mention of specific securities are intended to help illustrate the investment process and should not be considered a recommendation or solicitation to purchase or sell the securities. 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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Putnam Investments U.S. Large Cap Value Equity Concentrated Composite

Year	Gross of Fees Return (%)	Net of Fees Return (%)	Annual Benchmark Return (%)	Three year Standard Deviation of Composite (%)[1]	Three year Standard Deviation of Benchmark (%)[1]	Standard Deviation of Account Returns (%)[2]	Composite Assets (millions)	Total Firm Assets (millions)	Number of Accounts
2022	-2.20	-2.74	-7.54	22.41	21.25	N/A	1,169	133,064	≤5
2021	35.25	34.64	25.16	19.83	19.05	N/A	102	159,122	≤5
2020	3.88	3.57	2.80	20.61	19.62	N/A	70	153,327	≤5
2019	32.52	32.13	26.54	12.08	11.85	N/A	29	138,486	≤5
2018	-5.52	-5.81	-8.27	N/A	N/A	N/A	22	117,149	≤5
2017	20.14	19.78	13.66	N/A	N/A	N/A	0	117,916	≤5
2016	2.43*	2.40*	2.50*	N/A	N/A	N/A	0	109,728	≤5

• The period from inception, November 30, 2016, to December 31, 2016, is not annualized.

1 The three-year, annualized ex-post standard deviation of monthly gross composite and benchmark returns represents a measure of total investment risk (volatility) and calculates the variance of a distribution of returns. Data is not presented for periods with less than 36 months of composite returns.

2 Composite dispersion is calculated using the equal-weighted standard deviation of the annual gross returns of those portfolios that were included in the composite for the entire year. Standard deviation is N/A for composites with five or fewer accounts for the full year.

Firm overview: Putnam Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Putnam Investments has been independently verified from January 1, 2000, through December 31, 2022.The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. Putnam Investments (the "Firm") is defined as a broad-based investment management organization that provides financial services to institutions and individuals through segregated accounts and pooled investment vehicles, such as mutual funds, active exchange-traded funds, collective investment trusts and private funds. Except for a minority stake owned by employees, the Firm is a wholly owned subsidiary of Great-West Lifeco Inc. Investment management is provided by four wholly owned subsidiaries of the Firm: The Putnam Advisory Company, LLC; Putnam Investment Management, LLC; Putnam Fiduciary Trust Company, LLC; and Putnam Investments Limited. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A list of the Firm's composite descriptions and pooled fund descriptions for limited distribution pooled funds, and a list of broad distribution pooled funds are available upon request.

Composition of composite: The Putnam Investments U.S. Large Cap Value Equity Concentrated Composite (the "Composite) seeks to invest in companies with underappreciated fundamentals and the income potential from growing dividends to pursue returns (common stocks of U.S. companies, with a focus on value stocks that offer the potential for capital growth, current income, or both). The Composite's strategy uses a disciplined process that combines fundamental research and quantitative tools to pursue multiple alpha sources, with a strong overlay of risk control and portfolio construction and a focus on large companies whose stocks are priced below their long-term potential, and where there may be a catalyst for positive change. Accounts in the Composite are more concentrated, typically holding approximately 35-45 securities. Composite returns may, therefore, have a lower correlation with the benchmark than a more diversified U.S. Large Value equity strategy. The Composite's benchmark is the Russell 1000 Value Index. Derivatives are not permitted in any account in the Composite. The Composite includes all fully discretionary accounts managed by Putnam Investments in this concentrated investment style. The Composite inception date was November 30, 2016. The Composite creation date was December 13, 2016. The Composite was formerly called U.S. Large Value Equity Managed Account.

Risk considerations: The prices of stocks in your portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including both general financial market conditions and factors related to a specific company or industry. Value stocks may fail to rebound, and the market may not favor value-style investing. This strategy may not be suitable for all investors. It is important to understand that you can lose money by investing in this strategy. The Composite is much more concentrated than the benchmark in terms of companies and sectors, and the volatility of the Composite may be greater or less than that of benchmark. In general, investing in portfolio with concentrated exposures to (i) particular asset class(es) and/or (ii) a particular sector and/or (iii) one or a select few markets involves greater risk than investing in portfolios that have greater diversification. Investments in a limited number of securities may have more risk because changes in the value of a single security may have a more significant effect, either negative or positive, on the value of the portfolio.

Calculation of composite: Returns are presented in U.S. dollars ("USD"). Benchmark, Putnam account and Putnam mutual fund valuation sources and timing may sometimes differ, causing dispersion within the composite and between the composite and the benchmark. The results of the Composite for all periods shown include the reinvestment of dividends and other earnings. The Firm values securities using market quotations, fair value prices from pricing services and/or broker quotations. In limited circumstances, the Firm will value securities based solely on its own analysis, this may include using model prices based on third-party data or, for private equity securities, a fair valuation process whereby a special Valuation committee will review the nature of each deal, the model currently used to value each deal, and any critical underlying assumptions in order to determine fair value. Fair valuations based on internal resources are made in accordance with the Putnam Funds Pricing Procedures and are subject to the oversight of the Firm's Valuation Committee. Please note that, in limited cases, the inputs used to value the security are unobservable and reflect the source's own assumptions. Policies for valuing investments, calculating performance, and preparing composite reports are available upon request.

Benchmark disclosure: The Russell 1000® Value Index is an unmanaged index of those companies in the large-cap Russell 1000® Index chosen for their value orientation. Benchmarks are generally taken from published sources and may have different calculation methodologies, pricing times, and foreign exchange sources from the Composite. The effect of those differences is deemed to be immaterial. The securities holdings of the Composite may differ materially from those of the index used for comparative purposes. Indexes are unmanaged and do not incur expenses. You cannot invest directly in an index. 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.

Gross and Net of fees disclosure: Gross of Fee Returns 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 management fees and other fees. The impact of management fees can be material. For instance, assume that $1 million is invested in a Putnam Investments account, and this account achieves a 10% compounded annual return, gross of fees, for 10 years. If a management fee of 0.50% was charged each year for the 10-year period, the annual return would be 9.5% and the ending dollar value would be $2,478,200, net of fees, as opposed to $2,593,700, gross of fees. The actual fee rates are stated in advisory contracts with clients. For composites that contain registered pooled vehicles (such as U.S. mutual funds, U.S. exchange-traded funds, collective investment trusts and UCITS funds), gross of fee performance is calculated by applying the pro-rated monthly percentage of the total net annual expense ratio (as published in the pooled vehicle's annual report) to the monthly return on net asset value per share. Annual expense ratios for the current year may be based on the prior year's financial statements. Returns may be adjusted based upon each year's audited annual report.

Net of Fee Returns reflect 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 during the applicable time period. The model fee may change over time. Actual advisory and management fees may vary among clients with the same investment strategy. For composites that include pooled vehicles that pay a performance fee and that calculate performance using the highest fee paid by an account in the Composite, performance-based fee adjustments are included in net of fee returns. For registered pooled vehicles, the fee is typically updated for the most recent fiscal year end after the pooled vehicle has been audited. Returns may be adjusted based upon each year's audited annual report. Please be advised that the Composite may include other investment products or share classes of pooled vehicles that are subject to management fees, including performance fees, that are inapplicable to you but that could have been in excess of the model fee. Therefore, the actual performance of all the portfolios in the composite on a net-of-fees basis will be different, and may be higher or lower, than the model fee performance. Composites that include certain pooled vehicles may also assess a performance fee to underlying investors which could result in the underlying investors paying a higher total management fee than the highest stated management fee below. However, model fee performance is intended to provide the most appropriate example of the impact management fees would have by applying management fees relevant to you to the gross performance of the Composite. Actual investment advisory fees incurred by clients are typically negotiated on an individual basis and may vary depending upon, among other things, the applicable fee schedule and portfolio size.

Fee schedule: The standard fee schedule is based on the market value of an account's assets under management and is stated on an annual basis. Separate account management fees are subject to change and are for investment management services only. Standard management fee is: 0.55% of assets on the first $50 million, 0.45% of assets on the next $50 million, 0.40% of assets on the next $150 million, and 0.30% for assets over $250 million.

Past performance is not a guarantee of future performance. No assurance can be given as to future performance.