Fund outperforms benchmark in a weak quarter for equities

How were market conditions in the third quarter?
Most U.S.-based equities posted losses for the third quarter, and large-cap stocks generally held up better than small caps. Interestingly, declines for growth and value were similar, and the “magnificent seven” mega caps that propelled growth through the second quarter continued to hold firm in the weaker third quarter. Among small-cap stocks, growth was weaker than value for the quarter.

From a macroeconomic perspective, energy prices and interest rates were key trends affecting sentiment in the third quarter. Oil prices surged despite fears of slowing economic growth and the weaker-than-expected China reopening. The yield on the 10-year U.S. Treasury note surged, reaching a 16-year high. Mortgage rates also spiked, hitting multidecade highs and approaching 8%. As for interest rates, the market seemed to get the message of “higher for longer,” as the Federal Reserve appears firmly committed to getting inflation down to its 2% target.

How has the fund performed?

Most U.S.-based equities posted losses for the third quarter, and growth was weaker than value among small caps.


Excitement over the potential in artificial intelligence remained a prominent theme in the third quarter.

Stock selection was strongest in the industrials and information technology sectors. Selection in health care and financials was also positive. Holdings in communications and consumer discretionary detracted somewhat.
Excitement over the potential in artificial intelligence [AI] remained a prominent theme in the third quarter. The continued surge in AI-related demand boosted several of our holdings in the semiconductor and semiconductor equipment industries.

As we begin a new quarter, how are you positioning the portfolio?

We recently exited several positions tied to the health of the consumer, several of which had also benefited from inflation over the past several years. With inflation slowing and the potential for weakness in the consumer sector, we believe the growth outlook for these holdings may deteriorate.

New positions added in the third quarter included a company that enables complicated cross-border transactions such as college tuition payments. Another new holding is a business that enables tracking of advertising spending on mobile platforms. Also, we added a position in a medical device company that specializes in the removal of blood clots, and it is quickly gaining market share.

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### Putnam Small Cap Growth Fund (PSYGX)

**Annualized total return performance as of 9/30/23**

<table>
<thead>
<tr>
<th></th>
<th>Class Y shares Inception 11/3/03</th>
<th>Russell 2000 Growth Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last quarter</td>
<td>−4.38%</td>
<td>−7.32%</td>
</tr>
<tr>
<td>1 year</td>
<td>14.96</td>
<td>9.59</td>
</tr>
<tr>
<td>3 years</td>
<td>3.88</td>
<td>1.09</td>
</tr>
<tr>
<td>5 years</td>
<td>8.17</td>
<td>1.55</td>
</tr>
<tr>
<td>10 years</td>
<td>10.24</td>
<td>6.72</td>
</tr>
<tr>
<td>Life of fund</td>
<td>10.91</td>
<td>6.16</td>
</tr>
</tbody>
</table>

Total expense ratio: 0.98%

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 of class Y shares assumes reinvestment of distributions and does not account for taxes. 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. Performance for class Y shares before their inception are derived from the historical performance of class A shares (inception 12/31/97), which have not been adjusted for the lower expenses; had they, returns would have been higher. Recent performance may have benefited from one or more legal settlements. For the most recent month-end performance, please visit putnam.com.*

The Russell 2000® Growth Index is an unmanaged index of those companies in the small-cap Russell 2000 Index chosen for their growth 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.
For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio manager, as of September 30, 2023. They are subject to change with market conditions and are not meant as investment advice.

**Consider these risks before investing:** Investments in small and/or midsize companies increase the risk of greater price fluctuations. Growth stocks may be more susceptible to earnings disappointments, and the market may not favor growth-style investing.

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. These risks are generally greater for small and midsize companies. From time to time, the fund may invest a significant portion of its assets in companies in one or more related industries or sectors, which would make the fund more vulnerable to adverse developments affecting those industries or sectors.

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.

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.