

# PUTNAM SMALL CAP GROWTH FUND

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Portfolio Manager

## Average annual total returns and fund expenses (%)

as of December 31, 2023

Class A	3-mo	1-yr	5-yr	10-yr	Expenses	
					Gross	Net
Excluding sales charges	11.13	22.87	15.43	9.94	1.25	1.25
Including effects of maximum sales charges	4.74	15.80	14.07	9.30	1.25	1.25
Russell 2000 Growth Index	12.75	18.66	9.22	7.16	-	-

### Maximum initial sales charge -- Class A: 5.75%

**Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit [www.putnam.com](http://www.putnam.com).

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 10/30/2024 without Board consent. Actual expenses may be higher and may impact portfolio returns.

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.

## Putnam Small Cap Growth Performance Update

The portfolio posted competitive absolute results but underperformed the Russell 2000 Growth Index during the quarter, returning 11.13% versus the Index return of 12.75%. Over the 2023 annual period, the portfolio returned 22.87% versus the benchmark return of 18.66%, outperforming by 4.21%.

Stock selection drove relative strength during the quarter while the impact from sector positioning was also additive.

## Market Review and Outlook

The small cap growth equity universe, represented by the Russell 2000 Growth Index, swung meaningfully during the quarter. A strong rebound in the last two months of the year pulled the index out of negative territory and it ended the year with a double-digit return. This broad market recovery saw strong outperformance extend beyond just the 'Magnificent Seven' (large cap tech), as both small cap growth and value stocks climbed higher. Much of the market's moves in the quarter were spurred by Federal Reserve Chairman Powell's comments that seemed to confirm market hopes for the end of the rate hiking cycle and the potential for cuts in 2024.

Recent inflation measures show good progress towards the Fed's 2% target, which should allow for the Fed to end its current monetary-tightening cycle. We think we could see gradual rate cuts in 2024, but don't think we'll see a large reduction in rates, absent a severe economic slowdown. We expect to see slow economic growth while likely avoiding a technical recession. We may see a continuation of weaker growth metrics in many sectors of the U.S. economy, but these may not be synchronized. This lack of harmony across sectors, in our view, leaves open the possibility that we may see more of a rolling slowdown on a sector-by-sector basis, which likely began over a year ago. Government spending, on

the other hand, continues to be robust, in our opinion. This helps to bolster the economy.

These trends suggest an uncertain outlook. We are keeping the portfolio diversified, looking for small-cap growth companies that we believe are resilient in a variety of macroeconomic environments.

#### Q4 Portfolio Review

Against this backdrop, Putnam Small Cap Growth Fund posted competitive absolute results of +11.13%, excluding sales charges, but underperformed its benchmark, the Russell 2000 Growth Index by -1.62%.

Security selection drove the portfolio's relative underperformance while sector allocation decisions had only a slight negative impact. Weakness among several holdings in the financials and information technology sectors weighed on results. Selection in the consumer discretionary and consumer staples sectors was relatively positive.

Positions that detracted most from performance included the portfolio's out-of-benchmark holding in Kinsale Capital (financials) and overweight positions in Axcelis Technologies (information technology) and Inmode (health care). Overweight positions in Cytokinetics (health care) and Installed Building Products (consumer discretionary) as well as an out-of-benchmark holding in M/I Homes (consumer discretionary) contributed positively. During the period, the manager exited several positions in the health care sector tied to capital allocation decisions by management teams, which included companies such as Transmedics and Inari Medical.

As a reminder, the fund seeks to outperform the benchmark by investing in the securities of high quality, rapidly growing small companies. We employ a bottom-up, fundamental research process, and construct the portfolio in a way that seeks to reduce the risk inherent in smaller companies. The core of the portfolio will be invested in high-quality, stable growth companies.

Top 10 holdings (%)	
Comfort Systems USA	2.2
Medpace	2.1
Simpson Manufacturing	2.0
Cytokinetics	2.0
Verra Mobility	2.0
RBC Bearings	1.9
Manhattan Associates	1.9
Installed Building Products	1.9
Eagle Materials	1.8
Kinsale Capital Group	1.8

Sector allocation (%)	
Industrials	24.8
Information Technology	21.2
Health Care	19.8
Consumer Discretionary	12.1
Materials	5.3
Financials	5.1
Consumer Staples	4.1
Energy	4.0
Real Estate	1.3
Communication Services	0.5
Utilities	0.0
Cash/Other	1.8

Percentages are based on total portfolio as of quarter end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

#### Definitions and additional terms:

Please note that an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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 **Magnificent 7** refers to Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla, and Meta Platforms, which collectively represent 25% of the Russell 1000 Index (and which were originally nicknamed FANGMAN, then FANG+).

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### What should I know before investing?

**All investments involve risks, including possible loss of principal. Small- and mid-cap 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. **Active management** does not ensure gains or protect against market declines. 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. These and other risks are discussed in the fund's prospectus.

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Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time.

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