

Q4 2021 | Putnam Large Cap Value Fund Q&A

A strong 2021 for fund performance



Darren A. Jaroch, CFA
Portfolio Manager
Industry since 1996



Lauren B. DeMore, CFA
Assistant Portfolio Manager
Industry since 2002

The fund outperformed its Russell 1000 Value Index benchmark for the 1-, 3-, 5-, and 10-year periods ended December 31, 2021.

We seek to immunize the portfolio, to the extent reasonably possible, from external shocks such as inflation or rising and falling interest rates.

We remain focused on relative value — analyzing the valuation of companies compared with businesses in the same sector.

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

How has the fund performed?

Darren: For the fourth quarter, the fund modestly underperformed its Russell 1000 Value Index benchmark. However, for the 2021 calendar year, it delivered a solid return and outperformed the benchmark. The fund also outperformed the benchmark for the 3-, 5-, and 10-year periods ended December 31, 2021.

The past year was marked by growing concerns about inflation and interest rates. What can you tell us about managing your portfolios in this environment?

Darren: In late 2020, the perfect recipe for inflation was emerging. It included a combination of optimism about reopening economies, massive government stimulus, personal savings rates reaching all-time highs, and enormous pent-up demand from consumers. Inflation concerns mounted throughout 2021, despite the Federal Reserve's initial description of inflation as "transitory." In late November, Fed Chair Jerome Powell said it was time to retire that term, further fueling investor concerns. Inflation has broad implications for the global economy, for the growth/value trade, and for sector and industry performance. However, in managing our portfolios, we are most focused on how inflation and other macro factors will affect the fundamentals of individual companies — those we own or those we are considering for the fund.

Lauren: We don't try to predict the direction, the timing, or the magnitude of macroeconomic factors like inflation. But we do seek to immunize the portfolio, to the extent reasonably possible, from external shocks such as inflation or rising and falling interest rates. We use real-time, proprietary tools for portfolio risk snapshots, and our portfolios undergo regular stress tests. These tests help determine how a portfolio is expected to perform if subjected to stresses from certain market or macroeconomic events.

You also manage non-U.S. value portfolios. How does your global perspective help with investment decisions, and where are you seeing opportunities in value stocks outside the United States?

Darren: Our analysis of global markets is invaluable for finding opportunities in every portfolio. For many large-cap companies, a significant portion of their revenue is sourced outside the United States, so an understanding of the global investment landscape is critical. In addition, companies within most sectors and industries compete globally, which expands the fundamental opportunity set well beyond U.S.-centric considerations. We believe that understanding the global competitive dynamic makes us better fundamental investors at a regional level. For this reason, we’ve structured our research organization around this global philosophy, and we find it’s a significant advantage.

Lauren: As for opportunities in non-U.S. markets, we are optimistic about the rotation into yield-sensitive sectors like banks and commodities. These sectors continue to lag behind their U.S. peers in terms of share price recovery. European bank stocks, like their U.S. counterparts, were the epicenter of earnings uncertainty in 2020, but performed well in 2021. However, their valuations remain at a significant discount to U.S. bank stocks and, more important, at a discount to stocks in the broader international markets. Looking ahead, we believe European bank stocks are poised for continued outperformance.

How are you positioning the portfolio as we begin a new year?

Lauren: We remain focused on relative value — analyzing the valuation of companies compared with businesses in the same sector. We also seek to manage interest-rate risk by maintaining a mix of holdings with varying interest-rate sensitivity. Our goal is to prepare the fund for a range of scenarios with a balanced stance.

Putnam Large Cap Value Fund (PEIYX)

Annualized total return performance as of 12/31/21

	Class Y shares Inception 10/1/98	Russell 1000 Value Index
Last quarter	7.31%	7.77%
1 year	27.18	25.16
3 years	20.67	17.64
5 years	13.95	11.16
10 years	14.19	12.97
Life of fund	10.70	—
Total expense ratio: 0.65%		

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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For informational purposes only. Not an investment recommendation.

The views and opinions expressed here are those of the portfolio managers as of December 31, 2021, 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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