FRANKLIN TEMPLETON | Putnam INVESTMENTS

Putnam U.S. Large Cap Value Equity Concentrated SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** US equities posted a modest gain in a choppy quarter. A July rotation away from the largest technology companies and a September pullback bookended record highs in August on strong earnings and renewed artificial intelligence (AI) enthusiasm. Higher Treasury yields and the first rate hike since 2023 from the US Federal Reserve (Fed) drove the pullback.
- **Contributors:** Stock selection in energy, information technology and consumer staples.
- **Detractors:** Stock selection in industrials, utilities and financials.
- **Outlook:** We remain constructive on the earnings outlook, supported by resilient growth and continued business investment. However, elevated valuations, persistent inflation and rising unemployment warrant caution. If the Fed holds rates higher for longer, tighter financial conditions could weigh on sentiment and equity valuations.

Performance Review

- For the quarter, Putnam U.S. Large Cap Value Equity Concentrated SMA outperformed its benchmark, the Russell 1000 Value Index. Both stock selection and sector allocation contributed to relative performance.
- Stock selection in energy, information technology and consumer staples contributed to relative performance, while stock selection in industrials, utilities and financials detracted from relative returns.
- Sector allocation benefited from overweights in information technology and energy and an underweight in industrials. An underweight in communication services and overweights in utilities and consumer staples detracted.
- Top contributors to relative performance included overweight positions in Microsoft (information technology), Valero Energy (energy) and Thermo Fisher Scientific (health care).
- Individual detractors included an off-benchmark position in NRG Energy (utilities), along with overweight positions in Southwest Airlines (industrials) and Citigroup (financials).
- During the quarter, the portfolio initiated positions in American International Group (financials), Royal Caribbean Cruises (consumer discretionary), CRH (materials), Aon (financials) and TJX Companies (consumer discretionary). It exited its positions in United Rentals (industrials), Hilton Worldwide (consumer discretionary) and Corteva (materials).
- As of quarter-end, the portfolio's largest sector overweights were information technology, energy and health care, while its largest sector underweights were industrials, communication services and financials. Information technology, financials and health care were the sectors with the largest absolute weights.

Outlook

- Markets delivered modest gains despite volatility from rising Treasury yields, the Fed's rate hike, geopolitical uncertainty, midterm elections and persistent inflation. Market concentration in AI-related beneficiaries created valuation disparities. Elevated valuations leave limited margin for error if these headwinds persist.
- Financials and health care offer strong fundamentals and attractive valuations. Banks could benefit if higher rates persist. Health care valuations appear compelling given solid demand and potential clarity around drug pricing.
- Corporate earnings growth should remain supported by resilient economic activity and continued business investment. Industrials, utilities and energy appear undervalued relative to their earnings power, even as AI-related capital spending dominates market attention.
- The September pullback demonstrated market sensitivity to interest rates and geopolitical uncertainty. As markets digest higher rates and tighter financial conditions, risk appetite may wane, leaving equity multiples under pressure. November's midterm elections and Middle East developments could add further volatility.
- We continue to analyze the overall market environment in the context of how it affects our individual stock holdings. Our focus is on stock selection, and we aim to keep the portfolio as resilient as possible to macroeconomic challenges. This includes stress testing the portfolio against a number of different scenarios, such as rising interest rates, recessionary pressures and style rotations.

Top Equity Issuers (% of Total)

Holding	Portfolio
Microsoft Corporation	9.56
Apple Inc.	7.19
Amazon.com, Inc.	4.64
ExxonMobil Holdings Corporation	3.83
Citigroup Inc.	3.30
Charles Schwab Corporation	2.97
Coca-Cola Company	2.96
Cisco Systems, Inc.	2.85
Thermo Fisher Scientific Inc.	2.65
Philip Morris International Inc.	2.62

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Gross of Fees	3.39	15.12	17.30	26.14	24.06	17.40	—	—	—	—	16.24	11/30/2016
Net of Fees	2.64	13.47	14.77	22.53	20.50	14.01	—	—	—	—	12.89	11/30/2016
Benchmark	2.61	16.81	19.27	23.81	20.07	11.92	—	—	—	—	11.18	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Value Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
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The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe.

Source: FTSE.

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