

Putnam U.S. Small Cap Value Equity SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US equity markets delivered gains in the fourth quarter, driven by strong earnings, Fed interest-rate cuts, and optimism around artificial intelligence.
- **Contributors:** Stock selection in financials, materials and utilities
- **Detractors:** Stock selection in health care, industrials and real estate
- **Outlook:** The US economy appears to have dodged a recession in the near term, but uncertainty around inflation and the extent of Federal Reserve interest-rate cuts have implications for portfolio positioning.

Performance Review

- The strategy delivered a positive absolute return (both net of fees and gross) but underperformed its benchmark for the quarter. Both sector allocation and stock selection were a drag on performance in the quarter.
- Stock selection in financials, materials, and utilities contributed to performance, as did underweight positions in real estate, utilities and consumer staples.
- Stock selection in health care, industrials and real estate detracted from performance. Overweight exposure to consumer discretionary and underweight exposure to health care and communication services also weighed on returns.
- Individual contributors included overweight positions in Critical Metals, Holley, and Abacus Global Management. Individual detractors included an out-of-benchmark position in Camping World, an overweight position in Walker & Dunlap, and an out-of-benchmark position in Perrigo.

Outlook

- The US economy appears to have dodged a recession in the near term, although data is yet to be fully reported, and what we have seen suggests a weak economy.
- We believe the effects of the tariff shock are already being processed by the economy, as certain businesses raise prices and consumers adjust demand. The economy looks to have survived this initial adjustment period and is proving to be more resilient than the pessimists expected.
- Complicating factors, and ones that heighten risk, are uncertainty around inflation and the extent of Federal Reserve interest-rate cuts, which have implications for portfolio positioning.
- While there have been pockets of negative credit surprises, we do not believe banks are experiencing broad credit deterioration. We see opportunities in some community banks as they use Fed rate cuts to lower deposit costs at the same time their maturing loans reprice to higher levels.
- Many market participants have recently been enthralled by highly speculative stocks, many of which have never generated any revenue. In our experience, periods such as this may last a few quarters, but the markets ultimately revert to a more sober assessment of these highly volatile stocks, and the portfolio continues to have underweight exposure to them.

Top Equity Issuers (% of Total)

Holding	Portfolio
Holley	1.91
Veracyte	1.55
IBEX	1.37
Five Star Bancorp	1.32
Resideo Technologies	1.29
Axos Financial	1.28
Connectone Bancorp	1.27
Lifescance Health Group	1.27
Hudbay Minerals	1.24
Abacus Global Management	1.20

Average annual total returns (%) - as of December 31, 2025

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Gross of Fees	1.51	8.18	6.34	6.34	12.64	12.12	10.24	10.20	3/31/1993
Net of Fees	0.77	6.60	3.25	3.25	9.38	8.87	7.04	7.00	3/31/1993
Benchmark	3.26	16.27	12.59	12.59	11.73	8.88	9.27	9.57	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 2000 Value Index

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The **Russell 2000 Value Index** measures the performance of the small-cap value segment of the U.S. equity universe.

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Source: FTSE.

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