

Q1 2019 | Putnam Growth Opportunities Fund Q&A

Fund outperforms as market recovers



Richard E. Bodzy
Portfolio Manager
Industry since 2004

The fund outperformed the Russell 1000 Growth Index benchmark for the quarter as well as the 1-, 3-, 5-, and 10-year periods ended March 31, 2019.

The companies we target tend to be in areas of the market that are less vulnerable to fluctuations in the economy.

We analyze global trends, as well as problems and potential solutions, to determine which companies could benefit.

Richard, the equity market shifted considerably in the past three months. How did large-cap stocks fare?

We saw a sharp rebound for stocks in the first quarter, and U.S. large-cap growth stocks were some of the strongest performers globally. After declining 15.89% in the final quarter of 2018, large caps advanced 16.10% in the first quarter of 2019. We believe the Federal Reserve's decision to put interest-rate hikes on hold was a key factor in the market recovery. Investor sentiment was also lifted by signs of progress in the U.S.–China trade conflict and a realistic outlook for 2019 earnings from the companies themselves.

How did the fund perform in these dramatically different environments?

I am pleased to report that the fund outperformed its benchmark in both periods — the extremely challenging conditions of the 2018 fourth quarter and the dramatic rebound in the first quarter of 2019. Performance over longer time periods is also worth noting. The fund outperformed the Russell 1000 Growth Index for the 1-, 3-, 5-, and 10-year periods ended March 31, 2019.

Investors were focused on a number of risks in late 2018. Do you believe these risks have abated somewhat?

Some of the underlying factors that drove fourth-quarter stock declines have certainly abated. Interest rates are no longer at the forefront of investor worries, due to the Fed pivot — its announcement in January that it would be “patient,” followed by a March announcement that no more hikes were planned for 2019. Also, the market may have

been pricing in an overly negative outlook for earnings growth. I believe we have moved past that, and we should see healthy growth in certain areas of the market in 2019. These are areas we have targeted for investments in the fund.

What risks do you continue to monitor?

We are paying particular attention to changes in interest-rate policies and global trade dynamics. We are also watching for signs of inflation, particularly rising input costs for raw materials and labor. Those developments could dampen revenues for some companies in the portfolio. For many businesses, though, we look for pricing power — the ability to pass on costs for labor, transportation, energy, or commodities, for example.

Have you changed the fund's positioning as the backdrop has shifted?

Although we have experienced a bit of a deceleration in the economy globally, we don't believe it has reached a level that requires us to materially change the portfolio's positioning. We are typically focused on multi-year themes. We conduct rigorous front-end analysis that is based on growth prospects over long time periods, typically years rather than months or quarters. Also, the companies we target tend to be in areas of the market that are less vulnerable to fluctuations in the economy.

Our thematic approach is a distinctive feature of the fund. We analyze global trends, as well as problems and potential solutions, to determine which companies could benefit. Recent themes include personalized medicine, the rise of robotics, global growth in e-commerce, health-care inflation, and the transition from cash and credit cards to digital wallets.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 3/31/19

| Class Y shares Inception 7/1/99 | Net asset value | Russell 1000 Growth Index |
|------------------------------------|-----------------|------------------------------|
| Last quarter | 16.96% | 16.10% |
| 1 year | 16.40 | 12.75 |
| 3 years | 19.63 | 16.53 |
| 5 years | 13.83 | 13.50 |
| 10 years | 17.88 | 17.52 |
| Life of fund | 8.56 | 8.83 |

Total expense ratio: 0.66%

Returns for periods of less than one year are not annualized.

Recent performance benefited from a settlement from Household International, a unit of HSBC Holdings Plc.

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 10/2/95), 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.

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For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio manager, as of March 31, 2019. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: Growth stocks may be more susceptible to earnings disappointments, and the market may not favor growth-style investing. Stock prices may fall or fail to rise over time for several reasons, including general financial

market conditions, changing market perceptions, changes in government intervention in the financial market, and factors related to a specific issuer, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. 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. You can lose money by investing in the fund.

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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.