Q3 2018 | Putnam Growth Opportunities Fund Q&A

Fund advances during strong quarter for growth style

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Industry since 2004

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Industry since 2002

The fund outperformed its benchmark for the quarter as well as the 1-, 3-, 5-, and 10-year periods ended September 30, 2018.

Stock selection in technology and consumer staples contributed most to returns, while health-care and industrials holdings detracted.

While earnings-per-share [EPS] growth is quite elevated for many businesses, we are finding many others that offer an accelerating EPS profile for 2019.

How was the investing environment in the third quarter, and how did the fund perform?

For global equity markets in the third quarter, large-cap U.S. growth stocks were some of the strongest performers, with companies in health care, industrials, and technology leading the way. In terms of fund performance, our stock selection in technology and consumer staples contributed most to returns, while health-care and industrials holdings detracted. The fund outperformed its benchmark, the Russell 1000 Growth Index, for the quarter as well as the 1-, 3-, 5-, and 10-year periods ended September 30, 2018.

Certain types of stocks have led the U.S. equity markets for quite some time. What is your perspective on this?

For much of the past few years, large-cap growth stocks in the technology sector have dominated U.S. equity market performance. In 2017 especially, mega-cap technology growth stocks outperformed fairly dramatically. While we continue to hold a number of these stocks in the portfolio, we also believe market leadership may broaden to companies in other sectors across the growth stock universe. In addition, it is likely that we will experience a more balanced distribution of outperformance between growth and value stocks.

We certainly believe there are many companies across the various sectors that offer the durable long-term growth prospects we seek. We look for high and accelerating capital returns, the ability to grow at above-market rates, and companies with an ownership culture. By this, I mean businesses whose managers act like owners and whose interests are aligned with shareholders.

Corporate earnings results have been a bright spot for U.S. equity investors. What is your outlook for earnings?

The strong earnings-per-share [EPS] growth this year has been influenced by a confluence of factors, including low interest rates, reduced regulations on businesses, and lower corporate tax rates. While EPS growth is quite elevated for many businesses, we are finding many others that offer an accelerating EPS profile for 2019.

The U.S.–China trade conflict was a growing concern for equity investors in the quarter. Has it influenced your portfolio positioning?

Macroeconomic issues do not typically guide our day-to-day portfolio decisions. However, we spend as much time determining the vulnerabilities of companies we own as we do on their upside potential. Our goal is to minimize the impact of market fluctuations by investing in companies that, in our view, offer attractive long-term growth potential, a competitive edge, and fundamental business strength. As for the trade conflict specifically, we benefit somewhat from the fact that many of our holdings are U.S.-based companies. However, most businesses have a global component. Therefore, we do conduct detailed analysis of the potential impact of tariffs and cross-border trade disputes. That being said, our goal is to reduce the portfolio's sensitivity to geopolitical conflicts whenever feasible.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 9/30/18

Class Y shares Inception 7/1/99	**Net asset value**	**Russell 1000 Growth Index**
Last quarter	9.25%	9.17%
1 year	28.19	26.30
3 years	21.57	20.55
5 years	16.82	16.58
10 years	15.14	14.31
Life of fund	8.76	9.14

Total expense ratio: 0.68%

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 assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. 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.

The Russell 1000 Growth Index is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their growth orientation.

The views and opinions expressed are those of the portfolio managers, as of September 30, 2018. 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.

Putnam Retail Management

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