

Q4 2020 | Putnam Growth Opportunities Fund Q&A

Technological shifts offer durable growth potential



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The fund underperformed its benchmark for the fourth quarter but outperformed for the 12 months ended December 31, 2020.

We see opportunities in huge industries, such as health care and parts of the industrial and consumer complex, that are ripe for technological change.

Pandemic-induced changes, such as contactless payments, cloud infrastructure, software as a service, and telemedicine have created lasting opportunities, in our view.

How did the fund perform in the fourth quarter?

The fund underperformed its benchmark, the Russell 1000 Growth Index. As always, we were focused on high-quality companies and strong cash flows, but these characteristics did not translate into excess returns in the fourth quarter. However, we are pleased with the fund's performance for the full calendar year. It outperformed the benchmark for the 2020 annual period and also outperformed through extremely difficult conditions in the first quarter, due to our portfolio construction and risk management strategies.

Large-cap growth stocks delivered remarkably strong performance in 2020. Are you concerned that valuations are stretched and these stocks are too expensive?

It is often the case that pockets of the market will become overheated and valuations will get ahead of themselves, and that's certainly true today. We generally try to avoid stocks with extreme valuations. At the same time, we are fully cognizant of the fact that unique businesses with strong financial characteristics can trade at a premium to the market. In selecting portfolio holdings, we spend the majority of our time analyzing business quality, market structure, and the underlying growth drivers, seeking companies that we believe can grow at above-market rates across a cycle.

What growth opportunities are you focused on in the months ahead?

Over the past nine months or so, we have seen shifts in the economy and trends that we believe offer long-term, durable growth opportunities. These include broad themes such as increased digitization, a growing number of businesses with direct sales channels, and more scaled, capital-light business models. Huge industries such as health care and parts of the industrial and consumer complex are ripe for technological change. We seek to own businesses that are enabling and benefiting from this change.

What risks are you monitoring for the equity markets?

The primary risks from a macroeconomic perspective are the potential for rising interest rates, which can dampen equity performance, and ongoing economic challenges from the COVID-19 pandemic. We view these risks as manageable, particularly given our investment approach, which seeks to avoid valuation extremes and prioritizes a narrow range of operational and financial outcomes for the holdings in the portfolio.

In terms of risks for our portfolio themes, we believe that there has been a sustainable acceleration in demand behind secular growth drivers such as e-commerce, digital payments, cloud infrastructure, and increased screen time. It will be challenging for many businesses that have benefited from these trends in 2020 to match their results in 2021, but we believe that their growth will continue from these rebased levels.

As we begin a new year, what is your outlook for large-cap growth and your portfolio?

There are new opportunities in the market, many of which we find very exciting. We are finding that approximately 20% of companies in the growth stock universe actually have higher consensus estimates for 2021. We see lasting opportunities from pandemic-induced changes, such as contactless payments, cloud infrastructure, software as a service, and telemedicine. We believe the structural changes and acceleration in demand in these areas bring solid long-term growth potential to a number of businesses that we currently own in the portfolio.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 12/31/20

Class Y shares Inception 7/1/99	Net asset value	Russell 1000 Growth Index
Last quarter	7.92%	11.39%
1 year	38.76	38.49
3 years	24.84	22.99
5 years	22.19	21.00
10 years	17.24	17.21
Life of fund	10.03	10.30

Total expense ratio: 0.80%

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 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 December 31, 2020. 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. 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. 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. 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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