Q2 2019 | Putnam Growth Opportunities Fund Q&A

A focus on durable growth as the economy slows

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 June 30, 2019.

We believe that certain areas of the market will grow significantly in spite of fluctuations in the broader economic backdrop.

The humanization of pets is a theme that seeks to capitalize on the strong and rapidly growing demand for quality pet care.

Richard, what can you tell us about investing conditions and fund performance for the second quarter?

U.S. stocks finished the second quarter with gains, but conditions were volatile. Investors were particularly worried about slowing economic growth and the escalating U.S.–China trade dispute. The equity market rebounded late in the quarter following indications that the Federal Reserve may consider interest-rate cuts as the year progresses.

I am pleased to report that the fund outperformed its benchmark for the quarter. 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 June 30, 2019.

What is your perspective on the economic slowdown and its potential impact on the equity market?

I have little doubt that we're starting to experience a bit of an economic slowdown in the United States. It could be the result of a host of factors, including short-term or unpredictable issues such as the global trade conflict, tariffs, inventory management, and even extreme weather conditions. We have also seen some softening in metrics we track, such as railroad and trucking volumes.

While we acknowledge the United States is in the midst of a slowdown, we believe that many of the areas of the economy in which we invest will be able to grow through a slowdown without dislocation. Examples of where we focus our time and attention include cloud infrastructure, software, digital wallets, and e-commerce.

What is your outlook for earnings as the economy decelerates?

Although a deceleration in the global economy could pressure corporate earnings, we are finding companies that we believe can continue to grow at double-digit rates for the foreseeable future. Our priority is finding durable long-term growth with multi-year drivers and a narrow range of outcomes. We conduct rigorous front-end analysis that is based on growth prospects over time periods of years rather than months or quarters. At a high level, the companies we target tend to be in areas of the market that are less vulnerable to fluctuations in the economy. In fact, we explicitly factor in prior-cycle downside capture as part of our investment criteria.

A thematic overlay is a distinct feature of your investment process. One recent theme is the "humanization of pets." Could you provide some perspective on this?

We identify key themes — trends or problems, for example — that businesses are working to address. We constantly monitor the themes to determine which companies are poised to benefit.

As an example, pets have become an increasingly important part of the typical household, receiving the same level of attention, care, and health maintenance as human family members do. Demand for quality pet care is strong and growing, and we seek companies that are capitalizing on this trend. One of our portfolio holdings is an animal health-care company specializing in diagnostic testing, including in-office testing kits for veterinarians. The company has a 70% market share of point-of-care veterinary facilities, and has been growing its earnings at double-digit rates. The company's testing kits, components, and supplies — many of which are disposable items — generate a healthy level of recurring revenue. We believe the double-digit growth rates should continue for many years to come regardless of variations in the underlying economy because consumer demand for these services is so unwavering.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 6/30/19

Class Y shares Inception 7/1/99	**Net asset value**	**Russell 1000 Growth Index**
Last quarter	6.51%	4.64%
1 year	16.10	11.56
3 years	21.73	18.07
5 years	13.88	13.39
10 years	16.74	16.28
Life of fund	8.75	8.94

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 June 30, 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. 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. 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.