Q3 2021 | Putnam Growth Opportunities Fund Q&A

Style preferences fluctuate in a challenging quarter

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In the third quarter, investor style preferences continued to oscillate between growth and value.

Our process is consistent regardless of moves in interest rates, inflation expectations, Covid-19 cases, or any other macroeconomic factors.

E-commerce and payment processing, one of our 12 portfolio themes, became more relevant as a result of the Covid-19 pandemic.

How were investing conditions in the third quarter?

Investor style preferences continued to oscillate between growth and value. For the third quarter, large-cap growth stocks and the fund posted modest gains. Late in the quarter, we saw a clear rotation into lower-price-multiple stocks. This was due in large part to the rising 10-year U.S. Treasury yield. With this as a backdrop, some of our newer ideas featured stocks with lower multiples relative to the rest of the portfolio. These are typically less sensitive to interest rates. Overall, however, our process remains consistent regardless of short-term moves in interest rates, inflation expectations, Covid-19 cases, debt-ceiling discussions, or any other macroeconomic factors.

Could you describe some key components of your process?

From a fundamental perspective, we apply several criteria when analyzing businesses. One is the level of growth potential for the business and the durability of that growth. We seek companies we believe can grow at above-market rates, regardless of the market context. Then we assess growth durability — structural and other advantages that tell us a company has strong potential to grow over the longer term. Another notable feature of our process is looking for an ownership culture. This means we seek companies whose management acts like owners and the interests of their executives align with the interests of their shareholders.

Importantly, we combine these company-specific factors with a top-down thematic lens. Together with a team of research analysts, we examine global trends as well as problems and potential solutions. From this analysis, we identify themes that could drive sustained growth for businesses over a multiyear time horizon. There are currently 12 themes across the holdings in our portfolio. Approximately 90% of the companies held by the fund are tied to at least one of these themes.

Could you offer an example of one of those themes?

One theme, which gained traction as a result of the Covid-19 pandemic, is e-commerce and payment processing. Over the past 18 months or so, increased digitization is one of the major shifts we have seen in the economy. Prior to the pandemic, peer-to-peer electronic money transfers were already becoming much more common and accepted. This trend accelerated as they became a necessity for many businesses and consumers. E-commerce transactions and one-button checkout are taking share from cash and physical card payments. The U.S. e-commerce market has grown at 16% annually since 2001, well ahead of aggregate retail sales during the same time period.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 9/30/21

	Class Y shares Inception 7/1/99	**Russell 1000 Growth Index**
Last quarter	0.55%	1.16%
Year to date	12.31	14.30
1 year	21.21	27.32
3 years	22.05	22.00
5 years	23.48	22.84
10 years	20.22	19.68
Life of fund	10.22	10.55

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 managers, as of September 30, 2021. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before 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.

Lower-rated bonds may offer higher yields in return for more risk. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. Floating-rate loans may reduce, but not eliminate, interest-rate risk. These loans are typically secured by specific collateral or assets of the issuer (so that holders of the loan, such as the fund, have a priority claim on those assets in the event of the issuer's default or bankruptcy). The value of collateral may be insufficient to meet the issuer's obligations, and the fund's access to collateral may be limited by bankruptcy or other insolvency laws.

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.

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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