

Q4 2018 | Putnam Growth Opportunities Fund Q&A

Growth themes remain in place despite tough quarter for stocks



Richard E. Bodzy
Portfolio Manager
Industry since 2004

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A key component of our investment process is anticipating and preparing for different market conditions.

We continue to seek market share gainers within large addressable markets and businesses with the potential to become disruptors in their industries.

The fourth quarter was difficult for all areas of the equity market. How did large-cap growth stocks and your fund fare in this environment?

It was a volatile and challenging quarter for all equity investors. Large-cap growth stocks, the focus of our fund, generally held up better than their small-cap growth counterparts, but lagged large-cap value stocks. U.S. large-cap growth stocks — which had advanced more than 17% by the close of September — lost nearly 16% in the final three months of 2018.

For the quarter, the fund declined slightly less than our Russell 1000 Growth benchmark. In terms of sectors, consumer discretionary holdings were weakest, while information technology stocks helped offset losses somewhat.

Could you discuss your portfolio positioning in this environment?

A key component of our investment process is anticipating and preparing for different market outcomes and a variety of market conditions. We work to minimize the impact of short-term volatility by investing in companies that, in our view, offer attractive long-term growth potential and fundamental business strength. The companies we target often are in areas of the market that we believe are less vulnerable to fluctuations in the economy. We also analyze prior cycle downside capture — how companies have performed in earlier market declines. We believe our analysis leads to higher quality businesses, industry leaders, and market share gainers with a high percentage of recurring revenues.

What are some areas of the market that you find attractive now?

A recent growth theme within our portfolio is personalized medicine. This refers to the customization of medical treatments, therapies, and approaches based on an individual patient's specific needs. One of our holdings in this area is a company with the largest gene therapy manufacturing facility in the world.

Another growth theme we target is increased screen time, which refers to the rapidly growing use of and demand for bandwidth, content, and digital technology across a range of devices. Among our investments in the fund are companies that enable the creation of content across multiple platforms. We believe that businesses capitalizing on this theme continue to offer high growth rates and returns, regardless of economic conditions.

Speaking of technology, what other types of companies are you targeting in this sector?

The technology sector is undergoing a tremendous amount of change, and companies face a number of challenges, including the current trade conflict and ongoing concerns about data regulation. In this sector, we typically look for companies that have the resources, balance sheets, and management skills to deal with these challenges and adapt to the changes, while continuing to evolve and grow. As growth managers, we also seek businesses with the potential to become disruptors in their industries by introducing innovative products and services with significant growth potential.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 12/31/18

Class Y shares Inception 7/1/99	Net asset value	Russell 1000 Growth Index
Last quarter	-14.69%	-15.89%
1 year	2.55	-1.51
3 years	12.80	11.15
5 years	10.61	10.40
10 years	15.71	15.29
Life of fund	7.92	8.23

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 December 31, 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.