Q3 2020 | Putnam Growth Opportunities Fund Q&A

Growth-stock rally continues as economic transition speeds up

Richard E. Bodzy
Portfolio Manager
Industry since 2004

Gregory D. McCullough, CFA
Assistant Portfolio Manager
Industry since 2008

The fund outperformed its benchmark for the 1-, 3-, 5-, and 10-year periods ended September 30, 2020.

We are seeing accelerating growth as a result of pandemic-related shifts in consumer preferences and behavior.

Personalized medicine is one of the promising themes that we believe can drive sustained growth for businesses over a multi-year time horizon.

Market conditions remained volatile in the third quarter. How did the fund perform?

The fund delivered a solid return for the quarter but underperformed its benchmark, the Russell 1000 Growth Index. However, we are pleased to report that the fund outperformed its benchmark for the 1-, 3-, 5-, and 10-year periods ended September 30, 2020.

The COVID-19 pandemic remains a critical challenge for markets and economies, but has it also offered investment opportunities?

We remain focused on companies with durable long-term growth prospects and stocks that we believe can outperform in a variety of economic environments. However, in the midst of this challenge, we are also seeing accelerating growth as a result of pandemic-related shifts in consumer preferences and behavior. We've witnessed impressive growth trends in many industries that offered strong growth prospects even before COVID-19 emerged as a global health crisis. In areas such as cloud infrastructure and software-as-a service, we've heard from company CEOs who believe they have seen 3 to 5 years of future growth effectively pulled into the past couple of months. And we believe these growth trends can continue for several years.

Your theme-based approach is a distinct feature of the fund. Could you tell us about one of your current growth themes?

Our thematic approach is a critical part of our investment process. Together with a team of analysts, we examine global trends as well as problems and potential solutions. From this analysis, we identify which themes could drive sustained growth for businesses over a multi-year time horizon.

One of our themes is personalized medicine. For many investors in the biopharmaceutical industry today, the focus is on companies that are developing vaccines or treatments for infectious diseases. For our portfolio, however, we look at longer-term themes. Personalized medicine refers to the customization of medical treatments and approaches based on an individual patient's specific needs. We believe we are in the very early innings of a broad shift toward personalized medicine, where therapies will be targeted to a person's DNA, RNA, and genetic composition.

Many companies are making great strides in cell and gene therapy to help in the diagnosis and treatment of cancers and genetic diseases. There are currently thousands of treatments and programs in various phases of development. When it comes to biopharmaceuticals, however, there are many complexities, uncertainties, and possible outcomes. Drug development and new product launches include multiple phases of testing and trials, FDA approvals, reimbursement challenges, regulation issues, market access barriers, and supply chain challenges.

Rather than trying to forecast which individual drugs and treatments will be successful, we are invested in Lonza, a company that provides a manufacturing facility for businesses that are developing drugs. Lonza opened the world's largest dedicated cell-and-gene-therapy facility, and today it is outsourcing the manufacturing for over 1,000 different therapies. We believe Lonza has the potential to benefit when any of these treatments successfully come to market.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 9/30/20

Class Y shares Inception 7/1/99	Net asset value	Russell 1000 Growth Index
Last quarter	12.33%	13.22%
1 year	40.34	37.53
3 years	24.35	21.67
5 years	21.93	20.10
10 years	17.74	17.25
Life of fund	9.80	9.93

Total expense ratio: 0.78%

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.

The Russell 1000 Growth Index is an unmanaged index of those companies in the large-cap Russell 1000 Index chosen for their growth orientation. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. You cannot invest directly in an index.

How are you positioning the portfolio in the coming months?

As active managers, we are able to take advantage of shifting market and economic conditions. Our intense focus on portfolio positioning and downside risk can be especially beneficial with ongoing challenges such as the COVID-19 pandemic. As always, we are taking a patient and methodical approach while using market weakness and dislocations to add to existing holdings or to initiate new positions.

For informational purposes only. Not an investment recommendation.

As of 6/30/20, Lonza represented 1.47% of Putnam Growth Opportunities Fund assets.

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

A world of investing.®

Putnam INVESTMENTS

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

Putnam Investments | 100 Federal Street | Boston, MA 02110 | putnam.com

TL116 323087 10/20