Q4 2021 | Putnam Growth Opportunities Fund Q&A

Maintaining a focus on growth durability

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We believe consumer spending will shift back toward services, as evidenced by our newest growth theme — "the experience economy."

We combine company-specific factors with a top-down thematic lens, and there are currently 12 themes across the holdings in our portfolio.

How were investing conditions in the fourth quarter, and how did large-cap stocks fare?

For the quarter, large-cap growth stocks outperformed the broader market as well as their large-cap value counterparts. They also outperformed small-cap growth and small-cap value stocks. The gains in equities are notable considering the number of headwinds impacting financial markets. Ongoing issues included supply chain disruptions, concerns about inflation, and potential interest-rate hikes. However, another disruptive force was the discovery of Omicron, a new coronavirus variant that brought a surge in Covid-19 cases and worries about additional shutdowns. Despite these issues, equity markets ended 2021 with healthy gains, including the third straight year of double-digit gains for the S&P 500 Index.

What are your thoughts on managing the portfolio in this market environment?

Our aim is to minimize the impact of economic fluctuations by investing in secular growers with defensible economic moats and the potential for high, sustainable long-term returns. We believe inflation is a legitimate concern for investors, and it is likely to be a persistent headwind for many companies. Businesses that can price against inflation, a core criteria for our strategy, will fare better than companies that are unable to pass through higher input costs such as materials and labor. Some of the inflation in the market is caused by cyclical forces — such as shortages of goods — that we believe will ease in the foreseeable future as supply chain issues are resolved.

What are some areas of the market that offer opportunities in the year ahead?

Strong demand and high savings rates should prove to be positive forces for consumer spending. While rising prices have yet to impact demand, we are open to the fact that they could do so later this year. Looking ahead, at a high level, we believe consumer spending will shift back toward services, as evidenced by our newest growth theme — "the experience economy."

This theme is based on a growing preference for experiences over material possessions. An increasing number of consumers are seeking to spend their money on live entertainment and events, luxury travel and destinations, or interactions within social communities. We have observed this trend among younger consumers for many years, but we believe the appeal of experiences has become more widespread after the pandemic lockdowns and isolation. This growing demand, combined with higher levels of personal savings, should help a number of businesses in our portfolio grow at above-market rates for an extended period of time.

Could you describe some key components of your investment 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. Assessing growth durability means examining structural and other advantages that indicate 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. 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.

Putnam Growth Opportunities Fund (PGOYX)

Annualized total return performance as of 12/31/21

	Class Y shares Inception 7/1/99	**Russell 1000 Growth Index**
Last quarter	9.37%	11.64%
1 year	22.84	27.60
3 years	32.59	34.08
5 years	25.70	25.32
10 years	20.09	19.79
Life of fund	10.49	10.91

Total expense ratio: 0.74%

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 December 31, 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.

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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.