

Remarks on the Proposed Plan of Distribution in the matter of Putnam Investment Management, LLC (Admin. Pro. File No. 3-11317)

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1. The plan seems adequate for those identified as direct shareholders.
2. Not so for the large number of ultimate investors with holdings through intermediaries.
3. Additional principles for the distribution plan are suggested:
 - a. Maximizing the probability of correct identification of wronged shareholders
 - b. Minimizing the possibility of rewarding wrongdoers
 - c. Appropriately assigning responsibility for the distribution plan's costs
 - d. Transparency in the method of calculating and allocating compensation

To these ends, the following changes are suggested:

4. Undistributed compensation should be distributed to identified current and former shareholders instead of being paid back into the funds.
 - a. Widely publicized fund flow information suggests there has been enormous turnover in shareholders as a direct result of the scandal. A look at fund flow information published in annual and semi-annual reports for the top five funds affected suggests that a majority of shareholders in these funds became ex-shareholders after Oct. 26 2003. Therefore, a large number of the current shareholders will not have been shareholders during the problem period, and will not have been harmed by the rapid trading behavior. There is no reason to compensate *them*.
 - b. Furthermore, current shareholders who *were* shareholders during the problem period should be among the easiest to identify (current addresses will be available etc.) by the normal process outlined in the distribution plan. They are unlikely to be missed.
 - c. The worse side-effect is that Putnam funds will receive a performance boost, and corresponding potential commercial benefit, from these payments, since these payments will increase the NAV for the funds. This is an unconscionably perverse result.
 - d. One way to allocate the undistributed funds to already identified current and former shareholders would be to allocate the funds as follows:
 - i. First, to those identified shareholders and former shareholders with *de minimis* damages (> 0 but $< \$10$), exactly \$10 each.
 - ii. Second, any remaining funds should be distributed proportionally to the shareholders and ex-shareholders who were successfully identified through the work of Putnam and the intermediaries.
 - iii. All damage recipients will then have been people known to have been wronged, even if not severely, and therefore are appropriate recipients of compensatory and punitive damages.

5. At minimum, all current and former Putnam fund managers and analysts involved in the management or support of any of the affected funds during the problematic period should be excluded from receiving compensation under this plan. This especially includes Omid Kamshad and other fired managers. The plan acknowledges that the analysis has not been fine-grained enough to actually identify specific individuals who conducted the rapid trading. It therefore is important that the design of the plan exclude those in a position to have breached their responsibilities. Arguably, any current or former Putnam employee should be excluded from receiving compensation. It is important that a distribution plan intended to compensate investors harmed by rapid trading not create the perverse result of compensating Putnam employees or ex-employees for problems created by some of the same Putnam employees.
6. Putnam should pay all costs incurred by intermediaries in administering the distribution plan.
 - a. This will ensure that there is no disincentive for the intermediaries to be diligent in identifying former shareholders, especially.
 - b. Less than one fourth of the funds involved will be paid to direct Putnam shareholders. It is unjust to shift from Putnam to intermediaries three fourths or more of the cost of the distribution of compensation for Putnam's malfeasance.
 - c. Intermediaries' roles should be limited to identifying the shareholders, their holdings and the duration of their holdings, and providing that information to Putnam or its designated compensation agent.
 - d. On the face of it, it does not seem outlandish to suppose that the data set requirements could be clearly enough defined to enable the data from all intermediaries to be pooled with the Putnam data, thus reducing the number of accounts falling below *de minimis* thresholds for accidental reasons, such as transfer of holdings from one intermediary to another
 - e. A rough outline of a potential dataset follows:
 - i. Table 1: account contact info
 1. intermediary unique identifier
 2. intermediary unique name
 3. intermediary account type
 4. intermediary account id
 5. first name
 6. middle initial or name
 7. last name
 8. suffix
 9. gender
 10. date of birth
 11. social security number or last four digits of social security number(if allowable to use)
 12. date of most recent account activity
 13. most recent email address
 14. electronic delivery flag
 15. most recent street address 1

16. most recent street address 2
17. most recent city
18. most recent state
19. most recent postal code
20. most recent country
- ii. Table 2: account holding info
 1. intermediary unique identifier
 2. intermediary account type
 3. intermediary unique account id
 4. ticker symbol
 5. holding calendar-year
 6. holding calendar-year-quarter
 7. average number of shares held in the quarter
7. The compensation algorithm should be published. This will, of course, enable intermediaries with fiduciary responsibilities to use it.
 - a. The plan already includes a very interesting spreadsheet showing the results of the calculations for damages for each of the Putnam funds for different time periods.
 - b. Mr. Tufano should provide an additional spreadsheet showing the average number of shares outstanding for each of the funds during the same time periods. Given that information, one could, using one's own records, do a pretty fair job of calculating one's own proper proportion of the damages. This would give the process some much-needed transparency and credibility for ultimate investor
 - c. It will also enable a skeptical press and public to understand it.
 - d. It further will enable implementation of web-based calculators for people to use to estimate their own damages (if Putnam does not implement such a thing itself).
8. Because of the possibility of de minimis thresholds not being exceeded for technical reasons, extra effort is called for to enable identification of ultimate investors' fragmented holdings as one.
 - a. handling the de minimis calculations in a pooled database of holdings synthesizing investor holdings with multiple intermediaries, the risk of incorrectly classifying investors as having de minimis amounts should be reduced
 - b. the list of all intermediaries classified as having de minimis amounts should be published, with the consequences for former Putnam shareholders made clear
 - c. the de minimis status for intermediaries should be appealable, based on a demonstration of the presence of at least one investor whose damages exceed the de minimis threshold
 - d. individual shareholders who have been identified but whose damages fall below the de minimis threshold should be informed of the fact
 - e. the de minimus status for individual shareholders should be appealable, based on the ultimate investor providing full documentation