100 Federal Street
Boston, MA 02110

August 16, 2022

Submitted electronically

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) and Investment Company Names (File No. S7-16-22)*

Dear Ms. Countryman:

I welcome this opportunity to share Putnam Investments' thoughts and suggestions about the recent Securities and Exchange Commission ("SEC" or "Commission") proposal, *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices* (the "Proposal"). At the end of this letter, we also comment on one related aspect of a second proposal, on *Investment Company Names* (the "Names Rule Proposal").

Introduction

Founded in 1937, Putnam Investments is a leading global money management firm with approximately $176 billion in assets under management as of July 31, 2022. Putnam provides investment management services both to individual investors – primarily through their financial advisors – as well as to institutional investors worldwide. Putnam manages over 100 registered investment companies, including mutual funds, exchange-traded funds and closed-end funds, a suite of collective investment trusts, and 60 institutional strategies in a range of asset classes and investment styles. We offer active management across equity, fixed-income, asset allocation, and alternative investments, including multiple investment approaches that have a significant focus on environmental, social and governance ("ESG") considerations, as well as many other strategies that do not.

At Putnam, in pursuing ESG or sustainable investing, we focus first on integration of financially material environmental, social, and governance issues, with the goal of enhancing financial returns. We believe that the evidence that thoughtful integration of relevant ESG considerations may improve returns and reduce risk is compelling, and have sought to expand our coverage and depth over time as the ESG investing field has matured. Fundamentally, we view integrated ESG analysis as an important tool in the modern investment toolkit that is best used in combination with other essential tools like traditional fundamental analysis, valuation assessment, or quantitative analysis.

Beyond our foundational work on ESG integration, in a growing number of investment areas, we also offer interested investors ESG-focused portfolios. These ESG or Sustainable-branded strategies offer clients and their advisors one path, among the many other approaches in our investment lineup, to pursuing strong risk-adjusted returns.

As noted in the proposing release for the Proposal (the "Proposing Release"), interest in ESG investing has grown significantly in recent years. We appreciate the SEC's efforts to seek consistent, comparable and reliable information for investors in order to allow them to make informed decisions about investing in products that may consider ESG-related factors.

On the most basic level, we believe that the integration of financially material ESG considerations has the potential to enhance financial returns and mitigate risk, and is increasingly fundamental to good investing. We believe that this is true for funds and strategies that have ESG or sustainable investing as a principal investment strategy as well as those that do not.[1] At the same time, we understand and share the SEC's concerns about "greenwashing," and agree that it is essential that asset managers "say what they do, and do what they say" when it comes to ESG investing. This is particularly true given the rapid evolution of the field and the general lack of consensus around what "ESG" means to different investors.

In light of these concerns, we agree that if a fund's principal investment strategy includes the consideration of ESG or sustainability factors as a significant or main consideration, disclosure requirements similar to those included in the Proposal for "ESG-Focused Funds" (subject to certain modifications) are appropriate. In addition, we support more limited, proportionate disclosure requirements for funds that make use of ESG analysis in their investing, but not as a main or significant consideration.

However, we find certain aspects of the Proposal to be overly broad, while many of the disclosure requirements appear to be unduly prescriptive. In particular, Putnam has concerns about the definition and specific disclosure requirements for "Integration Funds," as described in more detail below. Similarly, we believe that the proposed disclosure table for "ESG-Focused Funds" is overly simplistic and runs the risk of streamlining disclosure to the point that it is no longer useful to shareholders, or gives shareholders a false sense of comparability. Finally, we

[1] While our comments focus, for convenience, primarily on the Proposal's requirements for registered funds, they apply equally to the Proposal's requirements for disclosures by registered investment advisers in their Forms ADV and other documents. Like our peers, Putnam offers its capabilities through a variety of product types or wrappers, depending on investor preferences, and we believe that disclosure requirements should be approached in a similar way in both parts of the Proposal.

believe that certain disclosure requirements are needlessly prescriptive. This is particularly true in areas where the Proposal would require granular data sets to be provided on certain specific issues (for example, greenhouse gas emissions ("GHG emissions") and engagement efforts). We believe that narrative disclosures that can provide the relevant context would be more useful to shareholders.

In addition to the specific comments below, which focus on points of particular concern, we also agree in principle with the overall themes voiced in the Investment Company Institute's ("ICI") comment letter on the Proposal.

Integration Funds

The definition of Integration Funds in the Proposal is as follows:

> A fund that considers one or more ESG factors alongside other, non-ESG factors in its investment decisions, but those ESG factors are generally no more significant than other factors in the investment selection process, such that ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio.

A. The proposed definition of Integration Fund is overly broad.

In our view, this definition is overly broad and, as written, would include a significant majority of actively-managed funds available in the market today. As discussed above, Putnam and many other active asset managers include consideration of ESG factors as part of their fundamental research approach and investment decision making process. We believe that certain environmental, social, and governance factors are relevant and material to long-term business fundamentals and, therefore, important to all investors. Relevant issues vary by sector, geography, asset class, and company context – there is no "one size fits all" approach – but, in some contexts and some respects, this type of ESG integration has become a standard practice that is as common as analysis of valuation metrics, credit assessment, or free cash flow. Stated differently, the consideration of ESG factors is one investment technique or tool that can be used among many others to pursue attractive risk-adjusted returns. We do not believe that the transformation of a common investing tool into a fund category, as contemplated in the Proposal, will help investors make informed investment decisions.

For example, consideration of whether a corporate issuer has good governance policies and practices has long been an area of focus for funds and other investors. The fact that a fund evaluates the governance attributes of an issuer should not necessarily put the fund into a particular category or subject it to specific disclosure requirements. This is particularly true where, as discussed in more detail below, the proposed disclosure requirements would entail the fund highlighting the consideration of governance factors over other factors, which could result in shareholder confusion as to the relative importance of ESG factors in a fund's investment process. By focusing with laser-like intensity on ESG considerations over any other investment-relevant topic, the proposed approach risks creating an unlevel playing field, in which ESG considerations appear to be both uniquely important and uniquely risky, regardless of their materiality or specific context. To use an analogy: considering value, among other investment

characteristics, does not make a fund a value fund; many investment managers consider value without it being the main element of their approaches. The same analysis should apply to ESG.

Accordingly, we would propose that the SEC consider eliminating this category of ESG fund. As described in more detail below, we do think that funds that integrate ESG factors into their investment research and portfolio construction alongside other factors can and should include some disclosure in the fund's statutory prospectus to describe that fact, as they would any other relevant investment technique used by the fund. In recognition of the potential concerns over investor confusion in the ESG area, we support specific disclosure requirements on the topic, as discussed below.

B. The ESG fund definitions should not include the concept of whether ESG-factors are "determinative."

Putnam is strongly opposed to the use of the concept of whether or not an ESG factor is "determinative" in the categorization of ESG funds and strategies. Portfolio management teams at active managers conduct significant research into potential investments, and many aspects of a security may factor into their decision to include it in a specific portfolio. It is unrealistic to think that investment professionals, with respect to a given portfolio holding, will always be able specifically to identify one element that is "determinative" in their decision to buy or sell the holding. Moreover, the factors that motivate an initial purchase of a portfolio holding may not be the same as the factors involved in subsequent purchases; markets change, and analysis is fluid. It is our view that requiring a determinativeness criterion would involve false precision in identifying a portfolio manager's intent or analysis when making an investment decision. This subjective, intent-based concept does not exist with respect to any other existing fund categorization or disclosure requirement, and is fundamentally at odds with the context-specific, multi-factor process that is common to active management, in particular. In addition, in the specific area of ESG investing, we believe that managers can seek strong risk-adjusted returns for shareholders while focusing on financially material environmental, social and governance issues. ESG investing does not need to be an either/or proposition within a portfolio, and as a result, a reductive "determinativeness" standard may not be true to lived professional investment experience.

Finally, experience in other areas of the law in which intent is a pivotal factor illustrates the problem of proof that a test of this sort creates. How would a manager's compliance department monitor for "determinative" factors? Would portfolio managers have to maintain records of the precise justification for each investment decision, including a record of precisely which straw breaks the proverbial camel's back on a particular decision?[2] We submit that this exercise would not be a valuable one, and suggest that the proposed definition would work equally well without this novel element.

Accordingly, if the definition of Integration Funds or an equivalent concept is retained within Form N-1A, we would encourage the deletion of the following clause: "such that ESG factors

[2] To the extent that the Proposing Release might be read to imply that such internal documentation must be created and/or monitored by a firm's compliance department, we submit that this exercise would be extremely burdensome (in ways not addressed in the Proposing Release's cost-benefit analysis), and would, in effect, amount to an implicit amendment of the Commission's recordkeeping rules for investment advisers and investment companies.

may not be determinative in deciding to include or exclude any particular investment in the portfolio."

C. The proposed disclosure requirements for Integration Funds should be reworked.

The proposed disclosure requirements for Integration Funds prescribe additional disclosures in both Item 4 and Item 9 of Form N-1A. We believe that the proposed disclosure requirements, particularly the requirement to include disclosure in Item 4, have the potential to result in an overstatement of the importance of ESG factors in a fund's investment strategy.

Item 4 of Form N-1A currently requires funds to "summarize how the fund intends to achieve its investment objectives by identifying the Fund's principal investment strategies (including the type or types of securities in which the Fund invests or will invest principally) […]."

Item 9 of Form N-1A currently requires funds to

1. Describe how the fund intends to achieve its investment objectives. [The discussion should] describe the fund's principal investment strategies, including the particular type or types of securities in which the fund principally invests or will invest.[3]
2. Explain in general terms how the fund's adviser decides which securities to buy and sell (e.g., for an equity fund, discuss, if applicable, whether the fund emphasizes value or growth or blends the two approaches.)

These provisions make up the existing rubric for determining how a fund should disclose its investment strategies, and we believe any additional disclosure requirements should be consistent with this framework. We believe that the Integration Fund disclosure requirements in the Proposal are (1) overly prescriptive and inconsistent with the existing framework; and (2) could result in greenwashing by overemphasizing the importance of ESG considerations.

On the first point, the requirement to include disclosure in Item 4 related to ESG integration would be the only specified principal investment strategy disclosure in the fund summary prospectus. It would represent a break with the traditional disclosure framework, which may make sense in the context of an ESG-Focused Fund, as discussed in more detail below, but is not appropriate in a fund where ESG factors are generally of no more significance than other factors considered by the fund. If consideration of ESG factors is one aspect of the fund's investment process among many, then a slightly modified version of the disclosure requirements currently in effect in Form N-1A, which have governed disclosures up to this point, should be sufficient to cover the entire investment strategy, whether or not it includes ESG. We believe that funds can determine what elements of the investment strategy to include and how to describe those elements based on the existing Form N-1A guidance as they always have, subject to the proposed revisions to Item 9 discussed below. A shareholder's understanding of a fund's strategy will not necessarily be enhanced by the inclusion of highly specific, required ESG-related disclosures,

[3] Item 9 also includes the following relevant Instructions: "1. A strategy includes any policy, practice, or technique used by the Fund to achieve its investment objectives. 2. Whether a particular strategy, including a strategy to invest in a particular type of security, is a principal investment strategy depends on the strategy's anticipated importance in achieving the Fund's investment objectives, and how the strategy affects the Fund's potential risks and returns. In determining what is a principal investment strategy, consider, among other things, the amount of the Fund's assets expected to be committed to the strategy, the amount of the Fund's assets expected to be placed at risk by the strategy, and the likelihood of the Fund's losing some or all of those assets from implementing the strategy."

and requiring those disclosures, particularly in Item 4, could mislead an investor to believe that ESG considerations have greater importance than they actually do.

As described above, we believe that the proposed definition of Integration Fund will apply to a significant majority of actively-managed funds available in the market today. In the Proposing Release, the SEC expresses concern around the overemphasis of ESG aspects of a strategy and discusses "greenwashing" as a significant concern. We believe, however, that the proposed Integration Fund disclosure requirements will require funds to highlight the ESG-related aspects of the investment strategy over the rest of the strategy, regardless of their actual relative importance, which could be misleading to investors and itself become a form of "regulatory greenwashing."

However, we recognize the SEC's greenwashing concerns, the general lack of consensus around the meaning of ESG investing, and the potential for shareholder confusion. We believe that brief narrative disclosure in Item 9 (and additional disclosure in Item 4 if the fund believes such disclosure is necessary) should be sufficient to explain to shareholders the nature and extent of a fund's ESG investing. If a fund does include such disclosure, but ESG investing does not represent a main or significant consideration (*i.e.,* the fund is not an ESG-Focused Fund), we believe a fund should disclose that fact.[4]

For these reasons, Putnam would support the following changes to the Proposal around Integration Fund disclosures:

1. Remove the proposed disclosure requirements for Integration Funds from Item 4 of Form N-1A.
2. Replace the proposed disclosure requirements in Item 9 with a requirement that a fund that integrates ESG considerations into its fundamental research process and/or investment decision making for the fund to summarize in a few sentences how the Fund incorporates ESG factors into the investment selection process, including the types of ESG factors the Fund considers.
3. Require that if a fund is not an ESG-Focused Fund but does integrate ESG factors into its fundamental research process and/or investment decision making and includes the required disclosure in Item 9, the fund should also include an explanation that such integration does not mean that the fund pursues a specific ESG or sustainable investment strategy.[5]

We believe that this more tailored disclosure approach will assist in addressing the SEC's concerns over greenwashing by affirmatively requiring, in a proportionate manner, specific discussion of ESG matters where applicable, as well as a "warning label" style disclosure intended to avoid investor misunderstanding about whether a fund is ESG-Focused.

[4] Should a fund conclude that its limited use of ESG considerations does not trigger disclosure under Item 9, disclosure on ESG could be included in the fund's statement of additional information in accordance with traditional and well-understood disclosure principles.

[6] If desired, the SEC could also specifically require a fund's statement of additional information to provide additional information on risks associated with ESG investing; however, we believe that fund families will generally provide this disclosure in accordance with the existing disclosure framework in any event.

ESG-Focused Funds

The definition of ESG-Focused Funds in the Proposal is as follows:

> "ESG-Focused Fund" is a Fund that focuses on one or more ESG factors by using them as a significant or main consideration (1) in selecting investments or (2) in its engagement strategy with the companies in which it invests. An ESG-Focused Fund includes (i) any fund that has a name including terms indicating that the Fund's investment decisions incorporate one or more ESG factors; and (ii) any Fund whose advertisements, as defined pursuant to rule 482 under the Securities Act of 1933 [17 CFR 230.482], or sales literature, as defined pursuant to rule 34b-1 under the Investment Company Act of 1940 [17 CFR 270.34b-1], indicate that the Fund's investment decisions incorporate one or more ESG factors by using them as a significant or main consideration in selecting investments.

Putnam is generally supportive of this definition and agrees that a fund that holds itself out through advertisements as a fund that incorporates one or more ESG factors as a significant or main consideration in selecting investments should be considered an ESG-Focused Fund.[6] However, we do not believe that a fund's proxy voting or engagement efforts alone should result in the fund being considered an ESG-Focused Fund.

Proxy voting is a key tool that has been used by asset managers across funds for decades, well before the emergence of ESG-focused investing. For many managers, even those that offer ESG-Focused funds, voting focuses on long-term expected investment returns, and is not necessarily tied to an ESG strategy specifically. This is particularly true for "G" factors, where corporate governance matters have long been a focus of shareholders and regulators. In fact, governance factors tend to represent a significant part of funds' proxy voting guidelines, because a plurality of proxy proposals are governance-related. As a result, it is essentially impossible *not* to vote proxies with a view toward governance factors. Broadly, Putnam is of the view that (1) strong, independent corporate governance is important to long-term company financial performance, and (2) long-term investors' active engagement with company management, including through the proxy voting process, strengthens issuer accountability and overall market discipline, potentially reducing risk and improving returns over time. We believe that this view is held widely in the industry and is not specific to ESG-focused funds. A proxy voting record with a history of supporting good governance practices should not, by itself, require a fund to be considered an ESG-Focused Fund or to include the lengthy disclosures required for ESG-Focused Funds. Likewise, while the "E" and "S" areas are also of increasing importance in the proxy voting area, a fund's approach to proposals on these topics will often be context-specific and driven by views on long-term investment merits, rather than forming a part of the fund's specific investment strategy.

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[6] As an alternative, we would also be supportive of a proposed definition of an ESG Fund as a fund "whose stated principal investment strategies focus on one or more ESG factors," as proposed by the ICI. This approach would avoid introduction of "significant" or "main" as new terms in the disclosure framework. Our comments in this section apply under either approach.

Similarly, engagement, while foundational to active management, is not specific to ESG investing. For Putnam, as a long-term fundamental investor, engagement with corporate management is a critical part of our fundamental research process. For reference, Putnam's research team holds thousands of meetings with company management every year. We are in regular dialogue with companies about strategy and execution, and where applicable, relevant ESG issues. In addition to our ongoing research process, we have direct outreach to CEOs of companies in which we invest. Annually, we send letters to over 100 CEOs, acknowledging efforts to date, and encouraging future progress on key sustainability issues specific to each company.

Proxy voting and engagement efforts are not necessarily tied to a specific fund or strategy. We do not believe that a fund's proxy voting approach or a firm's engagement efforts should necessarily result in a fund being considered an ESG-Focused Fund. Instead, the focus should be on the fund's investment strategies. To the extent that the SEC believes additional disclosure regarding proxy voting or engagement efforts is required, additional disclosures could be added to the proxy voting procedure description required by Item 17 of Form N-1A.

A. The ESG Strategy Overview Table should be revised.

The proposed ESG Strategy Overview table is very prescriptive and would require funds to reduce nuanced investment considerations into an overly simplistic format. While we are supportive of the SEC's efforts to make disclosure comparable across funds and fund complexes, this table could oversimplify the strategies in a way that could be misleading to shareholders. We believe that meaningful consideration of material ESG factors is context specific and that relevant factors may vary by, among other things, asset class, sector, issuer, and point in the market cycle. Active managers across the industry have developed thoughtful and nuanced methods for making ESG or sustainable investing decisions and implemented those strategies in different ways. We do not believe that a check-the-box exercise would result in accurate or useful disclosures for shareholders. The tabular format could result in consistency of disclosure across funds that does not accurately reflect the differences between funds because there is not sufficient detail to discern those differences. For example, not all "inclusionary" funds operate in the same manner, and there is no standard definition of "inclusionary". While there is opportunity to add additional brief disclosures, having a checkbox format could give the impression that all funds that check "inclusionary" operate in similar ways.

We agree that the ESG Strategy Overview table could serve as a helpful flag or indicator to shareholders that a fund is an ESG-Focused Fund. However, instead of the three rows required in the Proposal, we would suggest a single row table requiring the disclosure that is currently in the Proposal for Integration Funds under Item 4 of Form N-1A could be used for ESG-Focused Funds. We believe that a requirement to "summarize in a few sentences how the fund incorporates ESG factors into the investment selection process, including what ESG factors the fund considers," would give funds the flexibility needed to appropriately describe their ESG strategies, without the added requirements of a check the box exercise.

B. Certain proposed disclosure requirements are overly prescriptive and burdensome.

In certain areas, the Proposal contains disclosure requirements that are overly prescriptive and out of step with the principles-based disclosure regime currently in effect for registered funds. In

the Proposing Release, the Commission notes it has not typically prescribed specific disclosures for particular investment strategies. However, there are a number of areas in the Proposal where specific disclosures are required. One example of this is the requirement that if an Integration Fund considers the GHG emissions of its portfolio holdings as an ESG factor in its investment selection process, the fund must describe how it considers GHG emissions, including a description of the methodology the fund uses for this purpose. This is a specific disclosure requirement focused on one very narrow potential ESG consideration. The proposed disclosure requirements also create the risk that a fund would be required to overstate the importance of GHG emissions in its investment process. Additionally, while GHG emissions will doubtless continue to be an important focus for many investors and regulators, it is likely that other, additional factors will gain industry focus over time. ESG issues, data, and analyses are all actively evolving, and we expect our research and investment approaches to continue to develop in ways that are attuned to the contexts of various issuers, asset classes, and investment strategies. Fund disclosure requirements should be broad and flexible enough to allow for this sort of evolution.

Another example is the proposed requirement to disclose the scoring or ratings system of any third-party data provider, such as a scoring or ratings provider, used by the fund, including how the fund evaluates the quality of such data. While we recognize the importance of acknowledging whether third-party providers have a role in investment selection, requiring this level of detail about the scoring or ratings system could result in the role of the data provider being over-emphasized in a strategy where the data provider is only one part of the analysis. Similarly, funds use data providers for a wide variety of other investment inputs, and in no other instance is this level of detail or specificity required by Form N-1A.

A final example is the proposed requirement to disclose granular quantitative information around engagement meetings in a fund's annual report. As proposed, a fund that indicates that engagement is a significant means of implementing its ESG strategy would be required to report the percentage of issuers with which the fund held ESG engagement meetings and the total number of ESG engagement meetings. We do not believe that the number of meetings held would be particularly useful to shareholders as, for example, four detailed, in-depth meetings with senior personnel covering substantive issues could have more of an impact than ten meetings without as much substance. This prescriptive disclosure is out of step with existing disclosure regime; funds should have the ability to describe their engagement efforts as they believe best reflects those efforts and not through a list of data points that may or may not provide a complete picture.

Furthermore, there would be a significant burden associated with tracking which meetings—among the thousands that we hold every year, as indicated above—qualify as ESG-related. Additionally, the Proposing Release suggests that Compliance departments would be required to monitor such internal documentation. The effort required to maintain this type of tracking is significantly underestimated in the Proposing Release, and, in our view, would represent costly, unproductive time spent in an area of limited risk to shareholders and no obvious benefit to markets or the public.[7] As noted above, we believe that, if the Commission determines that any

[7] This implicit requirement might be viewed as an informal amendment of the Commission's recordkeeping rules, without the specificity typically included in those rules as to the nature, location and duration of such records. Moreover, since disclosure about the number of ESG-related meetings would appear in annual shareholder reports

additional disclosures in the area of engagement are needed, those disclosures can be addressed via narrative discussion in the statement of additional information, not by specific quantitative measures.

We propose that the Commission consider removing these specific disclosure requirements and rely instead on the existing narrative disclosure framework, with the amendments proposed above, which would allow funds to provide the information and context that they believe are useful to shareholders.

Names Rule Proposal

We comment here on an issue that crosses the Proposal and the Names Rule Proposal. More broadly, we also agree with and voice our support for the Investment Company Institute's comments on the Proposed Names Rule.

The definition of ESG-Focused Fund in the Proposal does not reference whether or not ESG factors must be "determinative" for a fund to be considered an ESG-Focused Fund. However, as discussed above, the use of the phrase "determinative" in the Integration Fund definition is, in our view, not appropriate. Furthermore, in the proposing release for the Names Rule Proposal, the Commission contemplates that a fund that uses ESG terminology in a fund name would be a fund "for which ESG factors are determinative in deciding whether to include or exclude any portfolio investment." Putnam would request that the SEC confirm in the adopting release for any final names rule amendment that ESG factors need not be "determinative" in investment decision making for a fund to be considered an ESG-Focused Fund; instead, these cross references should match the final rule language, *e.g.,* a fund focuses on one or more ESG factors by using them as a significant or main consideration in its investment selections.

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In conclusion, while we support the SEC's goal of providing controls in a rapidly growing field with an evolving landscape, we think that there are areas for improvement in order to develop a useful framework for funds and shareholders that will work in the long-term. We appreciate the opportunity to work with you on the Proposal as it moves forward, and would be pleased to provide any other information that may be of assistance.

Sincerely,

Robert L. Reynolds

included in funds' Forms N-CSR, this information may have to be incorporated—needlessly, in our opinion—into funds' internal controls over financial reporting, which would increase the costs relating to the production of shareholder reports and of the audits of funds' annual financial statements.