

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE SECRETARY OF THE COMMONWEALTH
SECURITIES DIVISION
ONE ASHBURTON PLACE, 17TH FLOOR
BOSTON, MASSACHUSETTS**

IN THE MATTER OF:)
)
PUTNAM INVESTMENT MANAGEMENT, LLC)
)
RESPONDENT.)
)

DOCKET NO. E-2003-061

2004 APR 8 PM 1:19
SECURITIES DIVISION

CONSENT ORDER

This Consent Order (“Order”) is entered into by the Massachusetts Securities Division (“Division”) and Putnam Investment Management, LLC (“Respondent” or “Putnam”) with respect to the administrative complaint (“Complaint”) filed against Putnam in which the Enforcement Section of the Division alleges that the Respondent has violated the Massachusetts Uniform Securities Act, M.G.L. c. 110A (“Act”) and the corresponding regulations promulgated thereunder (“Regulations”). The Order is the final settlement of those allegations set forth in the Complaint and specifically excludes any potential violations of the Act arising directly and/or indirectly from Exhibit 9 of the Complaint or in connection with Respondent’s mutual fund 12b-1 plans.

On April 8, 2004, Respondent submitted an Offer of Settlement (the “Offer”) for the purpose of disposing of only those allegations set forth in the Complaint. Solely for the purpose of settlement, the Respondent admits to the Division’s Statements Of Fact set out in the Offer and consents to the entry of this Order. Therefore, the Division sets forth the following facts and legal conclusions:

1. The Division is a department of the Office of the Secretary of the Commonwealth with jurisdiction over matters relating to securities, as provided for by the Act. The Act authorizes the

Division to regulate: (a) the offers and/or sales of securities; (b) those individuals offering and/or selling securities; and (c) those individuals transacting business as broker-dealers and investment advisers within the Commonwealth.

2. The Respondent is a Delaware limited liability company with Massachusetts offices located in Andover, Boston, Franklin, and Norwood. Putnam is an investment adviser with IARD numbers of 106629 and 106631, and affiliates of Putnam act as a broker-dealer and as a transfer agent. Putnam is an investment advisor firm that is registered with the Securities and Exchange Commission ("SEC") and notice filed with the Division. The individual mutual funds for which Putnam and its affiliates provide services are investment companies registered with the SEC and notice filed with the Division.

STATEMENTS OF FACT

BACKGROUND

A. Initiation of Formal Investigation

1. On September 11, 2003, the Division received information from a Putnam registered agent alleging that individual defined contribution/401K plans ("DC/401K") plan participants were moving money excessively between the Putnam International Voyager Fund and the Putnam Stable Value Fund; that Putnam knew of the activity; and had failed to take any action to stop it.

2. The Putnam registered agent further indicated that trades were routinely placed by Boilermakers Local Lodge No. 5 ("Boilermakers") plan participants on a daily basis between 3 and 4 p.m. In fact, according to the information provided by the registered agent, this activity was so prolific that the last hour of the trading day became known internally as "boilermaker hour" at Putnam's Norwood office.

3. He further alleged that he and other Putnam registered agents repeatedly informed their superiors of the excessive exchange activity, only to be told that this was something for senior management to address.

4. Based on this initial information and additional evidence obtained by the Division regarding Putnam's mutual fund practices, the Division forwarded Putnam a subpoena duces tecum for records and authorized a formal investigation into Putnam to determine whether certain business practices had violated provisions of the Act.

CONDUCT

DC/401K PLAN PARTICIPANTS

B. Prospectus Disclosure

5. Putnam is required to provide all prospective mutual fund customers with a copy of the relevant mutual fund prospectus.

6. Since at least January 2000, Putnam's prospectus for the Putnam International Voyager Fund now known as Putnam International Capital Opportunities Fund ("Voyager fund") contained the following language regarding exchanges of mutual fund shares:

The exchange privilege is not intended as a vehicle for short-term trading. Excessive exchange activity may interfere with portfolio management and have an adverse effect on all shareholders. In order to limit excessive exchange activity and otherwise promote the best interest of the fund, the fund imposes a redemption fee of 1.00% of the total exchange amount (calculated at market value) on exchanges of shares held less than 90 days. The fund also reserves the right to revise or terminate the exchange privilege, limit the amount or number of exchanges or reject any exchange. The fund into which you would like to exchange may also reject your exchange. These actions may apply to all shareholders or only to those shareholders whose exchanges Putnam Management determines are likely to have a negative effect on the fund or other Putnam funds.

7. In a separate section of the Voyager fund prospectus, the prospectus discloses that the fund does not impose this redemption fee for "certain omnibus accounts, including 401(k) plans,..."

8. Redemption fees were not implemented for DC/401K plans at the same time these fees were implemented for retail accounts.

9. Certain Putnam DC/401K customers were allowed to engage in market timing and excessive short-term trading.

C. Putnam's Failure to Halt Market Timing Activity in DC/401K Plans

10. In 1996, in response to increasing concern regarding market timing, Putnam formed the Market Timing Department ("MTD").

11. According to internal Putnam documents, the purpose of the MTD was to "review available data to determine if specific trading patterns fall within the parameters of the definition of 'abusive or excessive'" and to communicate with the offenders "with regard to market timing issues."

12. The MTD was established to monitor market timing and excessive short-term trading and enforce Putnam's policy against such trading.

13. The MTD procedures for addressing harmful trading behavior by DC/401K plan participants led to failures to mitigate such behavior in certain circumstances as detailed herein. As a result, certain DC/401K plan participants effectively had the ability to market time and make short-term trades without censure or limitation.

14. Until March 2003, the MTD did not have the capability to review participant transaction history and information. Only the plan Relationship Manager ("RM") and other DC plan servicing employees were able to view that information. Consequently, the MTD only became aware of market timing activity within the DC plan if the plan's overall activity triggered one of the general mutual fund flow reports.

15. Putnam's practice with regard to any market timing activity triggered by the DC plans was to send the information to Putnam Retail Management ("PRM"), an affiliate of Putnam, and to the RM for the plan. The MTD's practice did not include following up on referrals made from the MTD regarding the DC plans.

16. A Market Timing Department Functional Narrative dated March 2003 stated, "[t]he role of this department with respect to potential market timing within 401K Plans is basically one of advice. If, based upon a review of the Plan accounts . . . there appears to be market timing within a Plan, we advise Putnam Retail Management of the issue and provide a brief summary of the suspect activity."

17. Prior to 2003, the MTD operational documents did not set forth any procedures regarding market timing in the DC/401K area.

18. Furthermore, if the RM "agrees that market timing within the Plan appears to be taking place, the DC Contact (depending upon Plan Type) is contacted via e-mail by this department (with PRM copied), provided with the details of the suspect activity, and asked to identify, and follow-up as necessary, those participants that are market timing." Finally, the MTD guidelines state, "[c]ommunications regarding any of these issues with the Plan Sponsor are handled by DC and NOT by this department" (emphasis included in the original).

19. In effect, the MTD procedures allowed the department to pass on any trading or market timing concerns regarding plan participants to the RM without follow up or corrective action and thus, in certain instances, enabled some plan participants to engage in market timing and short-term trading for years without being curtailed.

20. Putnam had the ability to monitor and deter market timing and excessive short-term trading in their DC/401K plans, but failed to do so in some instances.

21. There were no systematic procedures at Putnam to address trading abuses in DC/401K plans identified by the MTD and ensure appropriate resolution.

22. Furthermore, there was no systematic review of such trading abuses in DC/401K plans by the legal or compliance department.

D. Boilermakers Local Lodge No. 5

23. Boilermakers had been a client of Putnam since 1991. Boilermakers is a labor union subject to the Taft-Hartley Act, and therefore the plan it administers for its members is known as a "Taft-Hartley Plan".

24. In response to internal concerns, Putnam reviewed trading activity of the Voyager Fund in March 2000. Boilermakers was identified as one of the accounts in which there appeared to be market timing activity.

25. Since at least December 2002, certain Putnam employees knew about significant market timing activity in the Boilermakers plan. An e-mail regarding the market timing activity states, "The population is now 28 people out of a total plan of 944. This represents 2.9% of the total participants with a balance but represents 20% of the assets. Now this population represents 99% of the exchanges in International Voyager, 99% of the International Growth exchanges, and 98% of the money market exchanges."

26. From January 2000 until September 2003, multiple participants in the Boilermakers plan were trading excessively in their accounts through Putnam.

27. As evidenced by additional e-mails, the volume of exchanges and amount of funds being exchanged were large and should have triggered one or more of the daily reports reviewed by the MTD. Even though Putnam had identified specific plan participants who were market timing,

Putnam failed to take any effective steps to restrict and/or eliminate this short-term trading activity in the Boilermakers plan until 2003.

28. Since at least September 2001, Putnam Dedicated Services Representatives knew of this activity because of the number of telephone calls received from participants in the Boilermakers plan.

29. Certain Dedicated Services Representatives brought this activity to the attention of PRM; however, they were told that any action was the responsibility of Putnam management and they should not concern themselves with the market timing activity of Boilermakers.

30. In spring of 2002, Putnam management told other Services Representatives to track the activity of the Boilermakers, but the Boilermakers' market timing activity continued unabated.

31. In January 2003, the Putnam Market Timing Report listed for the first time that "Boilermakers Local #5" appeared to be market timing.

32. On September 11, 2003, the Division sent its first subpoena regarding market timing and mutual fund practices to Putnam.

33. Putnam subsequently froze the Boilermakers plan's assets and thereafter terminated its relationship with the plan.

E. Joint International Board of Electrical Workers

34. The Boilermakers plan was not the only plan with respect to which Putnam was aware that DC/401K participants were trading excessively.

35. Joint International Board of Electrical Workers ("JIBEW") has been a Putnam client since October 1998. Similar to the Boilermakers plan, the JIBEW plan is also a Taft-Hartley plan.

36. In early 2000, Putnam Dedicated Services Representatives at the Norwood office became aware of excessive market timing and short-term trading activity from the JIBEW plan participants. Certain participants in the JIBEW plan were making frequent trades between the Putnam New Opportunity Fund or Putnam OTC Emerging Growth Fund into the Putnam Stable Value Fund.

37. Despite also having knowledge of the market timing activity and excessive short-term trading by certain JIBEW plan participants, at no time did Putnam inform the plan or take effective steps to promptly halt the trading activity of the JIBEW plan participants.

FUND MANAGERS

F. Failure to Address Improper Employee Trading

38. In the case of employee retirement accounts, prior to 1997 Putnam did not limit and did not monitor employee trading in Putnam mutual funds.

39. Beginning in 1997, Putnam introduced simplified trading privileges for Putnam employees making deferred investment allocations into available Putnam mutual funds. After initial investment allocations were selected, employees were allowed to change their investment elections twice per quarter, but no more than six times per year.

40. By 2003, after initial allocations were selected, Putnam employees were permitted to change their investment elections any number of times throughout the year, but not more than once a day.

41. In 2000, Putnam first became aware of improper trading by employees in their deferred compensation accounts, including by senior portfolio managers.

42. Thereafter, Putnam took some actions designed to educate and warn employees, to monitor trading activity and to tell those employees caught abusing their trading privileges to stop doing so.

43. Although improper trading by certain employees was identified in 2000, it was not completely halted by management and those employees were not subject to disciplinary action.

G. Market Timing and Short-Term Trading by Fund Managers

44. At least six Putnam employees who held decision-making authority at some time within Putnam's funds engaged in market timing or otherwise excessive short-term trading. At least four of the employees were portfolio managers, and at least two of those four were trading in funds they managed or jointly managed.

45. Omid Kamshad ("Kamshad") was a Putnam employee from 1996 to 2003. During a portion of that time, he held the titles of Chief Investment Officer, and Managing Director of International Core Equities. He also managed or helped to manage Putnam's funds, including: International Voyager, Europe Growth and International Growth. Additionally, for a time, Kamshad headed the team that managed International Core Equity portfolios. Kamshad was terminated by Putnam on December 2, 2003.

46. Justin Scott ("Scott") was a Putnam employee from 1988 to 2003. During a portion of that time, he held the titles of Chief Investment Officer and Managing Director of Core Equities. He also managed or helped to manage Putnam's funds, including: International Growth, International Voyager and Global Equity. Additionally, for a time, Scott was a member of Putnam's Management Executive and Capital Markets Committees. Scott was terminated by Putnam on December 2, 2003.

47. Beginning in at least January 2000, these two Putnam portfolio managers engaged in market timing and/or excessive short-term trading in the Putnam funds that they managed.

48. Summaries of trading records attached to the Complaint as Exhibits 10 and 11 show numerous market timing and short-term trades made by both Kamshad and Scott in deferred compensation accounts under their control. These records also show that both Kamshad and Scott traded in funds that they managed or jointly managed.

49. The MTD knew or should have known about market timing and short-term trading activity by certain Putnam employees.

50. On January 25, 2000, a senior member of Putnam's Human Resources Department had a conversation with Kamshad regarding large and frequent movement of funds within Kamshad's personal accounts in and out of the Worldwide Equity Portfolio.

51. A document memorializing this conversation was placed in Kamshad's personnel file on February 18, 2000. Scott was copied on the memo.

52. Although Kamshad was warned about the market timing and short-term trading activity and Scott should have known from reading the Kamshad memorandum that this type of activity was prohibited, neither individual stopped the activity until almost the end of 2000. A limited number of transactions by Kamshad continued until 2003.

53. Both Scott and Kamshad were allowed to keep any profits that they had made and to continue to act as fund managers, and no further sanctions were imposed.

54. In May 2002, Putnam amended its Code of Ethics to include an express prohibition on market timing strategies because such short-term trading was inconsistent with Putnam's belief in long-term investing.

55. Furthermore, between 2000 and 2003, certain other employees engaged in improper trading in violation of Putnam's Code of Ethics and without disciplinary action.

LEGAL CONCLUSIONS

A. Breach of Fiduciary Duty

1. As a registered investment adviser, Putnam has a legal fiduciary duty to act in the best interests of its clients at all times and to place its clients' interests above all others.
2. Fund managers have a legal obligation to adhere to high standards of ethical conduct. Market timing and excessive short-term trading activity was especially inappropriate for employees with money management responsibilities who should have understood the potential economic harm to the funds resulting from this trading.
3. Fund managers have access to material non-public information. As a result, Putnam is required to ensure that fund managers, as well as other high level employees, do not use or trade on this information for their personal gain.
4. Shareholders entrust the fund manager, as an associated person of the Putnam firm, with their savings and reasonably expect that the fund manager will take no action which is against their interests as mutual fund shareholders.
5. Kamshad's and Scott's trading records show scores of trades in the funds that they managed.
6. Putnam failed to adequately address the seriousness of the matter by allowing these fund managers to continue to act as fiduciaries for Putnam shareholders.

B. Management's Failure to Respond and Report Improper Employee Trading

7. Once Putnam discovered the breach of fiduciary duty by its employees, Putnam had an obligation to take appropriate action.

8. The market timing and excessive short term trading by Putnam employees constituted a violation of Putnam's Code of Ethics.

9. Putnam failed to take reasonable steps to stop this activity.

C. Management's Failure to Respond and Report Improper DC/401K Trading

10. In the case of the Boilermakers plan, Putnam did not establish adequate procedures to detect and control market timing or other excessive short-term trading by plan participants, even after it became apparent that certain plan participants were abusing their trading privileges.

11. Putnam failed to take reasonable steps to stop this activity.

VIOLATIONS OF MASSACHUSETTS SECURITIES LAWS

A. *Count I: Violations of § 101*

1. Section 101 of the Act states:

It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly

(1) to employ any device, scheme, or artifice to defraud,

(2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, or

(3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

2. For one or more of the reasons stated herein, Putnam violated section 101 of the Act.

B. *Count II: Violations of §102*

1. Section 102 of the Act states:

It is unlawful for any person who receives any consideration from another person primarily for advising the other person as to the value of their securities or their purchase or sale, whether through the issuance of analyses or reports or otherwise

(1) to employ any device, scheme, or artifice to defraud the other person,
or

(2) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the other person.

2. For one or more of the reasons stated herein, Putnam violated section 102 of the Act.

THEREFORE, it is hereby **ORDERED**, by Consent, as follows:

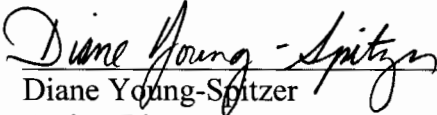
- A The Respondent shall permanently cease and desist from violations of the Act;
- B The Respondent shall pay restitution in the amount of \$5 million dollars to the Putnam funds for the losses attributable to market timing and excessive short-term trading activity in all Putnam DC/401K plans and losses attributable to market timing and excessive short-term trading by Putnam employees. Putnam shall pay this amount within 30 days of the entry of the Division's Consent Order;
- C The Respondent shall retain an Independent Assessment Consultant with the necessary expertise to calculate the appropriate restitution as set forth above in section B. The Division does not object to Respondent retaining the Independent Assessment Consultant specified in the SEC Order dated November 13, 2003 to perform this analysis. As part of this process, the Independent Assessment Consultant will address the matter of restitution for losses incurred as a result of improper DC/401K plan participant trading as well as improper employee trading, identifying any areas where shareholders were harmed and restitution is appropriate;
- D In the event that the Independent Assessment Consultant determines that losses attributable to market timing and excessive short-term trading by DC/401K plan participants and Putnam employees are greater than the \$5 million dollars outlined in this Offer, Respondent shall make additional restitution up to the total

amount determined by the Independent Assessment Consultant, which additional amount may be set off against the administrative fine described in section (g) herein;

- E The Respondent shall retain an Independent Distribution Consultant to develop a distribution plan to distribute fairly and proportionately to the Putnam shareholders the total restitution outlined in sections B, C and D above. The Division does not object if the Respondent utilizes the same Independent Distribution Consultant as is appointed pursuant to the SEC Order dated April 8, 2004;
- F Any filings and/or certifications made by the Independent Compliance Consultant pursuant to section 4(f) of the SEC Order dated November 13, 2003 shall also be filed simultaneously with the Division;
- G The Respondent shall pay an administrative fine in the amount of \$50 million dollars.
- H The Respondent shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to any payments made pursuant to any insurance policy, with regard to all amounts that Respondent shall pay pursuant to this Order. Respondent further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any amounts that Respondent shall pay pursuant to this Order;
- I If after the entry of this Order, the Respondent fails to comply with any of the terms set forth in the Division's Order, the Enforcement Section may institute an action to have the Offer of Settlement and this Order declared null and void.

Upon issuance of an appropriate Order and after a fair hearing, the Enforcement Section may re-institute the action that had been brought against the Respondent.

**WILLIAM FRANCIS GALVIN
SECRETARY OF THE COMMONWEALTH**

By: 
Diane Young-Spitzer
Acting Director
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Issued: April 8, 2004.