

ACTIVE VOICE *from Putnam Investments*

Embrace change in 2021

Q&A with Robert L. Reynolds, President and CEO, Putnam Investments



In this inaugural edition of *Active Voice*, Cathy Saunders, Head of Public Policy and Advocacy, hosts a conversation with Robert L. Reynolds, President and CEO of Putnam Investments, on the state of the investment industry in 2021.

Public policy has been a major passion for you across your entire career. How did this interest evolve, and how does it shape the landscape for Putnam's stakeholders?

It started early. I grew up in a political household. My father was active in politics. I became very interested from a young age and then got involved in campaigns while in college. After I graduated, I began working in the highly regulated investment business. It was obvious to me that legislation, policy, and regulation were critically important in framing the way we delivered value to clients and other stakeholders.

When you entered the investment industry, did this interest accelerate?

My first job was in the trust department of a bank. When Congress passed the Employee Retirement Income Security Act of 1974 (ERISA), the American retirement landscape was transformed. The bank did not have an ERISA expert so I became the ERISA expert. ERISA made sweeping changes to the U.S. retirement system HR10 plans including bringing individuals more into the retirement system.

When Congress changed the tax code in 1978, creating section 401k of the tax code, the revolution started. The final regulations were not completed until 1984 which was really the birth of 401(k) as we know it. Its original intent was for a supplemental retirement plan. At first they were called "salary reduction plans." Not the world's best marketing slogan! A few years later, I was involved with the Institutional business at Fidelity where Ned Johnson told me that the 401(k) looked like an interesting opportunity. I was asked to lead Fidelity's entrance into the business, and the rest is history.

What do you see when you look around the corner these days, in terms of public policy and improving outcomes for Putnam's clients?

We are experiencing a complete changeover for Washington. With the White House and Senate switching leadership, we can expect to see changes in regulations, types of investing such as ESG (environmental, social, and governance), tax policies, etc.

These big changes are creating new opportunities, so our industry needs to be at the table, representing our firms and the people we serve. It's going to be a busy couple of years on the policy front. We're all being dealt a new hand, and we are ready to get started.

In recent months, we have heard proposals for changing the tax treatment of 401(k)s. Is this likely?

Earlier in the campaign, President Biden speculated about the idea of replacing the tax deductibility of 401(k) contributions with a tax credit. Investors would make post-tax contributions to their savings and qualify for a follow-on tax credit. It's not a formal proposal yet.

Workplace savings has always enjoyed profoundly bipartisan support on Capitol Hill. We have close working relationships with some key players: incoming Secretary of Labor Marty Walsh (currently Mayor of Boston), the House Ways and Means Committee Chairman Richard Neal (D-MA), and Ranking Minority Member Kevin Brady (R-TX). Neal and Brady have jointly introduced the Securing a Strong Retirement Act of 2020, which aims to expand on the SECURE Act that was enacted in December 2019. We don't foresee any imminent alteration of the tax treatment of the 401(k).

In 2020, we saw robust capital market performance and returns, which seem to endorse the importance of active investment in all its dimensions. Do you see active opportunities in 2021?

While our economy was severely impacted by the COVID-19 virus and recession, our capital markets stood firm. The rollout of vaccines and safe return of more people to the workplace will be positive for the economy generally and for investments in specific sectors. We are optimistic for positive returns in many areas. The new Biden administration has proposals for infrastructure spending that may be supportive for stocks in several industries. Anticipated tax proposals to pay for stimulus spending may also lift demand for tax-exempt municipal bond funds. Of course, Congress will need to vote on these, so stay tuned to negotiations. Also, regulators may revise rules surrounding ESG investing. It's likely we'll see many changes, and change brings opportunities.

How do you view ESG and sustainability? As CEO, do you consider ESG an investment solution, an investment category, or a fully integrated philosophy for managing the company?

All of the above. Studies have proven that companies that score well on ESG rankings tend to outperform other businesses with poor ratings. ESG research helps us identify companies that are generally well run and recognize their role as corporate citizens, doing the right things for their stakeholders and their workforce. We consider this a fertile area to look for solid investments.

In coming years, environmental considerations will play a greater role in both investment and corporate governance. We believe ESG is going to be a much greater part of our lives. And while these considerations are currently more prominent in Europe, the United States will rapidly catch up.

Turning to monetary policy, we note that interest rates remain at all-time lows. What trends do you see in the current environment?

We are in a good position in that our fixed income products are active and flexible. They can pursue many return drivers and do not depend on interest rates as their primary source of performance. But rates are always important. While we do not see anything that will drive up rates over the short term, over the two- to five-year time frame, investors should keep an eye out for inflation which would drive rates higher.

Over the past year, the firm has operated under the COVID-19 lockdown. How did Putnam adapt and carry on?

We had a continuity plan in place to deliver seamless service to our clients, shareholders, and business partners, and our people executed without missing a beat. From service to investment performance to distribution, we saw improvement versus 2019. That we saw higher sales says a lot about the quality and adaptability of our distribution. Nobody should have to experience anything like 2020 again, but we can look ahead with confidence.

Given the many changes COVID imposed on our way of doing business, do you foresee any shifts — things like technology conversion or virtual client service — that might stick around for the long haul?

We've improved our processes on many fronts. On March 12, we told our employees to begin working from home. We already had quality technology in place; we did not have to gear up, and so we hit the ground running, right out of the chute. At the same time, we encouraged team members to submit feedback, and this helped us fine-tune our processes.

The past year reminded us that business is about what the customer wants. No doubt we'll travel and meet in offices again when the economy reopens, but it won't be like January 2020 again. Flexibility for customers to choose personal or digital interaction is here to stay. We aim to be a leader in it.

Given the changing political environment and evolving dynamics in our industry, what trends do you see for mergers and acquisitions for the asset management industry?

Asset managers today are being challenged in many different ways. There is a rising demand for operational efficiency, scale, and diversification. M&A is becoming more of a fundamental part of our industry landscape. It's all a part of serving customers better.

Always Active is a timeless theme. Do you apply this theme to managing the firm, in the same way that the firm manages assets and client relationships?

Someone once said, "Be ready so you don't have to get ready." This past year has taught us to adapt to new and different challenges of a sort that we have never seen before. We have to be more opportunistic, generally. When opportunities rise before us, we should be able to react right away. These days, if you operate like it's business as usual, you will not survive.

Between COVID-19, economic dislocation, and the election, we have more opportunities for the coming year than we've ever had before because we are experiencing so many systemic changes. Putnam experiences its greatest growth and expansion in times of great change.

For many years, investment managers have stayed with a "buy and hold" philosophy. Where are we in the debate between indexes and active management?

Indexes have been around for 40 years, so they are nothing new. And there are market conditions in which indexes can work well. The years following the global financial crisis are an example. We believe active and passive strategies can work well together in a portfolio. At points in the investment cycle, at times of dynamic change, we believe investors should look at the distinct advantages of active management.

Index investing is often seen as a simple matter of low-cost investment. Are there times when low-cost strategies are eclipsed by a desire for outperformance?

Absolutely. Periods of volatility and rapid change are not the most opportune for holding indexes. When market leadership is narrow, top holdings can become highly overweight. At certain points in the investment cycle, indexes can lack the advantage of flexibility. Investors should be aware of these risks.

In 2020, investors seemed highly preoccupied with short-term financial challenges. But as the economy recovers, might they return to thinking about long-term investing — for example, retirement investing?

Regardless of where we are in the economy or markets, one thing never changes. People always ask me how they should be invested, and I always respond that it depends on your investment time horizon. For short-term strategies, investors typically want to remain highly liquid. But over the longer term, investors should consider robust equity allocations. Working with an advisor can be helpful in gauging an investor's risk profile — their willingness to take risk.

Retirement investors are a unique case. We know that historically, equities outperform bonds and bonds outperform cash over the long term. And retirement accounts don't need to trade a great deal. But retirement investors need to carefully monitor their time horizons and sequence-of-return risk — taking too much risk when their balances are high and time horizon is short. Their investments should glide to more conservative allocations over time.

What are some guiding principles that you've developed in your career as a business leader?

It all has to do with responsibility and accountability. Everyone has a specific role to fill; it's a simple question of being productive and doing your job. To do what we do in our company, we need expertise in a variety of disciplines. Over the past year, our leadership team and the people who work with them really stepped forward.

How does 2021 look for the company, for clients, and for stakeholders?

It's all about active management. In 2020, with so much change and volatility, we had to manage the company — and manage our client assets — actively. This will continue in 2021 as we work with the new administration in Washington, as we roll out the vaccine, and as people return safely to the workforce.

In the coming year and beyond, we see new opportunities in the investment markets, and our clients want new ways to interact with us. We need to be as active as ever, embracing change and understanding that it will be a permanent part of our lives. In a changing world, the companies that understand this will be the winners.

About **ACTIVE VOICE**

Active Voice is Putnam's platform for new ideas and insight focused on public policy, capital markets, asset and wealth management, workplace retirement savings, and emerging technology and diversity issues. Clients, partners, and stakeholders can join in the exchange to continue charting a course for an advancing industry.



CATHY SAUNDERS

Head of Public Policy and Advocacy
Putnam Investments

As a leader with over 30 years of experience in the investment industry, Cathy offers insight on national and local policy and the goals of Putnam's clients and stakeholders. She shares her expertise on a variety of topics such as women and wealth; the client experience; leadership; and diversity and inclusion. Cathy is a member of Putnam's Diversity Advisory Council and Women of Putnam.

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