Pillar 3 Disclosures

for the period 1 January 2015 to 31 December 2015

Putnam Investments Limited

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1. Overview

1.1 Background

The Capital Requirements Directive

The Capital Requirements Directive ("CRD") sets out the disclosure requirements for financial institutions operating under the Basel II framework. It affects all banks and building societies and certain types of investment firms, including Putnam Investments Limited ("Putnam" or the "Company").

The CRD framework consists of three 'pillars':

- Pillar 1, which sets out the minimum capital requirements firms are required to hold in order to meet credit, market and operational risks.
- Pillar 2, where firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1.
- Pillar 3, which is intended to help improve market discipline by requiring firms to publish certain details of their underlying risks, capital position and risk management controls.

1.2 Basis of Disclosure

Putnam is a company registered in England and Wales. The business of the company is investment management and promotion of investment management services and related collective investment vehicles. Putnam is also the distributor of certain Irish Undertakings for Collective Investment in Transferable Securities ("UCITS").

Within the UK, Putnam's activities are regulated by the Financial Conduct Authority ("FCA"). Putnam is also registered with the U.S. Securities and Exchange Commission ("SEC") as an investment adviser.

This document has been prepared by Putnam in line with its internal policies for Pillar 3 disclosure and the FCA requirements as provided for in section 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). BIPRU 11.3 provides that we may omit one or more of the required disclosures if we believe that the information is immaterial or where we believe the information is proprietary or confidential. We have not currently omitted any specific items as proprietary or confidential.

Under FCA rules, the Company calculates its capital requirements and reports to the FCA on a solo basis.

The Company is part of the affiliated group of companies operating as Putnam Investments. There are currently no foreseen impediments to the prompt transfer of capital within the group for payment of group liabilities.

The effective date of these disclosures is 31 December 2015, Putnam's fiscal year end. Values are based on year end amounts taken from Putnam's financial statements; however, these disclosures have not been subject to external audit.

Disclosures will be made on an annual basis and made available to the clients and other relevant parties shortly after the filing of Putnam's statutory accounts through posting this document on the Putnam website at www.putnam.com/uk. The disclosures are also available on request in writing to the Compliance Officer, Putnam Investments Limited, Cassini House, 57-59 St James's Street, London, SW1A 1LD.

2. Risk Management Objectives and Policies

2.1 Risk Appetite of Putnam

In accordance with BIPRU 2.2.25, the senior management of Putnam considers that the firm's activities are simple and has determined that the Company's appetite for risk, as reflected in its and its affiliated companies' business model, is low. This is supported by the fact that the Company, a predominantly long only, active investment manager, acts solely as agent for its clients' accounts when making investment decisions. Furthermore, the Company only acts for clients that qualify as "Professional Clients" or "Eligible Counterparties" under the FCA's Conduct of Business Rules. The Company does not deal in any financial instruments for its own account (i.e. engage in proprietary trading), nor does it underwrite issues of financial instruments on a firm commitment basis. It does not hold client money or securities and it is not authorised to do so. Any securities and cash in client accounts are held with each respective client's designated custodian.

2.2 Key Risks

As an investment manager, Putnam has identified the following as key risks to its business:

- Investment Management Risk
- Operational Risk
- Regulatory, Compliance and Legal Risk

Investment Management Risks

The Company's success is ultimately based on its ability to deliver attractive returns for investment management clients. As a result, the Company is subject to investment management risks, starting with performance risk, i.e., the risk that its investments on behalf of clients may perform poorly, or not perform as well as those of competitors. A second aspect is quality of service to clients (e.g., reporting, provision of information, and shadow accounting for client portfolios).[1] Investment management risk is closely related to the reputation of

[1] The Company does not generally act as official recordkeeper for client portfolios, and as such is not generally subject to direct risks of pricing/valuation errors, for example. However, other aspects of middle-

the Company and its affiliates in the marketplace, which impacts clients' willingness to invest assets (or keep assets invested) with the Company. Poor investment performance or service levels can directly impact the level of investments and withdrawals for current and new clients. In this regard, the Company is exposed to the risk that large clients redeem their accounts, reducing assets under management and revenues.

Included in investment management risk is the general business risk associated with changing market conditions, including the need to develop and market new investment products, the relative attractiveness of Putnam's various investment styles under prevailing market conditions, changes in the investment patterns of clients, and the ability to maintain investment management fees at current levels.

The Company's investment teams include research analysts who carry out in-depth continuous appraisals of companies, sectors and other key investment factors. The risks potentially associated with this activity (e.g. analysts' conflicts in publishing research, etc.) have been considered and deemed to be mitigated by the fact that all research is proprietary only and not prepared for external distribution. In addition, various Group controls and reporting requirements regarding employee personal trading address and further mitigate these risks.

In order to mitigate investment management and market risks, the Company monitors investment risks (including market risk (discussed below) and the investment-related aspects of management risk) by regularly assessing portfolio exposures and by establishing policies and business practices to protect against the adverse effects of these potential exposures. The Company and its affiliates devote substantial resources to the investment process and related functions in an attempt to achieve strong investment performance for clients. In addition, the Company maintains a risk management function that analyses investments across all client portfolios to identify areas of over-concentration and potential risk. The Company also invests resources in maintaining and training staff to provide client service and accounting oversight functions. With respect to changes in the business, the Company draws on well-established review processes for new business initiatives (including input from a variety of business areas) before undertaking strategic changes.

Operational Risk

The Company is subject to the risk of mandate (i.e., investment guideline) or trading related errors which is mitigated by a programme of compliance policies and procedures and oversight controls. The Risk, Internal Audit, Legal and Compliance functions of the Company and its relevant affiliates, in particular, review and assess investment management and trading process activities to

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and back-office services (such as corporate actions and "shadow" pricing, i.e. maintaining investment records, reconciling to the client custodian and resolving any divergences) could also give rise to risks.

determine that appropriate controls are in place and functioning properly. In areas of greater complexity (such as use of OTC derivatives), the Company and its affiliates rely on a series of documentary and legal controls, including in-house expertise, in order to mitigate legal and operational risk.

Senior management considers the systems and controls in place around the investment management and trading process, including the placing of orders in the market place, to be robust. In addition to pre-trade compliance systems, the Company has engaged its parent, The Putnam Advisory Company, LLC ("PAC"), to carry out a comprehensive post-trade compliance monitoring programme around all aspects of trade allocation and best execution. A summary of all investment related breaches, irrespective of materiality, and reports around trade allocation and best execution are provided to the Company's Board of Directors at each quarterly Board Meeting. The Company and its affiliates also maintain errors and omissions insurance coverage (reviewed annually through a due diligence process undertaken in consultation with a professional broker and legal counsel).

Regulatory, Compliance and Legal Risk

In addition to the quantifiable risks associated with trade errors and investment mandate (guideline) breaches, the Company is also subject to general compliance and regulatory risks. As a regulated entity, the Company is subject to FCA Rules and other requirements in a variety of areas, and is also subject to other jurisdictions' laws to the extent its operations fall within their scope. Should the Company fail to comply with these laws, it could be subject to regulatory fines and penalties and, in such a case, would suffer the reputational and other collateral effects of a regulatory failing. Overall regulatory risk may be heightened to the extent of the Company's activities in jurisdictions with a history of issues with corruption. In addition, this category includes the risk that clients may pursue litigation against the Company for actual or alleged breaches of regulatory rules or other duties. The Company's insurance coverage, discussed above, is a relevant mitigating factor with respect to the financial exposures potentially arising from this risk.

To mitigate the risk of regulatory breaches, the Company's Compliance personnel maintain a robust compliance programme reasonably designed to ensure compliance with applicable law. The Company's compliance approach consists of a number of detailed, specific policies relating to particular areas of regulation (with such policies and processes subjected to periodic review and testing), coupled with an overarching programme of oversight, management information, and training. As noted above, the Company also maintains a formal Risk Map that is intended to give an overview of various legal and compliance risks that may apply to the Company's operations. With respect to corruption risk specifically, the Company provides employee training and clear policies on gifts and entertainment and anti-corruption, monitors expense items and requires an annual certification on this topic from relevant employees.

2.3 Other Risks

The Directors have also considered various other areas of risk, some of which are discussed below, and concluded that such risks are less material to Putnam's business than the three key risks discussed above.

Market Risk

Assets under management and revenue levels are particularly affected by fluctuations in domestic and international stock, bond and currency market prices. Fluctuations in the prices of stocks will have an effect on equity assets under management and may influence the flow of monies to and from equity funds and accounts. Fluctuations in interest rates and in the yield curve have a similar effect on fixed-income assets under management and may influence the flow of monies to and from fixed-income funds and accounts. Various other risks (including any investment risk, whether issuer-specific or market-wide) may lead to client losses and a corresponding decline in assets and revenues.

Loss of Key Personnel

The Company is exposed to the risk that key personnel, such as key investment managers or sales personnel, may leave the Company.

The Company seeks to provide appropriate opportunities and compensation to encourage long tenure, and attempts to cross-train and operate through team structures where possible to mitigate the impact of any one individual's decision to leave the firm.

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. In the case of the Company, the number and relative size of the Company's unaffiliated clients will fluctuate over time, with the impact arising from the potential failure of a client to make payment of the Company's fees varying accordingly. Credit risk vis-à-vis non-affiliated clients is currently considered to be low.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company's primary ongoing cash obligations relate to employee compensation, rent, and other out-of-pocket expenses. The Company consistently maintains sufficient liquid funds to meet its obligations.

The Financial Services Authority ("FSA") granted the Company, on 19 October 2010, a modification to BIPRU 12.2.1 which requires that a firm may not rely on other members of its corporate group to provide liquidity resources with the modification expiring on 31 October 2015. The Company sought to renew the Modification in August 2015 prior to its expiry on the 31 October 2015, but, due to an unpublished change in the FCA process for the extension, the process extended longer than anticipated. The FCA granted the Company, an extension to its modification, on 16 December 2015 through 16 December 2020. The renewal means that the arrangements between the Company and PAC as described above remain in place until at least 16 December 2020.

Foreign Exchange Risk

Because the Company pays salaries and otherwise transacts its business in Sterling, but may have significant intercompany debts or receivables denominated in US Dollars, changes in the exchange rate could have a direct impact on the Company's finances; however, this risk is mitigated by its affiliates' agreement to cover off such risk.

Group Risk

Because the Company is part of the larger Putnam Investments group rather than a standalone firm, the Company is susceptible to group risk due to interdependencies relating to provision of operational cash, intercompany revenue, and joint business operations. It is expected that the group will continue to support the Company based on its contributions to overall group revenue and operations.

2.4 Governance and Risk Management Framework

The risk management framework is part of the corporate governance arrangements within Putnam, which operates in a manner appropriate to its scale and scope of operations. As noted above, the Board establishes the risk appetite for the Company and meets regularly, along with senior management, to review the risks that the business faces and the controls in place to manage those risks.

The Company's risk management framework is based on the concept of "three lines of defence":

- Risk management: primary responsibility for strategy, performance and risk management lies with the Board of Directors, the Chief Executive and the heads of business divisions.
- Risk oversight: Risk management oversight is provided by the risk management team, in respect of investment risk, and the compliance team, where various compliance monitoring takes place, such as trade oversight, best execution monitoring and investment compliance risk, among others.
- Independent assurance: Independent assurance on the effectiveness of risk management systems and controls is provided by Group internal audit, reporting to the Putnam group's Audit Committee.

The Company maintains a Risk Monitoring Programme (RMP) that provides quarterly information to the Board on the continuing adequacy of internal controls.

In addition, the Company undertakes an ongoing Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2 that addresses the management of capital as defined by the FCA. As part of the ICAAP process, the Directors consider various risks to capital and stress testing relating to those risks, as well as an assessment of the costs needed to wind down the business if necessary. Through the ICAAP analysis, the Directors have concluded that the Company currently has adequate capital to withstand reasonably expected losses arising from these risks.

3. Capital Resources

The Company's capital resources for regulatory purposes are as follows:

Regulatory capital as at 31 December 2015:

	£
Core tier one capital (no hybrid instruments)	17,359,000
Other tier one capital	
Deductions from tier one capital	
Tier two capital	
Tier three capital	
Total capital after deductions	17,359,000

4. Capital Requirements and Adequacy

Putnam's minimum capital requirement under Pillar 1 as at 31 December 2015 is £2,843m based on the fixed overhead requirement ("FOR").

This capital requirement is determined according to the highest of:

a) a base capital requirement of £50,000; or
b) the FOR (which is based on three months' audited expenditures less certain discretionary amounts and revenue related commissions and fees); or
c) the sum of the Company's market and credit risk requirements.

As a limited licence firm, the Company is not required to calculate a Pillar 1 capital amount in relation to operational risk, although operational risk is considered as part of the Pillar 2 ICAAP assessment of capital needs. The Company uses the standardized approach to market risk and the simplified standard approach to credit risk. Market and credit risk are not considered material to the Company, and therefore Pillar 1 market and credit risk capital requirements are not disclosed.

Putnam believes that it is well-capitalised, as its tier one capital represents over 4 times more than the Pillar 1 regulatory requirement. As part of the Company's Pillar 2 ICAAP process described above, the Company's Directors have considered the Company's business and the risks described above and determined that additional capital is necessary in light of the risks applicable to the Company's business. The Pillar 2 capital amount determined as a result of the ICAAP process is £9,000,000. Accordingly, the Company currently holds significantly more capital than its requirements.

5. Disclosure review

The disclosures detailed in this document are updated in conjunction with the ICAAP on at least an annual basis. Where a significant event occurs, the capital and risk position of Putnam will be reviewed and all relevant risk documents, including the ICAAP, will be assessed and modified accordingly.

6. Remuneration Code

BIPRU 11.5.18 requires the Company to disclose certain information in respect of compensation of categories of staff whose professional activities have a material impact on its risk profile. Such disclosure is available on the Company's website at www.putnam.com/uk.