



OFFICE OF
STATE TREASURER
DENISE L. NAPIER

NEWS

FOR IMMEDIATE RELEASE

Tuesday, December 9, 2003

**TREASURER NAPIER SAVES \$225,000 IN PUTNAM INVESTMENT FEES;
FIRM TO REMAIN ON STATE WATCH LIST, WILL LINK FUTURE
FEES TO PERFORMANCE**

***Organizational Stability, Personnel Turnover to be Monitored; Agreement
Reached after Face-to-Face Meeting between State Treasurer and New CEO***

Connecticut Treasurer Denise L. Nappier announced today that the Connecticut Retirement Plans and Trust Funds (CRPTF) will save \$225,000 under a renegotiated fee structure with Putnam Investments, the nation's fifth largest mutual fund firm. Putnam has also agreed to link all fees to be paid by the Connecticut pension fund directly to the firm's investment performance, through March 2004.

Nappier, principal fiduciary of the nearly \$19 billion CRPTF, said that Putnam will remain on Connecticut's watch list, and will continue to receive a high level of scrutiny related to the firm's organizational stability, personnel turnover and investment performance.

"The ice under Putnam remains thin, Nappier said, "and we will continue to carefully monitor every step they take. Nothing in this agreement precludes any action at any time to sever our business relationship should that become necessary to protect the pension assets," Nappier said. "At this time, we are acting prudently and strategically, and in the best interest of the pension fund and its' beneficiaries. That's why we are staying put for the time being."

The announcement follows face-to-face negotiations, conducted at the Treasurer's Office in Hartford, between Nappier and Putnam's recently installed President and CEO Charles E. Haldeman and other members of Putnam's senior leadership team.

Putnam had been selected after a competitive process in July 2003 by Treasurer Nappier, in consultation with Connecticut's Investment Advisory Council, to manage \$270 million in international equity funds. The current value of the funds under Putnam's management is \$291 million (as of October 31).

"We have reaffirmed Putnam's contractual obligations, preserved all of our rights, and saved the pension fund \$225,000," Nappier said. Nappier also noted that the direct

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dialogue with Putnam's new leadership also extends to the company's corporate governance policies, which she said are absolutely critical to fully restore public and investor confidence in the company.

The renegotiated agreement regarding fees focused on the period from August 4 (when Putnam began managing Connecticut funds) through October 24 (when the lead portfolio manager of Putnam's international product was dismissed). Treasurer Nappier had also expressed concerns that the firm was less than forthright during the selection process with respect to the events that led to the personnel changes.

"Quite simply, they failed to disclose the suspicious trading allegations to us and other investors, and in our view, we should have been informed. The individuals responsible for those decisions are now gone, and their replacements have committed to behaving differently, poised to move to the head of the class as a model for the mutual fund industry. I am certainly aware of what it takes to get a fiscal house in order after a predecessor's scandal, having done precisely that here at the Connecticut Treasury."

Contributing to Nappier's decision not to terminate Putnam was a November 13, 2003 agreement with the Securities and Exchange Commission (SEC), in which Putnam agreed to institute a number of remedial actions, including new employee trading restrictions, enhanced employee trading compliance, and oversight by an independent third party and the SEC of the calculation of the amount of restitution to be made by Putnam for the losses attributable to excessive short-term trading by former Putnam employees.

Treasurer Nappier noted that moving funds now managed by Putnam to another portfolio manager remains a viable option, but would need to be done with great care in the present environment. About 60 percent of US pension fund executives believe improper short-term trading of mutual fund shares is prevalent throughout the industry, according to a recent Greenwich Associates survey.

"Given the current turbulence in the mutual fund industry and the cascading revelations of potential wrong-doing in a great many firms, we did not want to move our funds out of the frying pan into what could become an even worse fire," Nappier said. "This outcome provides remuneration where we believe Putnam may have acted inappropriately, and additional protections for our fund and its beneficiaries."

Putnam is one of 11 international equity managers at the CRPTF. The international equity asset class is 19% of the state pension fund, with assets of \$3.6 billion as of October 31.

Nappier said that in addition to the changes at Putnam, broader systemic changes are necessary in the regulatory framework for the mutual fund industry, and called on the Securities and Exchange Commission to work closely with investors to develop standards that will provide adequate safeguards for the long-term.

"Putnam's new leadership faces a tremendous challenge, and our agreement affords Putnam the opportunity to earn back our trust, while minimizing the risk to the Connecticut pension fund. Beyond that, it is in the best interest of not only Connecticut's pension fund

but all investors, large and small, that the integrity and credibility of our nation's mutual funds be fully restored.”

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