MANAGING a CRISIS in FINANCIAL SERVICES: *PUTNAM INVESTMENTS 2003-2004*

On November 3, 2003 Charles "Ed" Haldeman sat in his office at Putnam Investments' downtown Boston headquarters considering the scope of what would undoubtedly be the biggest challenge of his 30-year career in money-management. Haldeman had earned a reputation as a turnaround specialist among industry insiders for his work as CEO of Delaware Investments between 1999 and 2002 by engineering a dramatic improvement in the relative performance of Delaware funds in just two years. But, Putnam was managing $272 billion, almost three times as much as Delaware, and its problems ran much deeper than simply investment performance.

Earlier that Monday, Haldeman was promoted from co-Chief Investment Officer to CEO. He replaced Lawrence Lasser, one of the industry's highest profile executives. Lasser's 18-year tenure at Putnam came to an abrupt end just days earlier as the firm faced allegations by the SEC and the Massachusetts Secretary of State that some of Putnam's portfolio managers engaged in market timing: a rapid-fire trading scheme designed to profit from stale mutual fund prices. In the week between the allegations becoming public and Lasser's dismissal, Putnam fired two senior portfolio managers and public pension funds withdrew $4 billion from Putnam funds.

A market-timing scandal, if handled improperly, could exacerbate Putnam's recent sub-standard investment performance by causing a devastating outflow of assets and irreparable damage to its corporate image, far beyond what had already taken place. Haldeman strongly believed that reputation was the single most important determinant of success in the money management business. Moreover, the trust Putnam had built with individual and institutional investors over decades could be destroyed instantly by a scandal involving legal and ethical violations.[1] Sensing that his company's future depended on his immediate course of action, Haldeman set out to restore Putnam's image as a trustworthy money manager that deserved to return to its familiar position among the leaders of the mutual fund industry.

Putnam Investments

Background

Putnam Investments was founded in 1937 by the great-grandson of the Massachusetts Supreme Court Justice, Samuel Putnam, who helped establish the legal framework for the money management industry. George Putnam based the firm's investment philosophy on his great-grandfather's legacy -*The Prudent Man Rule*- and its edict that "those with the responsibility to invest money for others should act with prudence, discretion, intelligence, and regard for the safety of capital as well as for income."[2] In 1970, Putnam

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became a wholly-owned subsidiary of Marsh & McLennan, a global insurance company with annual revenues in excess of $12billion.

Putnam's investment products were sold to individual investors through brokers and other financial intermediaries that recommend Putnam funds based on past performance and reputation. In contrast, other fund companies such as Fidelity sell their funds directly to individual investors and do not rely on a middle-man to assist in the sales and marketing effort. "The people who put their money into Putnam's funds are not the firm's real customers."[3] Putnam's funds span the style (growth & value), cap (large & small) and geographic (domestic & international) spectrum.

The Lasser Years

Prior to Lasser's stewardship which began in 1985, Putnam was regarded as stodgy and conservative in its approach to money management. Under Lasser, however, the firm experienced tremendous growth. Between 1993 and 1999 alone, assets under management grew 33% compounded annually from $90 billion to $391 billion, outpacing the S&P 500 which grew 26% compounded over the same time period. "Truth in labeling," the firm's rallying cry, affirmed a commitment to style specific products (i.e., growth funds only investing in growth stocks, small cap funds in small stocks etc.) that resonated strongly with investors and investment advisors. In the late 1990's, the firm also rode the Internet bubble, betting heavily on technology and telecommunications stocks in many of its funds. Portfolio managers of popular growth funds like *OTC Emerging Growth* became Wall St. celebrities because of their spectacular performance (+127% in 1999) and received gaudy compensation packages. Lasser himself was routinely one of the best paid executives in the industry, taking home over $100million between 1998 and 2003. Critics viewed the compensation of Lasser and others as emblematic of a much broader problem –a developing culture of corporate greed that came at the expense of individual investors. According to a December 2003 article in *Money* magazine:

> "The firm embraced one of Wall Street's oldest and most cynical sayings: 'When the ducks quack, feed 'em.' Putnam began selling any fund that gave –or appeared to give- investors what they wanted, regardless of whether it was a prudent, intelligent or safe way to invest. The firm pandered to the worst instincts of investors-and to the brokers who are supposed to help those investors."[4]

Post-Technology Boom Problems

When the technology bubble burst in 2000, Putnam fell hard. Assets under management were cut by 36%, far worse than the 14% decline in the S&P during that time period. The move from $391 billion at the end of 1999 to $250 billion at the end of 2002 prompted the firing of the very portfolio managers whose bets on technology fueled the firm's growth just two years prior. Even Lasser's compensation package was slashed – declining from $30 million in 2001 to $10 million in 2002.[5] While Putnam remained the nation's fifth largest mutual fund manager, the company's revered run had come to an end. The more the negative consequences of such aggressive growth tactics became evident, the more Putnam's credibility within the investment community was called into question.

Ed Haldeman, formerly CEO of Delaware Investments, was hired as co-Chief Investment Officer in 2002 to right the ship. He was charged with the responsibility of overhauling the investment division, getting performance back on track and restoring Putnam's image as a prudent, trust-worthy investment manager. Both inside and outside the company, it was commonly assumed that Haldeman would eventually succeed Lasser as the CEO of Putnam.

Market Timing in Mutual Funds

Mutual Fund Pricing

The price of a mutual fund measures the value of the assets (stocks or bonds) that it owns. Unlike stocks, whose prices are continuously updated, a mutual fund's price is updated once per day, at 4pm in New York, to capture the day's movements up or down of the securities owned in that fund. Because many international markets close well ahead of 4pm EST, the value the international securities are assigned in that fund will not reflect the latest US market activity. Insofar as the prices of international stocks are affected by movements in the US stock market, investors can profit from this "stale pricing" in mutual funds holding a significant number of international securities.

> International Fund A owns exclusively shares of Japanese electronics companies whose performance can be largely predicted by sales of Intel microprocessors. On Tuesday at 9am EST, Intel reports that its 4th Quarter sales were well above expectations. Based on these results, market timers buy International Fund A because they expect the Japanese stocks it owns will react favorably when the Tokyo market opens on Wednesday. This favorable reaction, however, will not be captured in the price of International Fund A on Tuesday, but will be captured when the US market closes on Wednesday.

Defining Market Timing

Mutual funds are required to file semi-annual reports that disclose, within 45-days of the reporting date, their top-ten holdings as well as their weightings in various countries and sectors. Based on this information, common investors can market time mutual funds by performing simple regression analyses. Portfolio managers know more than the public – the exact composition of their portfolios at any given time. It is not clear whether this non-public information allows portfolio managers to be *better* market-timers than the public. In either case, however, portfolio managers have the ability to market time mutual funds in an attempt to secure profits at artificially low risk levels.

This market timing affects common shareholders in multiple ways. First, mutual funds must have sufficient cash reserves to fund liquidations when they arise. Funds that are frequently market-timed, therefore, must have artificially high cash balances. This cash will be a "drag" on the fund's performance in a rising stock market. Second, there are transaction costs every time a portfolio buys or sells stocks. These transactions costs are borne by all shareholders. If a manager is forced to buy and sell stocks to respond to a market timer's buying and selling, transaction costs of a fund will increase and its total return will decrease.[6] Finally, the profits of a market-timer come directly out of the pockets of the fund's other investors. A market-timer, if successful, is buying securities from the fund investors when they are underpriced and selling securities to the fund investors when they are overpriced.

Regulating Market Timing

Although the negative effects of market-timing have become better understood, the SEC does not provide a specific definition of market-timing and it is not technically illegal.[1] Portfolio managers are allowed, and often encouraged, to invest money in their own mutual funds to align their interests with common investors and demonstrate conviction in their product. Prior to 2003, virtually all mutual fund prospectuses addressed excessive trading. Putnam International Voyager fund's prospectus, since renamed International Capital Opportunities, for instance, said the fund '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.'"[7]

Market Timing Across the Mutual Fund Industry

Putnam was one of many firms with market-timing issues. Other prominent fund companies including Alliance Capital, Janus Capital and Massachusetts Financial Services were also alleged to have participated in some variation of market-timing. In

[1] Market timing should not be confused with late trading which, in contrast to market timing, is illegal. Late trading occurs when fund investors are allowed to buy and sell mutual funds after 4pm EST at the prior day's closing price. Late traders, if successful, are able trade funds at stale prices no longer available to the public or reflective of the value of the fund and earn profits at artificially low risk levels.

all, Morningstar, the fund research firm, listed 22 fund companies as having market-timing issues over a three year period.[8] Each of these firms, like Putnam, stated in their respective fund prospectuses that market-timing or excessive trading was inconsistent with the funds' long-term investment objectives.

Alliance Capital

Alliance Capital, a New-York based investment firm, managed approximately $440 billion in the fall of 2003. "At their height in 2003, Alliance Capital arranged over $600 million in market timing in its mutual funds. Its single biggest timer, Daniel Calugar, peaked at $220 million of timing capacity in certain mutual funds; in exchange, Mr. Calugar invested in hedge funds run by some of the same portfolio managers overseeing the mutual funds. For example, Alliance Capital granted Calugar $150 million timing capacity (the right to make multiple roundtrip trades up to $150 million each) in the AllianceBernstein Technology Fund in return for a $30 million investment - a 5:1 ratio - in a hedge fund managed by the same portfolio managers."[9]

Janus Capital Management (JCM)

Janus Capital, a Denver-based investment firm, managed approximately $140 billion in the fall of 2003. "Between November 2001 and September 2003, JCM entered into or maintained agreements with 12 Market Timers that allowed those entities to "market time" mutual funds for which JCM was the investment adviser. These agreements permitted the Market Timers to trade far more frequently than other shareholders and, in some cases, to make frequent trades of up to tens of millions of dollars each in the mutual funds. JCM usually negotiated a certain number of "round trips" allowed within a given time frame and a maximum dollar amount for each exchange."[10]

Massachusetts Financial Services (MFS)

MFS, a Boston-based firm, managed approximately $140 billion as of 2003. "Beginning at least as early as July 2001, MFS routinely provided certain broker-dealers with its internal policy allowing market timing in the Unrestricted Funds, and routinely directed known market timers to the Unrestricted Funds."[11]

Allegations of Market Timing at Putnam

In November 2003, the SEC and the State of Massachusetts filed formal complaints alleging market timing at Putnam.

> "At least six Putnam employees who worked as investment management professionals engaged in excessive short-term trading of Putnam mutual funds in their personal accounts. Four of those employees engaged in such trading in funds over which they had information regarding, among

> other things, portfolio holdings, valuations and transactions not readily available to all fund shareholders."

These allegations focused on two key portfolio managers–one who was the head of international equities and the other who was a chief investment officer on the international team. Between 1998 and 2003, these portfolio managers executed numerous individual trades, often worth hundreds of thousands of dollars. In total, the managers were each accused of having made more than 30 "round-trip" trades, many of which involved sales on days immediately following buys. In all, the six employees (the two portfolio managers and four of their subordinates) were thought to have generated more than $1 million in profit from short-term trading Putnam funds.

The SEC and the State of Massachusetts believe that Putnam learned of this trading activity in early 2000, but failed to take proper steps to address the misconduct. Most importantly, sufficient monitoring and control systems were not implemented to fully prevent employees from market timing Putnam funds. Evidence presented suggests that the aforementioned portfolio managers continued to rapidly move large sums of money in and out of their own funds through 2003 despite being admonished about the ethicality of such actions in 2000. These portfolio managers, both of whom earned in excess of $5million on an annual basis, were neither reprimanded for their actions nor made to return the profits they had earned through market timing. Tim Cahill, the Treasurer of Massachusetts recalls being particularly troubled because the head of international equities had received a promotion during the time period in question. This promotion was alarming because it took place after he was explicitly warned about his market timing activity.[12]

In separate charges, the State of Massachusetts also accused Putnam of allowing certain members of a large 401(k) plan to engage in excessive short-term trading of Putnam funds. Ten individuals were thought to have earned more than $1 million in profit by taking advantage of stale mutual fund prices. After being made aware of this activity, Putnam allegedly took two-years to install measures that would prevent these clients from market timing Putnam funds. These charges arguably put Putnam on par with its industry peers like Janus and Alliance who had also permitted market timing. Putnam allegedly tried to stop this type of client transaction whereas Janus and Alliance allegedly agreed with clients to market timing arrangements. But, "what distinguishes this case [Putnam] from other market-timing cases is that Putnam breached its fiduciary duty, by failing to disclose potentially self-dealing trading by its own portfolio managers."[13]

Dealing with an Investigation

Learning of the Problem

On or about September 11th, 2003, the SEC made its first request for documents (i.e., trading records) from Putnam regarding market timing by its own portfolio managers.

> "On September 16th, the company's nine most senior executives gathered in the late morning in a windowless eighth-floor conference room…Toward the end of the meeting, when the subject of money managers' frequent trading in 2000 came up, Haldeman shoved his chair back from the table in disgust, according to several witnesses. 'Maybe I'm just naïve, but I can't imagine anyone in the investment management business would ever do something like this,' he yelled. 'These people have to be fired.'"[14]

> "When Putnam dug deeper into the employees' trading record, it became clear that as far back as 2000, four money managers had taken advantage of big moves in US stock markets to profitably trade in and out of the very international mutual funds that they supervised. Their profits came directly at the expense of long-term investors. Putnam at the time had ordered them to stop trading."[15]

Facing Complex Decisions

After learning of the investigation, senior management faced a difficult decision. John Brown, Putnam's head of institutional sales at the time, reflected on the complexity of the situation:

> "We were looking down the barrel of a gun. We could go to the market and our clients with our hands on our heart and tell them what we did was wrong. But, we did not have a clear understanding of what market timing was and the SEC offers no official definition. It was uncertain how many people were involved, how far back we should be looking or where these actions fell on both the legal and the ethical spectrum of right and wrong. We couldn't just ruin peoples' lives [by firing them] for something we had yet to fully make sense of. If we were going to admit guilt, we had to at least know what we were admitting to."[16]

Recommendations varied widely. One person close to the firm called Putnam "crazy for addressing the issue publicly…this is a storm in a teacup that will disappear quickly."[17] Others, like Haldeman, were adamant about coming forward.

For six weeks, Putnam's senior management gathered information and wrestled both with how to handle the problem internally and manage external communications. They considered the potential fallout from a business perspective. How much money would be pulled from Putnam funds if clients found out from the press rather than Putnam themselves? The answer was clear - the outflow would be devastating.

Putnam tried hard to separate economics from ethics when it came to making a decision.[18] It was difficult to ignore, however, that Putnam had a heavy orientation toward growth stocks at the time, and growth was tanking. The international funds were among the only Putnam products that were performing reasonably well and it was the managers of these successful funds who were doing the market timing.

Resolution

Under Lasser's leadership, Putnam's initial attempt to resolve its market timing problem lacked decisiveness. Lasser asked Haldeman and his co-chief investment officer to negotiate with the portfolio managers and convince them to leave voluntarily. This directive, however, lacked urgency and the negotiations dragged. In a more certain declaration, Putnam's board of trustees, in their monthly meeting in early October, determined that the portfolio managers should be fired immediately and that investors be compensated for their losses. But, in relaying their message to Putnam executives, Lasser did not indicate any sense of immediacy.[19]

Finally, on October 23rd, when it was clear that SEC and MA complaints would be filed and the world would soon know of the alleged wrongdoings, Putnam issued a statement saying it would be firing four of the six money managers involved in the market timing.[20] But, the opportunity to communicate with investors proactively had been lost. The next morning, October 24th, a Boston Globe article read *"6 At Putnam Tied to Prohibited Trades, 4 Money Managers Forced From Jobs."*

In the week that followed, Putnam cleaned house. Lasser was asked to resign and Haldeman replaced him as CEO. AJC "Ian" Smith, former CEO of Marsh & McLennan, was appointed to chairman, a newly created position, in what many perceived as a move to help the parent company maintain a close eye on its prized but troubled subsidiary. In addition to Haldeman and Smith, Steven Spiegel, formerly Putnam's head of global distribution, was named vice chairman –also a new position.

Working with the Institutional Client Base

Heading into the fall of 2003, Putnam had approximately $101 billion of institutional assets under management. Broadly, these assets fell into one of three categories:

1) Public funds (state pension plans)
2) Sophisticated private funds (IBM, GM)
3) Consultant-advised private funds (small companies)

Public Funds

Public fund assets are typically run by popularly elected state treasurers whose expertise is generally not in portfolio management or asset allocation. Rather, treasurers are politicians -cost conscious, wary of expensive searches for investment managers and above all, concerned with re-election. On one hand, slow bureaucratic decision making and cost consciousness tend to make public fund assets relatively sticky. In a normal environment, frequent large-scale movements of public fund assets are not common. On the other hand, re-election concerns create a hyper-sensitivity to issues of legality and ethicality. At the first sniff of wrongdoing, public fund assets move in droves as state treasurers try to avoid accusations of breaching their fiduciary responsibility.

On October 31, 2003, the Massachusetts state pension fund withdrew approximately $1.8 billion from Putnam international and small cap portfolios.[21] Some of these assets were already on a watch list for performance at the time, but the market timing scandal was the final catalyst to Putnam's dismissal. State treasurers from around the country looked to the Massachusetts decision as an important benchmark because Putnam was a Boston-based company. When deciding to fire Putnam, MA state Treasurer Tim Cahill considered four key questions[22]:

1) Was Putnam's investment performance satisfactory?
2) Did they have a clear understanding of all ethically questionable trading activity that had taken place at the firm?
3) Had they done enough to ensure that such actions would not take place in the future?
4) Did they come clean and fully admit their wrongdoing?

From Cahill's perspective, there was no decision to be made about the $1 billion invested in the international portfolios where market timing took place. It had to be pulled. But, the state also had $800 million invested in small cap portfolios managed by Putnam that were not directly implicated in the trading scandal. If the questions regarding Putnam's knowledge, response and accountability could be answered satisfactorily, perhaps these assets could remain with the company.

At the time of the firing, Cahill also thought carefully about what criteria he would use to decide whether to rehire Putnam in the future. "If I was going to fire Putnam for issues surrounding performance, trust and accountability, I had to be willing to re-hire them for the same reasons. It was not fair to punish them forever."[23] For Cahill, it was critical that Putnam not only improve its performance and protect against future wrongdoing, but also that the company make strides in changing their culture. He agreed with the critics who perceived Putnam's "greed-oriented" culture as a contributor to both the market timing activity itself and the firm's inability to handle it effectively. "I needed to see that they got it." [24]

Sophisticated Private Funds

Putnam regarded their large private fund clients as thought leaders in money management and asset allocation. Managers of these assets were focused on investment performance and, by the end of 2003, readily understood why market timing by portfolio managers was both unethical and costly to fund shareholders. IBM, the first major private institution to pull its money from Putnam, regarded the firing decision as inevitable once the facts of the scandal became public. There was little downside to moving their money to index funds while Putnam's conduct was evaluated by regulators and the court of public opinion.[25]

The very largest plans (IBM, GM etc.) rarely used investment consultants[2] because they had large enough in-house staffs to do the investment work themselves. Nonetheless, they frequently leaned on the ratings of independent research firms like Wilshire and Russell. Because investments in buy-rated funds stand up to scrutiny during times of sub-standard performance, these ratings served as an important guide-post for even the savviest of institutional managers. These ratings are largely formulaic and they can be unforgiving. The departure of a senior investment professional results in an automatic ratings downgrade (i.e., from "buy" to "hold") in both the Wilshire and Russell measurement systems. The departure of two senior professionals, as was the case with Putnam, doubled the magnitude of the downgrade (i.e., from "buy" to "sell"). Therefore, Putnam's assets under management at sophisticated private funds were in serious jeopardy regardless of how forthrightly they addressed the market timing issue with their clients. "They were going to leave us anyway. Our approach to communicating with them would only impact future fund flows, but the damage had been done."[26]

Consultant-Advised Private Funds

Many private funds use third party advisors such as Cambridge Associates to determine where to invest their money. Cambridge, much like the managers of large private funds, is focused on the mechanics of the investment process as an important indicator of quality in rating different mutual funds and managers. Accordingly, the departure of two senior portfolio managers will significantly impact Cambridge's assessment of a particular mutual fund or fund company. Moreover, advisors are vulnerable to being sued for putting clients' money into funds where legal violations have taken place. Therefore, the near-term fallout would likely be severe in consultant advised funds regardless of Putnam's handling of the crisis. Longer-term, consultants' assessment of Putnam funds would, at least in part, be determined by how they dealt with the market timing scandal.

Working with the Retail Client Base

In the fall of 2003, Putnam had approximately $171 billion in retail assets under management. This money was invested for individuals and small businesses primarily through independent brokers and advisors who managed their clients' money for a fee. Most of Putnam's funds sold to individual investors at the time had significant front or back-end loads. Load funds charged a fee, often up to 7%, to purchase the mutual fund. Therefore, most individuals moving their money out of the Putnam fund complex would

[2] Investment consultants act as independent third party advisors to assist institutions in the allocation of their investments. Consultants rate fund managers and suggest where their clients should invest their money (i.e., Putnam vs. Fidelity, stocks vs. bonds, domestic vs. international).

suffer a significant financial penalty. This penalty should have made individuals less inclined to change mutual funds with great frequency.

By definition, retail assets are distributed among a highly fragmented base of individual investors. As a result, retail asset flows will react to a scandal, but not in a one-time wave like on the institutional side. Don Phillips, Managing Director at Morningstar remarked on this dynamic -"While institutional assets exhibit a herd-like mentality, retail outflows can be like death by pin-prick."[27]

Putnam's poor investment performance between 2000 and 2003 made it possible for the market timing scandal to have a substantial negative effect on the company's retail asset base. With some funds losing 85% of their value from peak to trough, the Putnam name "had become mud with financial planners."[28] Not surprisingly, this performance created a bad investment experience for individuals who, as a result, were more willing to think negatively about Putnam once the market timing scandal hit.[29]

For Roger Kalar, an independent investment advisor and long-time advocate of Putnam, trust was the most important variable in determining how to allocate his clients' $60 million. In his view, recovering assets lost as a result of the scandal was difficult and typically required 3-5 years (or truly great performance), but capturing a percentage of new money flows depended heavily on how a company responded to crisis.[30]

> "I will give business to companies that realize they are in the customer service industry. Doing what is right for the customer never hurts anyone. What programs is Putnam putting in place to make sure this never happens again? Have they reached out to me to tell me how they are different? Have they cut their fees? Have they fallen on their sword, opened their kimono and righted the ship?"[31]

In contrast to a state treasurer or the head of IBM's pension plan, individual investors were not burdened by public opinion or fiduciary responsibility in justifying their investment decisions. Rather, performance and image were all that mattered. "Individual investors love to forgive and for them, the regulatory issues were all about image. Putnam still had one of the great names in the industry – it was and is a proven franchise. But, image is the biggest asset in the money management business and getting the spin right is key."[32]

Working with Regulators

By early November, both the SEC and the state of Massachusetts were conducting investigations into market timing at Putnam. Secretary of State William Galvin was in charge of how the state of Massachusetts responded to Putnam's actions. "Our investigation yielded three key findings. First, market timing took place. Second, the company knew about it and did not do enough to stop it. Third, it was fairly pervasive throughout the firm."[33] Galvin wanted to ensure that the size of the fine levied by the state reflected the seriousness of the firm's conduct. Putnam's level of cooperation in the investigation and demonstration of remorse for their actions was only marginally relevant in determining the outcome of whatever settlement would be reached.[34]

The SEC investigation undertook a very similar dynamic to that of the state of Massachusetts. On both the federal and state levels, the size of the fine and the language used in public documents were almost always the two most contentious issues in reaching a settlement with regulators. Specifically, how much would Putnam pay to atone for their sins and how would regulators characterize the activity that took place inside the Boston firm?

Working with the Media

By the time Haldeman took over as CEO on November 3rd, he had lost the opportunity to communicate proactively with the media. All future communications would be heavily informed by the company's silence between when its executives were notified of the market timing in early September and when the story broke in the *Boston Globe* on October 24th. Andrew Caffrey, the *Boston Globe's* lead finance reporter commented on this dynamic: "They lost the ability to get out in front of this. They were now communicating on a stage set by someone else."[35]

In the media, Putnam had become a money-making bureaucracy, personalized only by Larry Lasser, its lavishly paid CEO. Their initial response to the market timing scandal exacerbated Putnam's "corporate" persona. The $1 million in profits made by the portfolio managers was relatively minor on the corporate scale for a company that managed hundreds of billions. It was clear, however, that a deeper appreciation for how this would look to the world and to the average retiree needed to be a central consideration in determining how to communicate going forward. "Putnam needed to reconcile the difference between the human scale and the corporate scale."[36]

Haldeman's Dilemma

Ed Haldeman was acutely aware of the urgency of the crisis at-hand. His first actions as Putnam's new CEO would have a profound impact on the future of the company. He understood the legal and logistical complexity of dealing with market timing, both internally and with regulators. At the same time, however, he had seen first hand how institutional and retail investors would pull money from Putnam based solely on image rather than some deep understanding of arcane trading strategies by a couple of international portfolio managers. The bottom line, Haldeman knew, was that Putnam stood to lose tens of billions of dollars before Christmas if he did not pull the right levers.

A savvy industry veteran and turnaround specialist, Haldeman also considered the market timing scandal from a broader, more opportunistic perspective. Was there an opportunity to repair an investment division that had significantly underperformed its competitors over the last 2-years? Could Putnam fundamentally change the culture of greed that had contributed to the current crisis? How could Putnam use the market timing scandal to position itself at the forefront of a mutual fund industry that would undoubtedly undergo major reform in the coming years? Haldeman knew that the best strategic and communications initiatives would both mitigate asset outflows in the near-term and restore the company to its leadership position over the long-term.

CASE QUESTIONS

1. What are the key short and long-term problems Haldeman faces?

2. What should Putnam's communication strategy be going forward?

3. How could Putnam have avoided this crisis and what could they have done to be better prepared for it in the future?

4. How should Haldeman prioritize his communications and strategic initiatives? What specifically should Haldeman do in his first few days as CEO?

Exhibit 1: Putnam Fund Offerings

Source: www.putnam.com

Exhibit 2: Putnam Performance

Exhibit 2 cont: Putnam Performance

Exhibit 3: Mutual Fund Industry Watch

Exhibit 4: Potential Solutions to Market Timing

Exhibit 5: Putnam Advertisements

Exhibit 5 cont: Putnam Advertisements

Exhibit 5 cont: Putnam Advertisements

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