Under Putnam’s Hood, A Fidelity Engine Roars

By Kerry Pechter *Mon, Jun 22, 2009*

In the past year, Putnam Investments owner Great-West Lifeco has recruited (l-r) Fidelity veterans Robert L. Reynolds, Jeffrey R. Carney and Edmund F. Murphy III, among others, perhaps to capitalize on Obama's plan for universal retirement savings coverage.

Boston-based asset manager Putnam Investments, which has loaded its senior management team with former Fidelity Investment executives, appears determined to be a more potent force in the 401(k) business than its modest $12.5 billion in institutional assets might currently suggest.

Putnam CEO Robert L. Reynolds, who left a lofty COO job at Fidelity a year ago to help rebuild the fund company for Great-West Lifeco, has blogged a series of thought-leadership manifestos about retirement plan reform. Canadian insurer Great-West bought Putnam for $3.9 billion in early 2007 to bolster its presence in the U.S. retirement market.

Edmund F. Murphy III, head of the defined contribution business at Putnam, has also touted 401(k) reform on Putnam’s website. He left Fidelity for Putnam in February 2009, and was followed by Fidelity fund manager David Glancy, by Benjamin H. Lewis, who had been a senior vice president in Fidelity’s retirement business, and by Walter Donovan, president of equities.

And Jeffrey R. Carney, the former president of Fidelity’s retirement business who joined Putnam as head of Global Marketing, Products and Retirement in July 2008 after less than two years as Bank of America’s retirement chief, has echoed that message in the press and in public appearances.

Judging by a presentation called “The Retirement Plan of the Future” that Carney gave at Financial Research Corporation’s 5th annual Retirement Forum in Boston on June 17, the former Fidelity team now running Putnam sees opportunity in the Obama administration’s drive to put all American workers into some kind of qualified retirement savings plan.

Putnam’s Vision of the Retirement Plan of the Future

- Build on the Pension Protection Act’s base of auto-enrollment, escalation and defaults.
- Include much stronger protection against volatility.
- Offer built-in options for guaranteed lifetime income.
- Disclose all fees, risks, and responsibilities.
- Provide safe legal harbor for employers who “do the right thing.”

‘DB-ize the DC plan’

Flipping through his PowerPoint slides, Carney ticked off Putnam’s vision for what he called “Workplace Savings 3.0.” That vision includes Putnam’s new low-volatility Absolute Return funds as a default investment, deferred income annuities, stepped-up education, and fee transparency. He urged the 401(k) industry to “embrace the future.”

It was surprising to hear from a fund company manager, but Carney recommended in-plan annuities. Putnam is “currently looking at an income default in retirement plans,” perhaps with an income annuity or a systematic withdrawal from a Putnam Absolute Return fund, Carney said. “We want to ‘DB-ize’ the DC plan.” He called income annuities “the right product for the time.”

“We’re going to change the conversation to income,” Carney told a group made up of fellow retirement executives at the elegant Four Seasons Hotel. “People who can’t afford to self-insure are better off guaranteeing a portion of their savings.”

The biggest remaining hurdle to the introduction of income annuities into defined contribution plans is the reluctance of plan sponsors to expose themselves to the risk of liability for choosing the wrong annuity provider for their participants, he said. The hurdle could be removed by providing plan sponsors with a “legal safe harbor.”

In an interview with RIJ, Carney said Putnam is building tools that could transition individual investors or retirement plan participants from savings to income over the course of their working lives, so they arrive at retirement having already purchased at least part of the income they need to retire on.

“The question is, how do you make it simple and easy for people to save, and then how do you enable them to take their money out simply,” Carney said. “We think you should make income part of the conversation at age 35, not at 65.” Investors, he suggested, might move from Putnam RetirementReady target-date funds to Great-West Life annuities.

“We want to be on both sides of that equation,” he said.

What’s in a fund name?

Putnam introduced its four Absolute Return funds in January, labeling them Absolute Return 100, 300, 500, and 700. Those are the numbers of basis points above the inflation rate, as reflected by Treasury rates, that the funds are designed to return over “a reasonable period of time.”

These actively-managed front-end load funds consist mainly of fixed income instruments, with varying degrees of opportunistic forays into equities and derivatives. They aim for limited volatility, so that a retiree could, for instance, use them as the basis of a systematic withdrawal plan.

The financial press gave Absolute Return funds tepid reviews, in part because their names seem to imply a guarantee that the funds do not offer. Carney conceded to RIJ that the names and objectives of the funds “could look promissory to retail investors,” but wouldn’t mislead the sophisticated intermediaries who select or broker them.

At the FRC conference, Carney urged the retirement industry to work with rather than against the Obama administration's campaign to reform the 401(k) industry and to put an employer-sponsored retirement plan within reach of the estimated 75 million workers who don't have access to one.

"Washington is getting ready to make changes," he said. "We believe you have to cover those 75 million people," he said. If qualified plan coverage becomes universal and mandatory, millions of tiny, uneconomical retirement accounts could flood the financial industry. But Carney was untroubled by that.

"The best way is to invite people in and then find the best way to serve them. The winners will be the ones who scale the distribution costs" by using the Internet, he said.

"Don't defend the past, or your model, but embrace the future," Carney added, emphasizing the need for automatic enrollment of employees in retirement plans, auto-escalation in contributions, and default investments. He also urged his colleagues to join, rather than fight, the drive toward greater transparency. "We have nothing to hide," he said.

Putnam has been in turnaround mode for several years. Hit by losses during the 2001 bear market, it was one of more than a dozen name-brand investment companies caught up in the 2003 mutual fund trading scandals.

In 2006, Great-West Lifeco, a unit of Canada's Power Financial Group, bought 401(k) businesses from MetLife and USBancorp as part of a major push into the U.S. retirement market. In late 2006 and early 2007, it bought Putnam for $3.9 billion.

At the time, Putnam was the tenth largest mutual fund advisor in the U.S., with C$118 billion in retail assets and C$39 billion in institutional assets under management. Putnam also had 169,000 financial advisor relationships and nine million shareholder accounts. Putnam shares were also attractively priced, with a P/E ratio of only 14.5 compared to the mutual fund industry average of 22.

Last March, Great-West replaced Mercer as Putnam's 401(k) recordkeeping partner. Great-West owns FASCore, the fourth largest recordkeeper in the U.S. in 2008. Putnam told the Boston Globe last March that Great-West and Putnam together have about 500 institutional clients with about 500,000 plan participants and total assets of $12.5 billion under management.

For the first quarter of 2009, Great-West's U.S. businesses reported total sales of $8.2 billion, down from $15.2 billion in first quarter 2008.   Total assets under administration at March 31, 2009 were $176.1 billion, including $124.2 billion of mutual fund and institutional assets managed by Putnam, down from $178.7 billion and $129 billion at December 31, 2008.