Michael J. Woodall
Chief of Operations
100 Federal Street
Boston, MA 02110

Putnam INVESTMENTS

November 30, 2018

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Subject: Request for Comment on Fund Retail Investor Experience and Disclosure: File Number S7-12-18.

Dear Mr. Fields:

We appreciate the opportunity to comment on the request for comment contained in the Securities and Exchange Commission's ("SEC") release, *Request for Comment on Fund Retail Investor Experience and Disclosure.* We are committed to moving forward with the implementation of rule 30e-3, including the opportunity to include key content from shareholder reports in the notice of website availability.

We are writing this letter on behalf of a working group made up of business and operations individuals of mutual fund companies and broker dealer firms (called the "Mutual Fund Broker-Dealer Working Group" or "Working Group"), which was formed in August, 2016 as a collaborative industry initiative to accelerate e-adoption and improve the user experience with fund reports.

In this letter, we provide an overview of the Mutual Fund Broker-Dealer Working Group, including how it is constituted, its goals, and an update on its recent work and initiatives. We also include the results of a survey we conducted using research firm GIBC Digital, and we describe and include the results of pilots undertaken by Working Group funds and brokers designed to improve engagement and to increase e-delivery enrollment. Lastly, we discuss new rule 30e-3 and the efforts we are taking to include additional content in the notices and a request for additional guidance to accelerate this goal.

The letter is organized as follows:

- I. Background on the Mutual Fund Broker-Dealer Working Group
- II. GIBC Digital research findings
- III. Pilots undertaken by member funds and brokers
- IV. Summary of key observations
- V. Discussion of 30e-3 content-rich notices
- VI. Conclusion

I. Background on the Mutual Fund Broker-Dealer Working Group

The Working Group is chaired by Michael Woodall, Chief of Operations, Putnam Investments, and consists of a total of thirty mutual funds, brokers, and Broadridge Financial Solutions. The Investment Company Institute ("ICI") attends all Working Group meetings as an observer. The group meets once every four to five months, and it has met a total of six times since inception.

<u>Current members of the Working Group</u>

1. Alliance Bernstein
2. American Funds
3. BlackRock iShares
4. Broadridge Financial Solutions
5. Edward Jones
6. Empower / Putnam Investments
7. DWS Funds
8. Fidelity Investments / National Financial Services
9. Gabelli Funds
10. Goldman Sachs Investment Management
11. Guggenheim Investments
12. Hartford Funds
13. Invesco
14. John Hancock
15. Macquarie Investment Management
16. Morgan Stanley
17. Nationwide
18. Neuberger Berman
19. New York Life
20. Nuveen Funds
21. Oppenheimer Funds
22. PIMCO
23. Putnam Investments
24. Securian
25. Shearman & Sterling
26. Sun America Fund Services
27. Thrivent Funds
28. Touchstone Investments

29. Voya Investment Management
30. Wells Fargo Advisors

Key objectives of the Working Group

- Drive significant cost savings to mutual funds and shareholders for funds held in direct accounts and in street side or beneficial accounts by increasing e-adoption and switching off paper.

- Help mutual funds and broker-dealers better engage with their investors/shareholders on a regular basis and grow their brand awareness.

Focus to date

- As part of the mandate of the Working Group, conduct internal surveys to obtain member responses on a variety of issues.
    - Over the past year, we have conducted two surveys on e-delivery rates and practices and on rule 30e-3 implementation strategy. For the former, we hired a consulting firm, GIBC Digital, which has a track record in consulting on matters of digital adoption.

- Share best practices to focus on shareholders most likely to adopt e-delivery and switch off paper. Many of these initiatives require the industry to work together for the common benefit.

- Make digital/email communication something investors prefer. If investors/shareholders see more benefit with a "reimagined" digital/email communication, they will seek it in place of receiving print communications.

- Conduct pilots to test ways to improve e-delivery enrollment rates.

Recent topics discussed by the Working Group

1. Best practices and practical ideas to drive e-adoption among mutual funds and broker-dealers
2. Results of pilots
3. E-adoption trends and statistics
4. Overall regulatory landscape and insights into implementation of fund modernization rules, including rule 30e-3
5. Innovation in design and delivery of mutual fund shareholder reports – enhanced brokers' internet platforms ("EBIPs"), reimagined email, dual distribution, etc.

Working Group engagement of GIBC Digital

The Working Group engaged GIBC to survey fund members to understand current e-delivery rates and practices for both direct-held and beneficially held fund shares and to draw insights from this information.

GIBC approach to this engagement was two-fold:

- Quantitative and qualitative survey of member mutual funds to obtain data on current e-delivery rates for both the direct-held and beneficial accounts
- Follow-up in-depth interviews of participating firms to understand perceptions, strategies, and practices toward driving e-delivery

Pilots by Working Group member firms

Some members of the Working Group conducted pilots to drive e-delivery enrollment and then shared results and experiences with the group. (See Section III below, "Pilots undertaken by member funds and brokers," for a summary of the three pilots and key insights).

II. GIBC research findings

GIBC Digital was engaged by the Working Group to survey members on e-delivery data and best practices, with the goal to increase e-delivery adoption across direct shareholder bases of fund families. Focus was placed on digital delivery of publicly available regulatory documents, including annual and semiannual reports.

Fifteen mutual funds participated in this effort and provided their direct-held e-delivery data. Broadridge Financial Solutions provided industry-wide e-delivery data for the beneficial side, and provided similar data for the fifteen participating funds. The names of the funds were kept confidential as a condition of participation, and the data was reported in the aggregate.

Key Findings:

E-delivery rates: Beneficial versus Direct-held

Survey data on e-delivery rates

- Industry average e-delivery enrollment rate for direct-held positions is 19.35%, compared to 55% for beneficial positions.

- For the fifteen firms that participated in the GIBC survey, the group average is 18.25% for direct-held accounts and 43.5% for beneficial accounts.

- Average growth of e-delivery rates over the last five years (since 2013) was approximately 7% on the direct-held side and 10% on the beneficial side.
    - Year-over-year from 2013 to 2017, seven funds reported that approximately 3.5% of their shareholder accounts switched from paper to e-delivery. However, <1% of shareholder accounts switch back from e-delivery to paper once their preference has been changed.

<u>Survey insights from interviews</u>

- Upon investigation through interviews, GIBC found that e-delivery rates were higher on the beneficial side due to technology investments made by brokers and Broadridge as the key service provider, as well as the network effect of the application of shareholder elections to e-delivery for one position in a street account, applied to all positions in his or her account.

- Network effect of shareholder elections: When a shareholder makes a delivery preference election on the direct-held side, that preference applies only to the positions that are held directly with that fund. Other funds held by the shareholder with other fund complexes do not enjoy the benefit of this election. However, on the beneficial side, when a shareholder makes a delivery preference election, that election applies to their entire brokerage account, which typically has multiple fund positions from various fund complexes. This is the "network effect" of the beneficial side, where one shareholder election benefits multiple fund complexes.

- The research also reported there was a slight difference in e-delivery rates for "public" versus "secured" documents, with public documents having a slightly higher e-delivery rate. Interviews revealed that this is due to the fact that some fund complexes have more stringent e-delivery sign-up processes for secure documents, such as statements and confirms, than for public documents, such as annual and semiannual fund reports. This also points to the wide variety of e-delivery sign-up practices within the fund and broker industry.

- The survey also asked for data on other suppression techniques, such as householding and consolidation. "Householding" means if two or more accounts have the same address and same last name, and hold the same fund positions, distribution of regulatory documents, such as mutual fund shareholder reports, is done to the "household" rather than to the individual accounts within that household. The fund thus saves on printing, postage, and forms costs. Thirteen of the fifteen funds reported that they had technology to do householding on the direct-held side. "Consolidation" means multiple regulatory documents within an account are consolidated into one envelope, again saving the fund printing, postage, and forms costs. Fourteen of the fifteen funds reported being able to consolidate on the direct-held side.

It is worth noting that on the beneficial side, the total suppression rates for the mutual fund distributions are approximately 68% in 2018, as reported by Broadridge. This includes processing and technologies for e-delivery, householding, consolidation, and managed accounts – which eliminate the need and cost of sending reports by mail.

E-delivery user behavior

Funds typically track and capture basic e-delivery data, such as "open rates," "bounce rates/e-failure rates," and "unsubscribe rates."

<u>Survey data</u>

- For the fifteen funds that participated in the survey, the open-rate data is:
    - Open rate: Average of 34%, with a range of 14.3% to 45%
    - <1% e-failure rates
    - <1% unsubscribe rates

<u>Insights from interviews</u>

- All firms noted dramatically low unsubscribe rates. Shareholders who enroll tend to stay enrolled.

E-delivery infrastructure

<u>Insights from interviews</u>

- There is significant reliance on third party service providers to execute digital distribution. Approximately 90% of funds use their transfer agents/record keeper to hold their shareholder email records.

- There is a lack of alignment and integration with internal systems (beyond the creation of mailing lists).

- Typically, regulatory emails have dated visual design and minimal client impact (ASCII formatted messaging with a simple link back to the document). Funds have chosen to not incur the expense of email redesign and branding, as improvements to the shareholder experience are not a primary objective of these mailings.

- Vendors and asset managers have not built infrastructures that provide statistical insights into clients' online behaviors. Only metrics and statistics that prove regulatory compliance, such as failure rates, are readily available.

Enrollment strategies and campaigns

<u>Insights from interviews</u>

- Funds have conducted a wide variety of e-delivery enrollment campaigns, but most report not having seen these campaigns as cost-effective or efficient.

- Funds that attempted incentive campaigns (either direct to the shareholder or to a charity) agreed that they did not achieve results substantively higher than what they see with organic growth.

- Higher levels of enrollment were observed when human discussion was involved – e.g., call center representatives discussing e-delivery on a service call, or advisors when meeting with shareholders during account openings or annual portfolio reviews.

- The highest rates of enrollment were at firms who have an internal sales force that is trained to discuss and facilitate enrollment of shareholders.

Legal department interpretations

<u>Insights from interviews</u>

- Fund legal teams have different interpretations of e-delivery rules, resulting in highly varied practices across fund families on e-delivery enrollment processes. Examples include:
  - Differences in legal policies to accept verbal approval to call center staff on recorded lines
  - Use of enrollment authorization on the application forms, and whether additional online registration (i.e., creation of online username/password) was required
  - Enrollment on application form with additional online enrollment, and additional email confirmation before enrollment is complete
  - Enrollment through call centers: Some can enroll investors while the shareholder is on the line; others can walk investors through the process, but require the shareholder to enroll; others send printed instructions to shareholders

III. Pilots undertaken by member funds and brokers

Some members of the Working Group conducted pilots to drive e-delivery enrollment and shared results and experiences back with the group. We outline three such pilots:

1. Alliance Bernstein dual distribution pilot

Alliance Bernstein conducted a pilot campaign in April, 2017 to drive e-adoption through dual distribution. "Dual distribution" involves identifying a set of shareholders who have provided email addresses to their fund or broker but have not consented to e-delivery. For such shareholders, in addition to sending them regulatory disclosures via mail per their delivery preference, emails (with the same regulatory documents) were also sent that included a solicitation for e-delivery enrollment.

Alliance Bernstein conducted the pilot through Broadridge, which is their service provider for their direct-held distributions. The details of this pilot as are follows:

This pilot targeted 8,236 direct-held shareholders across six CUSIPS, who received paper fund reports but who had email addresses registered with Alliance Bernstein. The pilot leveraged dual-distribution by which shareholders received their regular paper reports PLUS custom-designed emails with links to shareholder reports.

<u>Key results</u>

- 7,189 emails were delivered.
- 2,618 "unique" emails were opened, which is 36.4% of emails delivered. Some shareholders opened their emails multiple times, so the total number of opens is much higher at 62% (4,477).
- 250 unique clicks on the "Sign up for e-delivery" button. Some shareholders clicked multiple times, so total number of clicks is higher at 387.
- 140 shareholders signed up for e-delivery on the Alliance Bernstein website.

2. Fidelity (broker) and industry experience with Enhanced Brokers' Internet Platform ("EBIP")

Enhanced Brokers' Internet Platform ("EBIP") is a five-year pilot program introduced by the SEC, designed to incentivize broker-dealers to increase e-delivery rates to save issuers and their shareholders printing and postage expenses.

Fidelity started participating in the SEC pilot for EBIP on July 25, 2012 and rolled it out to their entire client base on September 27, 2012. Fidelity provided an overview and demo to the MFWG to show member firms how it worked and the ease of proxy voting for retail shareholders.

Currently, 22 broker-dealers make the Investor Mailbox[1] available to their client accounts:

- 12 broker-dealers[2] installed it in the 4.5 years after January, 2014 (the effective date of the five-year EBIP incentive fee).
- 12 broker-dealers had installed it in the 7 years prior to January, 2014. (Investor Mailbox was first introduced in 2007).

As a group, the installed broker-dealers have a little over 50% of mailed beneficial proxy distributions and over 2 million positions were voted via Investor Mailbox during the 2018 proxy season.

For the 12-months period ended October 31, 2018, installed Investor Mailbox brokers had a higher edelivery rate (59%) than non-installed brokers (52%).[3]

3. Putnam Funds pilots designed to drive e-adoption

Putnam has conducted a number of pilots designed to drive e-delivery adoption:

- One-click e-enrollment with dual distribution: Putnam sent 600,000 emails to shareholders with fund documents, and shareholders were asked to sign up for e-delivery. Shareholders could sign up for e-delivery through one-click enrollment (as opposed to the multiple clicks with username/password log-in). This resulted in an enrollment rate of 2.5%.

- Leveraged call center touch points to drive e-delivery enrollment for those shareholders with email addresses on file. Email addresses were made visible, and hidden account numbers were leveraged to streamline the process. 2,000 emails were sent to shareholders while on the line with the call center, and there was a 50% adoption rate.

- Putnam Funds conducted a "Reimagined Email" pilot to drive e-adoption through dual distribution in May 2017.
  - Putnam created a summary of the annual report in the body of the email. The content was presented in an easy-to-read format, and it was mobile friendly. The email was branded with Putnam digital assets, such as brand, logo, and colors.

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[1] Investor Mailbox is Broadridge's service for an Enhanced Broker Internet Platform.
[2] Two brokers-dealers installed the Investor Mailbox after January 1, 2014, but were then acquired by other firms, so there are now ten broker-dealers that installed Investor mailbox since the effective date of the five-year EBIP pilot.
[3] This includes interims and proxy distributions for mutual funds and equities for beneficial accounts and is calculated based on the percentage of emailed verses mailed distributions.

- Four variations of this pilot were conducted with various subject lines and size, and the message of "sign up for e-delivery" link.
  - Message title: "Your semiannual report is now available," with a green embedded link stating "Go Paperless". See Attachment 1 for a sample email.
    - 7,854 emails were delivered.
    - 3,950 unique emails were opened (50.29%).
    - 135 unique clicks (3.42% of opened). Each click equates to a new client electing paper suppression.

- In addition to these pilots, Putnam shareholder reports have been presented in an ActivePath format. ActivePath is a technology acquired by Broadridge that allows shareholder reports to be presented in a layered, summary disclosure format. A summary version can be seen here Putnam Equity Income Fund ActivePath.

Key considerations

- Results indicated certain subject lines and "button" designs were more effective than others.
- Level of effort to compose emails is fairly significant; need to find ways to streamline/automate.
- Timing required to release enhanced emails ahead of sixty-day compliance deadline remains a challenge to large-scale implementation.

IV. Summary of key observations

Through these Working Group meetings, research efforts, and pilots, we have summarized the group's key observations about driving e-delivery enrollment for shareholders:

- Higher adoption rate for beneficial accounts than for registered accounts, due to network effect of brokers and their service provider;

- Mutual fund industry is predominantly paper-based and has not yet evolved to leverage all available technologies to engage shareholders and drive down costs;

- Open rates and click through rates for fund disclosure documents are higher than for other industries, thus showing strong engagement among shareholders;

- There is a direct correlation between e-delivery rates and the number of steps required for enrollment: firms with the least-cumbersome enrollment processes saw the highest levels of organic growth;

- Higher e-delivery rates on new accounts versus legacy accounts, due to ease of enrollment during account opening process versus once account has already been in existence;

- Very few funds think of regulatory documents as a client engagement opportunity, and they are not leveraged by their marketing teams, which have other ways to engage shareholders;

- Extremely **low "switch back rate,"** which denotes moving a shareholder from digital back to paper-based receipt, despite funds having policies to automatically switch back a shareholder to paper in the event of bounced emails;

- Shareholders are clear about what information they want to view – and, showing that information in an easy-to-access form can improve shareholder engagement and can be leveraged to increase e-delivery rates.

V. Discussion of 30e-3 content-rich notices

The Commission recently adopted rule 30e-3 under the Investment Company Act of 1940, which allows website transmission of fund shareholder reports as the default method of transmission. Most of our members plan to take advantage of this new delivery method for reports and are now starting the planning and implementation process.

A. Request for further clarity on notice content under 30e-3

One aspect of rule 30e-3 that we are exploring is the ability to include additional content from full reports in the notice.[4] During the Working Group discussions, a number of issues have been raised, such as what content should be included, what might be too much versus too little information, and whether reimagined emails with links to the full report should include the same information so that shareholders receive the same information.

We have proposed a few different options, including an option that is consistent with the Investor Advisory Committee's recommendation.[5]

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[4] See Rule 30e-3(c)(3).
[5] See Recommendation from the Investor as Purchaser Subcomm. of the Investor Advisory Comm. to the Sec. & Exch. Comm'n, Recommendation Regarding Promotion of Electronic Delivery and Development of a Summary Disclosure Document for Delivery of Investment Company Shareholder Reports, p. 4 (Dec. 7, 2017), https://www.sec.gov/spotlight/investor-advisory-committee-2012/investor-as-purchaser-subcommittee-summary-shareholder-report-disclosure-iac-120717.pdf (noting that the document might include information on fund costs, performance and fund holdings).

Although rule 30e-3 provides flexibility around the type of content that can be included with a notice, our group has expressed concern about how to appropriately move forward with a content-rich notice. Therefore, we would request that the SEC provide further guidance identifying the content that can and cannot be included, in addition to what the Commission has already outlined in its rule release.[6] This will help funds and brokers maximize the potential benefits of the rule for shareholders and provide more engaging notices to investors to better inform them about their investments.

B. **Proposal for pilot program during 30e-3's transition period**

We also request guidance on whether a voluntary pilot program can be conducted during the two-year transition period under rule 30e-3 on a limited basis to allow funds and broker dealers to experiment with informative content on notices and explore investor reaction.

This pilot program would have two parts: (1) e-delivery, with the current electronic notice and link to report; and (2) for paper, limited relief as to whether a content-rich notice can be delivered in lieu of a full report, with the notice describing the report as being available on a website. It would require an exemption from dual distribution to experiment with paper recipients.

We understand that in a recent meeting with staff of the Division of Investment Management, Broadridge raised the concept of adding a fund report's table of contents, along with key content from the report, as a first "layer" in the notification of the Internet availability of the complete report. This first layer would include key content from the report, such as a performance chart, expense table, and top portfolio holdings. It would be provided to recipients by mail or email based on their current elections. Information could be gathered on investors' receptivity to this type of notice and on the cost savings.

A pilot program of this nature would help determine both the type and the right amount of content that will be beneficial for investors, and allow funds and brokers to move forward. The pilot would lead to greater adoption of using notices with content, which would result in better informed investors.

[6] See, e.g., Optional Internet Availability of Investment Company Shareholder Reports, Securities Act Release No. 10,506, Exchange Act Release No. 83,380, Investment Company Act Release No. 33,115, 83 Fed. Reg. 29,158, 29,172 (June 22, 2018), https://www.gpo.gov/fdsys/pkg/FR-2018-06-22/pdf/2018-12423.pdf (stating "Information contained in shareholder reports that we believe may be communicative and appropriate—albeit not required—for inclusion in the Notice could be, for example: One or more graphical representations of holdings; a list of the fund's top holdings (e.g., top five or ten holdings); performance information; the type of fund; a brief statement of the fund's investment objectives and strategies; the expense ratio or an expense example; and the name and title of the fund's portfolio manager(s).").

We believe the SEC's response to and approval of these requests would greatly enhance funds' and brokers' ability to test enhanced notices with content and make them a standard practice across the industry.

VI. Conclusion

In closing, the Working Group is committed to (i) driving significant cost savings to mutual funds and shareholders held in both fund direct accounts and in street side or beneficial accounts by increasing e-adoption and switching off paper, and (ii) helping mutual funds and brokers better engage with their shareholder and customers on a regular basis and grow their brand awareness. We look forward to working with the SEC, SROs, and industry participants to achieve this objective, as well as with the Commission on the requests outlined in this letter.

Sincerely,

Michael Woodall

Attachment 1

Putnam INVESTMENTS

Putnam International Capital Opportunities Fund

SEMIANNUAL REPORT 2 | 28 | 17

FUND SYMBOL CLASS A: PNVAX

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