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THE **PUTNAM** FUNDS

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The Honorable William H. Donaldson
Chairman
U.S. Securities and Exchange Commission
450 Fifth Street
Washington, DC 20549

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Dear Chairman Donaldson:

Although the formal comment period has closed on the SEC proposal to require mutual fund boards to have an independent chair, the issue continues to be the subject of continued debate within the industry, the Congress and apparently within the Commission itself. To the extent that Putnam has been used as evidence by various partisans in this debate, I have decided that it is important to offer some of my own observations regarding the merits of requiring independent chairpersons for mutual fund boards.

For the record, the Board of Trustees of the Putnam Funds supports the SEC proposal to require an independent chair. We have had an independent chair since June 2000 when I was elected as the first independent chairperson in the history of the company.

Whatever the merits or demerits of the independent chair proposal, my primary concern is that the Commission focus its deliberations on the real -- as opposed to some of the mistaken or theatrical -- concerns and issues that have been advanced in this policy debate. From this vantage point, it is important to recognize that **there are many areas where independent and affiliated chairpersons (as well as trustees) have identical interests, responsibilities and objectives: both sit on the same side of the table on matters of fund performance, client service, and ethical corporate conduct.**

At the same time, **there are also significant areas of concern to both independent and affiliated chairpersons where there is not an identity of interests: advisory fees, soft dollars, 12b-1 fees and other expenses paid by fund shareholders to investment management companies.** Independent chairpersons have no direct interest or stake in these fees and costs other than that they be fair and reasonable to shareholders. Affiliated chairpersons, on the other hand, have a direct stake in the form of their own compensation or the value of their management companies if they are also owners of the management company that manage their funds.

Given the size of this industry, **the dollars involved in these conflicting interests are massive.** By way of example, according to data collected by Lipper from public filings, one firm (among hundreds) had mutual fund assets of $462 billion on February 3, 2004 and an effective advisory fee of .545%, resulting in annual revenues at these assets levels of over $2.5 billion per year. These figures do not include soft dollar benefits or 12B-1 revenues retained by this firm or revenues earned from brokerage to the extent that it also provides direct brokerage services to its funds.

Although I would be the first to argue that independent chairpersons are not a panacea for whatever ills – real or imaginary –afflict the mutual fund industry, I do believe, both from personal experience and from the academic literature, that **there is a substantial difference in the mindset of independent and affiliated chairpersons when they sit down to negotiate the level and structure of advisory fees like those noted above, the renewal of advisory contracts or other policies which may affect an investment managers overall business (e.g. making mutual fund proxy votes public).** This difference in mindset represents millions of dollars (and perhaps billions industry wide) annually and will remain even if there is a majority or even super-majority of independent trustees. Given the dollars involved in this conflict, the inherent dynamic of boards as social organisms and the realities of human nature (even when performing at its most noble levels), **I can frankly can see no good reason not to require independent chairpersons for mutual fund boards.**

A word about some of the arguments that have been advanced in opposition to the independent chair rule. One argument is that the role of independent chair will require a greater time commitment or level of responsibility for the trustee who plays the role of independent chair and that it will be difficult to find someone willing to play that role. There is no question that the role requires more time and a heightened level of responsibility – but that is precisely why it may, in fact, be both efficacious and necessary. I believe that the extra time I and many of my colleagues on the Putnam board commit to the affairs of the Putnam Funds enables our board to address issues in a more proactive way, which may help explain why the Putnam board was one of the few major fund groups to support the SEC's proposed rule in 2003 to make proxy votes public and one of the first to abolish the use of brokerage commissions for sales. I also cannot imagine that there are boards which do not have someone willing to take on the added responsibilities of independent chair. There are several members of the Putnam board who would willingly take on the role. If there are boards which do not have such members, it may be that they need to evaluate their current membership.

Then there are the arguments that affiliated chairpersons lead to better investment results and are more likely to prevent some of the market timing and late trading abuses much in the news over the past year. While these arguments may be good theater, they are without merit:

(1) There is no dissimilarity of interest on these issues between affiliated and independent chairpersons. I am certain that the affiliated chairmen at American Funds, Fidelity or T. Rowe Price would care just as much about these issues and work just as hard for the right results whether they were chairmen of their funds or simply affiliated directors.

(2) Studies purporting to show that funds with affiliated chairpersons have better investment results are statistically flawed: there are too few funds with independent chairs (less than 1%) and the time frames selected for comparison are too limited to permit any statistically significant comparisons on the performance front.

(3) The role of board chairpersons of large complexes is not to manage funds; portfolio managers manage funds. The role of board chairpersons is to insure that his or her board monitors performance and to insist on changes in personnel or strategy when performance lags.

(4) In connection with the argument that affiliated board chairpersons are more likely to prevent abuses such as late trading or inappropriate market timing, the data on the 19 firms publicly targeted by the SEC to date actually supports the opposite conclusion. More importantly, I think this argument is without merit since I do not believe that the role of board chairpersons – independent or affiliated – is the daily policing of the activities of thousands of employees to insure that they obey the rules. In my view, the role of a Chairperson is to insure that a Board establishes clear rules of conduct for employees and a compliance process to make sure the rules are obeyed and violations dealt with in an appropriate manner.

Finally, many critics of the proposed rule suggest that independent directors of mutual funds should be able to decide what governance structure best suits the needs of each complex. While I have some sympathy with this view, especially as applied in the general corporate context, I believe that the pervasiveness of the conflicts inherent in the mutual fund structure and the heightened public concerns emanating from the recent scandals require that we take advantage of this opportunity to demonstrate to the public that mutual funds are indeed run for the benefit of shareholders, not for the benefit of advisers.

I appreciate your consideration of these views.

Sincerely,

John A. Hill

cc: Cynthia Glassman, Commissioner
Harvey J. Goldschmid, Commissioner
Paul S. Atkins, Commissioner
Roel C. Campos, Commissioner

Paul F. Roye, Director of Investment Management