

Putnam Proxy Voting Procedures and Guidelines

July 2024 vs. January 2020: the Trustees handed the vote to the manager

Putnam Investments / The Putnam Funds
Proxy Voting Procedures and Guidelines
Guidelines adopted 24 January 2020 compared with
Procedures and Guidelines dated 1 July 2024

The Putnam Funds' Trustees stopped voting the funds' proxies in January 2023. The rewritten guidelines are tougher on board diversity and far more detailed on shareholder rights - and lean much harder on the proxy adviser.

Source: the two published documents, read in full. Every quotation below is taken verbatim from them.
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Before the analysis: which documents these are

Neither file is from the year its label suggests, and they are not quite the same kind of document. Both points matter.

The older file is 'Proxy voting guidelines of The Putnam Funds,' which closes with the line 'As adopted January 24, 2020.' The newer file is 'Putnam Investments - Proxy Voting Procedures,' dated 1 July 2024 on its first page, with the funds' voting guidelines reproduced inside it under the same three-part structure (board-approved proposals, shareholder proposals, non-US issuers). This report therefore compares July 2024 with January 2020. There is no 2026 edition of this document in the archive; the file labelled 2026 is byte-identical to the 2024 capture.

The newer document is also roughly a third longer in its guidelines section and adds a large body of market-specific rules for Asia, Australia, Brazil, Canada and Europe that had no counterpart in 2020. Because the comparison spans four and a half years, changes described here cannot be dated to a single annual revision.

The governance change underneath everything

A footnote on the first page of the 2024 document explains why the voice of the guidelines changed from 'the funds' Trustees believe' to 'Putnam will': 'Effective January 27, 2023, the Board of Trustees of the Putnam Mutual Funds delegated proxy voting authority to Putnam Investment Management, LLC, the investment manager to the Putnam Mutual Funds.' In 2020 these were the Trustees' guidelines, written in the language of independent fund directors holding corporate boards accountable. In 2024 they are the adviser's.

1. Board diversity: the one place the policy got clearly tougher

Most US managers loosened their board diversity voting tests between 2020 and 2024. Putnam tightened its gender test, added a racial and ethnic test, and added a separate disclosure test - three separate escalations in the same section.

When Putnam withholds from the nominating committee chair over gender diversity

January 2020:

"In light of the funds' belief that companies benefit from diversity on the board, the funds will withhold votes from the chair of the nominating committee if: there are no women on the board, or in the case of a board of ten members or more, there are fewer than two women on the board."

July 2024:

"Putnam will withhold votes from the chair of the Nominating Committee if: there are no women on the board, or in the case of a board of seven members or more, there are fewer than two women on the board, or there is no apparent racial or ethnic diversity on the board, and the board has not provided sufficient disclosure regarding its plans to achieve racial or ethnic diversity"

Two boards in ten became two in seven - a materially lower bar, which catches the large population of US small- and mid-cap boards sized between seven and nine members. And a third trigger was added, on racial and ethnic diversity, which had no 2020 equivalent at all. A second, standalone guideline reinforces it:

July 2024, new:

"Putnam will withhold votes from the Nominating Committee Chair for companies that have not provided any disclosure of both the board's diversity (e.g., race or ethnicity) at the aggregate board or individual director level and the company's policies, or plans to establish such policies, regarding the consideration of diversity in identifying director nominees."

The section also gained a justification the 2020 guidelines did not offer: 'Numerous studies of gender diversity on boards have shown that diverse boards are associated, over the long term, with, among other things, higher financial returns and lower volatility.' Framing the test as a financial-returns argument rather than a values one is the standard 2024 defensive move - but the substance here moved in the direction almost nobody else's did.

2. Shareholder rights: from three sentences to a rulebook

The 2020 guidelines handled proxy access, special meetings and supermajority provisions in a handful of lines inside the shareholder proposals section. The 2024 guidelines move them into the board-approved section and give each a detailed numerical standard.

Proxy access: Putnam now prefers a two-year holding period

The proxy access standard

January 2020:

"While the funds will also consider shareholder proposals relating to proxy access on a case-by-case basis, the funds will generally vote in favor of market-standard proxy access proposals (for example, proxy access proposals allowing a shareholder or group of up to 20 shareholders holding three percent of a company's outstanding shares for at least three years the right to nominate the greater of up to two directors or 20% of the board)."

July 2024:

"Putnam will support management/shareholder proxy access proposals as long as the proposals align with the following principles for a shareholder (or up to 20 shareholders together as a group) to receive proxy access: 1) The required minimum aggregate ownership of the Company's outstanding common stock is no greater than 3%; 2) The required minimum holding period for the shareholder proponent(s) is no greater than two years; and 3) The shareholder(s) are permitted to nominate at least 20% of director candidates for election to the board."

The 3% ownership test and the 20% board nomination right are carried over, but the holding period moved from the US market standard of three years to two - and the 2024 guidelines are explicit about the consequence: 'Proposals requesting shares be held for 3 years will be reviewed on a case-by-case basis. Putnam will vote against proposals requesting shares be held for more than three years.' A standard 3%/3-year proxy access proposal, which the 2020 guidelines would have supported as market-standard, now gets case-by-case treatment. That is a shareholder-favourable tightening against companies, and it is unusual.

Special meetings: a defined 15% to 25% corridor

The 2020 rule supported special-meeting proposals only where the threshold was at least 15% and state law did not already provide the right. The 2024 rule is a two-sided corridor:

July 2024:

"Putnam supports management / shareholder proposals giving shareholders the right to call a special meeting as long as the ownership requirement in such proposals is at least 15% of the company's outstanding common stock and not more than 25%."

Putnam will vote for reductions from an existing threshold into that range, and 'against any proposal with an ownership requirement exceeding 25% of the company's common stock or an ownership requirement that is less than 15%.' Where management and shareholders both put a proposal on the ballot, Putnam backs whichever has the lower threshold inside the corridor. This is more favourable to shareholders at companies with 33% or 50% thresholds and less favourable to the common 10% shareholder proposal, which Putnam will now vote against.

Two new director-level consequences for bylaw changes

Neither exists in the 2020 text. Both target the same individual.

July 2024, new:

"Putnam will withhold votes from the chair of the Nominating/Governance committee if a company amends its Bylaws, or takes other actions, to adopt a specific state's courts (other than Delaware courts, for issuers incorporated in Delaware) or a specific U.S. district court as the exclusive forum for certain disputes without shareholder approval."

July 2024, new:

"Putnam will vote against the Chair of the Nominating/Governance committee if a company adopts a fee-shifting bylaw amendment without shareholder approval."

The fee-shifting provision replaces a weaker 2020 rule that withheld from 'a member of the governance or other responsible committee' in the same circumstances - the target is now named. Exclusive forum is entirely new, with a reasoned carve-out for Delaware: 'Putnam's guideline recognizes the expertise of the Delaware state court system in handling disputes involving Delaware corporations.' The stated concern is explicit - 'Requiring shareholders to bring actions solely in one state may discourage the pursuit of derivative claims by increasing their difficulty and cost.'

Other newly codified positions with no 2020 counterpart: support for written consent rights; a virtual-meeting standard requiring that the proposal 'does not preclude in-person meetings' and that the company has disclosed how shareholders can 'meaningfully communicate with company management and directors'; a presumption against bundled proposals; a quorum standard; adjournment rules tied to whether Putnam is supporting the board; and a flat rule to 'vote against proposals where there is a lack of information to make an informed voting decision.'

One thing that went the other way

Eliminating supermajority vote requirements

January 2020:

"The funds will vote for shareholder proposals to eliminate supermajority vote requirements in the company's charter documents, except that the funds will vote on a case-by-case basis on such proposals at controlled companies."

July 2024:

"Putnam will vote on a case-by-case basis on shareholder or board-approved proposals to eliminate supermajority voting provisions at controlled companies (companies in which an individual or a group voting collectively holds a majority of the voting interest)."

The affirmative default is gone. In 2020 Putnam voted for these proposals everywhere except controlled companies; in 2024 only the controlled-company carve-out survives, with no stated rule for everyone else. Supermajority elimination at an ordinary company now falls back on the general rule - vote with the board.

3. Environmental and social proposals: a framework, and a heavier reliance on the proxy adviser

The 2020 guidelines disposed of this in one line, backed by a page of Trustee commentary. The 2024 guidelines replace both with a structured test.

The operative rule

January 2020:

"The funds will vote on a case-by-case basis on shareholder proposals related to environmental and social initiatives."

July 2024:

"In evaluating shareholder proposals relating to environmental and social initiatives, Putnam takes into account (1) the relevance and materiality of the proposal to the company's business, (2) whether the proposal is well crafted (e.g., whether it references science-based targets, or standard global protocols), and (3) the practicality or reasonableness of implementing the proposal."

The new section is more supportive on its face than the old one. It opens with a belief statement - 'Putnam believes that sustainable environmental practices and sustainable social policies are important components of long-term value creation' - and names the topics Putnam may back:

July 2024, new:

"Putnam may support well-crafted and well-targeted proposals that request additional reporting or disclosure on a company's plans to mitigate risk to the company related to the following issues and/or their strategies related to these issues: Environmental issues, including but not limited to, climate change, greenhouse gas emissions, renewable energy, and broader sustainability issues; and Social issues, including but not limited to, fair pay, employee diversity and development, safety, labor rights, supply chain management, privacy and data security."

Artificial intelligence proposals were added as a named case-by-case category. Note that the reference to 'science-based targets' as a marker of a well-crafted proposal is an endorsement most 2024 and 2026 US policies avoid.

But two sentences at the end of the section shift who actually decides:

July 2024, new:

"Putnam will consider the recommendation of its third-party proxy service provider and may consider other factors such as third-party evaluations of ESG performance."

July 2024, new:

"Additionally, Putnam may vote on a case-by-case basis on proposals which ask a company to take action beyond reporting where our third-party proxy service provider has identified one or more reasons to warrant a vote FOR."

The same pattern appears elsewhere in the 2024 document: share repurchase authorisations are voted for only where 'recommended for approval by Putnam's proxy voting service provider,' and director fee and equity grant proposals go to case-by-case review where 'Putnam's proxy service provider is recommending a vote against.' Nothing comparable appears in the 2020 guidelines. Decision-making has shifted toward the proxy adviser at the same time as it shifted away from the Trustees.

What the Trustees' commentary took with it

Roughly two pages of the 2020 document were written in the Trustees' own voice, explaining the reasoning behind their positions. All of it is gone. Deleted with it:

- The commitment to 'generally vote for proposals calling for reasonable study or reporting relating to climate change matters that are clearly relevant to the company's business activities,' including the comparison of a company's climate disclosure and oversight 'relative to its industry peers.'
- The statement that on 'shareholder proposals related to diversity initiatives, the funds will assess the proposals in a manner that is broadly consistent with the funds' approach to holding the board of directors directly accountable for diversity on the board.'

- The reference to 'initiatives related to climate change and gender pay equity' as examples of environmental and social initiatives.
- The explanation of why the funds generally supported proxy access, majority voting, board declassification and supermajority elimination - that these 'further the goals of reducing management entrenchment and conflicts of interest.'
- The reasoning on severance, excise tax gross-ups and clawbacks, including the view that 'performance compensation should only be paid to executives if the performance targets are actually met.'

In most cases the operative voting rule survived and only the reasoning was cut. The two exceptions are climate reporting and diversity-initiative proposals, where the 2020 commentary was the only place a supportive default was stated - and both are now covered by the general environmental and social framework rather than by a named presumption.

4. Executive pay: the general excess test went, specific tests arrived

One broad discretionary power was removed and replaced with a long list of named, testable objections - most of them imported from European remuneration practice.

January 2020, deleted:

"The funds will on a case-by-case basis withhold votes from the entire board of directors, or from particular directors as may be appropriate, if the board has approved compensation arrangements for one or more company executives that the funds determine are unreasonably excessive relative to the company's performance or has otherwise failed to observe good corporate governance practices."

That sentence - the only general authority in the 2020 guidelines to vote against a whole board over pay quantum - has no 2024 equivalent. What replaced it is a list of circumstances in which Putnam will generally vote against a remuneration report or policy, including: 'disconnect between pay and performance'; 'no performance metrics disclosed'; 'no relative performance metrics utilized'; a single absolute performance metric; 'performance goals were lowered when management failed or was unlikely to meet original goals'; long-term incentive plans 'subject to retesting'; 'service contracts longer than 12 months'; arrangements that allow 'vesting below median for relative performance metrics'; ex-gratia payments; automatic change-of-control vesting; and two pension tests - 'pension provisions for new executives is not at the same level as the majority of the wider workforce' and pension provisions for incumbents 'not set to decrease over time.' A UK-specific test requires that 'proposed CEO salary increases are not justifiably appropriate in comparison to wider workforce.'

This is more prescriptive than what it replaced, and it is more likely to produce a predictable against vote. It is also, notably, a set of standards Putnam applies to its own European holdings that most US managers apply nowhere.

The shareholder proposal side gained several new affirmative positions on pay, none of which existed in 2020: support for proposals requiring shareholder approval of future SERPs; support for a 'pay-for-superior-performance standard' under which 'no multi-year award should be paid out unless the company's performance exceeds, during the current CEO's tenure, its peer median or mean performance'; support for proposals forbidding a director who receives 'more than 25% withhold votes cast' from serving on a key board committee for two years; and support for shareholder approval of severance agreements, except where the company already has a policy requiring approval of cash severance above '2.99 times the sum of the executive's base salary plus target annual non-equity incentive plan bonus opportunity.'

Chair and CEO separation: from case-by-case to a default yes

Independent chair proposals

January 2020:

"The funds will vote on a case-by-case basis on shareholder proposals requiring that the chairman's position be filled by someone other than the chief executive officer."

July 2024:

"Putnam will vote for shareholder proposals requiring that the chair's position be filled by an independent director (separate chair/CEO). However, Putnam will vote on a case-by-case basis on such proposals when the company's board has a lead-independent director (or already has an independent or separate chair) and Putnam is supporting the nominees for the board of directors."

A neutral position became a supportive default with a carve-out. Independent chair proposals are among the most common governance items on a US ballot, and this is a real change in expected outcome at companies without a lead independent director.

Political spending moved the other way. The 2020 guidelines had no specific rule; the 2024 guidelines create one that defers to the board: Putnam 'will vote in accordance with the recommendation of the company's board of directors on shareholder proposals regarding corporate political spending, unless Putnam is voting against the directors, in which case the proposal would be reviewed on a case-by-case basis.'

5. What did not change

The core director-election tests are identical across four and a half years, which is worth stating given how much else moved.

- Withhold from the entire board where it lacks a majority of independent directors, lacks independent nominating, audit and compensation committees, or has more than 15 or fewer than five members. Unchanged, except that the committee test was tightened in wording to require committees 'composed solely of independent directors' and a new forgiveness provision was added for temporary non-compliance after a resignation or restructuring.
- Overboarding: still a maximum of four public company boards for a non-executive director, and still no more than two outside boards for a sitting public-company executive, with votes withheld at each company and from the home company's governance committee. Affiliated fund boards still count as one.
- Attendance: still 75% of board and committee meetings, still forgivable for a valid reason such as illness or personal emergency. The 2020 rule also withheld from the governance committee chair where attendance disclosure was inadequate; that add-on is gone.
- Independence: still defined by the NYSE Corporate Governance Rules plus a bar on any consulting, advisory or other compensatory fee, and still a withhold from any nominee labelled independent who has taken professional service fees in the last three years.
- Interlocking directorates still draw a withhold.
- Still a withhold from incumbent directors who failed to implement a shareholder proposal that won majority support at the previous two annual meetings.
- Poison pills adopted or renewed without shareholder approval still draw a withhold - now extended to cover a 'material adverse modification' and explicitly applied to non-US pill structures, but softened by three new forgiveness conditions covering one-year pills, pills with suitable restrictions, and companies that disclose a convincing rationale and commit to shareholder approval of renewals.
- Board declassification, shareholder approval of rights plans, majority voting for director elections, clawback proposals, golden coffins, executive retirement benefit disclosure, compensation consultant disclosure, severance acceleration conditions and excise tax gross-ups all carry over with the same positions.

The bottom line

This is a document that changed hands, not just wording.

Until January 2023 the Putnam Funds' independent Trustees voted the funds' proxies, and the guidelines read like a statement of what independent fund directors expect of corporate boards, complete with reasoning. Since then the adviser votes, and the guidelines read like an operating manual - longer, more granular, far more international, and explicitly routed through a third-party proxy service provider in several places where no such reference existed before.

The substance did not simply soften. Board diversity got materially tougher on three separate axes, including a new racial and ethnic test. Proxy access moved to a two-year holding period preference, which is more demanding of companies than the US market standard the 2020 guidelines endorsed. Independent chair proposals went from case-by-case to a default yes. Two new withhold triggers were created for boards that adopt exclusive forum or fee-shifting bylaws without asking shareholders. And an extensive set of European-style remuneration tests was imported.

Against that: the general power to vote against a board for 'unreasonably excessive' pay was deleted, the affirmative default on eliminating supermajority provisions was dropped, political spending proposals now default to the board's recommendation, and the supportive commentary on climate reporting and diversity-initiative proposals went with the rest of the Trustees' voice. Shareholders seeking a 10% special meeting threshold will now find Putnam voting against them.

For a client the practical question is whether the adviser applies these guidelines as the Trustees applied theirs. The published guidelines are more specific than before, which makes that easier to check - but the document itself now says that on environmental and social proposals Putnam 'will consider the recommendation of its third-party proxy service provider,' which is the one place where the published rules stop predicting the vote.