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Putnam sets out active ETF strategy

Exec flags product dev ideas as it rolls out new range

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Putnam Investments has nearly doubled its ETF portfolio with the launch of five new funds which expand its ESG capabilities and is eyeing further sector-specific launches using the wrapper.

The \$165bn Boston-based firm rolled out the Putnam ESG Core Bond ETF (PCRB), the Putnam ESG High Yield ETF (PHYD), the Putnam ESG Ultra Short ETF (PULT), the Putnam PanAgora ESG International Equity ETF (PPIE) and the Putnam PanAgora ESG Emerging Markets Equity ETF (PPEM) on Friday, moves flagged by With Intelligence last summer.

The core bond ETF, with a fee of 35bps, invests in bonds of US governments and private companies with maturities of three years or longer and is managed by Michael Salm, Andrew Benson, Albert Chan and Sri Mahanti. A new high yield ETF, with a fee of 55bps, invests mainly in US junk bonds, also with maturities of three years or longer, and is managed by Rob Salvin and Norm Boucher.

The ultra-short ETF, with a fee of 25bps, invests in short-duration, investment-grade money market and other fixed income securities and is managed by Joanne Driscoll, Andrew Benson and Michael Lima.

The international equity and EM equity ETFs are subadvised by Putnam affiliate PanAgora Asset Management and will focus on companies that exhibit positive ESG metrics based on a proprietary framework using quantitative models. Both are managed by PanAgora CIO and head of research George Mussalli and PM Richard Tan. The international ETF clocks in with a fee of 49bps, while the EM ETF charges 60bps.

The new suite, along with the existing Putnam Sustainable Leaders ETF and Putnam Sustainable Future ETF, will serve as underlying investments for the firm's planned ESG-focused target-date series, the Putnam Sustainable Retirement Funds that were renamed in May as part of a broader retool.

Distro strategy

The firm will focus on the retail/intermediary channel in the near term for the new ETFs as standalone products.

Putnam's distribution teams are set up across three channels, defined contribution, global institutional and retail, with the same teams selling both mutual funds and ETFs.

"It is clear that clients are looking at managers to be vehicle agnostic and we think the expansion into new asset classes across investment vehicles and product wrappers will give our clients incremental choices," said Carlo Forcione, head of product and strategy at Putnam.

The firm's existing ETF roster includes the \$136m Putnam Focused Large Cap Value ETF (PVAL), \$10m Putnam Focused Large Cap Growth ETF (PGRO), \$7m Putnam Sustainable Future ETF (PFUT) and the \$6m Putnam Sustainable Leaders ETF (PLDR), all launched in May 2021 and the \$6m Putnam BDC Income ETF (PBDC) and \$4.5m Putnam BioRevolution ETF (SYNB), both launched in September 2022.

The firm also has an EM ex-China ETF fund in the works that it anticipates will roll out in the next two months.

Forcione said he sees plenty of white space in terms of future product dev, pointing specifically to what he called "significant" opportunities within sector-specific ETF product capabilities.

Forcione considers ESG to be a "frontier" market at the moment and therefore sees an opportunity for the new ETFs to add incremental scarcity value, filling gaps in the marketplace. Putnam hired Jacquelyn VanderBrug in September from Bank America, appointing her to the newly-created role of head of sustainability strategy to lead its growing suite of ESG capabilities.

"These new ETFs are an opportunity for Putnam to be an early entrant at scale," Forcione said.

Despite a flows slow-down within ESG investing, Putnam considers active ESG strategies to be more resilient than conventional active management.

"ESG is small at this point and most existing ESG ETFs are passively managed, and we consider that a more naive approach to sustainable investing," Forcione said. "We are viewing ESG input as part of the investment process from the lens of where is the ESG alpha factor, where is it financially material and relevant to the overall investing process."

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