UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8652 / January 5, 2006

SECURITIES EXCHANGE ACT OF 1934
Release No. 53054 / January 5, 2006

INVESTMENT COMPANY ACT OF 1940
Release No. 27025 / January 5, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12140

In the Matter of

MICHELE KNOWLTON,

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTIONS 15(b) AND 17A(c) OF THE SECURITIES EXCHANGE ACT OF 1934, and SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Sections 15(b) and 17A(c) of the Securities Exchange Act of 1934 ("Exchange Act"), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") as to Michele Knowlton ("Respondent"or "Knowlton").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") that the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over her and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 17A(c) of the

Securities Exchange Act of 1934, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that

Summary

These proceedings arise out of a scheme by employees of Putnam Fiduciary Trust Company ("PFTC") to shift almost $4 million in missed trading profits that PFTC should have borne to shareholders of the Putnam Research Fund ("Research Fund") and other Putnam mutual funds and to a defined contribution plan client ("Plan") during the first week of January, 2001. On January 2, 2001, PFTC failed timely to invest certain assets belonging to the Plan. On account of the one-day investment delay, the Plan missed out on market appreciation of approximately $4 million (almost $3 million of which was in Putnam mutual funds). Rather than compensate the Plan for its missed opportunity, managers at PFTC and its affiliates, including Knowlton, used "as of" trades and mutual fund expense accounting manipulations to cause the Research Fund and other Putnam mutual funds to bear the costs of the one-day delay. Other managers took steps to cover-up these manipulations. This conduct constituted violations of certain antifraud, pricing, and books-and-records provisions of the securities laws. Through her participation in the scheme, which consisted primarily of making false entries in the fund accounting systems for certain Putnam mutual funds, Knowlton violated or aided and abetted violations of such provisions.

Respondent

1. Knowlton, age 46, is a resident of Boca Raton, Florida. In January 2001, Knowlton was a vice president at PFTC with responsibility for the accounting for certain Putnam mutual funds, including the Research Fund. She reported to a managing director for fund accounting, who in turn reported to a senior managing director responsible for Global Operations Services. During all times relevant to this matter, Knowlton was associated with PFTC, a transfer agent and an entity under common control with a broker-dealer.

Other Relevant Entities

2. Pursuant to an Investor Servicing Agreement, PFTC was responsible during the relevant period for maintaining the books and records of certain funds of the Putnam family, including the Research Fund, and was trustee of and investment manager for the trust comprising assets of the Plan that had been transferred to PFTC from 1998-2004. In addition, PFTC provided administrative services to the Plan in the same time period. PFTC is a wholly owned subsidiary of

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Putnam, LLC (formerly Putnam Investments LLC), which is in turn a wholly owned subsidiary of a holding company Putnam Investments Trust. With the exception of a small stake of Putnam Investment Trust owned by employees, Putnam Investment Trust is a wholly owned subsidiary of March & McLennan Companies, Inc., whose common stock is registered with the Commission and trades on the New York Stock Exchange. PFTC is also an affiliate of Putnam Investment Management LLC, the investment adviser to the Putnam family of funds ("Putnam mutual funds"), for which PFTC maintains certain books and records. PFTC is a transfer agent and is under common control with Putnam Retail Management, Inc., a registered broker-dealer.

3. The Research Fund is a series of Putnam Investment Funds (SEC File No. 811-07237) (formerly known as Putnam Equity Funds), a Massachusetts business trust organized on October 31, 1994, which is an open-end management investment company registered with the Commission since 1994. The Research Fund offered its shares for sale to the general public and they were bought and redeemed by the general public, including in the period January 8, 2001-February 18, 2004.

Background

4. The Plan transferred assets to PFTC on January 2, 2001. Prior to the transfer, employees of PFTC assured agents of the Plan that the assets would be invested at the January 2 net asset value ("NAV"). Accordingly, these agents of the Plan expected that PFTC would fulfill these promises and conveyed this expectation to PFTC by email. In fact, PFTC failed timely to invest the assets resulting in their being invested at a January 3 NAV. Due to a rise in the market on January 3, the Plan missed out on market appreciation of approximately $4 million it would have received had the assets been timely invested. Nevertheless, upon inquiry from the Plan, an employee of PFTC assured the Plan that its assets had been invested at the January 2 NAV.

5. On January 4, senior managers at PFTC and one of its affiliates met to assess the effect of the delay and PFTC's response to it. An employee informed the managers that the Plan had missed out on approximately $4 million in market appreciation as a result of the delay. The group discussed the possibility of using "as of" trades to give the Plan the January 2 price it had been promised. An "as of" trade is a trade executed on one day using a prior day's NAV and is used to correct trading errors. "As of" trades can cause dilution to a fund in which such trades are made when the "as of" trades are effected at a price per share that is lower than the price per share at the time when the investor's cash becomes an asset of the fund. At the January 4 meeting, the participants discussed the fact that the effect of using "as of" trades to give the Plan the January 2 price was a change in the NAV of the Research Fund of nearly two cents per share.

6. In January 2001, Putnam had a policy ("Penny-per-share Policy") that it would compensate the affected fund for NAV changes of greater than a penny per share caused by "as of" trades. Accordingly, one of the managers who attended the January 4 meetings subsequently prepared a spreadsheet detailing two ways to reduce the NAV effect of the "as of" trades. Each involved reversing certain transactions in various Putnam mutual funds and reprocessing them on a different date. The goal and effect of this manipulation was to generate cash

gains to offset the Research Fund NAV change by causing dilution to the other Putnam mutual funds. According to the spreadsheet, these transactions brought the net NAV change to 1.3 cents per share.

7. On January 5, 2001, Knowlton received a copy of the spreadsheet by email. At the time, she was aware of the Penny-per-share Policy. In the morning of January 5, she attended a meeting involving managers senior and equivalent to her at which the transactions on the spreadsheet were discussed. The most senior manager declared that PFTC would not pay for the cost of the "as of" trades. Accordingly, the managers other than Knowlton schemed about ways to reduce the apparent NAV change below one penny per share.

8. The senior managing director with responsibility for Global Operations Services at PFTC volunteered at the meeting to examine the expense accruals of the Research Fund to find adjustments to offset the effect on the NAV of the "as of" trades. This senior managing director, to whom Knowlton's direct supervisor reported and with whom she typically had little contact, ordered Knowlton to find such expense accrual adjustments. The goal was to bring the apparent net effect on the Research Fund NAV for the day on which the "as of" trades were executed below one cent. Knowlton reviewed the expense accruals and reported back to the senior managing director that she was unable to identify sufficient adjustments to bring the net change in the Research Fund below a penny per share. The senior managing director told her that was the "wrong answer" and ordered her to go back and look again.

9. In the early afternoon of January 5, through additional levels of unusually detailed analysis, Knowlton identified sufficient offsetting adjustments. She reported back to the senior managing director. She and he then returned to the conference room at which the morning meeting had taken place. The same senior officers were in attendance (except Knowlton's immediate supervisor). Knowlton gave a quick explanation of the adjustments she had identified. The most senior manager present expressed approval of effecting the "as of" transactions, the transactions reflected on the spreadsheet, and the expense accrual adjustments. Knowlton was instructed to delay implementation of the expense adjustments until January 8, so that they would "hit the books" at the same time as the "as of" transactions.

10. Following the second January 5 meeting, Knowlton discovered that the largest of the expense accrual adjustments she proposed was unwarranted and inappropriate. Nevertheless, she caused the adjustment to be booked in the books and records of the Research Fund that were kept by PFTC. On January 8, she verified that the net NAV effect was less than a penny per share, so that the two-cent per share dilution to the Research Fund caused by the "as of" trades was concealed.

11. Because PFTC – through certain of its employees – schemed to shift the cost away from PFTC and failed to follow the Penny-per-share Policy and compensate the Research Fund for the "as of" trades, the NAV of the Research Fund was incorrect from January 8, 2001 to February 18, 2004. This incorrect NAV was reported in filings made by the Research Fund with the Commission from time to time in this period. Members of the public bought and redeemed shares of the Research Fund in this period.

Violations

12. As a result of the conduct described above, Knowlton willfully[2] violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, which prohibits, in the offer or sale of securities, obtaining money or property by means of untrue statements of material facts or omissions to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading.[3] Knowlton carried out the orders of senior managers to make expense accrual adjustments to the Research Fund's books when she knew or should have known that the purpose of such adjustments was to improperly shift the cost of the one-day investment delay from PFTC to the Research Fund and when she knew or should have known that one of the expense accrual adjustments she made was unwarranted and inappropriate.

13. As a result of the conduct described above, Knowlton willfully aided and abetted and caused a violation of Section 31 of the Investment Company Act and Rule 31a-(1)(a) thereunder, which require that every investment company "maintain and keep current" certain books and records. By altering such records to reflect the incorrect expense adjustment, Knowlton willfully aided and abetted and caused a failure to properly to maintain and keep current books and records of the Research Fund.

14. As a result of the conduct described above, Knowlton willfully aided and abetted and caused a violation of Rule 22c-1 promulgated under Section 22 of the Investment Company Act, which provides that no redeemable security issued by an investment company shall be "sold, redeemed or repurchased except at a price based on the current net asset value of such security." By booking incorrect expense adjustments to conceal the NAV change of the Research Fund related to the "as of" trades, Knowlton willfully aided and abetted and caused the selling, redeeming, and repurchasing of Research Fund shares at the incorrect NAV.

15. As a result of the conduct described above, Knowlton willfully aided and abetted and caused a violation of Section 34(b) of the Investment Company Act, which prohibits any person from making any untrue statement of a material fact in certain documents filed with the Commission or which is required to be kept under Section 31(a). By booking false expense adjustments that hid the effect of the "as of" trades, Knowlton caused the false statements concerning the Research Fund's NAV in certain semi-annual filings by the Research Fund from January 8, 2001 through February 18, 2004.

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[2] "Willfully" as used in this Order means intentionally committing the act that constitutes the violation, Cf. Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000); Tager v. SEC, 344 F.2d 5, 8 (2d Cir. 1965).

[3] A finding of *scienter* is not required under Sections 17(a)(2) and 17(a)(3) of the Securities Act. Aaron v. SEC, 446 U.S. 680, 695-97 (1980).

Knowlton's Cooperation

16. In determining to accept the Offer, the Commission considered the cooperation afforded the Commission staff by the Respondent.

Undertakings

17. Respondent Knowlton undertakes to provide to the Commission, within 10 days after the end of the six month suspension period described below, an affidavit that she has complied fully with the sanctions described in Section IV below.

18. In connection with this proceeding and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, Respondent Knowlton (i) agrees to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by or on behalf of the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Respondent Knowlton's attorney in this proceeding as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Respondent Knowlton's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Respondent Knowlton in any United States District Court for purposes of enforcing any such subpoena.

In determining whether to accept the Offer, the Commission considered these undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Knowlton's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 17A(c) of the Exchange Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that**:**

A. Respondent Knowlton shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 34(b) of the Investment Company Act. Respondent Knowlton shall cease and desist from causing any violations and any future violations of Section 31 of the Investment Company Act and Rule 31a-(1)(a) thereunder, as well as Rule 22c-1 promulgated under Section 22 of the Investment Company Act;

B. Respondent Knowlton be, and hereby is prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter for six months, effective on the second Monday following the entry of this Order;

C. Respondent Knowlton be, and hereby is, suspended from association with any broker, dealer or transfer agent for a period of six months, effective on the second Monday following the entry of this Order.

By the Commission.

Nancy M. Morris
Secretary