
Mutual Fund Director Compensation: The 2016 Management Practice Annual Survey

May 17, 2016



MUTUAL FUND DIRECTORS FORUM
The FORUM for FUND INDEPENDENT DIRECTORS

MANAGEMENT
PRACTICE®

Introduction

The Mutual Fund Directors Forum (MFDF) is an independent, nonprofit organization that serves the independent directors of U.S. mutual funds.

Management Practice, Inc. (MPI) has been an active adviser to mutual fund directors and their counsel since 1970.

Today's Speakers



Susan Wyderko
(Moderator)

President and
CEO,
Mutual Fund
Directors
Forum



Meyrick Payne

Sr. Partner,
Management
Practice



Jay Keeshan

Partner,
Management
Practice

Agenda

- Part 1: Survey Methodology
- Part 2: Director Demographics/Industry Statistics
- Part 3: Director Compensation Data/Setting Director Compensation
- Part 4: Other Compensation and Governance Practices
- Part 5: Director Impact, Effectiveness and Cost

Setting Trustee Compensation Properly is Important for Many Reasons

- Must be fair to shareholders
- Must be fair to board members – increasing workloads, duties and exposure
- Necessary to attract/retain high quality trustees
- Regulatory impact/optical considerations
- Industry growth (AUM, distribution channels, use of sub-advisors, new products (e.g. ETFs), complex investments (e.g. derivatives)...

PART 1:

Survey Methodology

Survey Methodology

- 403 Boards
- 1902 Trustees/Directors
- 50+ Surveys
- Public filings/SAs, Morningstar, ICI

PART 2:

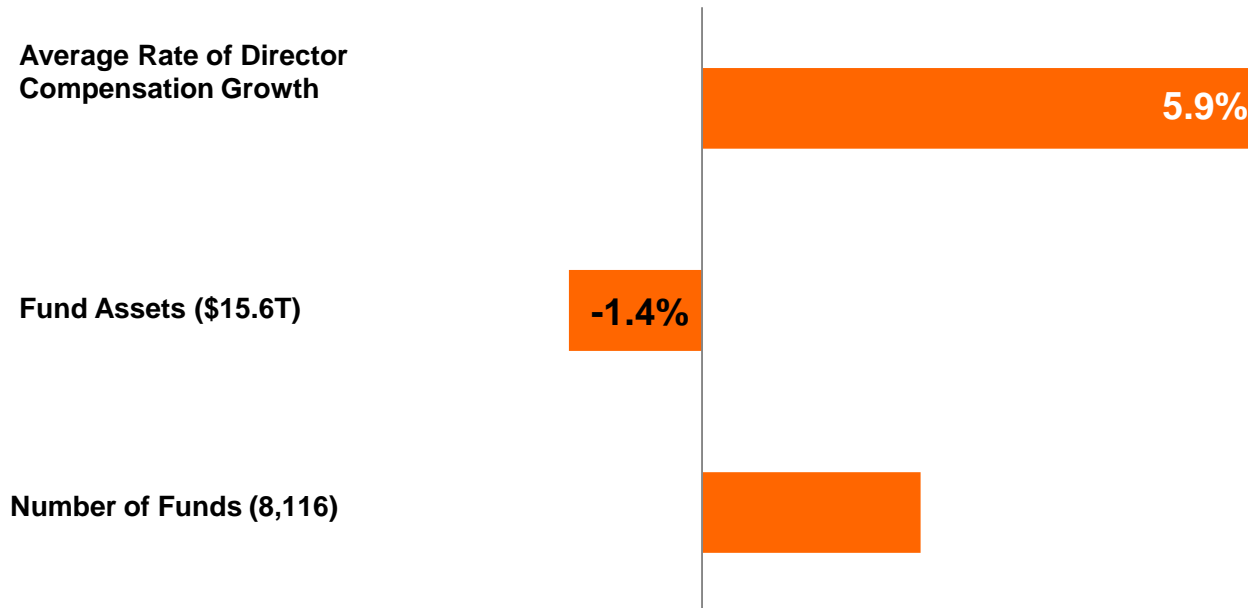
DIRECTOR DEMOGRAPHICS/ FUND INDUSTRY STATISTICS

Director Demographics

- 2,200 fund directors for about \$16 trillion AUM
- Average/median age 67 (up recently)
- Retirement age shifting to 75
- Tenure: average 12 years, median 9 years
- Approximately 20% of standing directors and 33% of incoming directors in 2015 were female.

U.S. Mutual Fund Industry in 2015

Director compensation was up 5.9% while industry assets were down 1.4%. The number of funds was up 2.3%.



Source: Mutual Fund NSAR Filings (Trustee Compensation and Expenses); ICI “Trends in Mutual Fund Investing” (change in fund assets and number of funds).

PART 3:

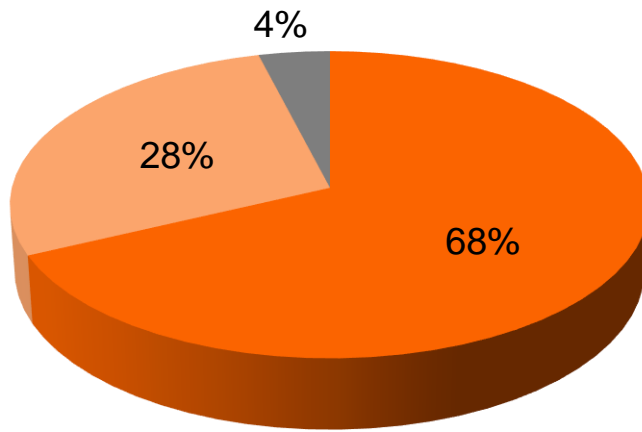
DIRECTOR COMPENSATION

Source: Statistical data from MPI surveys, corporate proxies, and US Government/SEC filings

Breakdown of Board Compensation: Structural/Pay Methods

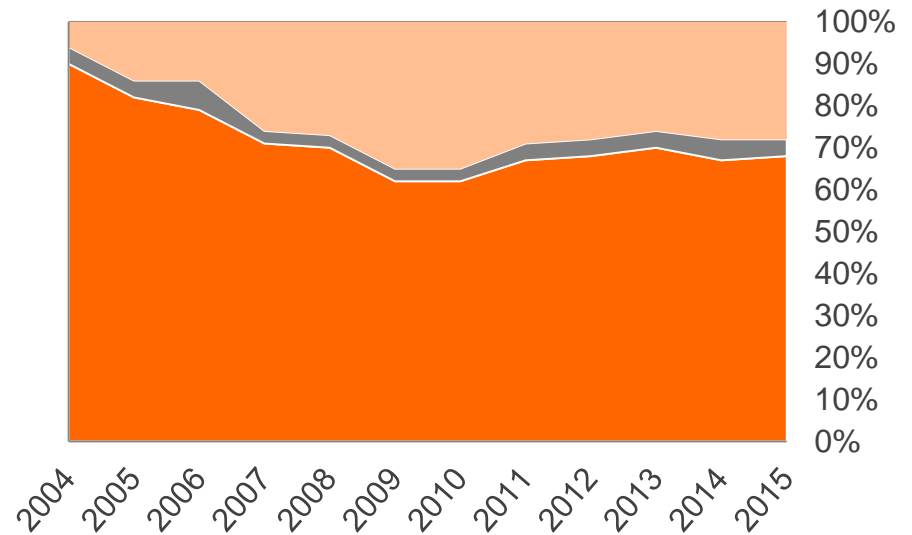
68% of directors are on boards that pay a combination of retainer plus meeting fees, down from 79% nine years ago.

Board Compensation



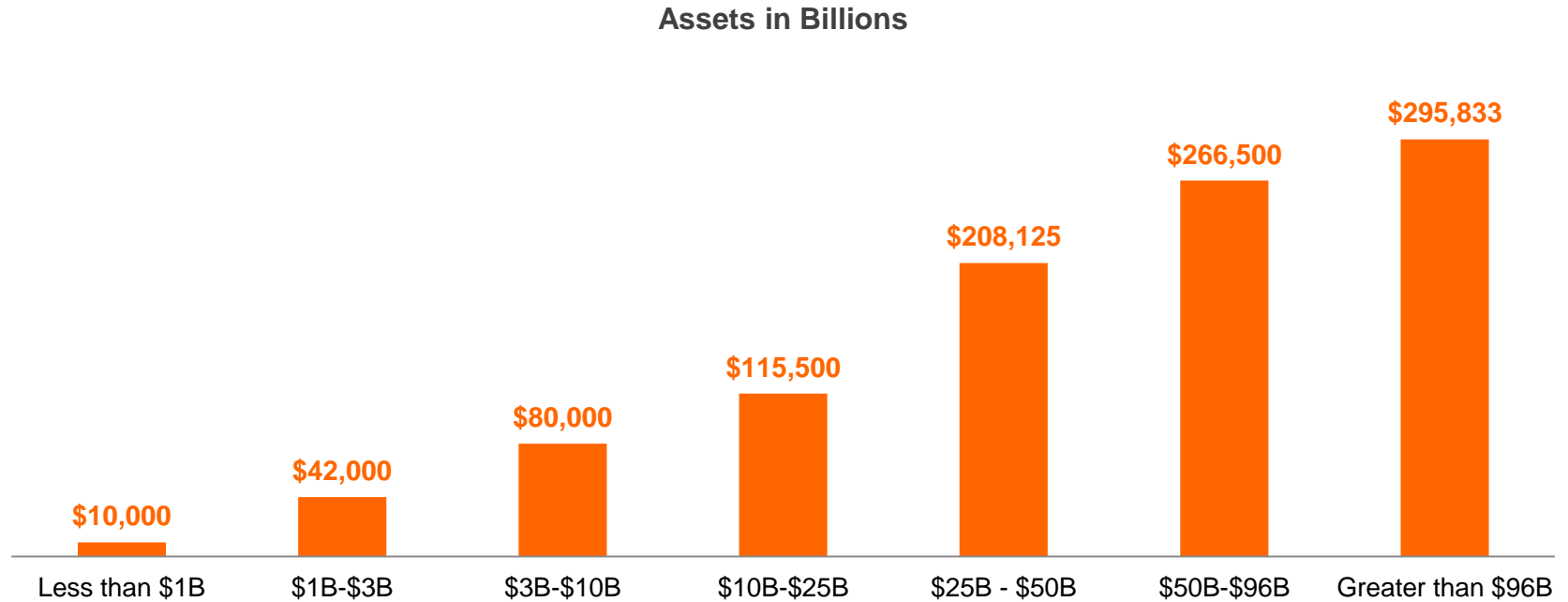
- Retainer & Meeting Fees
- Retainer Only
- Meeting Fees Only

Board Compensation Trend



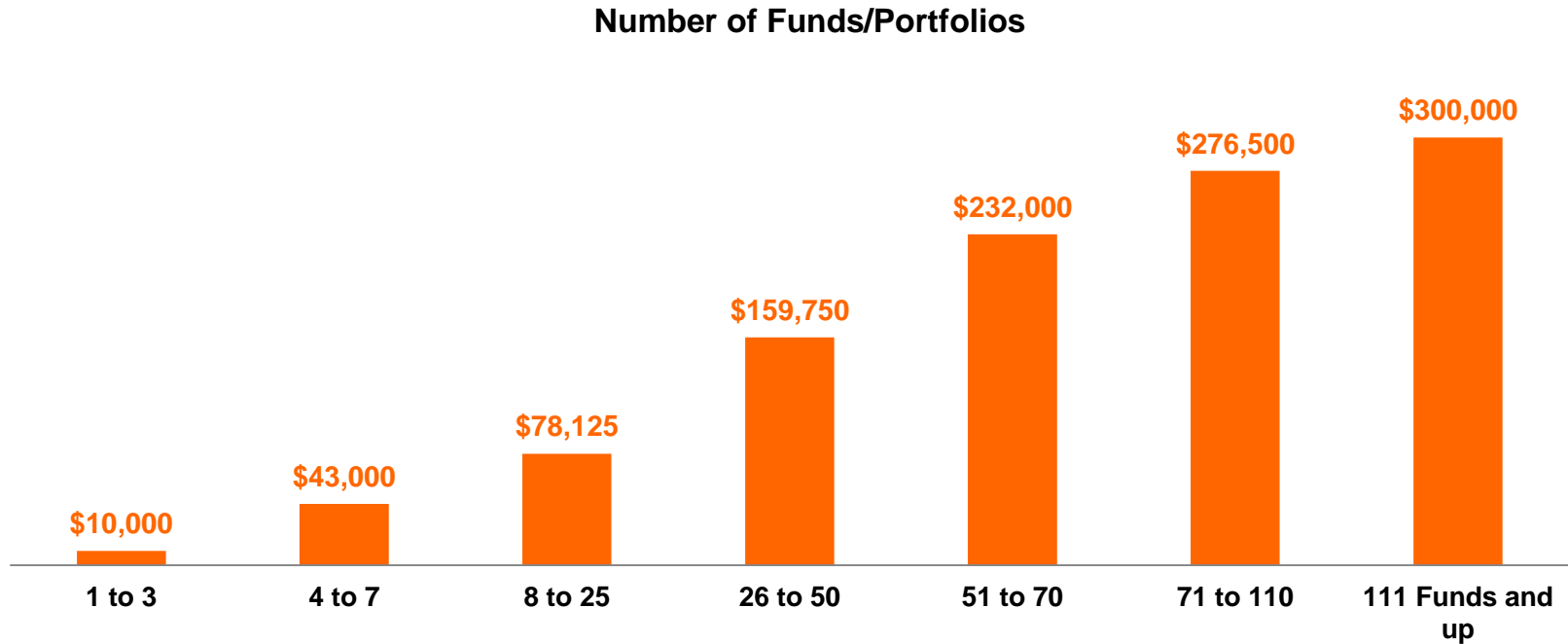
Median Total Director Compensation in 2015 - Total Assets Governed

Total compensation rises with increasing asset levels.



Median Total Director Compensation in 2015 – Number of Funds/Portfolios Governed

Total compensation increases as the number of funds/portfolios governed grows.



“...every time the commission votes to add responsibilities to boards of directors, I consider whether boards are prepared and equipped to take on those added responsibilities, which seem only to increase in number and complexity over time... taking on additional responsibilities will require more time, resources, and, of course, expertise. Given that fund board members generally serve the fund on a ‘part-time basis,’ increasing the size and complexity of their obligations, legal responsibilities and exposures to liability is something to consider thoughtfully.”

- SEC Commissioner Luis Aguilar, December 2015

Degree of Difficulty: 4 Dimensions of Complexity

Structural Complexity

- Distribution platforms
- Number of sub-advisors
- New fund activity

Product Complexity

- Fund count
- Fund types (OE, CE, ETF, Alloc. etc.)
- Share classes
- Fee structures

Investment Complexity

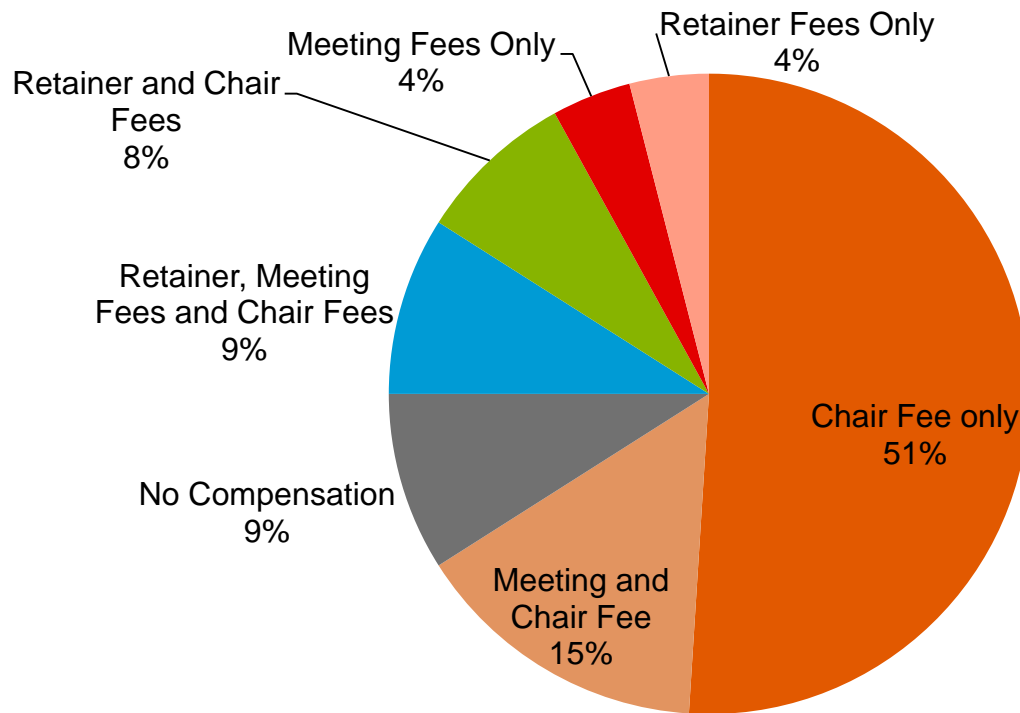
- Investment categories
- Alternative funds
- Other (tax strategies, securities lending, etc.)

Organizational Complexity

- Legal activity
- AUM
- Number of sub-advisors

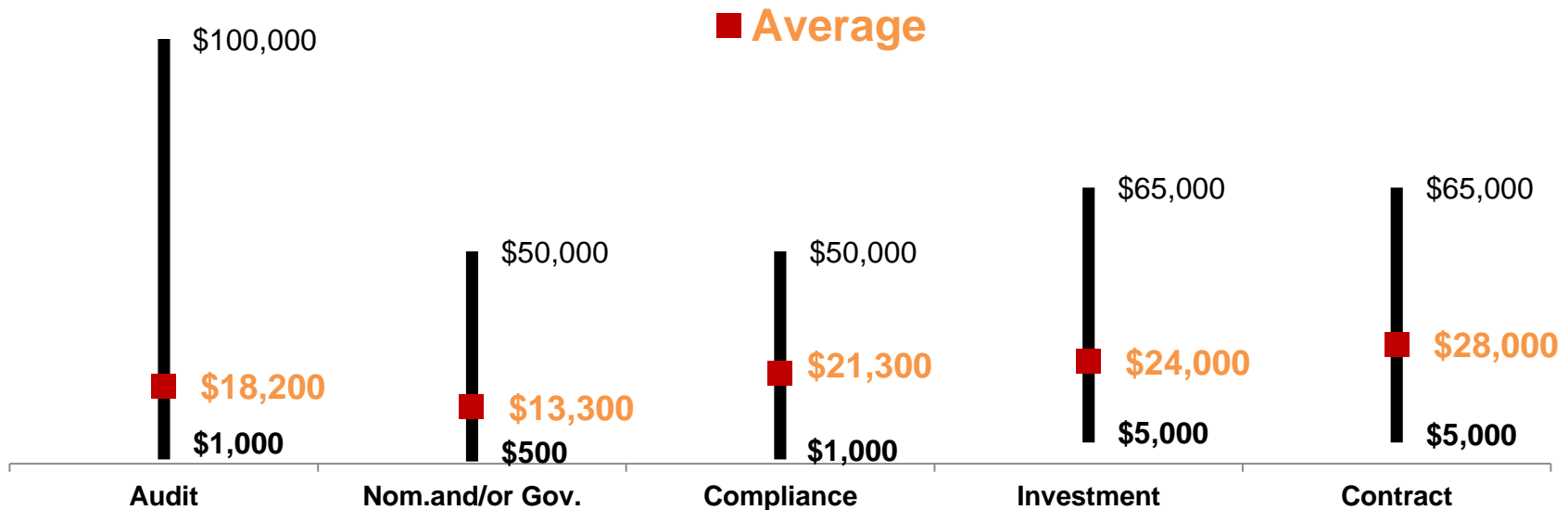
Type of Compensation for Committee Service

Most boards pay at least some form of compensation for committee service, as the importance and workload of committees increases. In particular, there has been a greater tendency to pay committee chairs, with 84% of boards paying at least some form of chair fee.



Average Committee Chair Fee

Committee chair fees vary among fund and committee types often depending on asset size and fund complexity. The following chart depicts the range and average fee paid to each committee chair. Some of the larger complexes that have higher committee fees also may be the funds that have additional committees for areas such as investments, causing the average to be higher than audit, where 100% of boards have committees.



PART 4:

OTHER COMPENSATION AND GOVERNANCE PRACTICES

Source: Statistical data from MPI surveys, the Investment Company Institute and US Government/SEC filings

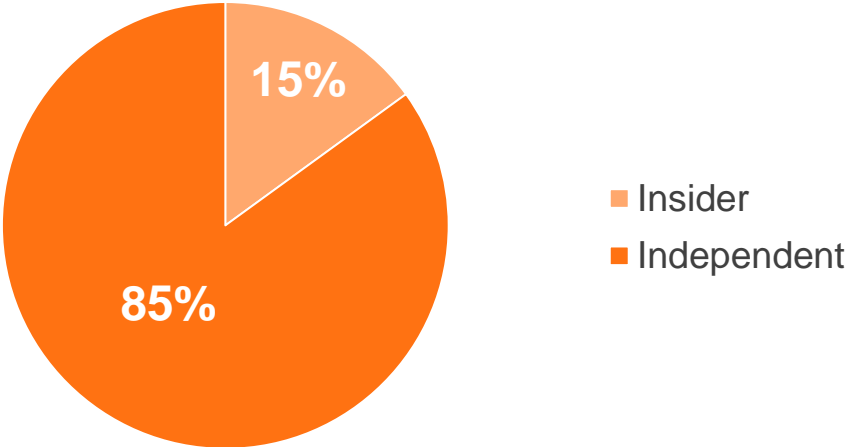
Board Independence

85% of participating board members are independent (“disinterested” in legal parlance).

Over **89%** of boards comply with the SEC’s formerly proposed “Super Majority” rule requiring **75%** independent directors.

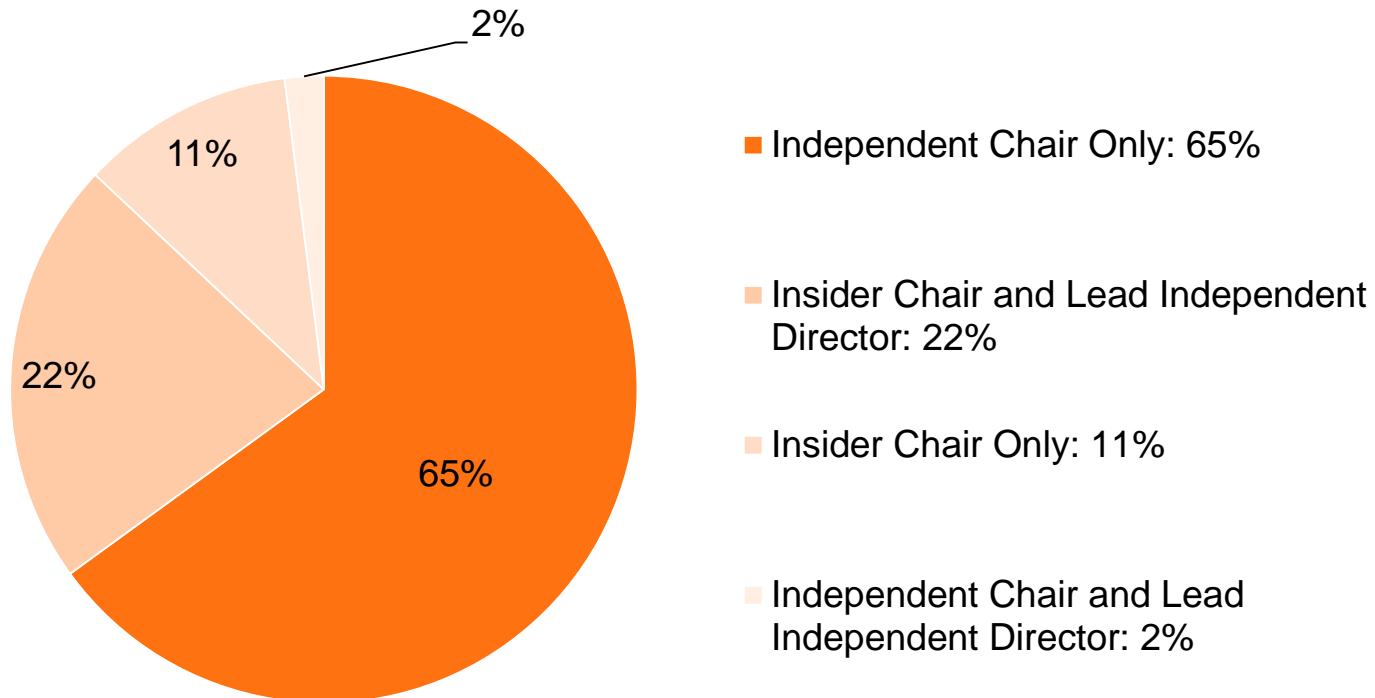
The compliance to the “Super Majority” has increased from **85%** in 2005.

% of Independent Directors on Board



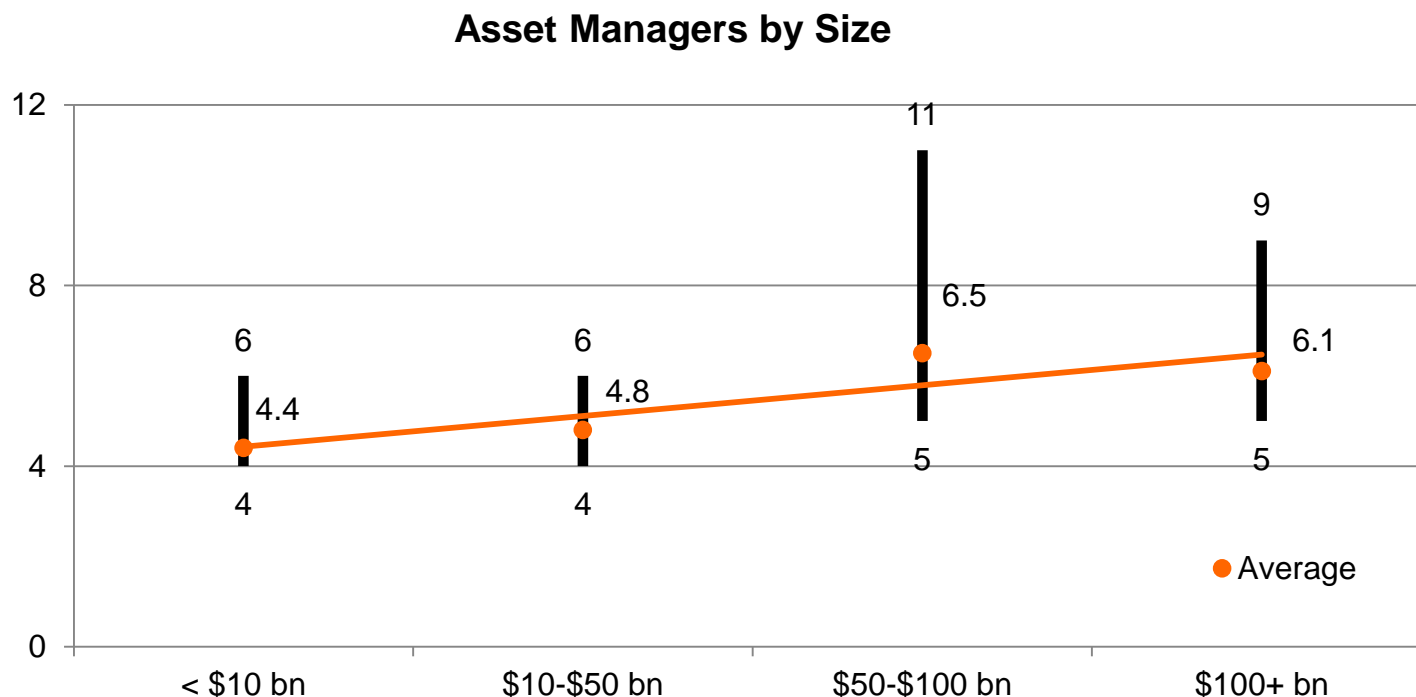
Board Leadership

67% of fund boards are chaired by an independent director, up from 60% nine years ago. While 33% have insider chairs, 22% also have a lead independent director.



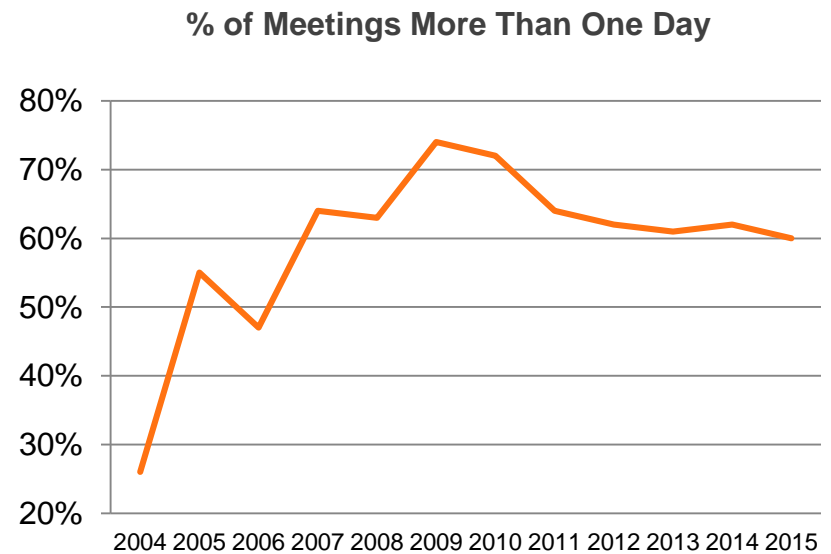
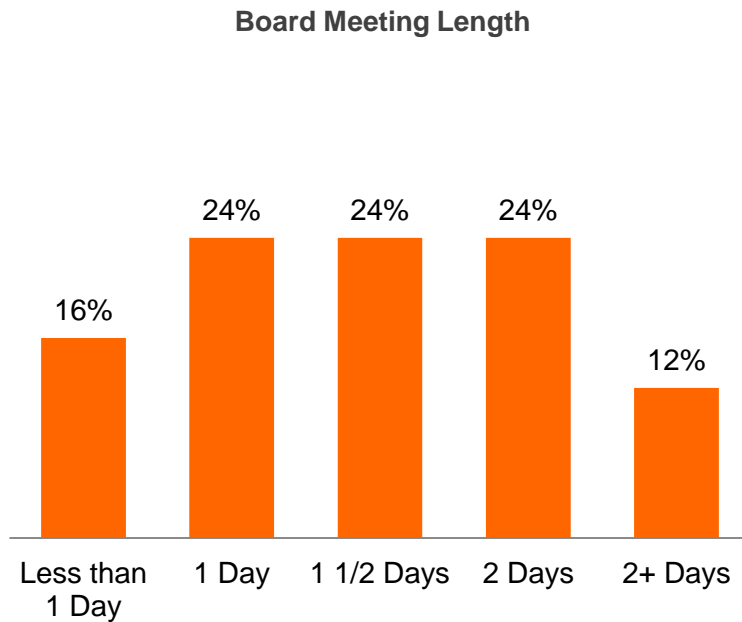
Average Number of Scheduled Board Meetings

The majority of boards meet 4-5 times a year, but some meet up to 8 times or more depending on the size and complexity of the complex. Additional meetings are often called due to particular events such as fund introductions/mergers, regulatory issues, or market crises.



Length of Board Meetings

60% of board meetings last more than 1 day, reflecting the need for additional time to cover extended agendas and complexities.



Board Committee Detail

All boards have an audit committee, most have governance and nominating committees and many have an investment and/or compliance committee.

There has been a notable increase in the number of governance committees and investment committees in response to changes in the market and industry.

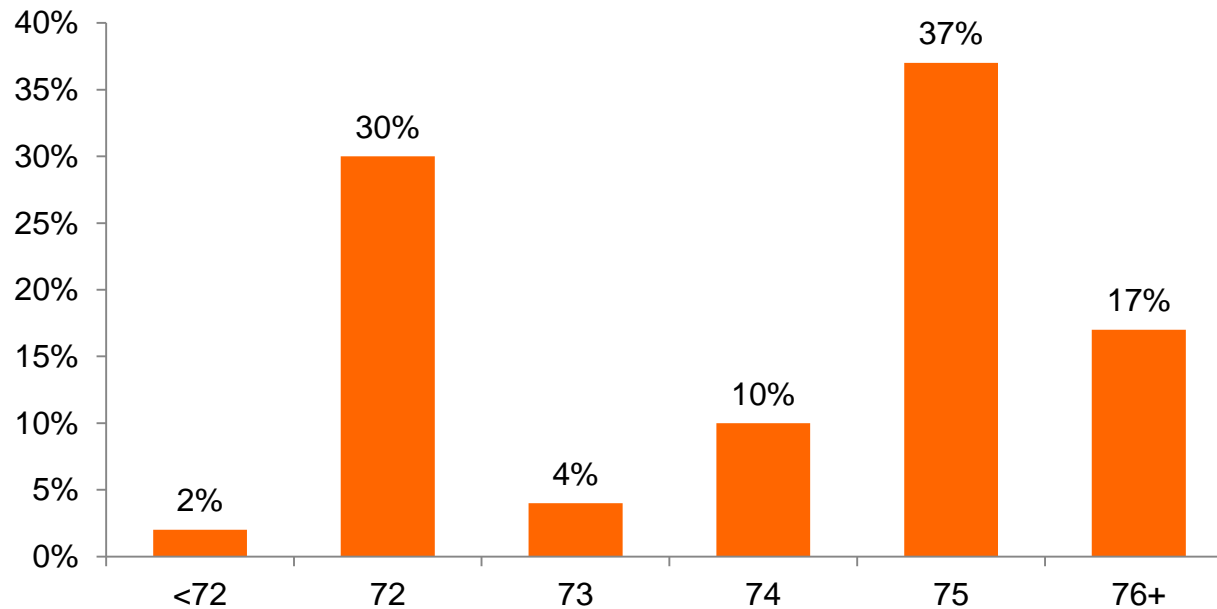
Percent of participants with each committee

100%	Audit
76%	Nominating and/or Governance
31%	Investment/Performance
25%	Pricing/Valuation
24%	Compliance
21%	Contracts
16%	Executive
6%	Brokerage/Portfolio Trading
5%	Marketing/Distribution
4%	Operations
4%	Proxy
3%	Ethics
3%	Risk

Board Retirement Age

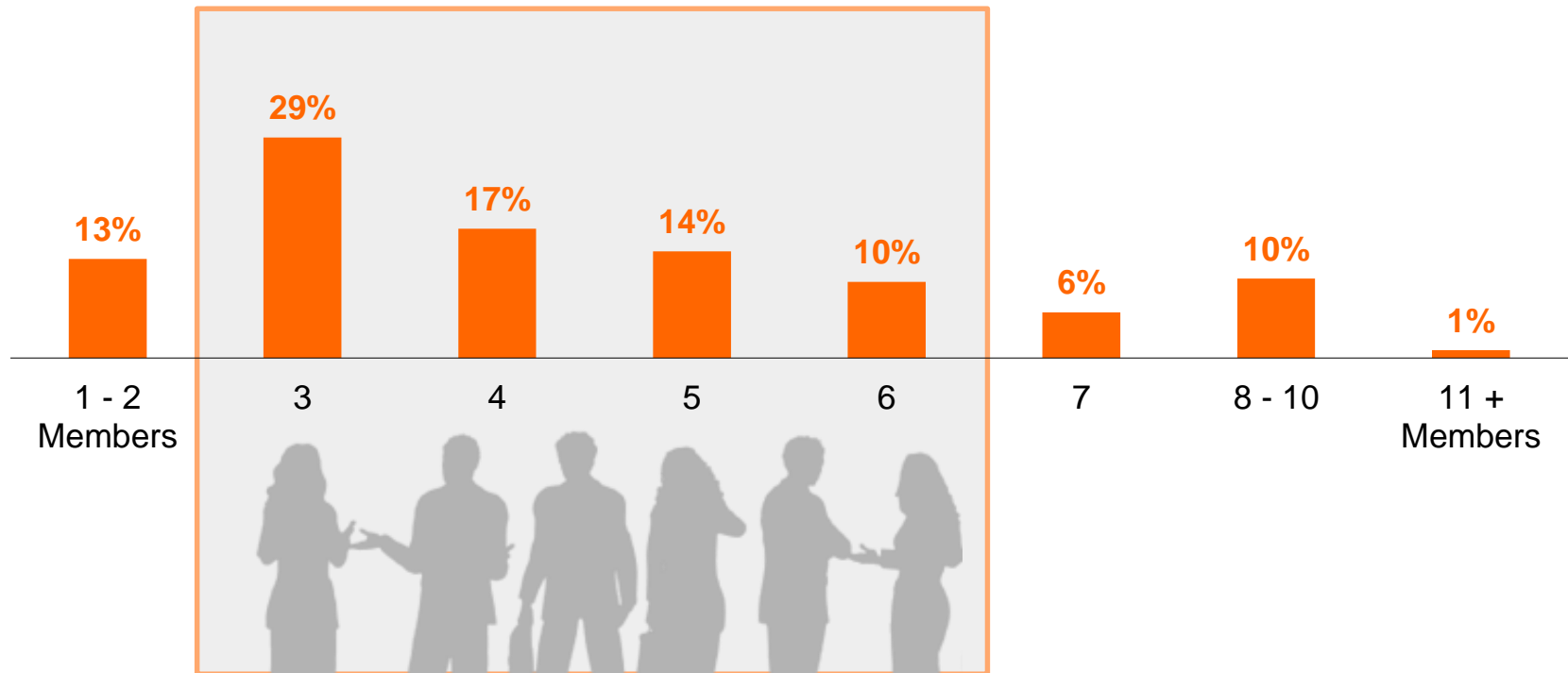
73% of participating boards have a mandatory retirement policy. The most frequently reported retirement age is now 75 (37%) after remaining at 72 for many years. 17% reported retirement ages above 75. Approximately 5%-10% of boards have an emeritus program.

**Mandatory Retirement Age
(for boards that have them)**



Number of Independent Board Members per Board

Merger activity can cause wide variability in head counts (sometimes up to 15 members or higher) as boards combine and consolidate. However, the majority of fund boards have three to six independent members.



Findings on Independent Fund Director Demographics

The median director age was

67

the average was **67**



20% of current independent directors are female; 33% of new directors in 2015



65% of directors served on other corporate, charitable or non-profit boards



16% served on other mutual fund boards



down from **19%** in 2006

39% are retired from their primary profession



4% of independent directors had been employed in the past by the complex for which they currently serve



PART 5:

DIRECTOR IMPACT,
EFFECTIVENESS & COST

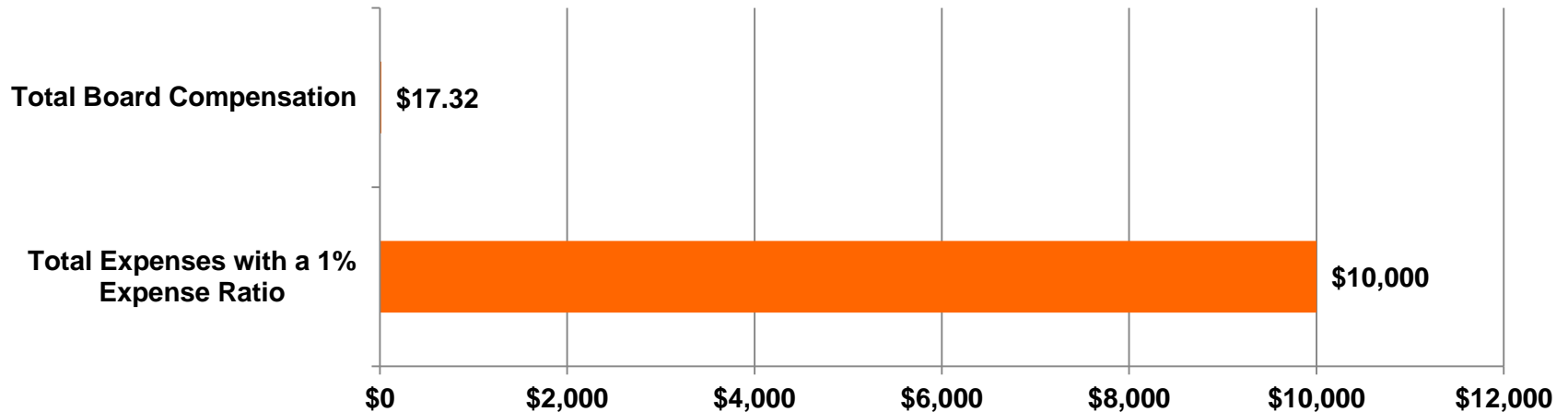
Corporate Board Compensation - 2015

Corporate Board	Median Total Compensation	Number of Independent Directors	Aggregate Board Pay
ExxonMobil	\$341,000	12	\$4,468,000
General Electric	\$300,000	16	\$5,723,000
J&J	\$285,000	12	\$3,127,000
IBM	\$370,000	13	\$4,853,000
Walmart	\$266,000	16	\$3,713,000
JP Morgan	\$353,000	10	\$3,753,000
Verizon	\$265,000	13	\$3,474,000
Morgan Stanley	\$342,000	13	\$3,885,000
Apple	\$374,000	7	\$2,418,000
Citi	\$285,000	14	\$4,018,000

Data is approximate and findings may differ due to varying reporting standards and other factors.

Total compensation for all independent directors represents a fraction of a typical fund's total expenses.

Board Compensation Compared to Total Expense for Typical Equity Fund for \$1 million in Assets



QUESTIONS?

DEADLINE FOR CCO COMPENSATION SURVEY: MAY 25, 2016

Management Practice Inc.

216 West Hill Road, Suite 200
Stamford, CT 06902
Phone: (203) 973-0535

WWW.MFGOVERN.COM

Contact:

Meyrick Payne

MPayne@mpiweb.com

Jay Keeshan

JKeeshan@mpiweb.com

MANAGEMENT
PRACTICE®