
Mutual Fund Director Compensation: The 2023 Management Practice Annual Survey

May 17, 2023



MUTUAL FUND DIRECTORS FORUM
The FORUM for FUND INDEPENDENT DIRECTORS

MANAGEMENT
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Introduction

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

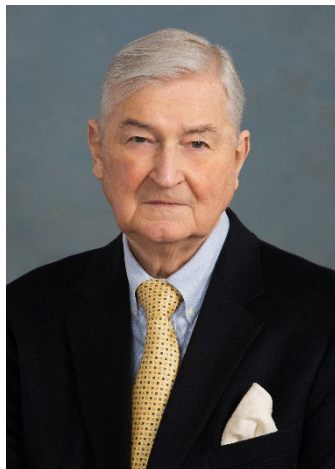
Management Practice Inc. (MPI) has been an active adviser to mutual fund directors and their counsel since 1970.

Today's Speakers



Sara Vargo
(Moderator)

Counsel,
Mutual Fund
Directors
Forum



Meyrick Payne

Sr. Partner,
Management
Practice



Jay Keeshan

Partner,
Management
Practice

Agenda

- Part 1: Survey Methodology, Director Demographics, Industry Statistics
- Part 2: Setting Director Compensation/Director Compensation Data
- Part 3: Other Compensation and Governance Practices
- Part 4: Cost of Fund Governance and Comparison to Corporate Board Compensation

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)...
- Process, process, process...

PART 1:

Survey Methodology, Director Demographics, and Fund Industry Statistics

Survey Methodology

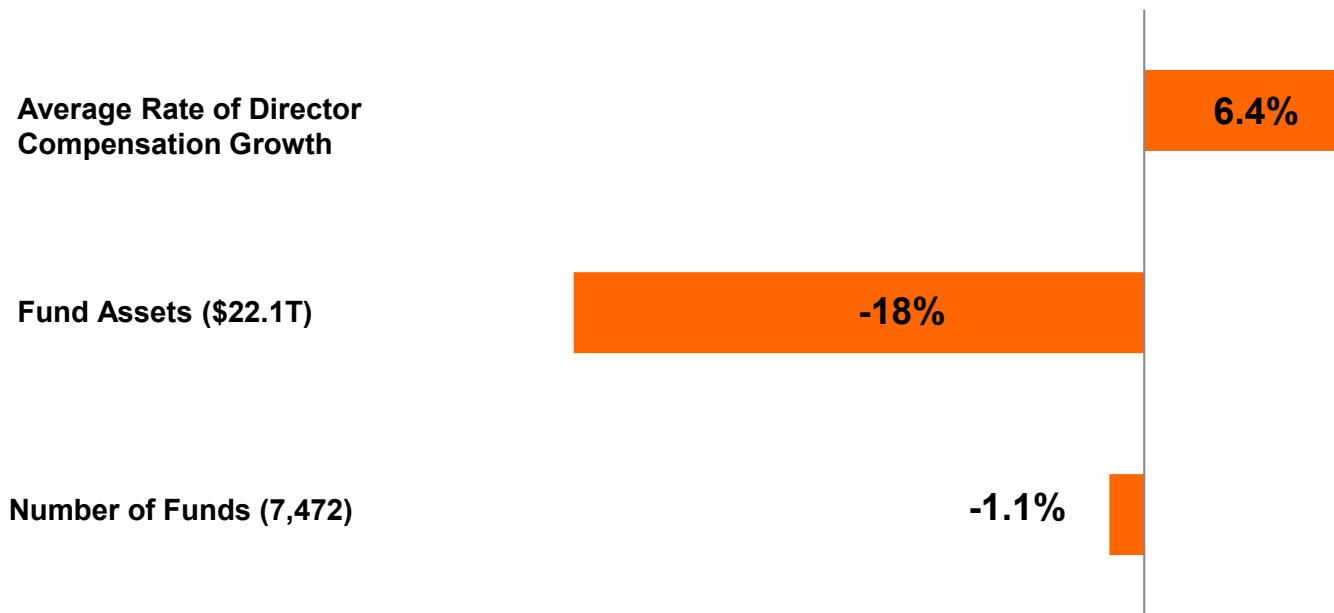
- 375 Boards
- 1836 Trustees/Directors
- 50+ Surveys
- Public filings/SAs, Morningstar, ICI

Director Demographics

- Approximately 2,000 fund directors overseeing about \$22 trillion AUM
- Average/median age 68
- Retirement age has shifted to 75 and beyond
- Tenure: average 11.5 years, median 10 years
- Approximately 28% of current directors and 48% of incoming directors in 2022 were female.

U.S. Mutual Fund Industry in 2022

Director compensation was up 6.4% while industry assets were down 18%. The number of funds was down 1.1%.



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

PART 2:

SETTING DIRECTOR COMPENSATION/ DIRECTOR COMPENSATION DATA

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

Level 1: Traditional Approach – AUM and Fund Count

Description/method:

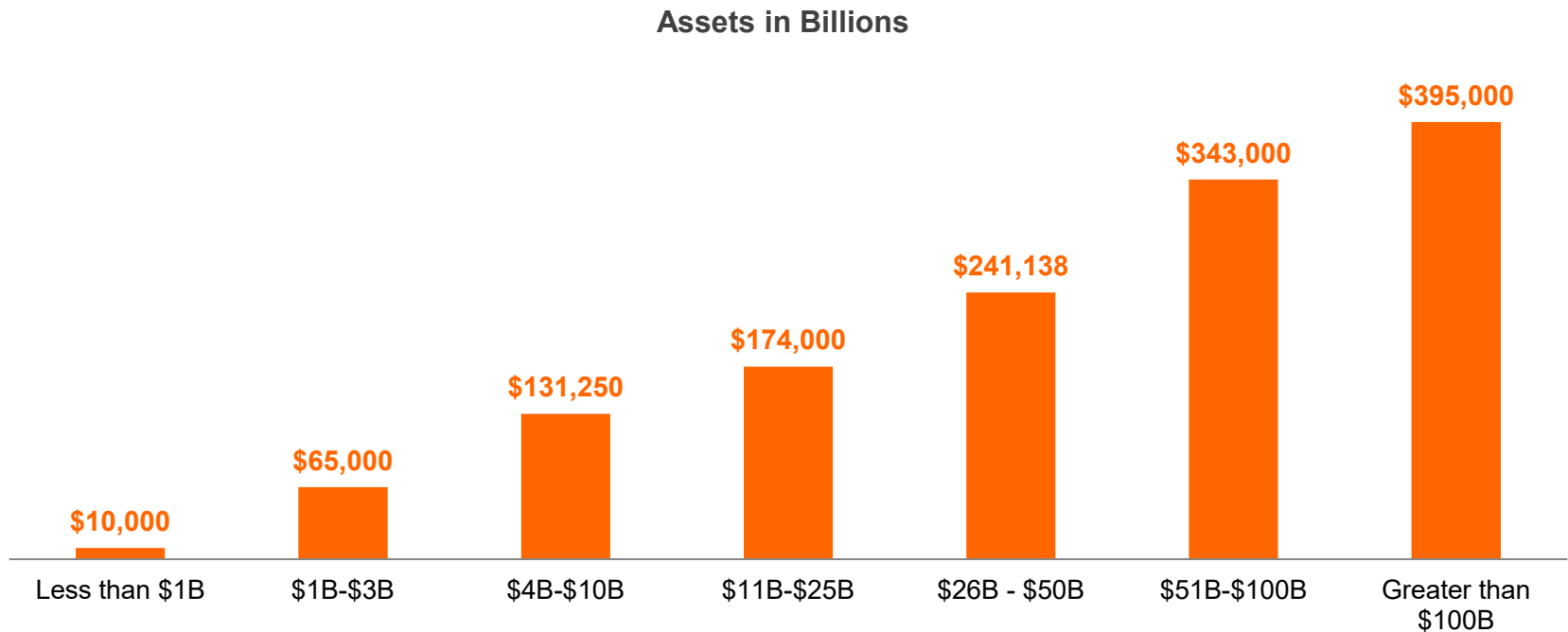
- Comparison to industry wide cohort data
- Minimum of two/both metrics recommended
- Look at median of AUM and fund count categories for indication of appropriate level

Caveats:

- Descriptive, not prescriptive, more appropriate for “review” vs. “setting”
- Wide range within categories
- Could be problematic if at the higher or lower end of both categories
- Could be misleading/not always rational (i.e. an increase in AUM could indicate a decrease in pay)
- Does not take into account specific/unique features of each board’s duties

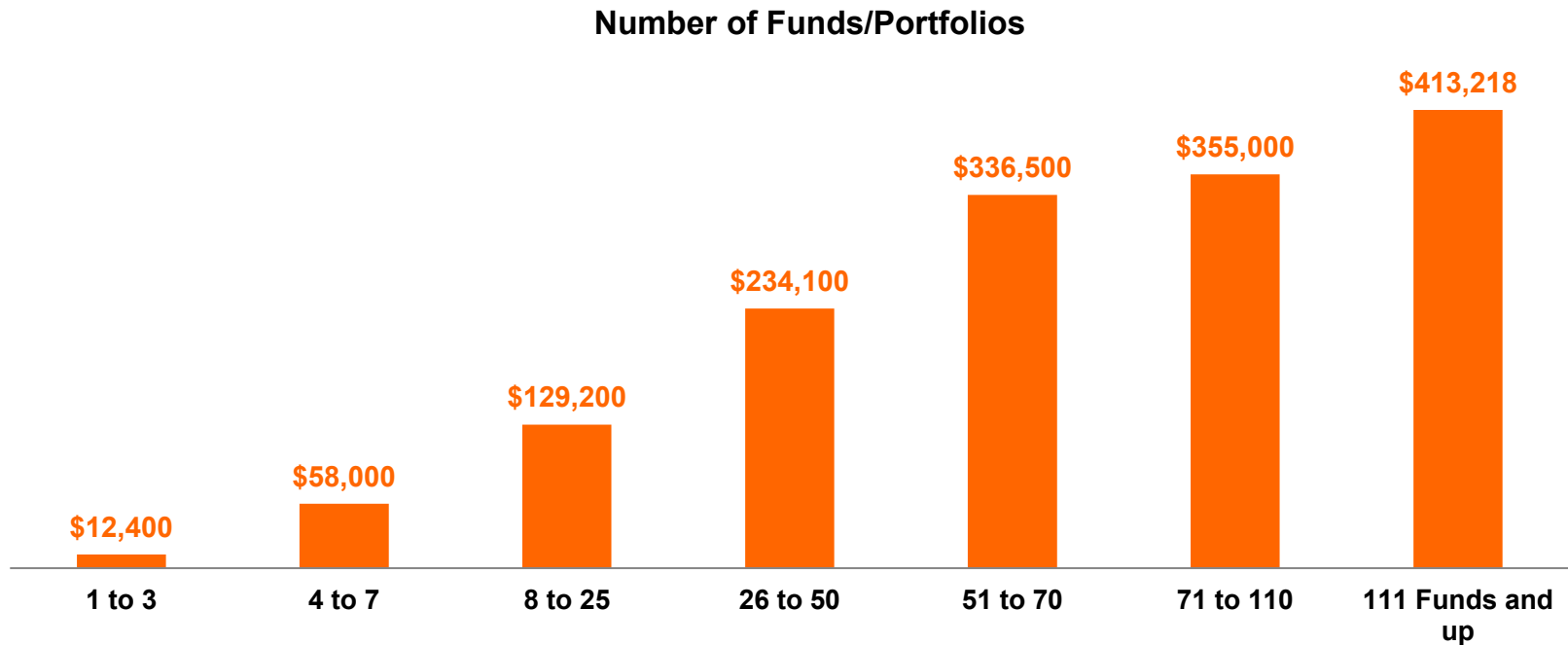
Median Total Director Compensation in 2022 - Total Assets Governed

Total compensation rises with increasing asset levels.



Median Total Director Compensation in 2022 – Number of Funds/Portfolios Governed

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



Level II – Peer Selection and Comparison

(Data is fictitious, for illustrative purposes only)

Description/method:

- Select group of 8-12 peers based on AUM and fund count
- When possible skew toward insurance, sub-advised funds, etc.
- NOT 15(c) peers
- Run median, other percentiles
- Aggregate pay
- If comfortable with peer group, can be useful comparison for chair fees, meetings, other issues

Sample Board Peer Group -- Data as of December 31, 20XY					
	Approx. Assets (\$B)	Approx. #Funds/Portfolios	Median Total Director Compensation (20XX)	Median Total Director Compensation (20XY)	% Change 20XX-20XY
Fund Board					
Sample Board	\$30	40	\$157,250	\$162,400	3.3%
Selected Peer Group					
Peer A	\$60	55	\$225,000	\$235,000	4.4%
Peer B	\$32	47	\$164,280	\$172,250	4.9%
Peer C	\$19	29	\$110,000	\$125,000	13.6%
Peer D	\$36	17	\$198,600	\$205,000	3.2%
Peer E	\$52	50	\$212,750	\$218,500	2.7%
Peer F	\$28	60	\$151,400	\$162,000	7.0%
Peer G	\$46	24	\$148,750	\$168,000	12.9%
Peer H	\$34	18	\$184,700	\$198,500	7.5%
Peer I	\$17	52	\$152,300	\$164,000	7.7%
Percentile – 25 th	\$28	24	\$151,400	\$164,000	8.3%
Percentile - 50 th (median)	\$34	47	\$164,280	\$172,250	4.9%
Percentile – 75 th	\$46	52	\$198,600	\$205,000	3.2%
Mean	\$36	39	\$171,976	\$183,139	6.5%

Level III: 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. Muni, MMKT, etc.)
- Share classes

Investment Complexity

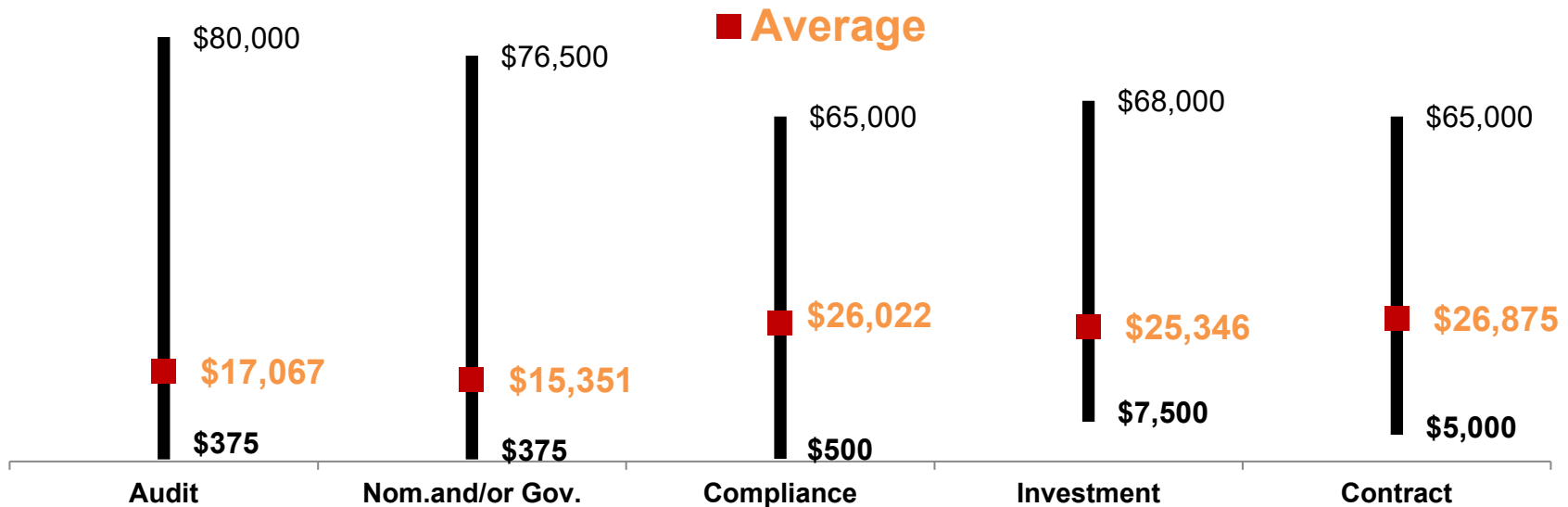
- Investment categories
- Alternative funds
- Other (tax strategies, securities lending, etc.)

Organizational Complexity

- AUM
- Number of sub-advisors
- Legal activity

Average Committee Chair Fees

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 3:

OTHER COMPENSATION AND GOVERNANCE PRACTICES

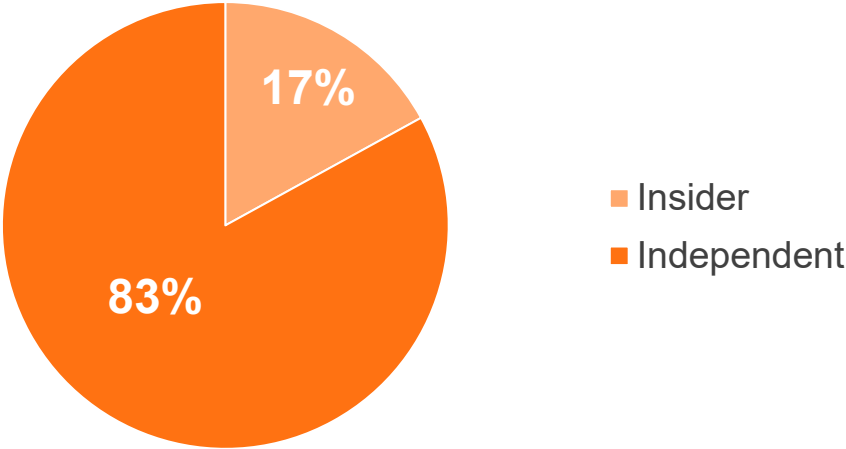
Source: Statistical data from MPI surveys, the Investment Company Institute and US Government/SEC filings

Board Independence

83% of directors on participating boards are independent (“disinterested” in legal parlance).

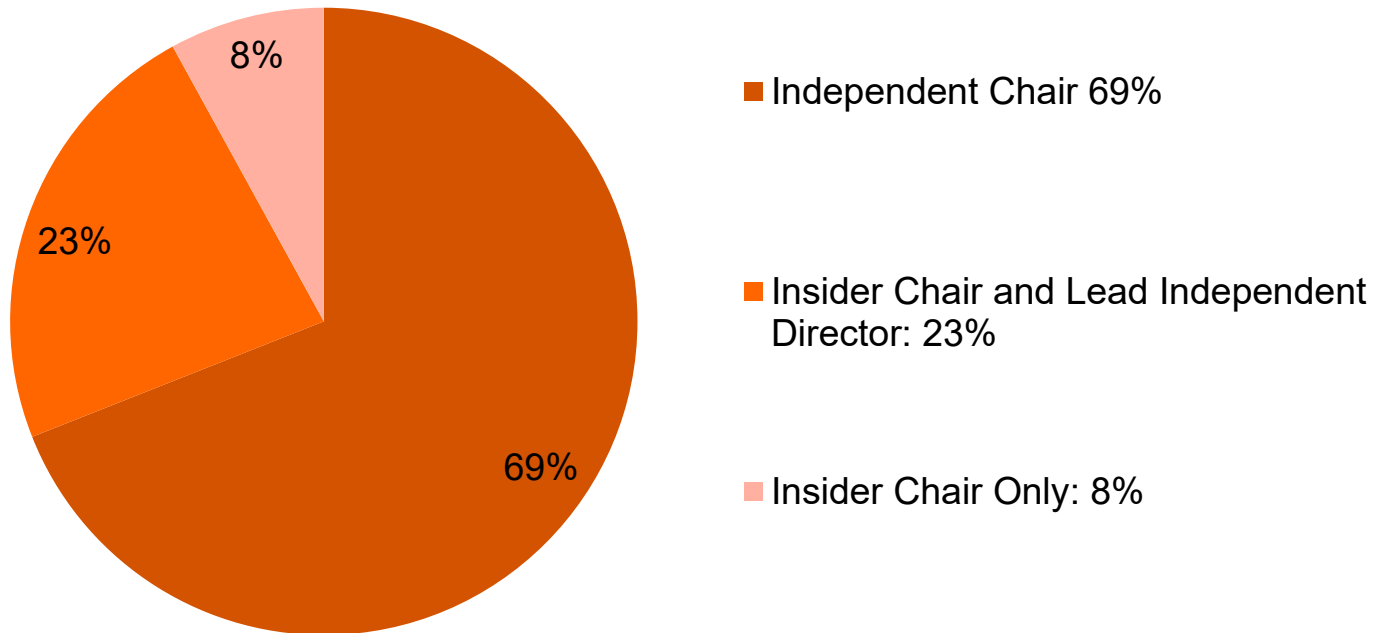
Over **87%** of boards comply with the SEC’s formerly proposed “Super Majority” rule requiring **75%** independent directors.

% of Independent Directors on Board



Board Leadership

69% of fund boards are chaired by an independent director, up from 42% in 2004. While 31% have insider chairs, 23% also have a lead independent director.



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.

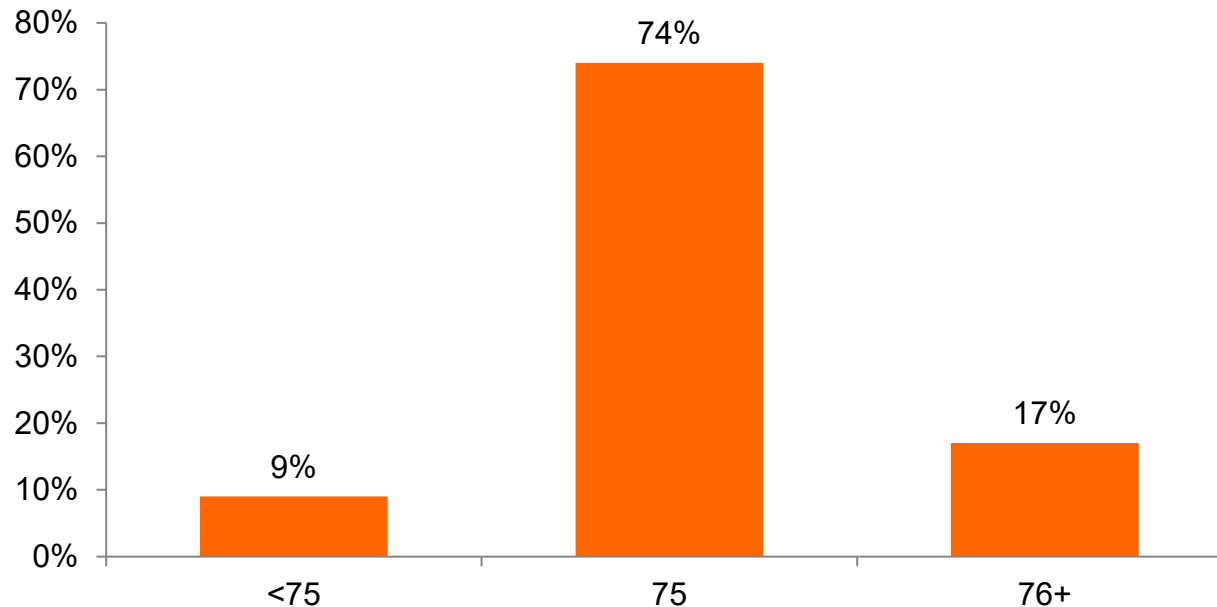
Percent of participants with each committee

100%	Audit
82%	Nominating and/or Governance
23%	Pricing/Valuation
19%	Investment/Performance
18%	Compliance
12%	Contracts
9%	Executive
5%	Risk
4%	Brokerage/Portfolio Trading
4%	Proxy
3%	Marketing/Distribution
2%	Operations
<1%	Ethics

Board Retirement Age

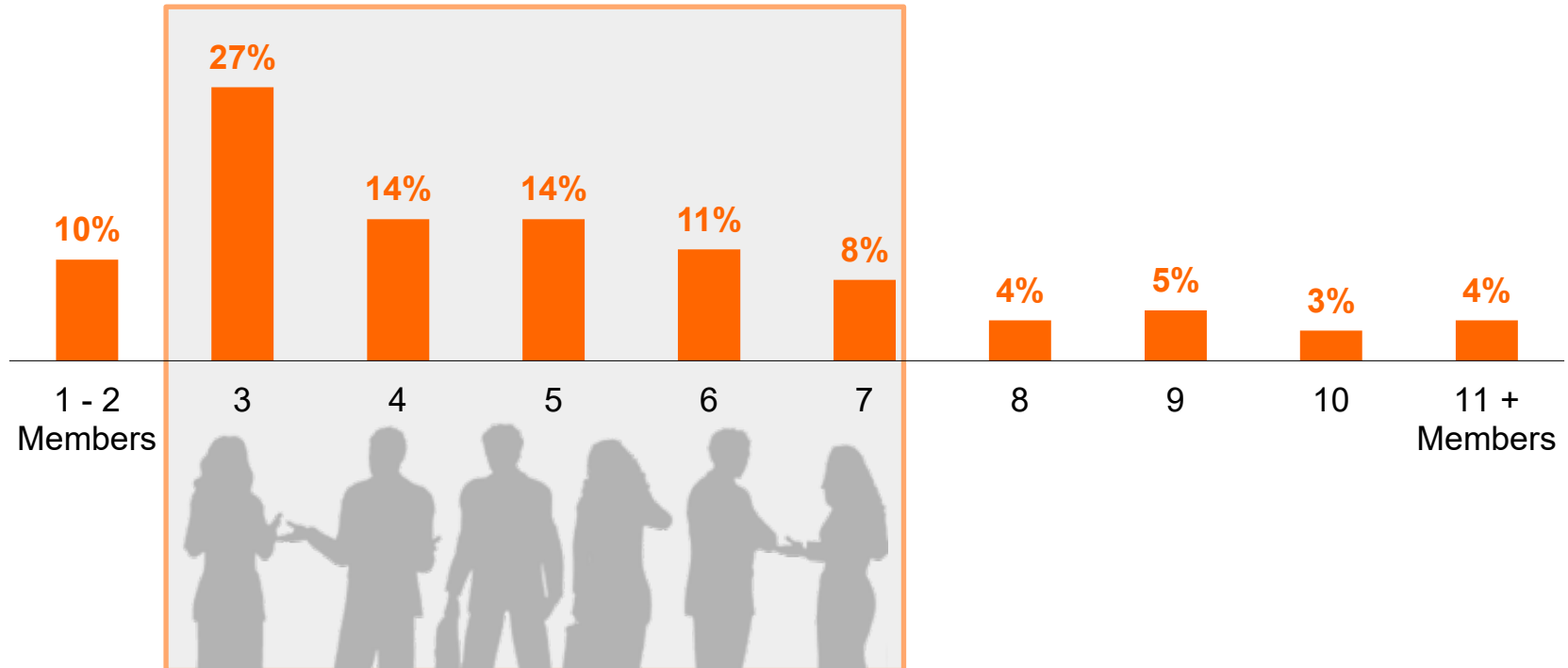
After a significant increase in average retirement ages in recent years, the pace has now started to level off. 71% of participating boards have a mandatory retirement policy, with 75 now overwhelmingly the most commonly reported retirement age (74%, up from 37% seven years ago) after remaining at 72 for many years. 1% have 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 seven independent members.



Findings on Independent Fund Director Demographics

The median director age was

68

the average was **68**



28% of current and 48% of new independent directors in 2022 were female



6.8% served on other mutual fund boards



down from **19%** in 2006

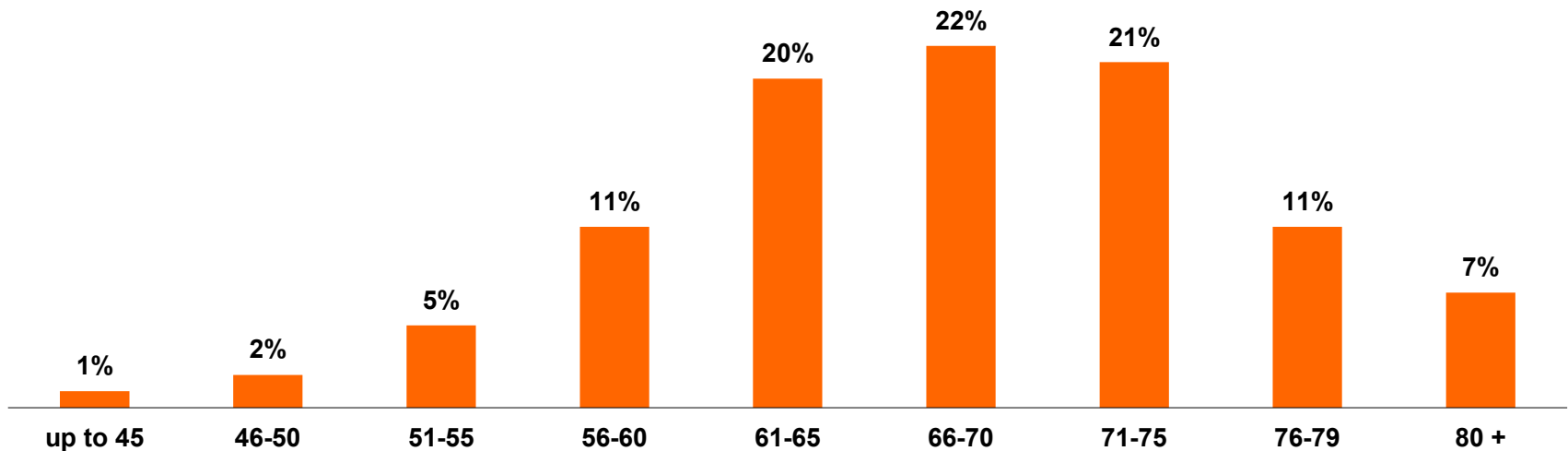
68% of directors served on other corporate, charitable or non-profit boards



Age of Directors

The majority of directors are in the 60-75 age range.

Percentage of Directors in Each Age Category



PART 4:

Cost of Fund Governance and Comparison to Corporate Board Compensation

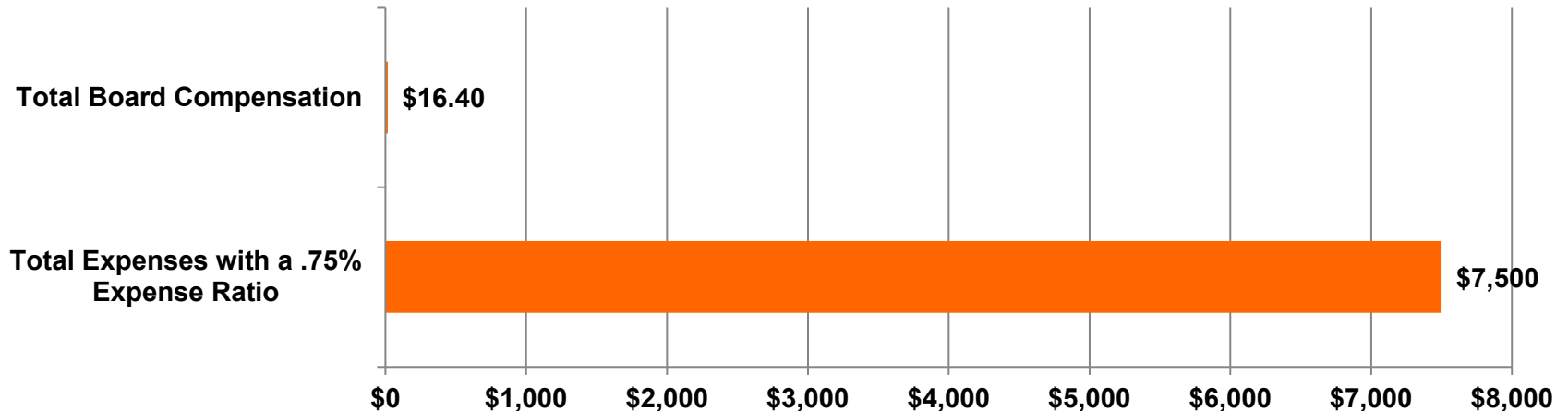
Corporate Board Compensation - 2022

Corporate Board	Median Total Compensation	Number of Independent Directors	Aggregate Board Pay
Apple	\$407,459	8	\$3,397,042
Citi	\$410,000	11	\$4,713,333
ExxonMobil	\$266,260	10	\$2,712,545
General Electric	\$294,463	12	\$3,391,382
IBM	\$385,309	11	\$4,617,971
J&J	\$340,000	12	\$4,015,657
JP Morgan	\$390,000	9	\$3,670,000
Morgan Stanley	\$371,667	11	\$4,152,082
Verizon	\$322,000	10	\$3,252,000
Walmart	\$294,991	11	\$3,417,953

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 Expenses
for Typical Equity Fund for \$1 million in Assets**



QUESTIONS?

**EXTENDED DEADLINE FOR CCO COMPENSATION SURVEY:
May 26, 2023**

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