



MFDF

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BoardServices

**BUSINESS INTELLIGENCE
FOR FUND BOARDS**

Board Committee Insights



August 2024

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Introduction and Methodology

FUSE Research and the Mutual Fund Directors Forum (MFDF) are pleased to present an analysis of fund board governance regarding committee practices. Data is presented from FUSE's board and trustee database and from a survey fielded by the MFDF and FUSE. The survey includes responses from 132 unique boards of various sizes and structures.

These findings address how fund boards organize their committees. "Committees of the whole" refers to committee structures where the entire board sits on the committee, and "Separate" refers to structures where committees are composed of a subset of the board. In some cases, fund boards use a combination of "Both," which we also refer to as "hybrid."

Thank you for taking the time to contribute. MFDF and FUSE hope that the following provides a meaningful report on fund board committee structures and practices that can be used as boards consider how best to organize their committee responsibilities. Thank you so much for taking the time to contribute.

I. Committee Overview and Structure

Organizing Independent Committees: Numbers and Structures

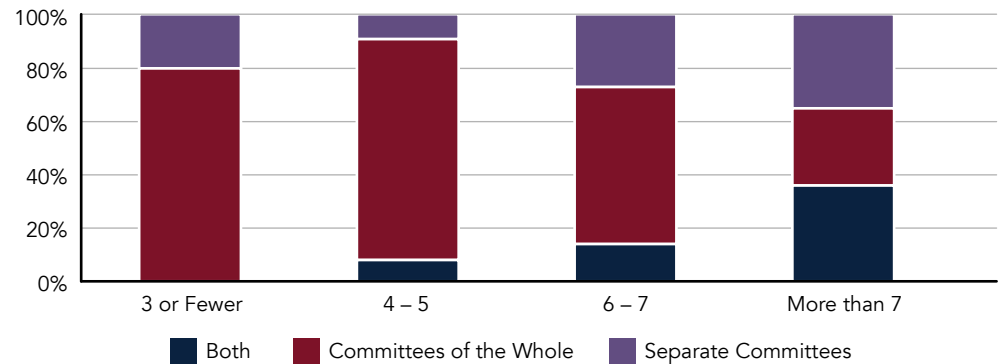
SUMMARY

- Committees of the whole are typical for boards with three or fewer trustees, while boards with seven or more trustees often use separate committees or both (i.e., hybrid structure).
- Boards of smaller fund complexes (under \$25B AUM) tend to use committees of the whole.
- Boards overseeing larger fund complexes (over \$25B AUM) typically prefer separate committees or both.
- Across AUM tiers, the average total number of committees is 2-3.
- The \$50B-\$100B and over \$100B AUM tiers are the only AUM groups where boards indicated they may use more than 5 committees.

INSIGHT

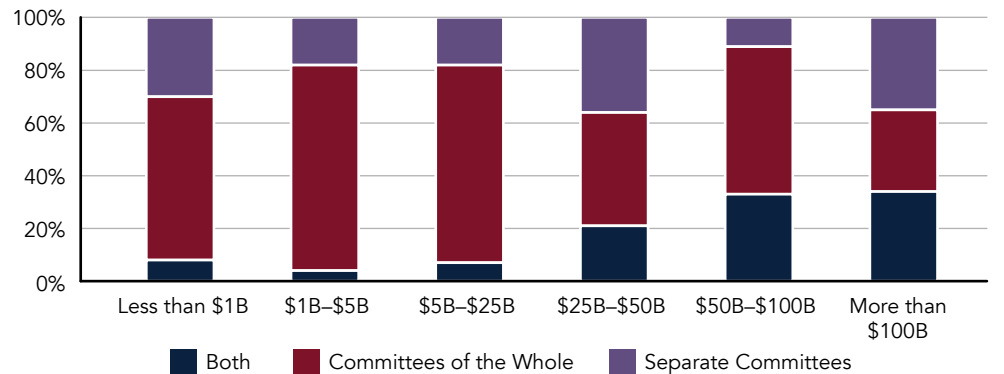
- Small fund complexes by AUM typically possess fewer funds than their larger counterparts, leveraging fewer strategies that may be specialized in nature.
- Boards of larger fund complexes show an openness to the both (hybrid) committee structure, which combines the attributes of the committee of the whole and separate committees structures.
- The increased occurrence of more than 5 committees among boards overseeing \$50B AUM or more is likely indicative of the number of funds offered.

Committee Structure by Number of Trustees



Source: MFDF, FUSE Research

Committee Structure by AUM

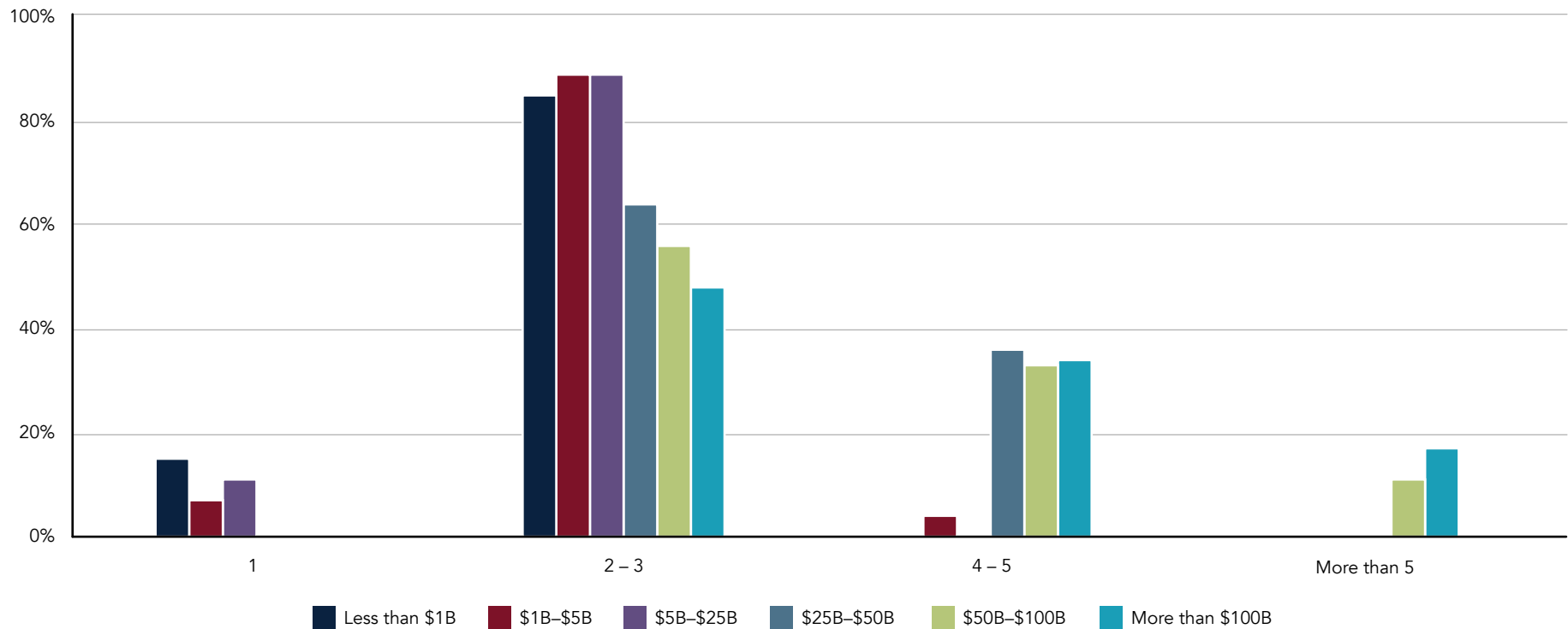


Source: MFDF, FUSE Research

I. Committee Overview and Structure (CONTINUED)

Organizing Independent Committees: Numbers and Structures

Number of Committees by Board AUM Tier



Source: MFDF, FUSE Research

I. Committee Overview and Structure (CONTINUED)

Prevalence of Different Committees

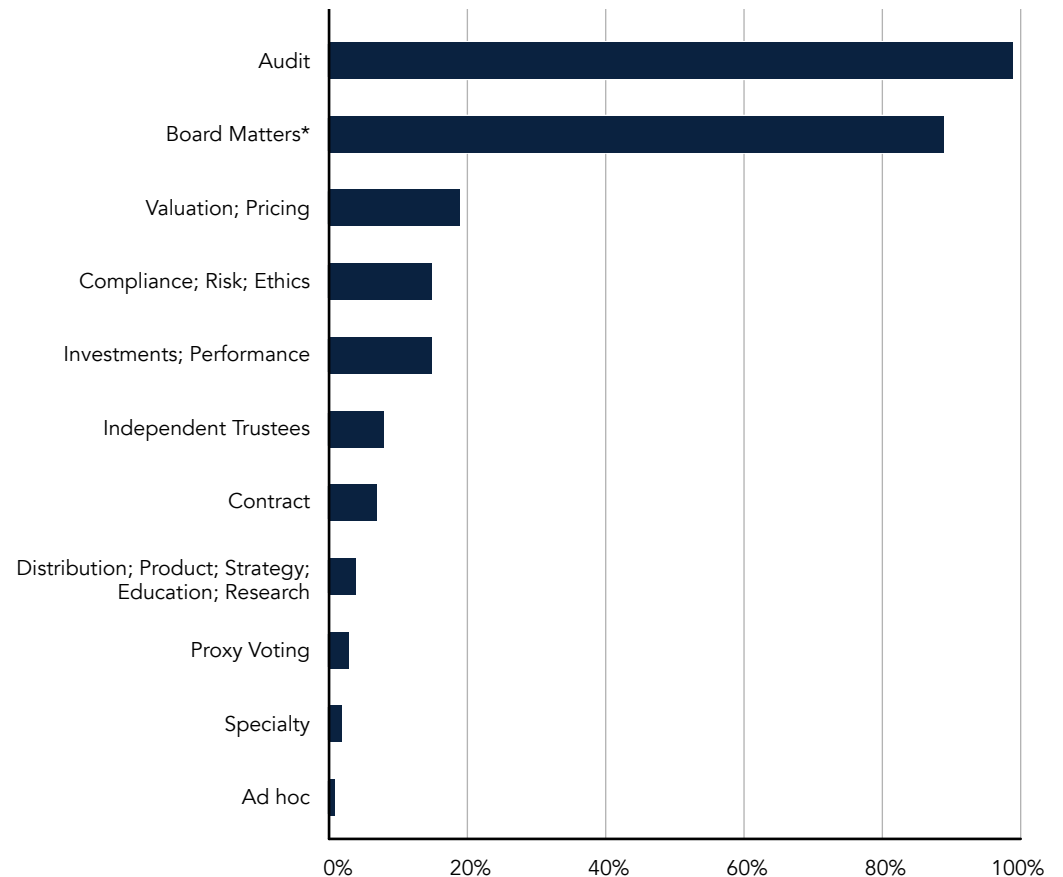
SUMMARY

- When separate committees are utilized, the audit committee is the most prevalent (at nearly 100%), a stand-alone responsibility in almost all asset managers regardless of size/AUM.
- Board matters (addressing necessary process needs such as governance and nominating requirements, or compensation oversight and review) is the second most popular dedicated committee, utilized by nearly 90% of respondents, particularly those with over \$10B AUM.
- Other focused committees approaching 20% of survey participants include valuation/pricing, compliance/risk/ethics, and investments/performance oversight. The latter is most evident in firms with \$50B and above, favored by almost 50% or more of respondents in that category.

INSIGHT

- Virtually every fund board has an audit committee composed solely of independent directors to oversee fund accounting and audit processes.
- General board matters require reaching a broader consensus while processing numerous documents, vetting candidates, and engaging outside counsel or third-party compensation experts.

Percent of Boards by Committee Focus



Source: MFDF, FUSE Research

I. Committee Overview and Structure (CONTINUED)

Types of Committees Using Hybrid Structures

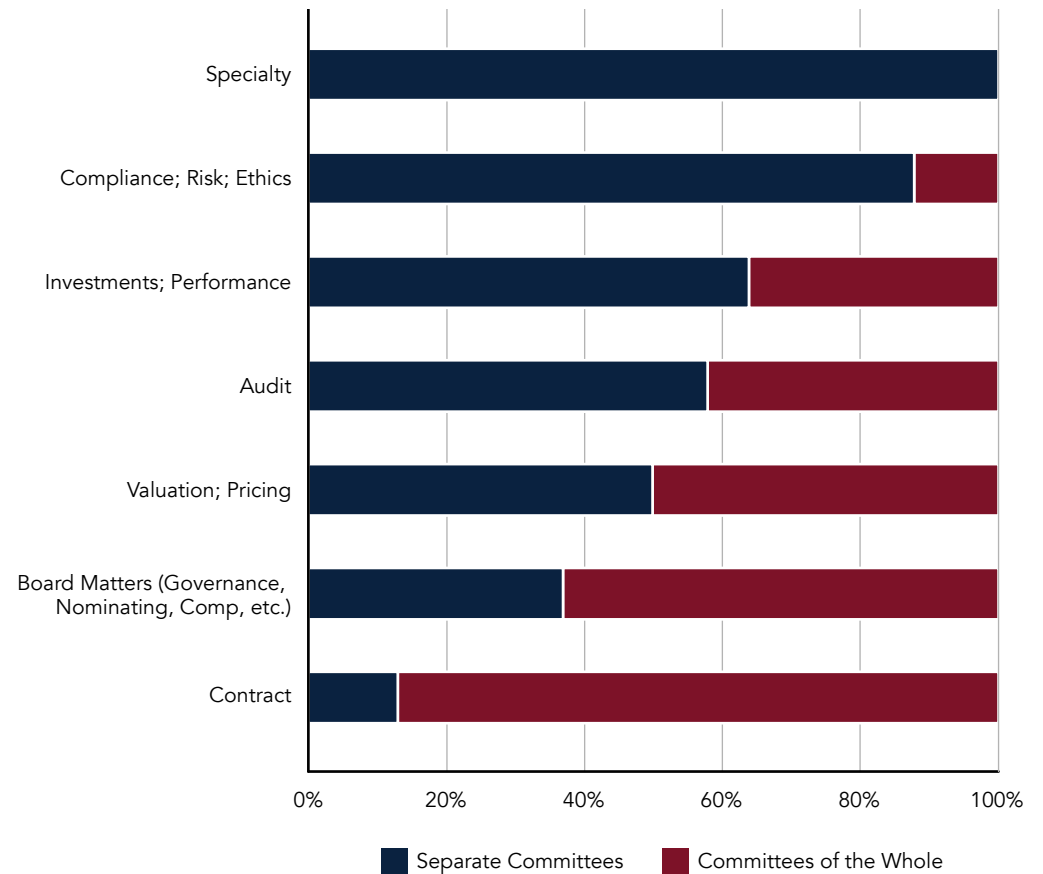
SUMMARY

- Among the firms utilizing hybrid (or combination of whole committees and separate) committees, the average breakdown is 2.6 separate committees and 2.1 committees of the whole.
- More than half (57%) of audit committees are separate, and 63% of board matters committees are comprised of whole boards.
- Committees focusing on contract issues are most likely to utilize the whole board.

INSIGHT

- Contract committees typically draw on the diverse backgrounds and experiences of the entire board. This collective knowledge helps form consensus views on binding agreements, for which all board members are accountable.
- Many committees operate with both separate committees plus reliance on the whole. The case for separate committees is the ability to focus skill, for example, on audit processes. However, smaller fund complexes may benefit from involving the entire board to share the workload and address specific fund matters in detail.

Hybrid Board Use of Committee Structure by Committee Focus



Source: MFDF, FUSE Research

II. Factors Affecting Committee Structure

Rationale for Separate Committees

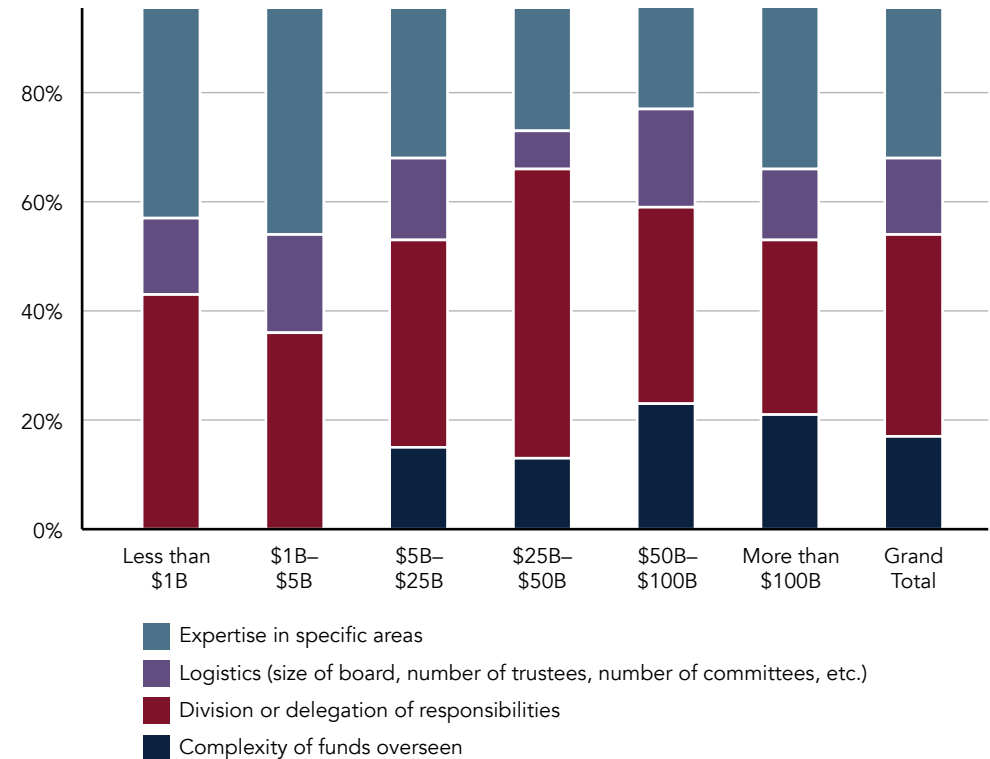
SUMMARY

- The division or delegation of responsibilities is the top rationale for utilizing separate committees followed by tapping expertise in specific areas, at 37% and 32% of survey respondents, respectively.
- Delegation of responsibilities is most evident among complexes with \$25B - \$50B AUM.
- Expertise in specific areas is most utilized by those with less than \$5B AUM and those with one committee.
- Complexity of funds overseen only received meaningful utilization (20%) among complexes with \$50B AUM and above was not cited as a factor by any board overseeing less than \$5B AUM.

INSIGHT

- The pressure of delegating responsibilities appears most pronounced among mid-size fund complexes (\$25B-\$50B), which are large enough to deploy a fully competitive array of funds but may have relatively small boards.
- Since smaller firms may have a specialist product-focus (e.g., alternative asset classes, illiquid asset classes and structures), it may be more critical to recruit board members with relevant industry expertise.
- Structuring separate committees due to the complexity of funds overseen appears to be a relative luxury only afforded to some of the largest and most complex (utilizing multiple separate committees) fund complexes. Trustee staffing for complexity appears to be pursued only after the division/delegation of responsibilities and requisite expertise in specific areas have been addressed.

Rationale for Separate Committees by AUM

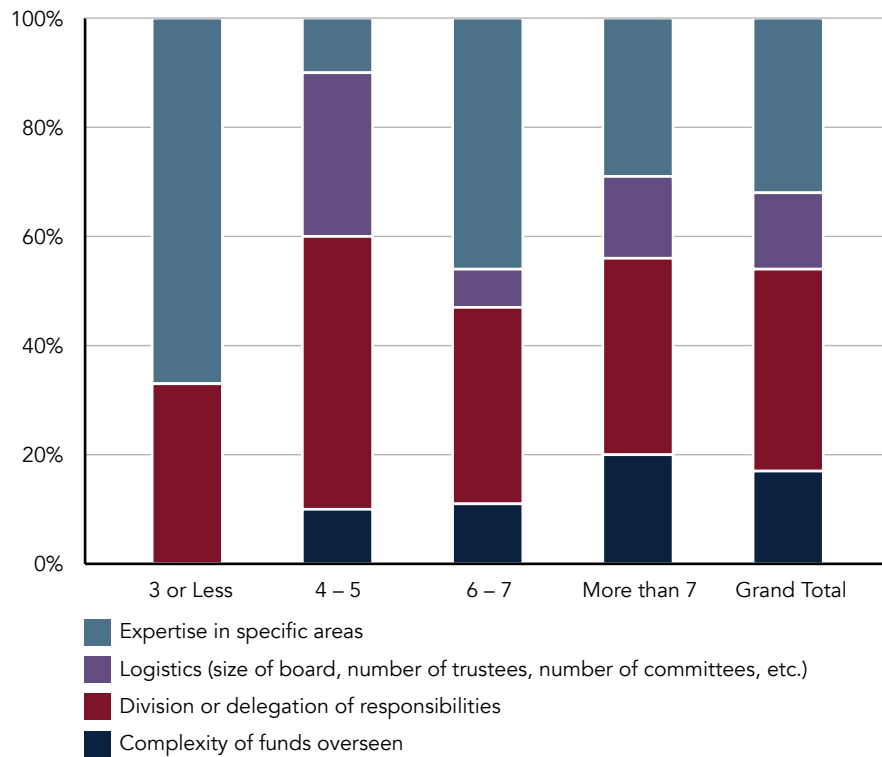


Source: MFDF, FUSE Research

II. Factors Affecting Committee Structure (CONTINUED)

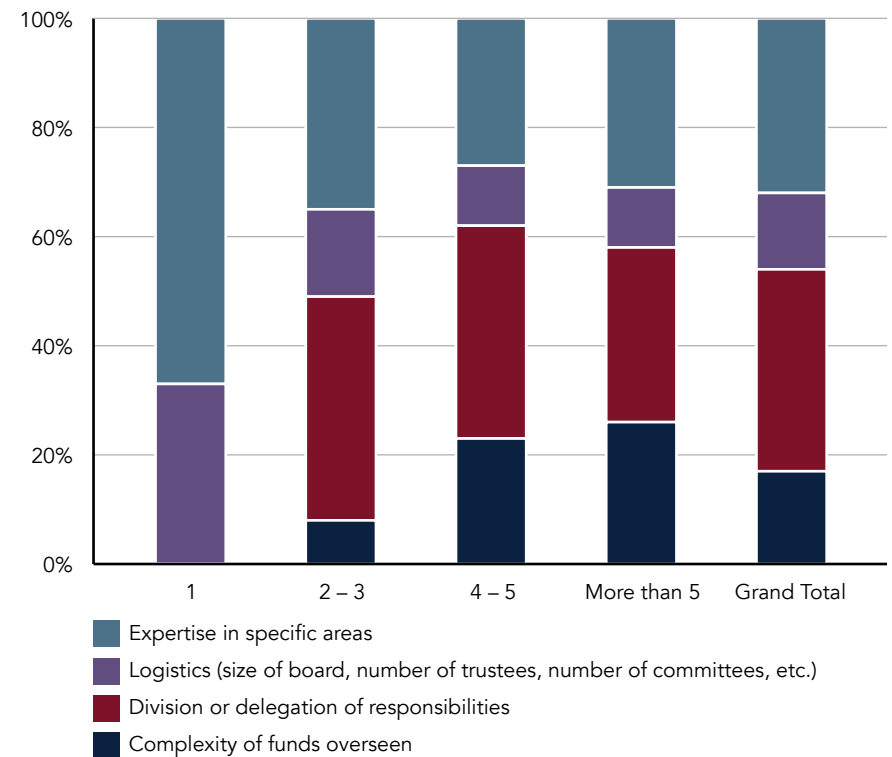
Rationale for Separate Committees

Rationale for Separate Committees
by Number of Trustees



Source: MFDF, FUSE Research

Rationale for Separate Committees
by Number of Committees



Source: MFDF, FUSE Research

II. Factors Affecting Committee Structure (CONTINUED)

Rationale for Committees of the Whole

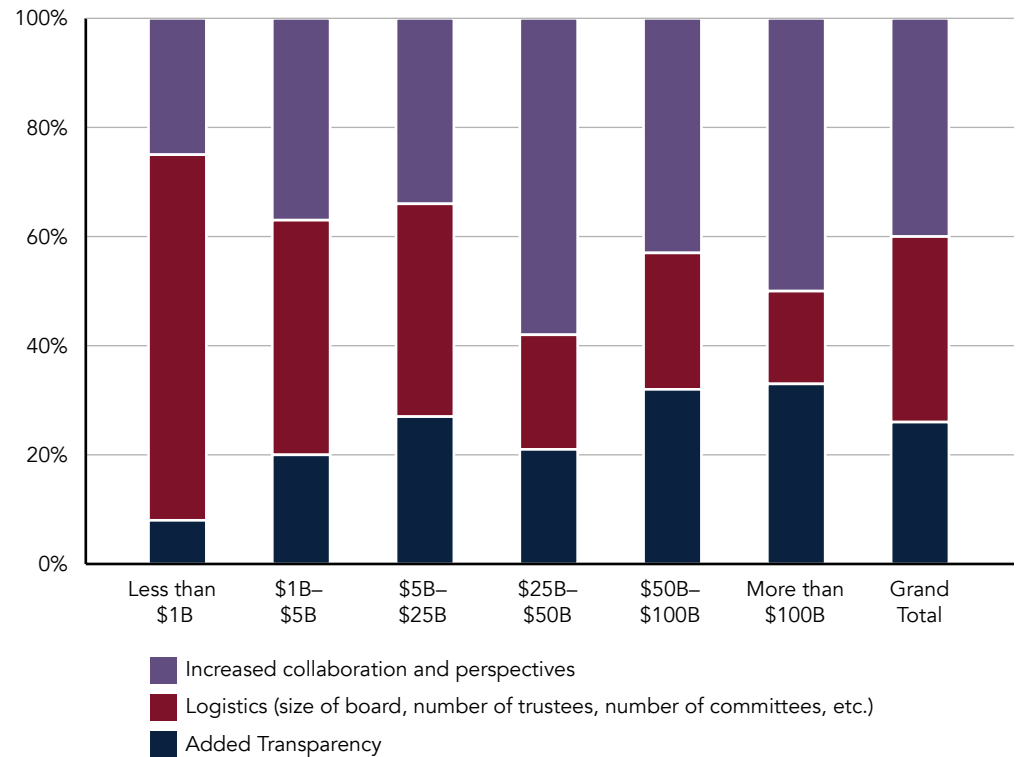
SUMMARY

- Boards of small fund complexes (less than \$1B AUM) and those comprised of 3 or fewer trustees are heavily inclined to utilize a committee of the whole.
- In those situations, the prevailing rationale is serving logistics needs (through the size of the board and number of committees).
- The ability to introduce *added transparency* by utilizing committees of the whole is present within all AUM tiers and staffing levels but appears to be a consistent afterthought, relegated behind logistics and the pursuit of increased collaboration and perspectives.

INSIGHT

- The basic rationale for committees of the whole is often straightforward: with limited headcount, all members must participate in all committee work.
- For boards of larger fund complexes (above \$25B AUM) and boards with seven or more trustees, committees of the whole offer the opportunity to harness broader collaboration. They can apply the full range of perspectives and drive consensus by incorporating the views of all board members.

Rationale for Committees of the Whole by AUM

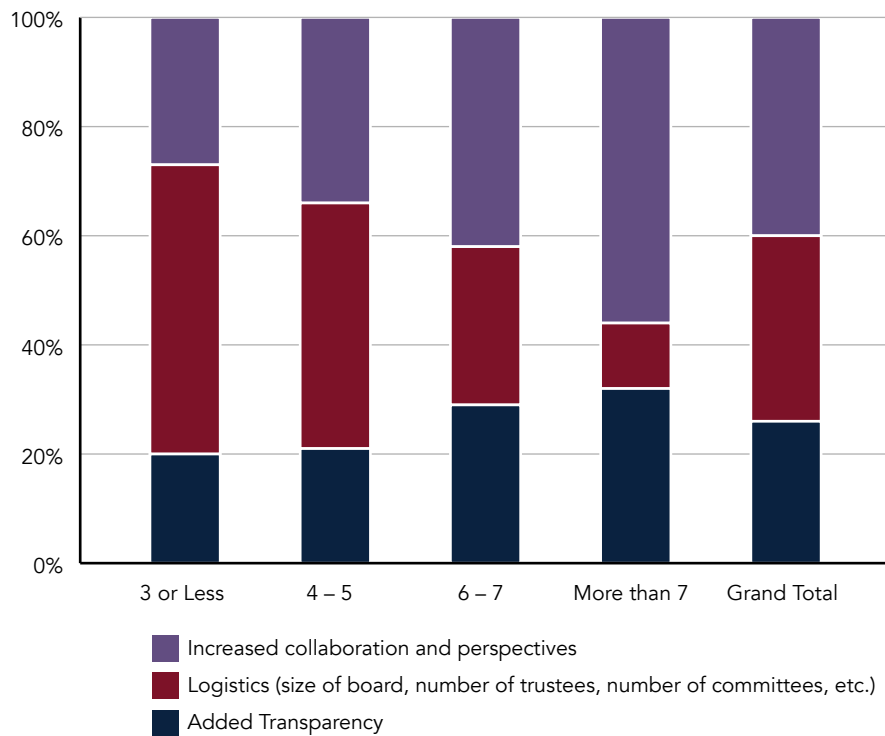


Source: MFDF, FUSE Research

II. Factors Affecting Committee Structure (CONTINUED)

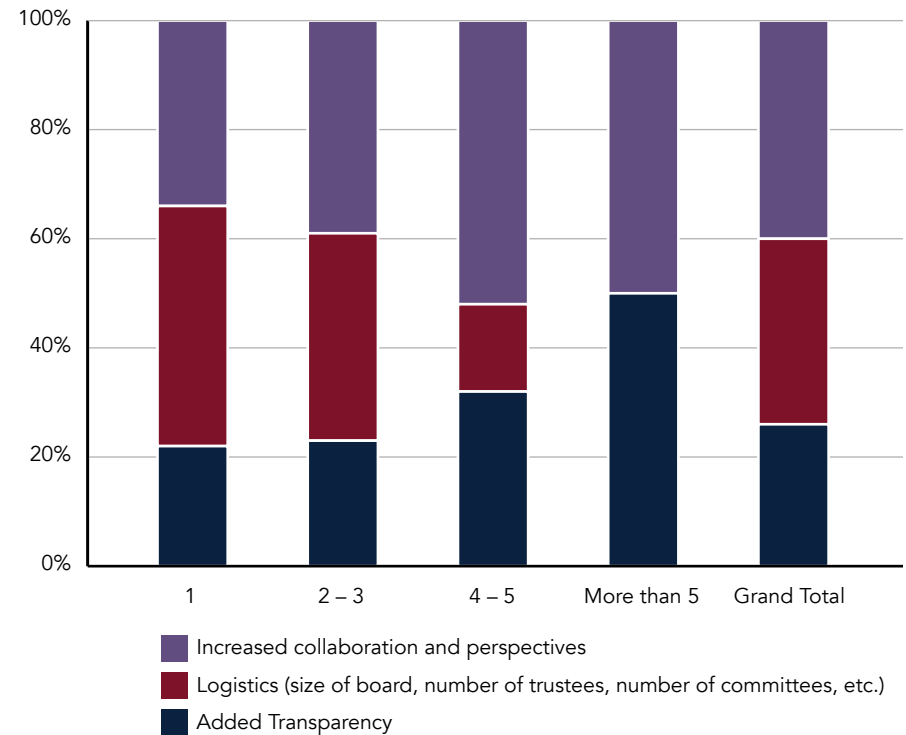
Rationale for Committees of the Whole

Rationale for Committees of the Whole
by Number of Trustees



Source: MFDF, FUSE Research

Rationale for Committees of the Whole
by Number of Committees



Source: MFDF, FUSE Research

II. Factors Affecting Committee Structure (CONTINUED)

Committee of the Whole and Separate Committees: Rationales for Combining or Adhering to Only One

SUMMARY

- Increased collaboration and perspectives is the top reason for combining committees of the whole and separate committees utilizing a subset of board members.
- Conversely, those deploying only committees of the whole express a far greater acknowledgment of logistics (size of board, number of committees, etc.) dictating the decision.
- Rationale for reliance on separate committees only placed slightly greater emphasis on expertise in specific areas.
- Those combining separate and committees of the whole placed a slightly greater emphasis on addressing the complexity of funds overseen.

INSIGHT

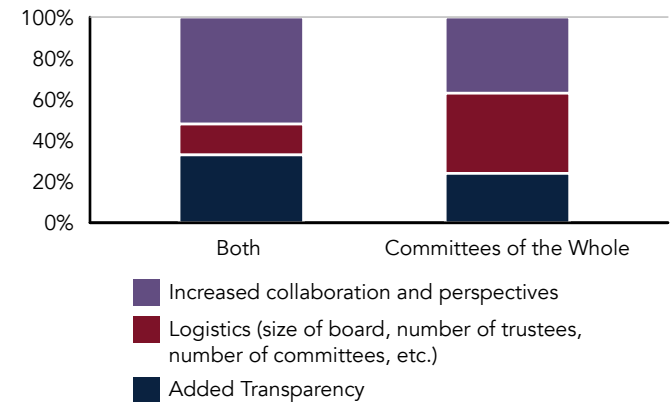
Survey Respondents Make the Case for Committee of the Whole:

- Efficiency is often cited alongside mentions of historical practice: "This is how we've always done it, and it works for us."
- Having the breadth of knowledge from all board members for every committee is viewed as helpful.
- The structure fits best with the "everyone has a voice" mantra.
- Some see this structure as serving Investment committees well. "We made a committee to provide more leadership/focus on the topic" and "we believe all directors should be familiar with each fund's strategy and hear from portfolio managers regularly."

Survey Respondents Make the Case for Separate Committees:

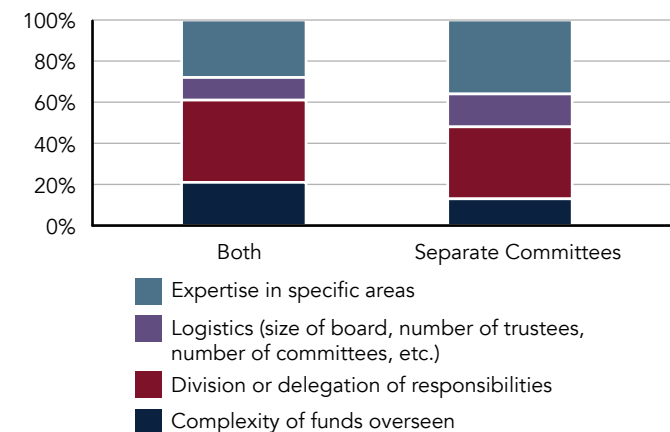
- In addition to audit, disciplines such as compliance, risk, nominations, and investment performance are often cited as most appropriate for a separate committee.
- A number of respondents cited subject matter expertise needed in particular funds in the complex and to best vet portfolio expense data including peer group analyses (particularly when using multiple sub-advisors).

Pure Committees of the Whole vs. Committees of the Whole as Part of Both



Source: MFDF, FUSE Research

Pure Separate Committees vs. Separate Committees as Part of Both



Source: MFDF, FUSE Research

III. Committee Assignments and Rotation

Headcount and How Directors Are Assigned to Separate Committees

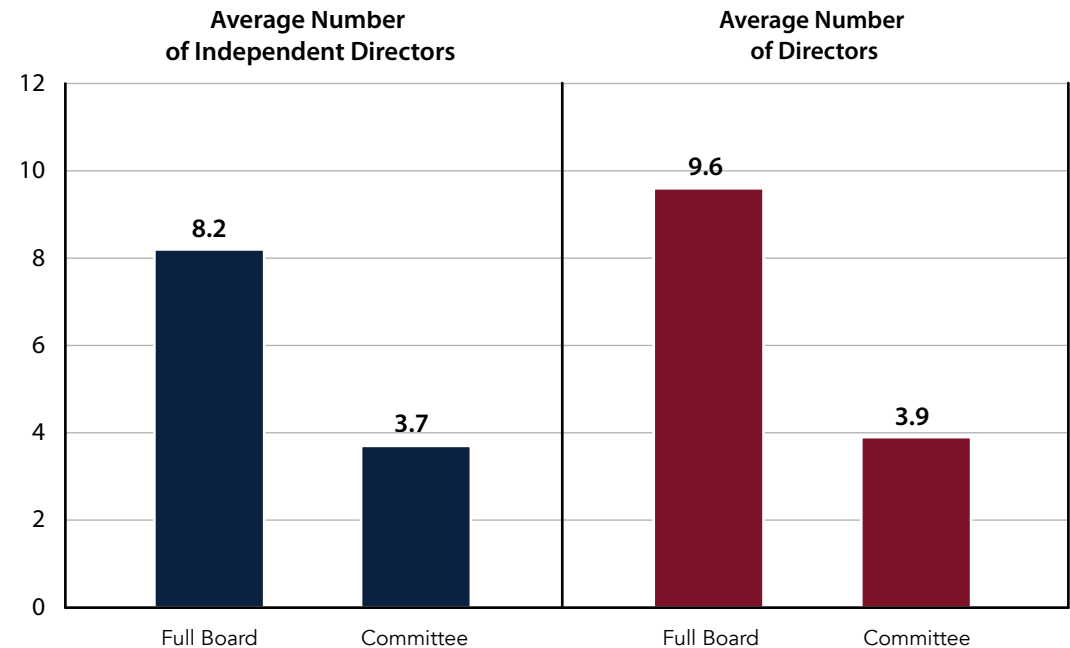
SUMMARY

- Among all boards, the average number of directors, including interested/affiliated members, is 9.6, and the average number of independent directors is 8.2.
- Per committee the average number of directors is 3.9, including interested directors, while the average number of independent directors on each committee is 3.7.
- Number of trustees—how assignments are made:
 - 4 or more trustees: formalized nominating/governance committee assigns directors to committees—60%
 - More than 7 trustees: board chair makes assignments—31%
- Number of committees—how assignments are made:
 - 2-5 committees: formalized nominating/governance committee assigns directors to committees—75%-80%
 - More than 5 committees: board chair makes assignments—50%

INSIGHT

- When there are three or fewer trustees, simplicity reigns—assignments are made by the board chair.
- Numerous trustees warrant the assignment process typically falling under a nominating/governance committee. They direct assignments, looking for specialized expertise and possibly complementary skill sets, but also with an eye to trustees gaining experience as a step toward committee leadership.
- The board chair may be involved in building structural experience, considering mandatory retirements, and deliberately developing “bench strength.”

Average Number of Seats on Separate Committees

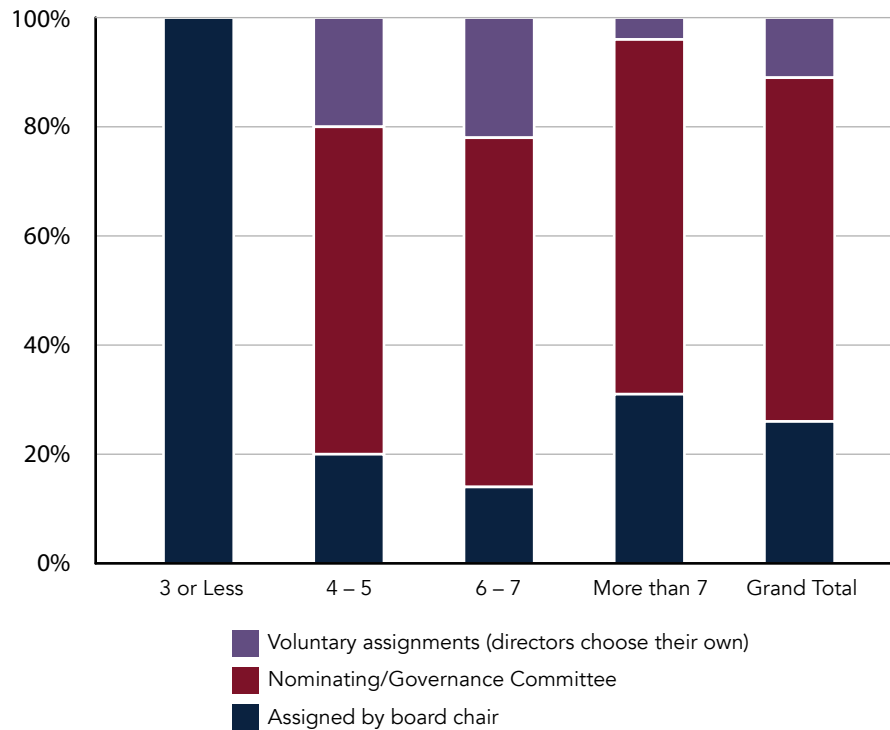


Source: MFDF, FUSE Research

III. Committee Assignments and Rotation (CONTINUED)

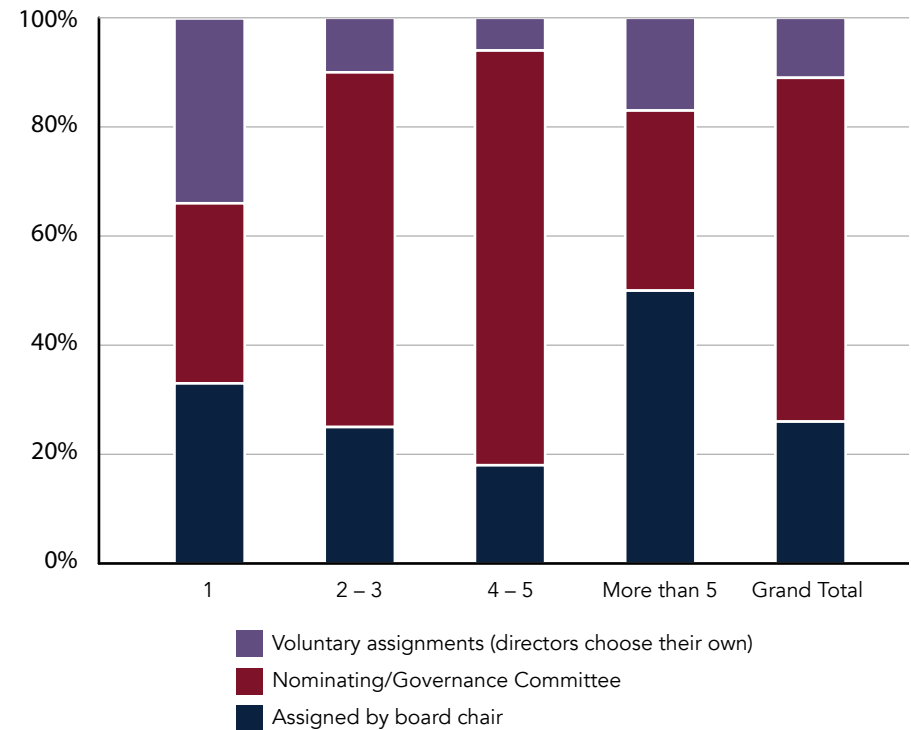
Headcount and How Directors Are Assigned to Separate Committees

Committee Assignments by Number of Trustees



Source: MFDF, FUSE Research

Committee Assignments by Number of Committees



Source: MFDF, FUSE Research

III. Committee Assignments and Rotation (CONTINUED)

Committee Rotation of Directors: Frequency

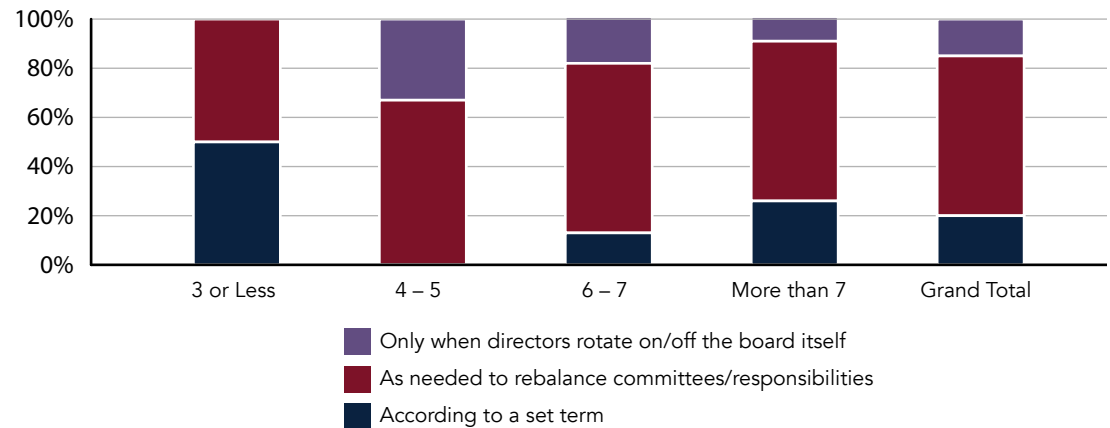
SUMMARY

- With the exception of the smallest boards (3 trustees or fewer), all trustee headcount tiers primarily defer to committee rotations as needed to re-balance committees/responsibilities.
- The above applies to those who use just separate committees as well as the hybrid mix.
- The lower headcount tier is split evenly between rotations as needed to rebalance committees/responsibilities and according to a set term.
- Based on the number of committees, the 'as needed to rebalance' process is most cited across all groups.
- Of note, the smaller tier (2-5 committees) indicates a 20% reporting propensity to make changes only when directors rotate on/off the board itself. The same holds for boards inclined to use the hybrid structure.

INSIGHT

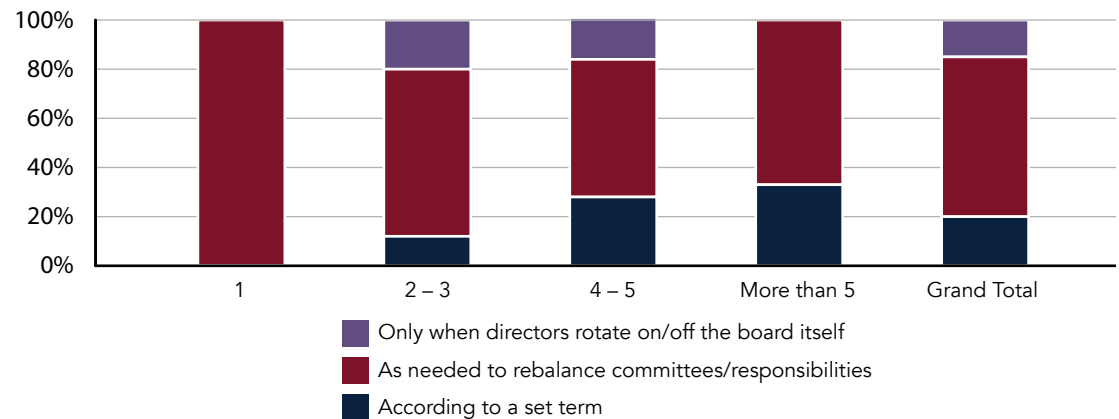
- Participants that noted rotations according to set terms (the most prevalent response, at 25%, when there are more than five committees) tend to set terms from annually to 3 years. The terms for rotation aren't fixed but have some flexibility to account for structure.
- The general dominance of rotations made as needed to rebalance committees/responsibilities acknowledges the numerous moving parts involved. This might include shifting committee emphasis (in response to the markets or regulatory requirements) and changing the skillsets equired, all while maintaining staffing levels. Also, in the case of separate committees where directors sit on two or more, the committee meeting schedules can make it difficult to move people from one committee to another without causing time conflicts.

Committee Rotation by Number of Trustees



Source: MFDF, FUSE Research

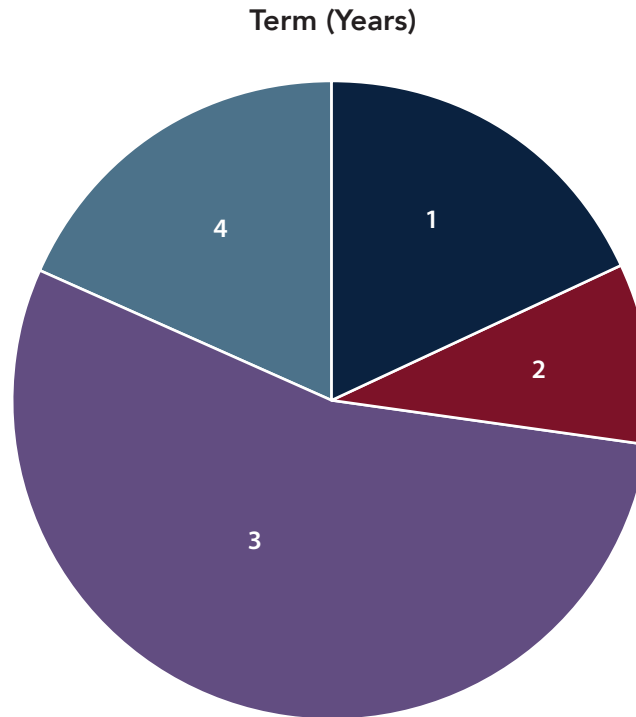
Committee Rotation by Number of Committees



Source: MFDF, FUSE Research

III. Committee Assignments and Rotation (CONTINUED)

Committee Rotation of Directors: Frequency



Source: MFDF, FUSE Research

IV. Committee Leadership Assignments and Rotation

Leadership Assignments

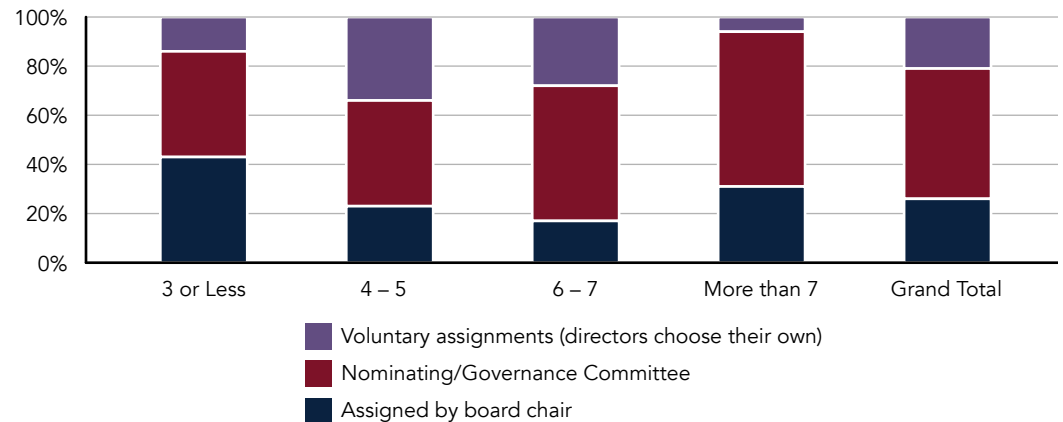
SUMMARY

- Across headcount tiers, leadership assignments are primarily (more than 50%) dictated by nominating/governance committees, a slight exception being when there are 3 or fewer trustees, where roles are just as likely to be assigned by board chair.
- When there are 5 or more committees, each requiring leadership, there is more variety in approaches (not just relying on a nominating/governance committee), with 40% assigned by board chair, while 20% use voluntary assignments (where the sub-set of directors choose their own leader).
- More than 30% of mid-size boards (4-5 trustees) employ voluntary assignments.

INSIGHT

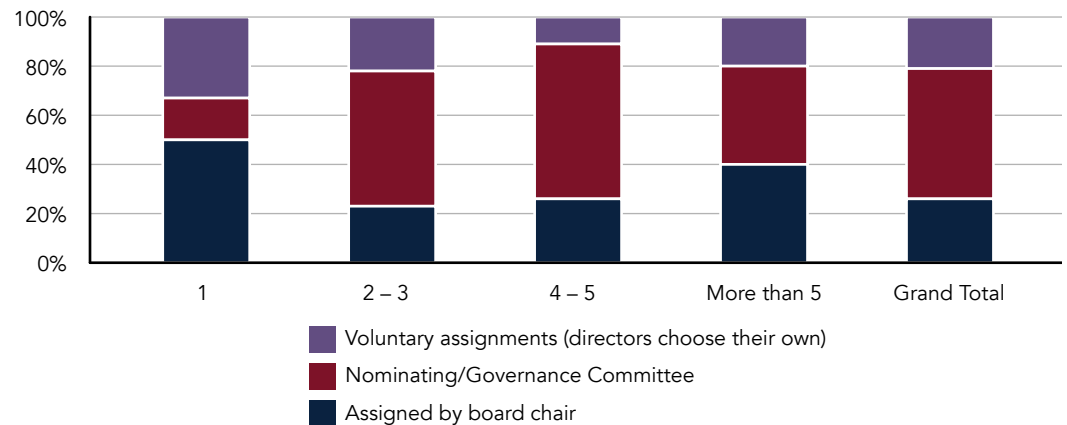
- The fact that boards with smaller headcounts are less likely to have nominating/governance committees highlights that these committees are most effective in providing processes and guidelines when there are numerous directors involved.
- Mid-sized committees allow for more collegial and voluntary assignment decisions, using a "work it out among yourselves" approach. However, this approach may become unwieldy with higher headcounts and more opinions involved.

Leadership Assignments by Number of Trustees



Source: MFDF, FUSE Research

Leadership Assignments by Number of Committees



Source: MFDF, FUSE Research

IV. Committee Leadership Assignments and Rotation (CONTINUED)

Leadership Rotations

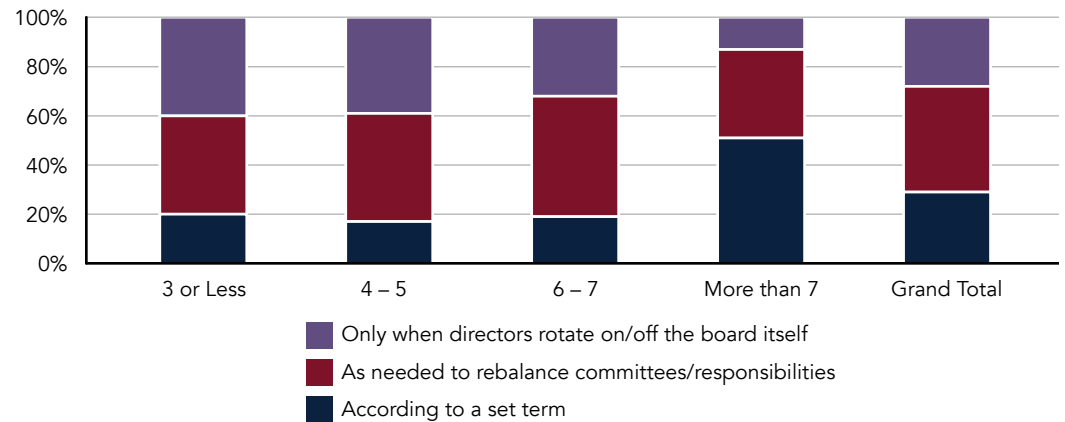
SUMMARY

- Leadership rotation decisions are primarily done when directors rotate on/off the board itself or in response to a perceived need to rebalance committee/responsibilities.
- The above approach is also seen when contending with several committees to be staffed, primarily rotating as needed to rebalance committees or (slightly less often) in answer to only when directors rotate on/off.
- The use of set terms correlates to the number of committees, increasing from 26% with 2-3 committees to 75% when there are more than 5 committees.
- Half of respondents noted decisions are according to a set term when there are more than 7 trustees. Set terms are less prevalent among the lower number of trustees.

INSIGHT

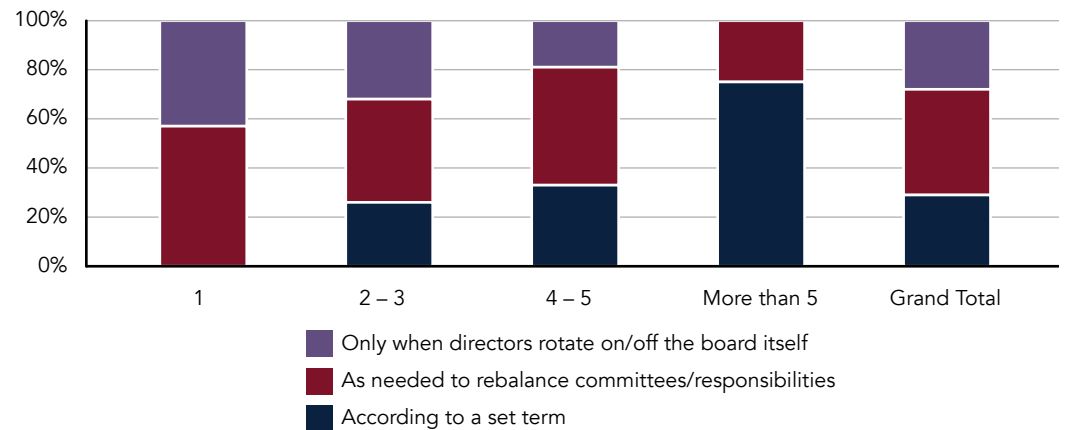
- Leadership rotations appear to mainly follow the 'as needed' dictate. However, the most significant exceptions occur when there are more than 7 trustees and more than 5 committees, where the use of set terms is more prevalent.
- Having a realistic timeframe for promotion to committee leadership or moving on to lead a more high-profile committee can help provide all directors with leadership opportunities.

Leadership Rotation by Number of Trustees



Source: MFDF, FUSE Research

Leadership Rotation by Number of Committees



Source: MFDF, FUSE Research

IV. Committee Leadership Assignments and Rotation (CONTINUED)

Leadership Rotations

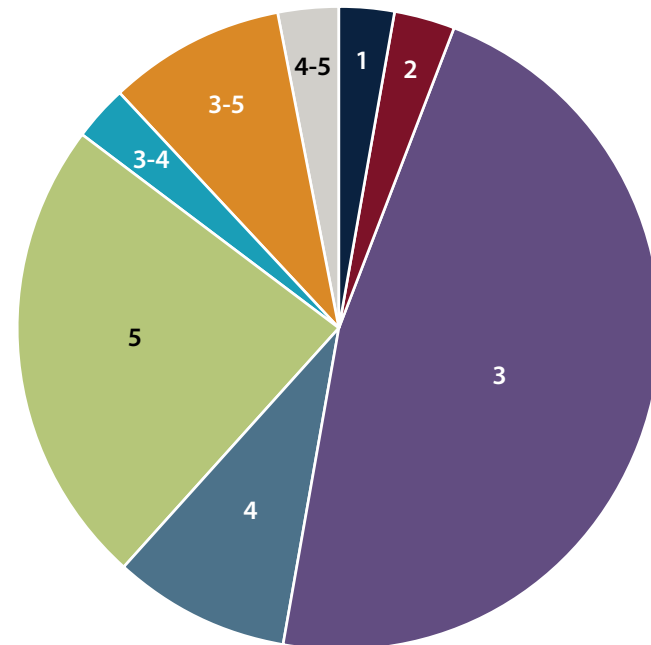
SUMMARY

- Regardless of committee structure, board chairs tend to avoid chairing individual committees. They only do so approximately 10% of the time.
- A director chairing multiple committees is even rarer.
- Where boards use terms limits for board leadership, the most common terms are 3 or 5 years, though terms as short as one year do exist (3%). No boards reported terms longer than 5 years despite board tenure averaging 10 years.

INSIGHT

- The lack of board leaders chairing committees underscores the importance of sharing the workload and developing future leaders.
- Not leading multiple committees also supports the sharing of workload and for leaders to focus on their specific committee duties.

Leadership Term in Years



Source: MFDF, FUSE Research

V. Views on Creating Efficient Committees

How To Ensure Committee Workload is Divided Appropriately?

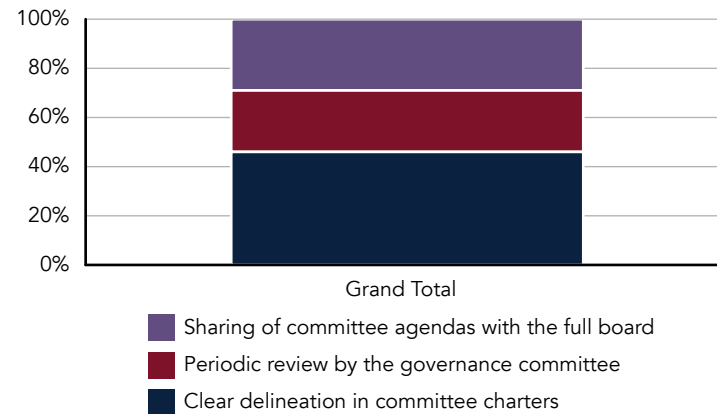
SUMMARY

- 45% of respondents cited clear delineation in committee charters as the key to appropriate workload division and general efficiency.
- Sharing of individual committee agendas with the full board placed second at 35%, followed by undertaking periodic reviews by the governance committee.

INSIGHT

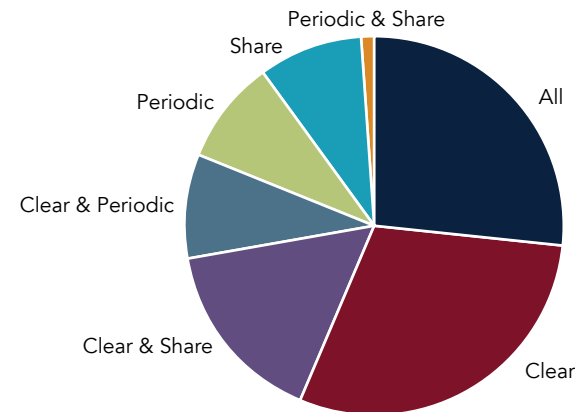
- While the processes cited clearly aid the balance of work, additional insight from survey participants noted that the committee of the whole structure lends itself to giving members (and leadership) a full view of the overall workload.
- Other refinements mentioned by respondents include the board dividing the funds in the complex to take a deeper dive into fund performance and creating temporary task forces to work on such transitory issues as securities lending, cyber security, education on artificial intelligence, etc.

Division of Work: All Responses



Source: MFDF, FUSE Research

Division of Work: Unique Responses



Source: MFDF, FUSE Research

V. Views on Creating Efficient Committees CONTINUED

Ensuring Information Flows Between Separate Committees and Full Board

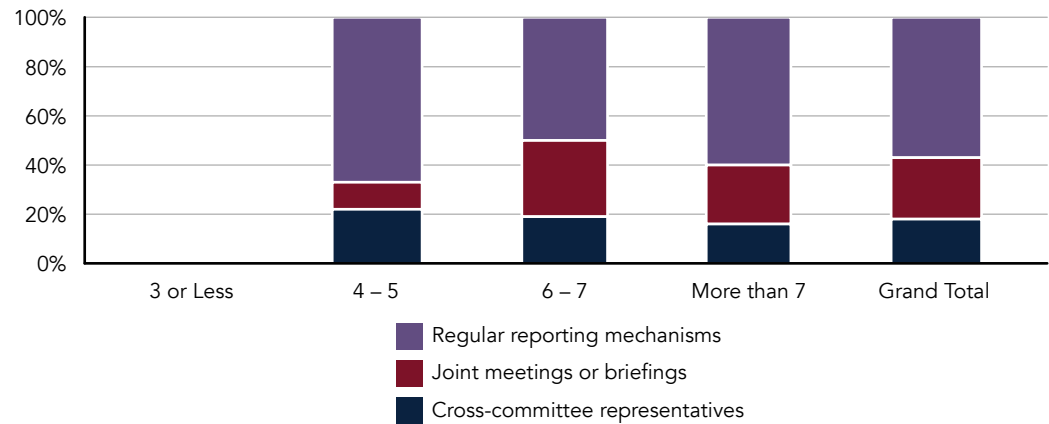
SUMMARY

- Regular reporting mechanisms is the vastly favored routine to bolster internal information flow, selected by at least 50% of all responding trustee headcount tiers and numbers of committees used.
- Joint meetings or briefings information flow is preferred by 30% of trustees in mid-tier structures (6-7 trustees) and structures with 4-5 committees.
- Having cross-committee representatives is a minority approach, consistently cited by less than 20% of respondents.
- Over 70% of respondents utilizing the hybrid model reported the actual structure of each committee (committee of the whole or separate committee) has no bearing on the discussion and outcomes generated within each committee.

INSIGHT

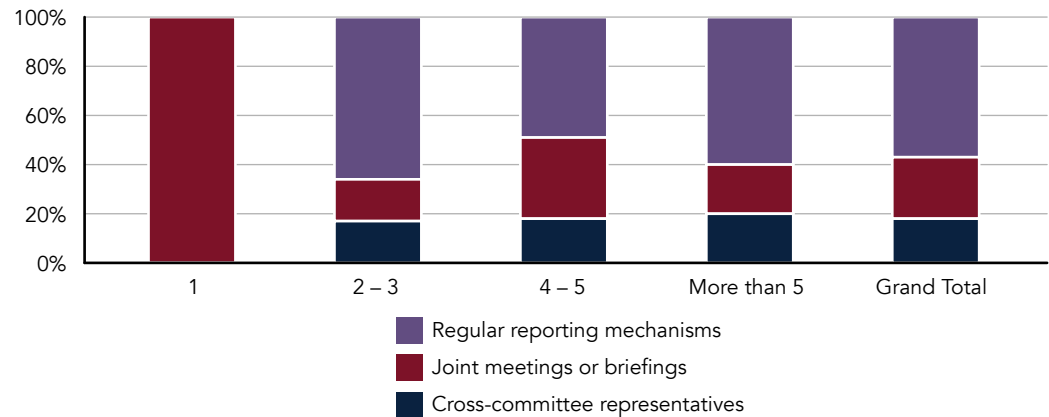
- While regular reporting mechanisms is a favored response to ensure full information flow, a frequent aside shared by respondents is that all trustees are encouraged to attend any/all meetings.
- Not every challenge needs a new process or committee. A common response was the importance of trying to address new issues among existing committees wherever possible to avoid an over refinement of the committee structure.

Information Flow by Number of Trustees



Source: MFDF, FUSE Research

Information Flow by Number of Committees

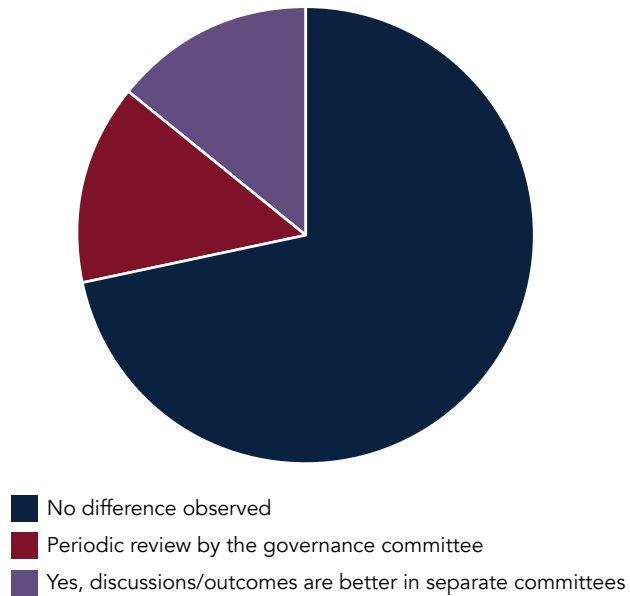


Source: MFDF, FUSE Research

V. Views on Creating Efficient Committees CONTINUED

Ensuring Information Flows Between Separate Committees and Full Board

Hybrid Broad View of Committee Types



Source: MFDF, FUSE Research