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MFDF Toolkit

Board Recruitment

About This Toolkit

MFDF compiled a variety of approaches, data, and questions for board consideration relating to board composition into a series of “toolkits.” The complete collection of these is available in a single Board Composition Playbook, but each piece is also available as a standalone resource. The toolkits are composed of practices that some fund boards have used successfully. Boards can consider their size, structure, philosophy, composition, and other factors, to determine whether the ideas presented in the toolkit are workable for a particular board. In addition to these toolkits, boards also can use the knowledge around the board table and from independent counsel to design processes that work best for a particular board.

This toolkit focuses on the early stages of recruitment – outlining a process and timeline, defining expectations for prospective directors, and locating possible candidates. This toolkit offers guidance and questions for board consideration in these stages of the process.

This toolkit explores:

- Questions for boards to consider in developing a recruiting process
- Process considerations/options
 - Who is involved in the recruitment process, and considerations specific to delegating
- Using a skills matrix to define and evaluate against search criteria
- Candidate sourcing options
 - Search firms
 - Organizations and databases for prospective directors
 - The board’s own personal and professional networks
 - Sources for diverse candidates
- Considerations specific to boards that will need shareholders to elect new board members

Questions for Boards to Consider in Developing a Recruiting Process:

- **Cost:** How much is the board prepared to spend on recruitment activities?
- **Time:** How quickly would the board like to complete its search? How much time do board members have to dedicate to recruitment activities?
- **Skill:** How does the board plan to evaluate potential candidates against identified criteria and for fit within the board's culture?
- **Quality and breadth of the network available to the board:** How can the board access a pool of diverse candidates that have the qualifications the board is seeking?

Contents

ABOUT THIS TOOLKIT i

PROCESS OPTIONS 1

 Who Is Involved in the Process. 3

USING A SKILLS MATRIX FOR RECRUITMENT 4

SOURCING CANDIDATES 5

 Personal and Professional Networks 5

 Search Firms 6

 Databases, Services, and Organizations for Sourcing Candidates 7

 Selecting Sources 9

ELECTION BY SHAREHOLDERS 10

APPENDIX: SOURCES FOR BOARD CANDIDATES FROM UNDER-REPRESENTED GROUPS . . . 12

Process Options

A clearly defined process with deadlines for each stage can keep the board focused and efficient and prevent loss of potential candidates to other opportunities. Furthermore, an established process can be repeatable for future recruitment, adding long-term efficiency to board governance. Commonly, recruiting a new director takes approximately a year – 65% of searches represented in MFDF's [Fund Director Recruitment Report](#) took between seven and eighteen months – so boards may want to track backward from their ideal start date for a new board member to identify deadlines for milestones in the process.

To keep an efficient timeline for your search, define:

- who the decision-makers in recruitment will be;
- who can add or exclude candidates from the process and when; and
- the timeline for the process, including an order of operations and key milestones.

In setting out a process, the board may wish to consider:

- The resources available for the recruiting process;
- How many new directors are needed and whether they will be brought in together;
- When the board would like to seat its new director(s);
- How the board will go about onboarding the new director(s) – there may be attributes or qualities the board implicitly expects of candidates during that phase that may be factored in during earlier phases of recruitment (for example, curiosity or commitment to ongoing education).

Further considerations

Like any board process, recruiting new board members is interconnected with other board and fund responsibilities and priorities, as well as legal considerations. Before beginning recruitment, boards may want to consider:

- **The percentage of directors elected by shareholders.** If adding new directors will put the percentage of board members elected by shareholders below the allowable threshold, recruitment may have to be timed with consideration for issuing a proxy.
- **Anticipated board departures.** The board may want to examine the timing of the next two or three directors expected to leave the board to identify whether multiple new directors could or should be brought in together.

The considerations laid out on the previous page, as well as the size of the board and any ad hoc committees or partnerships set up for recruitment, will help determine the recruiting process. In determining the process that will work for a particular board, directors may consider the following:

- ☐ Reviewing the board's skills matrix and/or performing a gap analysis of experience, knowledge, and skills represented on the board to identify critical and "nice-to-have" criteria for future directors.
 - Discussing and coming to consensus with the board on the criteria can improve accuracy of referrals and streamline discussions later in the process that narrow the candidate pool.
- ☐ Writing down the articulated direction for the search, whether in a formal job description, a recruitment matrix, or a more informal format.
- ☐ Sourcing candidates.
 - A deadline for adding new candidates into the pool may help keep the process moving forward (late additions may be added to your longer-term candidate pool to be considered for the next hire).
- ☐ Screening candidates' materials to narrow to a short list for further consideration.
 - Limiting the decision-makers early in the process (maybe only two or three directors see the full candidate pool from all sources) may improve efficiency. However, this will increase the importance of the board coming to agreement on the articulated direction of the search.
- ☐ Interviewing candidates.
 - Initial phone interviews to evaluate candidates' interest/availability and alignment with board expectations.
 - In-person interviews. Some boards have only the Nominating Committee conduct a first round of interviews, while others include the full board.
 - Finalist interviews. If the first in-person interviews were conducted by a subgroup of the board, the full board will likely be brought in at this stage. Some boards also provide an opportunity for interested directors or key officers from management to speak with finalist candidates, with an eye toward identifying issues that may inhibit productive board-management relations.
 - This longer form interview may involve a lunch or dinner to get a sense of candidates in a less formal/structured setting.
- ☐ Having finalist candidates complete the conflicts questionnaire to determine independence.

- Leaving this until the final stage may create challenges if a conflict is identified and other finalists have already been released from consideration. An initial screen for conflicts could be conducted between interview phases with the more detailed questionnaire later.
- Conducting personality testing or similar evaluations of candidates to assess how their personality, style, risk appetite, or other qualities fit within the overall composition of the board. Few boards use psychological assessments within their recruitment process, and due to cost and logistical complications, those that use them often do so only with finalist candidates.
- Placing new board members in an “advisory” role or having them shadow a meeting prior to fully joining the board as a voting director. More details on using advisory roles are in the onboarding toolkit.

WHO IS INVOLVED IN THE PROCESS

Boards have a variety of options in deciding who will be involved in the recruitment process. Some boards involve the full board in every stage of the process, while others delegate or designate a subset of the board to manage early phases and then bring the full board in at the finalist stage. The Nominating/Governance Committee or an ad hoc committee of board members may be tasked with initial phases that involve collecting and screening resumes against the board’s qualifications and conducting initial interviews to assess availability and interest.

When key decision-making responsibilities are held by a committee or a subset of the full board, the board may take extra care in defining its criteria to establish clarity on expectations for candidate qualifications and attributes, including essential and nice-to-have skills or experience, and any exclusionary factors that would lead a candidate to be screened out or dismissed from the process. Any goals for the board’s composition overall that would factor into the active recruitment process ought also to be discussed, including succession planning for leadership roles on the board and any consideration of increasing or balancing the diversity of experiences represented in the boardroom.

Using A Skills Matrix for Recruitment

Skills matrices are becoming a common tool for fund boards in their recruitment processes, with 64% of boards reporting using one in their last recruitment according to [MFDF survey data](#). In board recruitment, a skills matrix can help the board define the essential and desirable aspects of new directors, evaluate multiple candidates against each other objectively, and compare finalist candidates against initial expectations. Some boards maintain two separate skills matrices, one that maps the current board members and a second that delineates critical and desired factors for future directors.

A recruitment matrix may be used to compare candidates to each other, to the broader population of possible candidates, and/or to existing board members.

A skills matrix can be a useful tool onto which the board's criteria and expectations can be mapped for the full board to review, discuss, and approve for a subset of the board to use in early stages of identifying and screening candidates.

A well-defined skills matrix can assist any partners or outside sources in the recruitment process to identify candidates that will meet the board's defined criteria.

Mapping a narrative description of required and desirable qualifications and attributes into a matrix format and adding each candidate's relevant details creates a clear and simple comparison across these key factors.

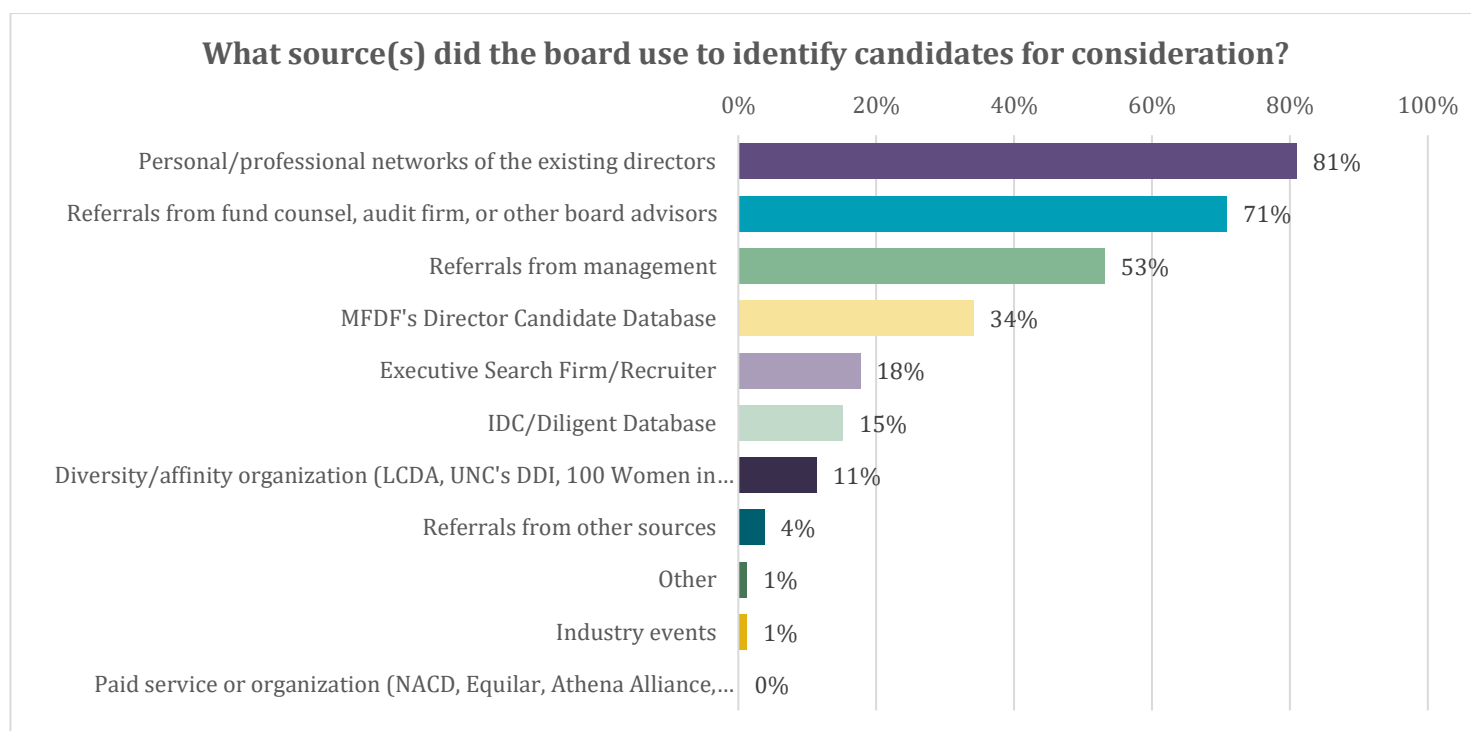
During interviews, board members may use the skills matrix to define questions, or to add details regarding the candidates' expertise or experience with certain variables. Some boards convene to discuss and come to agreement on whether to check off items on the matrix such as a variable for "fit" that is marked as 'yes' or 'no' based on board members' analysis of how the candidate might fit within the culture of the board as determined through interviews and other interactions.

At the final stage of the recruitment process, directors may turn again to the matrix to evaluate and compare finalist candidates against the initial criteria.

For complete guidance on designing and applying skills matrices, including formatting illustrations, please review MFDF's [Creating and Using Skills Matrices](#) paper.

Sourcing Candidates

Locating the right talent to fill openings on the board is one of the key challenges boards face in recruiting. Boards want to feel confident that they have identified the best candidates available for their specific criteria. To accomplish this, many boards are using multiple sources to connect with possible future directors. The chart below, from MFDF's Director Recruitment Practices Report, shows the use of various sources among fund boards. The following pages offer further detail on how fund boards may use them.



PERSONAL AND PROFESSIONAL NETWORKS

Boards may encourage their members to be mindful of the board's pipeline of potential candidates well before recruitment is imminent to improve the likelihood of locating the right people at the right time. Many boards opt to leverage their own personal and professional networks as they plan for recruitment, either alongside other strategies or in isolation. Boards may wish to discuss, possibly with counsel, how to maintain a level of objectivity in comparing candidates when some are familiar to one or more current board members and other candidates are unfamiliar. When feasible, it may be prudent for a referring board member to recuse themselves from interviewing or voting on a candidate with whom they have an existing relationship outside of the board's recruitment efforts.

Cost: Either alone or combined with other approaches, using the board members' networks and those of the board's counsel, auditor, and trusted advisors can be cost-effective in avoiding outside fees.

Time: To the extent that relationships with qualified prospective candidates already exist, recruiting from these networks may reduce the investment of time on locating and getting to know candidates to evaluate style, personality, values, and qualifications. However, if a board has not invested in these networks before recruitment begins in earnest, starting from scratch would likely be more time-consuming than searching a database with focused criteria. Furthermore, there is significant administrative work involved with a recruitment process including reviewing candidate materials, coordinating interviews, and performing background checks and conflict of interest questionnaires that the board would have to take on in addition to its regular duties.

Quality and breadth of network: An important consideration when using existing personal and professional networks is awareness that those networks may have limited responsiveness to the board's needs in terms of industry fluency, expertise, breadth of experience and background, or other factors. Boards may also want to consider to what extent it would be desirable for future directors to have common characteristics with the current board members as people's networks are often built from shared experience such as past employment or education.

Skill: Evaluating candidates from the personal networks of the board members may present unique considerations, as familiarity may provide insight into personality and style, but there remains the obligation to objectively assess how a candidate's skills, knowledge, and experience would complement and enhance the board's overall composition.

To prepare a viable network of prospective candidates, start early. Prospects may include people who are not quite ready to retire or join a board but will be within the next 3-7 years. Directors may find potential candidates speaking at or attending industry conferences or working with other companies or firms in the industry. Strong board candidates from outside of asset management may be identified through service on other types of boards, including higher education, corporate, and non-profit boards.

SEARCH FIRMS

Executive search firms can be useful resources for boards, particularly if the board does not have an existing "short list" of candidates when the board begins the search. Using a search firm outsources aspects of the sourcing and screening stages of the recruiting process. Boards should be mindful, however, that hiring a search firm still will require significant board involvement, including establishing the search criteria for candidates, determining which candidates to move forward, and interviewing candidates.

Cost: Search firms work with fund boards to fill vacancies on a fee-based basis. Those fees vary by firm. Firms may offer discounts in the event that a board is recruiting a second director simultaneously or in close succession.

Time: Search firms have reported that searches typically take approximately 12-18 months to complete, which is about the same timeline reported by boards who manage their own recruitment, so working

with a firm does not typically speed up the process. Boards may also need to dedicate some time to selecting a firm, which may add some time before the search gets underway. However, hiring a firm may reduce board member workload during the sourcing and interviewing timeframe, including taking on administrative tasks communicating with candidates and scheduling. In the event that a board is not satisfied with the slate presented by the firm, the board can and should request additional rounds of candidates even though doing so may extend the process and require more involvement from the board.

Skill: Search firms may be helpful in identifying candidates who have both the desired experience and will fit well within the culture of the board. Boards may find that paying for a recruiter's skills in evaluating the personality and style of candidates can be worthwhile, particularly where a board does not feel confident it can determine the best match across both qualifications and personality. Some firms have the capability to conduct assessments to evaluate candidates, and these may be helpful to the board as they make decisions. However, search firms rarely specialize in fund boards and directors may need to educate the firm on the nuances of qualifications for fund directors as distinct from other types of board directors. For example, the key compliance oversight responsibilities for fund directors as distinct from the strategic oversight performed by corporate directors.

Quality and breadth of network: Search firms almost certainly have an edge on most board members in terms of their networks. Firms typically position themselves to have good connections in their industries of focus – they work frequently with executives who may later be skilled fund directors, they often attend numerous conferences and events, and they are refreshing their pool constantly. As a result, working with a search firm may produce a slate of candidates that is broader in terms of industry, field of specialty, area of expertise, and career experience, as well as demographically in terms of gender, race, region, etc.

To the extent that a board wishes to cast the widest possible net, and/or to consider candidates that bring a very different profile to the board than its existing members, it may be worth the investment to employ a search firm. In addition, using a search firm does not preclude boards from including candidates from their own networks or other sources into consideration. Those candidates can be added to the firm's slate and then compared alongside candidates the firm has sourced elsewhere.

DATABASES, SERVICES, AND ORGANIZATIONS FOR SOURCING CANDIDATES¹

Boards seeking to expand their search beyond their own networks may wish to use one or a few of the numerous services, databases, and organizations that work with prospective board directors. This is a varied group with a broad directive, including organizations that offer board readiness programming and services designed to make networking connections between boards and candidates. Some offer formal director search services while others allow users to look at, search, or post within their communities.

MFDF's [Director Candidate Database](#) allows member boards to request hand-picked candidate profiles based on the board's specific parameters. [Athena Alliance](#), and [Equilar](#) are software solutions to help boards identify potential candidates. These tools allow boards access to a searchable database or to receive support in identifying candidates from a pool.

Various organizations work with prospective directors on board preparedness and networking with current board members. In these cases, your board may be able to search the membership of the organization, attend events to network with prospective directors, or post openings to a website or listserv to receive submissions from candidates directly or through a representative. Each organization functions slightly differently, and costs vary.

Cost: Costs associated with these options vary. These costs may be significantly less than hiring a search firm, so taking this route can be appealing for cost-conscious boards. For boards that have an extended time horizon for recruitment and are looking to build a pool of candidates, or those that have multiple vacancies to fill simultaneously or in close succession, these tools can be additionally cost-efficient by allowing a board to identify candidates within multiple “profiles” or “buckets” within the same time frame or membership term.

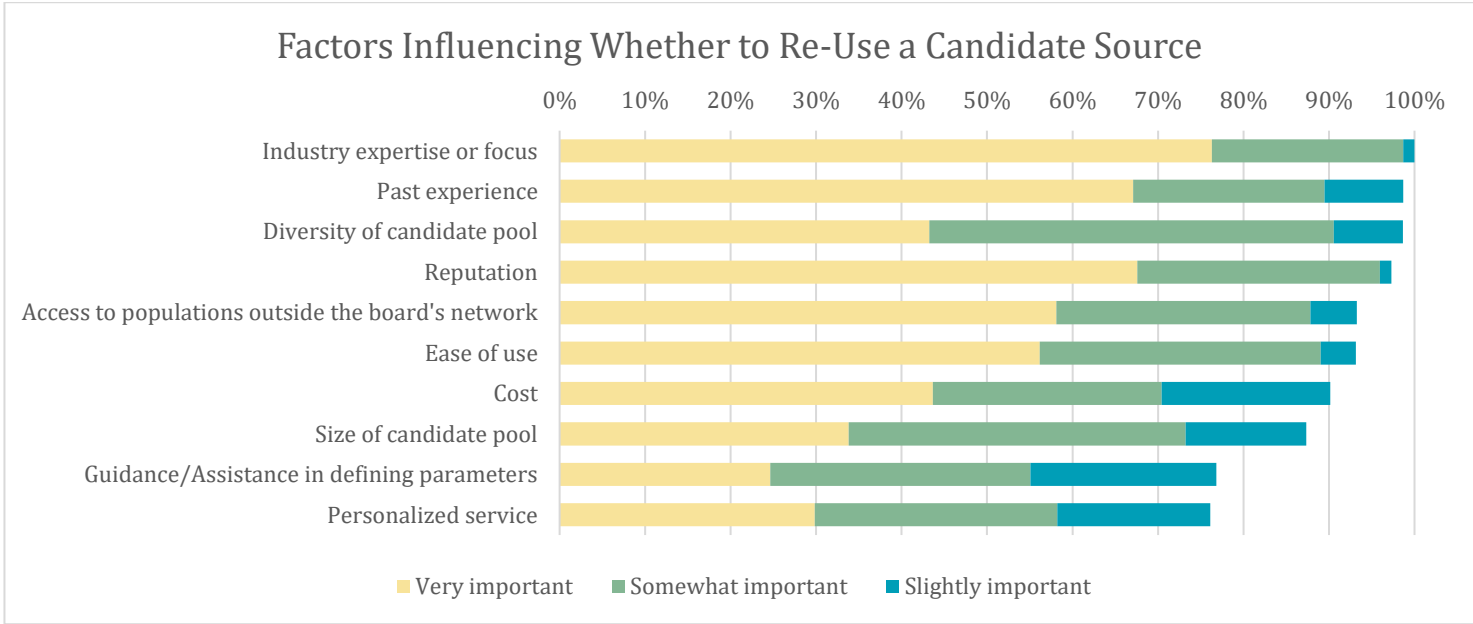
Time: Directors should be aware that these resources are often self-directed and working with multiple different groups, databases, and lists may be time-consuming for those involved and may require a certain level of skill and tech-savviness.

Skill: The software options require a user to apply search terms, tags, and filters to identify potential candidates within large and varied pools (most of these options are not specific to fund board candidates). Having access to a wide universe of candidates can lead to a paradox of choice leading to more stress and less satisfaction with the candidates available. Some organizations and services offer more concierge service or take responsibility for some, or all, of the candidate identification step. Organizations and services that serve a wide range of board clients may be less familiar with the expectations specific to fund directors, so the board may need to put extra effort into communicating those expectations to identify well-suited candidates.

Quality and breadth of network: Working with outside databases, services, and groups enables a board to expand its network to include candidates that it would have had a hard time reaching through personal networks alone. Many of these organizations specialize in working with candidates from under-represented groups, so they are well-positioned for boards who are seeking new directors who will bring perspectives from other industries, roles, or identities into their boardrooms.

SELECTING SOURCES

MFDF's Director Recruitment Practices Survey asked participants what factor(s) most strongly influenced whether they would or would not use a source again. Results show the importance of a source's industry expertise/focus and reputation, as well as the board's own past experience with that source.



Election by Shareholders

Boards may take different approaches to monitoring their compliance with the 1940 Act's requirements regarding the percentage of directors required to be elected by shareholders.² The nominating/governance committee or the full board may work with counsel (and the adviser) to maintain a grid or other report that details the hiring date of each director and the dates when each director was elected by shareholders (some boards include this on a skills matrix). Maintaining a record to which boards can refer during recruitment planning may help boards track their compliance with the 1940 Act's two-thirds elected requirements and to anticipate the most appropriate time to issue a proxy to elect new directors.

Since proxy solicitation is quite demanding on the resources of the fund, its adviser and its shareholders, boards and advisers often work together to make the proxy as efficient as possible. In circumstances where a board will need to issue a proxy to elect new directors, the board (or its chair) may work with the adviser to identify any other issues that can be addressed via the same shareholder vote.

In the event that multiple priorities on the board and adviser side are being addressed in a proxy process, coordination between the leadership of the board and the adviser may be helpful in setting a timeline that works for both. This timeline may then influence timing and process decisions specific to recruitment. For example:

- The board may time the start of their recruitment efforts to align with the expected timeline of the shareholder election. As in, if the election is expected to be held at a meeting that is 22 months in the future, the board may hold off on getting their recruitment efforts underway until approximately 12 months from the election date to minimize the wait-time that may happen if new directors are identified months before they are able to formally begin the role.
- If the board will select new directors before the proxy is complete, the board may use a mechanism like an advisory role for those new directors to attend meetings without voting privileges until the shareholders formally elect them into director seats. More details on using advisory roles are in the onboarding toolkit.
- If a board has an urgent need to fill one director seat, but another vacancy expected another year or two in the future, it may make sense for the board to fill both seats when they go to shareholders for election (increasing the size of the board temporarily) to extend the timeline on when they will need to return to shareholders to elect board members again.
- The board may examine its size, in terms of the number of directors, and the percentage of directors elected by shareholders, and time the next shareholder election and how many new directors are hired at that time, to build flexibility into their succession planning that would

allow the board to appoint a new director in the years following the shareholder election, if needed, without triggering a proxy effort.

APPENDIX: SOURCES FOR BOARD CANDIDATES FROM UNDER-REPRESENTED GROUPS³

100 Women in Finance - <https://100women.org/initiatives/corporate-private-boards-initiative/>

African American Board Leadership Institute - <https://www.aabli.org/programs-and-services/board-placement-services/>

Ascend Pinnacle - <https://www.ascendleadership.org/board-of-directors>

Athena Alliance - <https://athenaalliance.com/for-boards/>

Black Corporate Board Readiness program at Santa Clara University - <https://www.scu.edu/execed/bcbr/alumni/>

Directwomen - <https://directwomen.org/partner-with-us-for-your-search/>

DSG Global - <https://www.dsgco.com/board-and-governance-advisory/>

Equilar - <https://www.equilar.com/execatlas-executive-and-board-search.html>

The Executive Leadership Council Board Directors' Summit - <https://www.elcinfo.com/programs-events/leadership-programs/black-directors-summit/>

Executive Women in Government - <https://execwomeningov.org/>

Extraordinary Women on Boards - <https://www.ewobnetwork.com/>

Illumyn Impact - <https://www.illumynimpact.org>

Invest Ahead - <https://www.invest-ahead.org/>

Latino Corporate Directors Association (LCDA) - <https://latinocorporatedirectors.org/>

LGBTQ+ Corporate Directors - <https://lgbtqdirectors.org/>

OnBoard - <https://www.onboardinc.org/find-board-ready-candidates/>

Stanford Women on Boards - <https://stanfordwomenonboards.stanford.edu/recruit>

Director Development Initiative at UNC School of Law - <https://ddi.law.unc.edu/>

Women Corporate Directors - <https://wcdglobal.org/board-opportunities/>

Endnotes

¹ Beyond MFDF's own Director Candidate Database, MFDF does not endorse any service, database, or organization as a source for board candidates. Those included in this toolkit have been mentioned to us by fund directors who have worked with or used them, and they are included as possibilities rather than recommendations.

² According to Section 16(a) of the 1940 Act, generally, a fund board may fill vacancies legally between shareholder meetings provided that immediately after filling any such vacancy at least two-thirds of the [directors](#) then holding office shall have been elected at an annual or special shareholder meeting.

³ As above, MFDF has not vetted and does not endorse any of the sources included in this list, which have been gathered through staff research and referrals from fund directors.