

The 2018 MPI Annual Mutual Fund Director Compensation Survey (Summary)

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Management Practice Inc. (MPI) has just completed its 25th annual “Survey of Mutual Fund Director/Trustee Compensation and Governance Practices,” with data covering 1,973 directors from 403 fund boards. Full reports and specific board compensation comparisons are available from MPI.

After several years of pay increases above 5%, the average increase in 2017 (for equivalent directors) was 4.2%. The downward trend heads closer to the roughly 3% increases the industry saw in the years following the financial crisis. This trend is evident in the table on the right, which shows the pace of increases in overall board comp steadily declining over the past four years. While not an equal comparison, industry AUM was up approximately 25% and fund counts were up 5% over the same period.

Year	Change
2014	7.5%
2015	5.9%
2016	5.2%
2017	4.2%

Notable again this year were the differences in increases depending on the level of assets. Last year saw above-average increases for the largest boards (overseeing \$100 billion) due to, among other things, increasing complexity in the industry, and an industry trend of mergers and consolidation. Pay for this group was essentially flat for the year. Most large fund boards are now paid in a similar range to many of the largest U.S. corporate boards, which also saw limited pay moves in 2017.

This year, boards in the \$1 billion to \$3 billion category saw the largest gains, with the median pay up from \$43,000 to \$53,000, a 23% increase. Pay in this category had been stuck in the \$42k-\$43k range for several years.

Using AUM categories as the sole metric when setting compensation can be problematic, as is presented in the table below. This displays the pay range for fund boards with between \$3 billion and \$10 billion in AUM for 2013 through 2017:

**Range of Trustee Compensation for Boards Overseeing
\$3 billion to \$10 billion in AUM (in Percentile)**

	10 th	25 th	50 th (median)	75 th	90 th
2013	\$32,000	\$47,750	\$67,500	\$85,000	\$109,200
2014	\$32,125	\$50,000	\$73,500	\$95,500	\$166,163
2015	\$33,500	\$55,750	\$80,000	\$100,000	\$124,500
2016	\$20,000	\$56,688	\$84,000	\$104,875	\$170,000
2017	\$31,000	\$58,333	\$84,500	\$105,250	\$170,000

The wide range of pay from the 10th to the 90th percentile in this relatively small grouping demonstrates that it can be difficult to properly set pay using just one or even two metrics.



Mandatory retirement ages continued to rise in 2017. 73% of participating boards have a mandatory retirement policy, with 75 now overwhelmingly the most commonly reported retirement age (75%, up from 37% two years ago) after remaining at 72 for many years. 11% have retirement ages above 75. "Director Emeritus" plans also continue to draw interest but do not appear to be widely used. The study found that approximately 20% of all current and 31% of new fund directors in 2017 were female, and 42% are retired from their primary profession.

The survey found that approximately 84% of all fund directors are classified as independent, with 66% of boards headed by an independent chairman, and an additional 23% headed by a lead independent director. The vast majority of these chairmen (along with many lead independent directors) receive additional fees of anywhere from \$10,000 to \$200,000 or higher, with a reported average of approximately \$36,816.

Boards continue to adjust their committee structures as the industry and their fund complex evolves. More boards now report having a specific set of criteria for recruiting new directors, and committee chairs are often hired specifically for their particular backgrounds. They are also receiving a fee more often and at increasing levels. While the range of these fees varies widely depending on the particular duties, they typically are in the \$10,000 to \$30,000 range.

Over two-thirds (70%) of US fund boards are paid with a combination of retainer and meeting fees. While a level of total annual compensation is typically set as a target, this structure allows some flexibility during extenuating circumstances. The majority of the rest (26%) are paid by retainer only, with relatively few boards paying meeting fees only.

The relative cost of fund governance remains small relative to the total costs of running a fund. Total U.S. fund board compensation per \$1 million in AUM amounted to just \$16.17; the lowest it has been in years and a fraction compared to the \$7,500 in management fees and other expenses a typical mutual fund might incur (assuming a .75% expense ratio). Independent directors provide a highly efficient system of oversight that is paid not by U.S. taxpayers, but rather by those who directly benefit from its protection.

Trustees cost less to shareholders based on the asset levels overseen. For example, compensation per \$1 million in AUM ranged from a median of \$16 for groups with \$1 billion or less in assets to \$1.80 for groups with more than \$100 billion in assets.

Management Practice Inc. is a specialized consulting firm based in Stamford, Connecticut, and provides governance, economic, and business advice to mutual fund boards. More information regarding this report is available at www.MFGovern.com or from C. Meyrick Payne or Jay Keeshan at (203) 973-0535 or email JKeeshan@MFGovern.com.