2018 MPI Survey: Board Compensation for BDCs, Interval Funds, Closed-End Funds, and ETFs

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Management Practice Inc. (MPI) has recently completed a study of compensation practices for boards of various alternative investment products available in the U.S. This is a supplemental study to the annual MPI "Survey of Mutual Fund Director/Trustee Compensation and Governance Practices", which is released in May of each year and focuses primarily on open-end funds. The proliferation of non-traditional fund products, and their prospects for growth, prompted MPI to perform this additional analysis. Data was drawn from public filings, including proxies, annual reports, statements of additional information (SAIs), and other resources, and is for calendar year 2017.

Business Development Companies (BDCs)

BDCs are closed-end funds that were created by Congress in 1980 to provide average Americans with the opportunity to invest in securities of private small and mid-size firms. According to Eversheds Sutherland, there were 94 BDCs operating as of June 2018; 53 of which were traded, 18 were non-traded, and 23 were categorized as private, with total AUM of approximately $97 billion.

Serving as a director of a BDC differs in a few ways from other types of funds, particularly in the number of meetings required for the approval of transactions and co-investment with affiliated funds. Common pay structures for BDCs, as with many other types of funds, appears to be a blend of retainer and meeting fees, as well as committee chair fees. However, meeting fees appear to have a significant impact on total compensation. The majority of BDC trustees receive their compensation in cash, however, some (roughly 10%) receive some modest compensation in the form of stock as well.

Whereas many traditional fund boards oversee and report compensation in aggregate for multiple funds, most BDC boards appear to oversee and report compensation for just one or two funds.

MPI selected a sample ten publicly-traded BDCs with assets under management (AUM) of between $1 billion and $10 billion, and found that the median board compensation was $165,625, with an average of $167,383, and a standard deviation of $54,011.

An additional sample of traded BDCs with AUM of approximately $300 million to $1 billion found the median director compensation was $119,840, with an average of $128,522, and a standard deviation of $53,825.

A group of ten non-traded BDCs, with AUM ranging from roughly $100 million to $2.5 billion, had median compensation of $101,500, with an average of $118,859 and a standard deviation of $37,800.

Interval Funds

Interval funds are closed-end funds that typically invest in less liquid securities, providing investors with an opportunity for returns associated with longer-term investments and the illiquidity premium. They are not listed or traded but they do provide periodic liquidity or redemptions back to the fund at net asset value (NAV). There are approximately 50-60 interval funds with about $23 billion in AUM, according to Intervalfundtracker.com.

The relatively low number of interval funds, and the fact that assets are very concentrated in a small handful of them, makes it difficult to provide meaningful statistics with regard to board compensation. However, we reviewed the filings of a handful of standalone interval funds and found the compensation to be similar to that of other closed-end funds; with an average in the $30k to $50k range for established funds.

Closed-end Funds

There are approximately 600 closed-end funds in the U.S., many of which are overseen by boards that also govern numerous other funds at larger complexes, and their compensation is typically set based on the fund duties in aggregate, rather than fund by fund. This limits the amount of useful data to only the relatively few boards that oversee only closed-end funds.

MPI selected a sample of ten closed-end fund boards overseeing just one or two funds, with assets under management (AUM) ranging from between $100 million and $2 billion, and found that the median compensation was $50,000, with an average of $52,522, and a standard deviation of $17,237.

Exchange Traded Funds (ETFs)

Similar to closed-end funds, many ETFs are governed as part of larger complexes that may include open-end and other types of funds, which clouds their compensation picture. However, MPI did identify a set of ten ETF-only boards, ranging from approximately 25 to 350 funds with an average of 135. The median compensation for these boards was $291,833, with an average of $252,805. There are few if any "one-fund" ETF boards, so these numbers are not comparable to the fund types described above. Anecdotal review of ETF board compensation compared with previous years shows steady increases as these fund groups become established. Increasing complexity in the fund strategies at many complexes which can impact the boards duties may also be a factor, with varying complexity from long only equity index funds to highly complex strategies.

Traditional/Open-end Fund Boards

For comparison, the 2018 MPI survey found that the median compensation for directors of a fund group with under $1 billion in assets was $10,650, with $4,000 at the 25th percentile and $25,125 at the 75th percentile. The median compensation for a fund group with $1 billion to $3 billion in assets was $43,000, with $24,970 at the 25th percentile and $73,000 at the 75th percentile.

The median for a fund group with 1 to 3 funds/portfolios was $10,250, with $4,375 at the 25th percentile and $39,250 at the 75th percentile.

It is worth noting that compensation for fund groups of this size is highly variable, and is affected by start-up funds or low AUM funds that have not reached scale. Compensation for directors of these funds is typically set at a low or nominal amount as a fund group gets started, in order to keep expenses low. Once the funds become established, and the assets in the funds reach scale, the compensation typically rises to market/more appropriate levels.

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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 Jay Keeshan at (203) 973-0535 or email JKeeshan@MFGovern.com.

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