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Mergers and Meetings Drive Moderate Growth for Fund Director Pay in 2009

(By C. Meyrick Payne, Jay Keeshan and Sara Yerkey of Management Practice, Inc.)

Management Practice Inc. (MPI) has just completed its seventeenth annual "Survey of Mutual Fund Director/Trustee Compensation and Governance Practices", with data covering 1,902 directors from 374 fund families. Copies of, and specific comparisons to, the survey detail are available from MPI.

Year-over-year board compensation (same directors year over year) increased an average of 7.1% in 2009 over 2008 levels. While a few boards took pay cuts over the past couple of years (often by opting not to take pay for selected meetings), most kept their pay roughly flat in 2008. 2009 saw a return toward normalcy in the markets as the year progressed, and most boards reverted to their normal pattern of increases. This had the effect of increasing pay for many due to additional meetings necessitated by the financial meltdown. Furthermore, some boards were affected by fund mergers and took on a significant amount of additional funds or assets; accordingly, a few took measured pay increases.

MPI believes that while there is value in standard metrics such as AUM and the number of funds when comparing board compensation, using these as the only benchmarks can be problematic. This is particularly true in the case of AUM, where funds may have seen assets fluctuate 40% or more in the 18 months. The table below provides compensation data for two asset cohorts over the past 3 years. There is irrational variability in these numbers, which are very dependent on the dynamics of fund flows, market activity, and the particular complexes that populate these groups (which change year to year). As an example, the "$100 billion and up" group increased its population of trustees by 50% in 2009 over 2008 primarily due to the increase in market value.

Median Trustee Compensation over Time for Two Illustrative Cohorts

	$9 billion to $25 billion*	**$100 billion and up***
2007	$77,942	$194,500
2008	$117,500	$191,820
2009	$118,324	$246,782

**Note: not comparable year over year due to fluctuating asset size of complexes measured.*

A similar quandary exists when compensation is measured by number of funds governed.

Range of Trustee Compensation for Boards Overseeing 31 to 50 Funds (in Percentile)

# of Funds	**10th**	**25th**	**50th (median)**	**75th**	**90th**
31 to 50	$62,975	$85,000	$138,000	$189,750	$233,565

The wide range of pay for directors in this illustrative cohort (a multiple of nearly four from the 10th to the 90th percentile) demonstrates that it can be difficult to properly assess pay using just one or two comparisons. For this reason MPI has begun to assess board compensation based on factors beyond AUM and number of funds.

This year MPI designed a matrix that assesses a “complexity factor” for boards across the industry based on metrics such as the presence of certain types of investments (i.e. foreign stock or high yield bonds), oversight of sub-advisors, and fund introduction activity. This initial methodology provided a surprisingly steady progression of compensation as the level of complexity increased.

Median Director Compensation by Degree of Difficulty of Governance

Under 100	Up to 110	Up to 120	Up to 130	Up to 140	Up to 150	Up to 160	Up to 170	Over 170
$14,500	$28,500	$27,500	$66,250	$71,750	$120,675	$190,000	$200,000	$255,000

Note: MPI continues to enhance this process and expand the number of variables in the calculation over time. Specific analysis for an individual fund family, requires qualitative as well as quantitative factors

MPI’s survey also found that 85% of all fund board members are independent and that 95% of fund boards already comply with the SEC’s proposed “super-majority” rule. Our survey found that the chairman of the board was independent 70% of the time, up from 60% three years ago. The proposed SEC rules mandating an independent chair and a “super-majority” (75% independent), which had dropped off the SEC’s agenda over the past couple of years, may have now resurfaced.

The survey notes that the mutual fund industry is highly concentrated, with the top 25 complexes controlling about 68% of all fund assets. These 25 complexes have about 212 directors. On average, each of these large complex directors oversees approximately $31 billion worth of assets, a much wider span of influence even than directors of NYSE companies.

The survey notes that 81% of complexes reported having a mandatory retirement age. While 72 was the age most frequently cited, the trend toward extending the tenure of experienced directors continues, largely due to the volume and increasing complexity of the regulatory and business issues over the past several years. Some boards believe shareholders benefit from the long term perspective these directors can offer. Conversely, others believe that “fresh ideas” on a board are important for shareholder protection.

The SEC’s recent ruling regarding board disclosure will draw attention to diversity on fund boards. Our data finds that 15% of all standing fund directors are female, while just over 20% of the newly appointed directors in 2008/9 were female. Although the SEC has adopted a new rule regarding diversity, there is no way to gauge minority representation. We do note that the class of 2008/9 seems to have a preponderance of new directors with an investment background.

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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 is available at www.MFGovern.com or from C. Meyrick Payne or Jay Keeshan at (203) 973-0535 or email JKeeshan@MFGovern.com.