Fund Director Compensation Virtually Flat in 2008

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

Management Practice Inc. (MPI) has just completed its sixteenth annual "Survey of Mutual Fund Director/Trustee Compensation and Governance Practices", with data covering 2,140 directors from 411 fund families. Copies of, and specific comparisons to, the survey detail are available from MPI.

Year-over-year median compensation increased an average of 4.2% last year, with median compensation for all directors rising to $49,000 from $47,000. This continues a trend of slower growth after more than five years of double-digit increases since the passage of Sarbanes-Oxley and the fund scandals at the start of the decade. In the largest asset group, director compensation actually decreased by 1.4%. While the need to attract directors with specialized knowledge and expertise continues—and is now perhaps more important than ever—many boards' pay had "caught up" to reach fair levels over the past few years.

Based on our continued discussions with directors and their support teams, we find that most boards have left their pay about flat over the past year. While they have faced greater workloads (more meetings), elevated exposure, and an increased requirement to stay abreast of market developments on a near-daily basis, the asset levels they oversee have (in many cases) plummeted.

As discussed in our January 2009 bulletin, setting compensation based on assets governed can be problematic, and this year's data serves as further proof. A director that oversaw $100 billion throughout most of 2008 may now oversee just $60 billion.

As an example, last year's survey found that directors in the $9 billion to $25 billion group earned a median of $77,942. In this year's report the median for this group is $117,500. This does not imply that directors in this group have received a significant pay increase, but rather that the group is now likely populated by a very different set of directors, many of whom were in a different/higher group in the previous year due to their larger asset size. MPI found this to be the case across all asset groups, with the exception of the largest ($100 billion+) which actually showed a nominal decrease, and was populated by only about half as many directors (several fund complexes fell into a lower assets group).

	$9 billion to $25billion	**$100 billion and up**
2007	$77,942	$194,500
2008	$117,500*	$191,820

*Note: not comparable year over year

In comparison, looking at fund pay based on the number of funds governed showed minimal change. This picture may evolve in the next few years as fund counts drop due to mergers and the rationalization of fund lineups.

The slight increase in median pay seen in 2008 (4%) is likely due to a number of factors, including additional meetings called by many boards for specific issues (such as the money market guarantee program), and other trends such as the increase in committee chair pay (reflecting the growing need for specific industry knowledge). A few boards did actually increase pay to stay current, or possibly due to merger activity.

There have been a few cases where boards have decided to take pay cuts, however it appears that most boards are keeping their pay at current levels during this continued market uncertainty. Fund director pay serves to compensate board members fairly, but is also a factor in attracting new talent. Given that most boards usually have an opening on the horizon, and that the position has become ever more demanding, boards must continue to pay competitively and at a level that will attract the requisite talent.

MPI's survey found that 84% of all fund board members are independent and that 94% of fund boards already comply with the SEC's proposed "super-majority" rule. The survey also found that the chairman of the board was independent 69% of the time, up from 60% two years ago. The proposed SEC rules mandating an independent chair and a "super-majority" (75% independent), which had dropped off the agenda over the past couple of years, have now resurfaced and may be addressed in the coming year.

The survey notes that 83% of complexes reported having a mandatory retirement age. While 72 was the age most frequently cited, a recent trend toward extending the tenure of experienced directors has gathered increased attention lately, largely due to the significant issues the markets (and mutual funds) have experienced over the past year. Some boards believe shareholders benefit from the long term perspective these directors can offer. On the other hand there are some that feel "fresh ideas" on a board are equally important.

The survey notes that the mutual fund industry is highly concentrated, and in fact has become even more so over the past year, with the top 25 complexes controlling about 70% of all fund assets. These 25 complexes have about 202 directors. On average, each of these large complex directors oversees about $34 billion worth of assets.

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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.

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Management Practice Inc.
216 West Hill Road, Suite 200
Stamford, CT 06902

Telephone (203) 973-0535 Fax: (203) 978-9034
E-mail: JKeeshan@MFGovern.com