

## LETTERS TO THE EDITOR & RESPONSES

June 10, 2012

# Comment, Washington Post: Is Your Fund's Board Watching Out for You?

Is Your Fund's Board Watching Out for You?

IDC managing director Amy Lancellotta comments on an article in the Washington Post published June 9, 2012:

This article's headline poses the question, "[Is Your Fund's Board Watching Out for You?](#)" The [answer to that question](#) is a resounding "yes." Unfortunately, readers wouldn't know that because the article reflects an apparent lack of understanding about fund governance.

A mutual fund's board is watching out for the interests of the fund's shareholders, as it is required to do by law, and as recognized by the U.S. Supreme Court in its 2010 decision in *Jones v. Harris*.

Fund boards are robustly independent: more than 90 percent of boards have at least 75 percent independent directors, and those directors must meet stringent "independence" requirements under law. In addition, the independent directors and fund's shareholders—not the management company—determine who should be on the board. Fund directors' backgrounds, qualifications, and compensation are fully disclosed to shareholders.

The board's annual approval of the fund's advisory contract, including the level of the advisory fees, is informed by ongoing and rigorous oversight of the adviser's services. The article incorrectly claims that directors are required to negotiate for the absolute lowest advisory fee—and that it is in the best interest of fund shareholders to do so. Good performance, which is ultimately what shareholders are seeking, however, may best be achieved by paying the adviser a competitive rate. Moreover, directors often require the adviser to take steps to bring fees down, such as instituting breakpoints or waiving fees. They also push for changes to improve the fund's performance, such as requiring the adviser to hire a new portfolio manager or subadviser, increase research capability, or close or merge a fund.

Finally, board oversight of multiple funds within a complex is entirely aligned with the best interests of fund shareholders. Because funds typically receive services from the same entities and are served by common personnel and operating functions, a unitary or cluster board is the most effective and efficient form of fund governance.

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