



ES157347

**HENNESSY
ADVISORS, INC.**

September 6, 2018

Chairman Jay Clayton
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Clayton:

We realize that proxy reform is an important item on your current agenda.

As officers of a publicly traded asset management company, we have had significant experience with the proxy process from a corporate perspective as well as from the mutual fund perspective where our company serves as the investment advisor.

That is why we are writing to you today. We feel we have a unique and straightforward approach to the proxy voting process.

The enclosed letter is intended to provide a simple proposal for the effective voting of proxies for mutual fund investors.

Please take a few minutes to review the letter and the additional resource attachments.

We have also sent these documents in hard copy to your offices and have sent copies to both William Hinman, Director of the Division of Corporate Finance, and Dalia Blass, Director of the Division of Investment Management.

Sincerely,

Neil J. Hennessy
Chairman
Chief Executive Officer

Teresa M. Nilsen
President
Chief Operating Officer



HENNESSY
ADVISORS, INC.

September 6, 2018

Chairman Jay Clayton
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: The SEC's Mutual Fund Proxy Rules need an adjustment

Dear Chairman Clayton:

A recent Barron's article entitled, "SEC to Review Rules Regarding Proxy Voting" discussed a proposed SEC roundtable on proxy voting, "in light of the many changes in our markets, technology, and how companies operate." Shareholder voting is the primary means by which shareholders can influence a company's or mutual fund's operations, its corporate governance or other issues. It is therefore very important for shareholders to participate in the voting and make their decisions based on a full understanding of the information and legal documentation presented. And while I agree with the SEC that there have been many changes in the securities industry over the past several years, and that we should be looking at reforming proxy rules, the fact still remains that shareholders are not reading the materials provided, and they are not voting their proxies.

Nowhere is proxy reform more needed than in the world of mutual funds. Most individuals in the United States invest by buying mutual funds. In mid-2017, an estimated 56.2 million households, or 44.5% of all U.S. households, owned mutual funds. That equates to an estimated 100 million individual investors. These investors buy and sell mutual funds in four ways: through investment professionals, in their employer-sponsored retirement plans, directly with fund companies and through fund supermarkets. And when these 100 million investors receive their proxy materials, most of them remain unopened, are disregarded, and no proxy vote is ever cast.

When shareholders do not vote their proxies, mutual fund firms must hire a proxy solicitation firm in order to obtain a majority shareholder vote to approve the proposals and the company can continue to conduct business. There are several steps to a successful proxy solicitation: the initial pre-meeting proxy mailing, a second mailing, overnight packages, emails, and finally, repeated phone calls to the shareholder to secure his or her vote. Solicitation is expensive in real monetary terms (see attached analysis) as well as in the time that executives and employees must redirect from otherwise managing the business. In addition, there are less obvious "costs." Investors often get upset by the repeated solicitations to vote their shares, which can erode investor confidence.

As leaders in the mutual fund industry, we have a straightforward solution to address and save mutual funds and their shareholders significant time and expense: If an investor is contacted on three occasions (However the SEC wants us to contact them) and they do not vote their shares, then their un-voted shares should be considered as voted in accordance with the recommendation of the Independent Directors or Trustees of the mutual fund. The Investment Company Act of 1940 requires that at least 40 percent of the directors on a mutual fund board be independent. In practice, according to the Investment Company Institute, independent directors hold an overwhelming majority (75 percent) of board seats in nearly 90 percent of fund complexes. It is the primary and legal responsibility of directors to act in the best interests of shareholders.

That's why we believe that the SEC should consider this simple, practical, and common sense proxy reform that is truly in the best interest of *every* mutual fund shareholder. It is a shame that the plastic enclosed proxy, representing a shareholder's voice, is most often muted at the bottom of a trash can.

Some interesting statistics:

Although numbers vary from job to job, statistics show that it takes an average of 2.7 times to contact a shareholder before they will vote. Since a good number of people vote right away during the beginning of a campaign, that keeps the average low. Roughly after 2 complete passes have been made, the contact to vote ratio increases and the difficulty of the voting process also increases.

The highest number of contacts the call center has seen was 33 contacts to get a vote. Although this was a corporate entity, it shows some campaigns can be very tough in obtaining shareholder vote by phone. The average contacts to obtain a shareholder vote is 9 but it can vary from job to job.

***** Attached is a document regarding the vote returns that were received back from the calling and mailing efforts for a recent Hennessy Funds proxy to acquire the assets of three mutual funds. (The table below is included in the attachment.) The analysis was done from the initial mailing up to the Adjournment meeting in January 2018. The record date had to be re-set because not enough shareholders had voted their proxy in the initial vote period.

Proxy Solicitation Analysis - Hennessy Advisors, Inc.
Fund Family X

	Total Shares	Original proxy			Record Date Re-set		
		# of Shareholder Accounts	# of Shareholder Accounts Voted	% Accounts Voted	# of Shareholder Accounts	# of Shareholder Accounts Voted	% Accounts Voted
FUND A	3,430,258.697	14596	5632	39%	10512	3961	38%
FUND B	2,579,053.876	2683	968	36%	1889	650	34%
FUND C	1,775,528.826	8539	3137	37%	5975	1826	31%
Totals	7,784,841.399	25,818	9,737	38%	18,376	6,437	35%
Original Proxy Cost			\$ 160,826.91				
Record Date Reset Cost			\$ 180,968.42				
Total Cost To Solicitate Votes			\$ 341,795.33				
Cost Per Shareholder			\$ 13.24				
Cost Per Shareholder Voting			\$ 35.10				
Cost per Share			\$ 0.04				

***** It cost \$341,795.33 of shareholder money of the investment advisor of the Hennessy Funds to obtain enough votes to meet quorum requirements

Please do consider this easy to understand and common sense approach to proxy voting for mutual fund shareholders.

And thank you for taking the time to read this letter.

Sincerely,

Neil J. Hennessy
 Chairman
 Chief Executive Officer

Teresa M. Nilsen
 President
 Chief Operating Officer

Enc.

Cc: William Hinman, Director, Division of Corporate Finance
 Dalia Blass, Director, Division of Investment Management



www.ici.org

Frequently Asked Questions About Mutual Fund Shareholders

How many American households own mutual funds?

How would you describe the average household owning mutual funds?

Why do households invest in mutual funds?

How significant are mutual funds to US households' financial holdings?

What types of mutual funds do people own?

How much financial risk are mutual fund shareholders willing to take?

How many years have US households owned mutual funds?

How are US households introduced to mutual funds?

How do most US households purchase mutual funds?

How does ICI gather information about mutual fund shareholders?

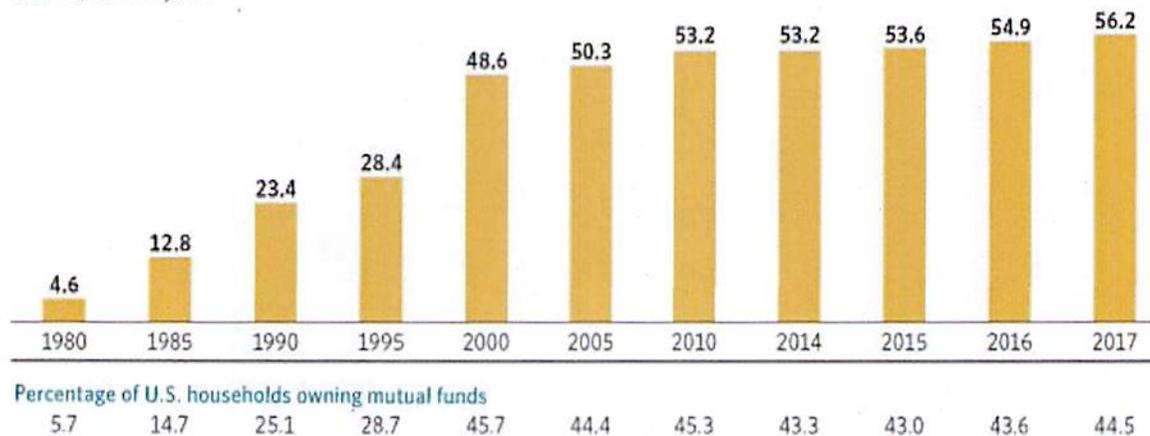
Where can I get more information about mutual fund shareholders?

How many American households own mutual funds?

In mid-2017, an estimated 56.2 million households, or 44.5 percent of all US households, owned mutual funds. The current estimate of the number of individual investors owning mutual funds is 100.0 million.

US Household Ownership of Mutual Funds

Millions, selected years



Sources: Investment Company Institute and US Census Bureau

How would you describe the average household owning mutual funds?

In 2017, the “typical” mutual fund–owning head of household:

- was middle-aged, employed, educated, married or living with a partner, and shared investment decision-making with his or her spouse or partner;
- was of moderate financial means, with \$100,000 in household income and \$200,000 in household financial assets;

- owned investments other than mutual funds, including individual stocks, and had over half of the household's financial assets (excluding the primary residence) invested in mutual funds;
- had \$120,000 invested in three mutual funds, including at least one equity fund;
- owned mutual funds inside an employer-sponsored retirement plan, such as a 401(k) plan, 403(b) plan, 457 plan, SEP IRA, SAR-SEP IRA, or SIMPLE IRA;
- also owned mutual funds outside employer-sponsored retirement plans, primarily purchased through investment professionals (e.g., registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, or accountants); and
- was confident that mutual funds could help him or her reach financial goals.

Multiple generations of Americans own mutual funds. In mid-2017, 20 percent of individuals heading households that owned mutual funds were members of the Millennial Generation, who were born between 1981 and 2004. Thirty-three percent were members of Generation X, those born between 1965 and 1980. The Baby Boom Generation (those born between 1946 and 1964) made up the largest proportion—37 percent—of individuals heading mutual fund-owning households. The remaining 10 percent of individuals heading mutual fund-owning households were members of the Silent and GI Generations (born between 1904 and 1945).

Why do households invest in mutual funds?

Mutual fund-owning households have a variety of financial goals for their mutual fund investments. In mid-2017, the vast majority (92 percent) indicated they were using mutual funds to save for retirement; 75 percent indicated that saving for retirement was their household's primary financial goal. Many mutual fund-owning households (52.9 million) held funds in tax-deferred savings accounts. Nevertheless, 15.3 million US households held mutual funds in taxable accounts in 2017.

Retirement is not the only financial goal for households' mutual fund investments. About half (49 percent) of mutual fund-owning households reported that reducing their taxable income was one of their goals; 47 percent listed saving for an emergency as a goal; and 23 percent reported saving for education among their goals.

How significant are mutual funds to US households' financial holdings?

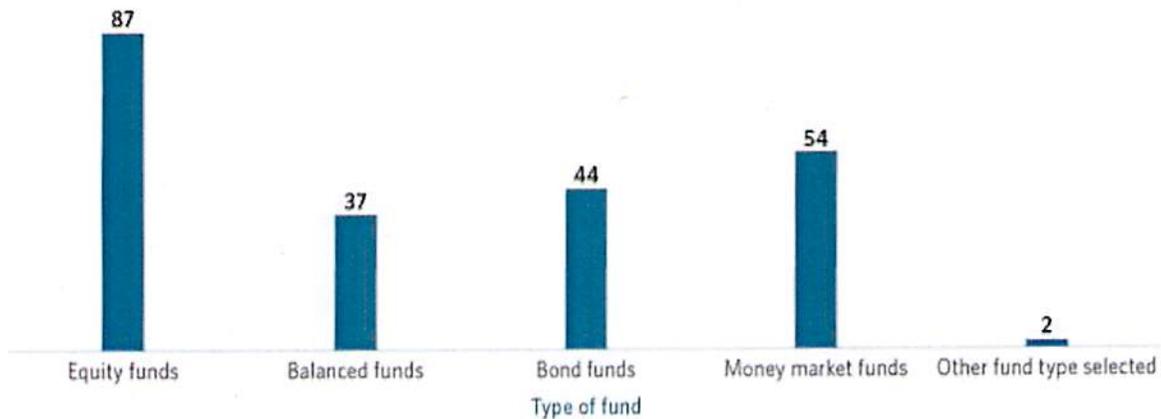
Mutual funds represented a significant component of many US households' financial holdings in mid-2017. Among households owning mutual funds, the median amount invested in mutual funds was \$120,000. Mutual fund holdings represented more than half of household financial assets for 65 percent of households that owned mutual funds.

What types of mutual funds do people own?

In mid-2017, the typical mutual fund-owning household had \$120,000 invested in three mutual funds, including at least one equity fund. Equity funds were the most commonly owned type of mutual fund, held by 87 percent of mutual fund-owning households. Thirty-seven percent owned balanced funds, 44 percent owned bond funds, and 54 percent owned money market funds. In addition, 39 percent of mutual fund-owning households owned global or international stock funds.

Equity Funds Are the Most Commonly Owned Mutual Fund

Percentage of US households owning mutual funds, 2017



Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

How much financial risk are mutual fund shareholders willing to take?

Mutual funds represented a significant component of many U.S. households' financial holdings in mid-2017. Among households owning mutual funds, the median amount invested in mutual funds was \$120,000. Mutual fund holdings represented more than half of household financial assets for 65 percent of households that owned mutual funds.

How many years have US households owned mutual funds?

The vast majority of mutual fund–owning households have invested in mutual funds for many years. In mid-2017, 25 percent had bought their first mutual fund before 1990; 12 percent had purchased their first fund between 1990 and 1994; 16 percent had bought their first fund between 1995 and 1999; and 14 percent had bought their first fund between 2000 and 2004. Thirty-three percent had bought their first fund in 2005 or later.

How are US households introduced to mutual funds?

Mutual fund–owning households often purchase their first mutual fund through employer-sponsored retirement plans: 63 percent purchased their first fund through that channel. Households that made their first mutual fund purchase more recently were more likely to have done so through employer-sponsored retirement plans. Among households that bought their first mutual fund in 2010 or later, 78 percent bought that first fund through such a plan, compared with 49 percent of households that first purchased mutual funds before 1990.

Employer-Sponsored Retirement Plans Are Increasingly the Source of First Fund Purchase

Percentage of US households owning mutual funds, 2017

Year of household's first mutual fund purchase

	Before 1990	Between 1990 and 1994	Between 1995 and 1999	Between 2000 and 2004	Between 2005 and 2009	2010 or later	Memo: all mutual fund- owning households
Source of first mutual fund purchase							
Inside employer-sponsored retirement plan	49	61	66	64	62	78	63
Outside employer-sponsored retirement plan	51	39	34	36	38	22	37

Note: Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

How do most US households purchase mutual funds?

In mid-2017, 81 percent of mutual fund-owning households owned funds through employer-sponsored retirement plans. Sixty-four percent of mutual fund-owning households owned mutual funds purchased outside employer-sponsored retirement plans. Among these households, half owned mutual funds purchased from the sales force channel, which includes registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, and accountants; and 36 percent owned fund shares purchased from the direct market channel, which consists of purchases made directly from fund companies and through discount brokers.

Sixty percent of mutual fund-owning households considered employer-sponsored retirement plans to be their primary source for purchasing mutual funds. Twenty-eight percent reported the sales force channel to be their primary source for purchasing funds, and 12 percent cited the direct market channel.

How does ICI gather information about mutual fund shareholders?

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of mutual fund-owning households in the United States. The most recent survey was conducted from May to July 2017 and was based on a dual frame telephone sample of 5,000 randomly selected US households. Of these, 2,500 households were from a landline random digit dial (RDD) frame and 2,500 households were from a cell phone RDD frame. Of the households contacted, 2,223 (44.5 percent) owned mutual funds. Eligible households included those owning mutual funds inside or outside employer-sponsored retirement plans. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments.

Where can I get more information about mutual fund shareholders?

For more information about mutual fund shareholders, please see the following ICI publications:

- [Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2017 \(pdf\)](#)
- [Characteristics of Mutual Fund Investors, 2017 \(pdf\)](#)
- [Profile of Mutual Fund Shareholders, 2017 \(pdf\)](#)
- [Investment Company Fact Book: A Review of Trends and Activity in the Investment Company Industry](#)

March 2018

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Frequently Asked Questions About Mutual Fund Directors

I. Introduction to Mutual Fund Boards and Directors

II. Duties and Responsibilities

III. Service on a Mutual Fund Board

IV. Board Structure and Practices

I. Introduction to Mutual Fund Boards and Directors

What is a mutual fund and how is it structured?

A mutual fund is a pool of stocks, bonds, and other investments owned by the fund's investors (the shareholders). A fund is typically externally managed; it is not an operating company and it has no employees in the traditional sense. Instead, a fund relies on third parties or service providers that are either affiliate organizations or independent contractors (the investment adviser, distributor, custodian, transfer agent, and others) to invest fund assets and carry out other business activities. All mutual funds are required by law to have a board of directors (sometimes referred to as a board of trustees).

What does a mutual fund's board of directors do?

In broad terms, the board oversees the management and operations of the fund on behalf of the fund's shareholders. Directors also have significant and specific responsibilities under the federal securities laws. Among other things, they oversee the performance of the fund, approve the fees paid to the investment adviser for its services, and oversee the fund's compliance program. A director's role is to provide oversight and not to be involved in day-to-day management.

What is the role of the board's independent directors?

The Investment Company Act of 1940 (1940 Act)—the primary federal law governing mutual funds and directors—imposes specific responsibilities on independent directors and looks to them to monitor potential conflicts of interest between the fund and its adviser.

According to the Supreme Court, the independent directors have “the primary responsibility” for looking after the interests of the fund's shareholders and serve as “independent watchdogs” who “furnish an independent check” upon the management of the fund. The 1940 Act requires a certain percentage of each fund's directors to be independent.

What makes a director “independent”?

A director must satisfy a number of specific and stringent requirements to be “independent.” In general, under the 1940 Act, an independent director cannot currently have, or at any time during the previous two years have had, a significant business relationship with the fund's adviser, principal underwriter (distributor), or affiliates. An independent director also cannot own any stock of the investment adviser or certain related entities, such as parent companies or subsidiaries.

How are mutual fund boards different from or similar to corporate boards?

Like the directors of a corporate board, mutual fund directors oversee the management and operations of a company (the fund) and have a fiduciary duty to represent the interests of shareholders. The focus of

mutual fund directors, however, is slightly different because of the structure of mutual funds. Because a fund has no employees and relies on the adviser and other service providers to run the fund's day-to-day operations, the board focuses on the performance of these entities under their respective contracts and monitors potential conflicts of interest. As discussed below, the 1940 Act and its rules set forth specific duties of mutual fund directors.

It is important to note that the mutual fund board is not the board of the fund adviser. In fact, in some cases, the adviser may itself be a public company with its own board of directors and shareholders. Thus, while the fund board oversees the services the adviser provides to the mutual fund, it does not oversee the management and operations of the adviser.

II. Duties and Responsibilities

What is a director's fiduciary duty?

Directors have the fiduciary duty to represent the interests of the fund's shareholders and are subject to state law duties of loyalty and care. The duty of loyalty requires that directors use their positions of trust and confidence to further the interests of the fund and its shareholders ahead of their private interests. Fundamental to the duty of loyalty is the avoidance of self-dealing and of conflicts of interest that are detrimental to the fund. The duty of care requires directors to perform their duties in good faith, in a manner reasonably believed to be in the best interests of the fund, and with the degree of care that an ordinarily prudent person in a like position would exercise under similar circumstances. The duty of care also requires that directors be informed, apply their business judgment, and reach reasonable decisions.

What specific responsibilities does a mutual fund director have?

The federal securities laws impose significant responsibilities on mutual fund directors and on independent directors in particular. One of the board's most important statutory responsibilities is to annually evaluate and approve the fund's contract with the adviser (the advisory contract). Directors also must approve certain distribution plans (e.g., distribution plans commonly referred to as "Rule 12b-1 plans").

The federal securities laws also specifically require directors to oversee, among other things:

- Fair valuation determinations for certain securities held by the fund;
- Voting of proxies for the fund's portfolio securities;
- The compliance function, which includes approving written policies and procedures and the hiring and compensation of the fund's chief compliance officer; and
- The process by which fund disclosure (including prospectuses) is prepared, reviewed, revised, and updated.

Also, as part of its general oversight responsibilities, the board monitors various fund matters, including investment performance, risk management, custody of assets, and shareholder services.

How does a mutual fund board fulfill its responsibilities?

Throughout the year, mutual fund boards are engaged in a variety of ways in overseeing funds. They meet regularly, request and review numerous reports relating to fund matters (including investment performance and the compliance function), and engage in discussions with the adviser, counsel, and others.

A good example of how a mutual fund board fulfills its responsibilities is the annual review and approval of the advisory contract. Directors are required to approve the contract at an in-person meeting.

However, as noted below, the process of preparing for that meeting is rigorous and takes several months,

if not the entire year. Directors continuously assess the quality of the services provided by the adviser. Should any of those services need improvement, directors can and do require advisers to provide appropriate additional resources to resolve the issue.

What are directors' responsibilities in approving the adviser's fees?

The adviser's fees are part of the advisory contract that directors review and approve every year. The board is required to request and evaluate—and the adviser is obligated to furnish—the information that may be reasonably necessary to evaluate the contract. The SEC requires boards to consider a host of factors and for funds to disclose the basis for the board's approval. Directors participate in numerous meetings to consider and review hundreds if not thousands of pages of detailed information in the contract approval process.

Directors are not required to negotiate for the absolute lowest rate with the adviser. Instead, regulators and the courts recognize that directors must balance a number of considerations, including the nature, extent, and quality of the services provided by the adviser. Good performance, which is ultimately what shareholders are seeking, may best be achieved by paying the adviser a competitive rate, rather than the lowest possible fee. In the fee approval process, however, directors do often require the adviser to take steps to bring fees down, such as instituting breakpoints at specified asset levels, waiving fees, reducing fees outright, or enhancing services.

The overall fee-setting process works. [Fund fees and expenses](#) have declined over the past 20 years and shareholder services have increased.

Can the board fire the fund's investment adviser?

It's possible, but it rarely happens, for a number of reasons. Unless there are extreme circumstances, such as fraud, a change of advisers would be costly, disruptive, imprudent, and, of greatest significance, contrary to shareholders' express intention to invest with a particular money manager.

Directors have other means to effect more targeted changes to increase the quality of the adviser's services or the fund's investment performance. For example, they can urge the adviser to hire a new portfolio manager for the fund, move to a team approach of portfolio management, increase its investment research capability, retain a subadviser, or merge the fund.

In a memorandum cited in IDC's [brief](#) to the Supreme Court in *Jones v. Harris*, the SEC explained that “[t]he infrequency with which fund directors have rejected investment advisory contracts does not necessarily indicate that directors . . . have not been forceful enough in representing shareholder interests.” This is because “directors can and frequently do employ means other than contract termination to effect changes in the best interests of funds.”

Can directors be held liable for their actions?

The 1940 Act authorizes the SEC to bring an action against any director who, through personal misconduct, breaches his or her fiduciary duty. The federal securities laws also make mutual fund directors civilly liable for materially misleading statements made by the fund in its prospectus.

Directors also can be liable for a breach of their fiduciary duties (such as the duties of loyalty and care discussed above) under state law. A state law concept known as “the business judgment rule” may protect independent directors from personal liability where they have acted on an informed basis, in good faith, and in the honest belief that the action taken was in the best interests of the fund.

III. Service on a Mutual Fund Board

How are mutual fund directors selected?

All directors on a mutual fund board have been elected by the fund's board and, in many instances, by

fund shareholders. New independent directors generally are elected by the existing independent directors and, when necessary (or if deemed desirable by the board), by the fund's shareholders. The 1940 Act generally requires that at least two-thirds of the board be elected by the fund's shareholders. When a new fund complex is launched, the fund sponsor (often an investment adviser) typically is the initial and sole shareholder of the new funds and elects the initial slate of directors.

Are there any requirements for who can be on a mutual fund board?

There are no legal requirements pertaining to the qualifications of a director. Boards commonly are composed of directors with diverse backgrounds in accounting, law, investment management, academia, general business, and other professions and fields. Background and other information about each director are included in fund documents, which are available on the SEC's website and from the fund. Certain persons (such as those convicted of a crime within the past 10 years) are ineligible from serving as a fund director.

How are directors compensated?

Independent directors of mutual funds are compensated for their time and service generally by the funds they oversee. The adviser typically pays the compensation of directors who also are officers or employees of the adviser.

Compensation varies within the industry and may depend on a number of factors. Differences in the complexity and size of funds and fund groups overseen by a director; the time commitment required for meetings and other duties; the number of meetings; and the compensation levels necessary to attract highly qualified people all can play a role in determining compensation.

Director compensation may be structured in different ways and can include an annual retainer, meeting attendance fees, a deferred compensation plan, a retirement program, or other benefits. Independent chairs, lead independent directors, and committee chairs may receive additional compensation for their added responsibilities. Unlike corporate directors, mutual fund independent directors do not receive shares or options in the mutual fund.

Who determines director compensation?

Independent directors set their own compensation. This is consistent with a recommendation of the Investment Company Institute's (ICI) [Advisory Group on Best Practices for Fund Directors](#), which found that placing control over compensation in the hands of the independent directors and not with fund management helps to ensure the independence and effectiveness of the board. Directors frequently rely on independent sources of information, such as industry surveys, when considering their compensation.

How long do directors typically serve on a mutual fund board?

Director tenure generally is not governed by law, so practices regarding terms for mutual fund directors vary. Some boards have mandatory retirement policies based on age or length of service (term limits).

Where can investors find information about a mutual fund's directors?

Every mutual fund is required to disclose information about its directors, including their compensation, ownership of fund shares, other directorships, and experience and qualifications in the fund's statement of additional information. Some fund groups provide information about their funds' boards on their websites.

IV. Board Structure and Practices

How many directors are independent on a typical fund board?

While board sizes vary, the 1940 Act requires that at least 40 percent of the directors on a board be independent. In practice, independent directors hold an overwhelming majority (75 percent) of board seats in nearly 90 percent of fund complexes.

What role do independent directors play in the leadership of fund boards?

Research by ICI and the Independent Directors Council (IDC) shows that mutual fund boards at nearly two-thirds of fund complexes have [an independent director](#) serving as the board's chair. At almost one-fourth of complexes, independent directors serve as independent lead directors on the funds' boards. Practices in this area vary, and boards have the discretion to determine the leadership structure and role for independent directors that works best for them and the funds they oversee.

What is the role of the independent board chair or independent lead director?

The independent board chair leads the board in all aspects of its responsibilities. The independent lead director does the same, on behalf of the other independent directors. Both the independent board chair and independent lead director typically participate in the formulation of board meeting agendas; serve as a liaison between the independent directors and management between board meetings; and serve as the primary contact for the board's counsel.

What are some governance practices that mutual fund boards follow to achieve independence and effectiveness?

The SEC has established governance standards for mutual fund boards that must be followed by funds that rely on certain exemptive rules. Nearly all funds fall into that category. These standards include:

- Independent directors must select and nominate other independent directors. Independent directors, not the fund's adviser or interested directors, are uniquely qualified to evaluate whether a present or prospective director is likely to contribute to the continuing independence and effectiveness of the independent directors as a group.
- Any attorney for independent directors must be "independent legal counsel" (generally with a law firm that does little or no work for the adviser and certain of its affiliates). Although independent directors are not required to have independent legal counsel, research by [IDC and ICI](#) shows that virtually all do.
- Boards must conduct annual self-assessments designed to increase their effectiveness. The self-assessment is intended to strengthen directors' understanding of their role, foster better communications and greater cohesiveness, and help directors identify potential weaknesses and deficiencies in the board's performance.
- Independent directors must meet in executive session at least quarterly. These executive sessions offer an important opportunity for the independent directors to talk with their counsel and with each other about significant matters on the board agenda. Such sessions also help to strengthen the collegiality and cohesiveness, and thus the effectiveness, of the independent directors.

The [ICI Advisory Group on Best Practices for Fund Directors](#) recommended these and other practices in its 1999 report. The report also recommended that:

- Independent directors establish the appropriate compensation for serving on fund boards;
- Fund directors invest in funds on whose boards they serve;
- Boards generally be organized either as a unitary board for all the funds in a complex or as cluster boards for groups of funds within the complex, rather than as separate boards for each individual fund;
- Fund boards adopt policies on retirement of directors;
- Former officers or directors of the adviser, principal underwriter, or certain of their affiliates not serve as independent directors of the fund; and

- New fund directors receive appropriate orientation, and all fund directors keep abreast of industry and regulatory developments.

How often do mutual fund boards meet?

Boards generally meet quarterly, and many have a fifth meeting devoted to the review and approval of the advisory contract. These meetings allow directors to be informed about the affairs of the fund, ask questions, and deliberate and vote on issues important to the fund and its shareholders. Throughout the year, directors may have additional meetings (in person or by telephone) to address specific issues that may arise.

Do mutual fund boards have committees?

Yes, many boards establish committees to focus on specific subject matters (e.g., audit, governance, investments). The time and effort required of mutual fund directors, especially independent directors, have grown exponentially as the industry has increased in size and complexity and as new regulations have expanded directors' duties. In this environment, boards frequently use committees to help manage their workloads and to enable greater in-depth review and oversight of particular aspects of the fund's operations.

Are mutual fund directors required to invest in the funds they oversee?

No, directors are not required by law to own shares in funds they oversee. Many boards, however, have adopted policies requiring or encouraging their directors to do so. The SEC requires disclosure of the dollar value (in ranges) of a director's investment in any funds that he or she oversees. While fund ownership may help to align directors' interests with those of fund shareholders and enable them to learn more about the quality of the services from a shareholder's perspective, there is no evidence that requiring director ownership leads to improved investment returns for the funds.

Do mutual fund directors oversee multiple funds?

Yes. The unique structure of mutual funds and fund complexes make board oversight of multiple funds within a fund complex an efficient and effective approach to governance.

Most boards are organized according to one of two models: 1) a "unitary" board with one group of directors who sit on a single board overseeing every fund in the complex, or 2) "cluster" boards with two or more separate boards, each overseeing a different group of funds within the complex (e.g., one board may oversee the equity funds, and another board the fixed-income funds).

This structure is efficient and cost-effective because all of the funds within the same complex usually receive necessary services (including, for example, portfolio management and shareholder recordkeeping) from the same entities, are served by common personnel, and are organized around common operating features.

What types of resources do directors have available as they do their work?

The fund's chief compliance officer (CCO), who reports directly to the board, is an important resource. The CCO provides regular reports to the board about the fund's compliance policies and practices and meets with the independent directors in executive session at least annually.

Most independent directors also rely on independent legal counsel for advice to help ensure that they understand their responsibilities, ask pertinent questions, and receive the information necessary to carry out their responsibilities. Fund directors also rely on reports, opinions, and certifications from the fund's adviser and other service providers.

Mutual fund directors also use a variety of resources to stay informed about industry and regulatory developments and to continually enhance their understanding of the many complexities of mutual funds

and their operations. IDC, an organization that is part of ICI, is dedicated to serving the needs of the mutual fund director community and provides an array of educational resources for directors.

What is the role of the Independent Directors Council?

IDC is the voice of fund directors at ICI. It has a four-part mission: 1) to advance director education, 2) promote director engagement, 3) assist in the formulation of policy positions, and 4) promote public understanding of directors' role. IDC sponsors **events** that provide a forum for directors to gather and discuss recent developments and emerging industry trends affecting their work in the boardroom, including conferences, workshops, and regional meetings across the country. IDC also has published a number of task force reports and other **publications** that examine governance trends and offer practical guidance for independent directors on a range of topics. IDC keeps the director community informed of regulatory and industry developments through regular communications, including memoranda highlighting developments of interest and a monthly newsletter, Board Update. IDC also is actively engaged on policy matters impacting the role of fund directors. For example, it filed an **amicus brief** in the Supreme Court case, *Jones v. Harris*, and submits **comment letters** on SEC rule proposals that may affect the role of fund boards.

For more information, please see *IDC's Overview of Fund Governance*.

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