

April 27, 2004 10:05 a.m. EDT

FUND FIEND
By IAN MCDONALD



Fund Directors Take Home Higher Pay, Two Studies Show

But Some Directors Don't Own Shares of the Funds They Oversee

April 27, 2004 10:05 a.m.

Mutual-fund directors are facing razor-sharp criticism these days. At the same time, many directors are taking home higher pay and a significant number haven't sunk a dime into any of the funds they oversee.

That's the upshot from two new studies, one by compensation researcher Equilar Inc. and the other by consultant Management Practice Inc. Fund directors, formerly obscure figures who are supposed to select a fund's manager and haggle for fees on shareholders' behalf, have been thrust into the spotlight by the sprawling probe [into improper fund trading](#)¹.


In recent months the pack of fund-board critics has grown, ranging from venerable investor Warren Buffett to New York Attorney General Eliot Spitzer to lawmakers on Capitol Hill. Their gripe: Fund boards have too often deferred to the wishes of firms managing the funds they oversee, rather than battle to get a good deal for fundholders.

Part of Mr. Spitzer's settlement with Bank of America called on eight trustees of the firm's Nations Funds to resign. Several settlements in the fund-trading scandal, for example, have included mandated fee cuts amid evidence that many firms charged individuals higher management fees than institutions on similar sized accounts. There's also little evidence that boards overseeing struggling funds consider changing managers.

As the Securities and Exchange Commission weighs [numerous proposals](#)² designed to boost fund boards' independence and efficacy, studies zeroing in on their paychecks, performance, workload and even their portfolios may become more common.

What did some document snooping and interviews turn up?

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

ABOUT IAN MCDONALD

Ian McDonald covers the mutual-fund industry for the Online Journal, writing the Fund Fiend and Seven Questions columns, in addition to general reporting on the industry. Prior to joining the Journal in 2002, Ian was a mutual-fund reporter and columnist at TheStreet.com. He also worked as a marketer in the fund business for several years in Boston. Ian was named to The Journalist and Financial Reporter's list of 30 Top Journalists Under 30 in 2001, and won the New York State Society of CPAs Award for Excellence in Financial Journalism in 2000.

Ian passed the exams for the Series 7 and Series 6 licenses, required of financial professionals, and is a candidate for the Chartered Financial Analyst designation. A native of Brewster, Massachusetts, Ian earned a BA degree in English from Bates College in Lewiston, Maine.

The median salary of fund directors at the nation's 50 largest complexes rose 13% in 2003, to nearly \$128,000, up from about \$113,000 a year earlier, according to the latest installment of an annual fund-director study by Management Practice, based in Stamford, Conn. C. Meyrick Payne, a director with the firm who oversees the study, says that in several cases the pay raise wasn't due to rising salaries or retainers, but rather more committee meetings, triggering added per-meeting fees that can total thousands of dollars for some.

"In many cases, fund directors we didn't think they got a pay raise because their retainers didn't go up," Mr. Payne says. "But they did, often because the number of meetings went up."

Public filings indicate that while many directors serve for modest compensation, there is a wide range. Among the highest paid is Joseph S. DiMartino, chairman of the Dreyfus funds' boards who was paid \$800,306 last year by the funds. Mr. DiMartino, president and chief operating officer of Dreyfus Corp. from 1982 to 1994, became chairman in 1995 and serves on several board groups, overseeing nearly 200 funds. Despite his past role with the company, he is considered an independent director under current rules.

Test Your Knowledge

What percentage of fund directors are men?

- A. 68%
- B. 94%
- C. 43%
- D. 88%

See [answer below](#).

Mr. Payne's data, drawn from public filings and surveys of 290 mutual-fund firms in late 2003 and early this year, indicate that smaller firms are having to pay up to lure and keep directors, likely due to the rising time commitments and profile of these jobs.

In 2003, directors at firms managing between \$5 billion and \$10 billion had median pay of \$47,063, up 18% from about \$40,000 the year before, according to Management

Practice. Fund-board salaries are typically set by the boards themselves and are paid out of the assets of the funds they oversee.

While still light by most standards, fund directors' workloads are on the rise thanks to the current scandal and requirements related to the 2002 Sarbanes-Oxley Act, which changed governance standards. At the nation's 50 largest firms, for example, the number of trustee meetings stayed at about 11, but work hours rose from 300 to between 400 and 450. Fund-board chairmen saw their work hours double to about 800.

"You could call it the spouse effect, where a spouses asks you why you're doing this and you need to have a good answer," says Mr. Payne.

Despite these rising commitments and remuneration, however, a significant number of directors haven't invested in shares of the funds they oversee.

San Mateo, Calif.-based Equilar, which compiled its numbers from the public filings of more than 80 of the nation's largest fund outfits, reports that 60% of fund directors have more than \$100,000 invested in the fund families they oversee. But a little over 15% reported no investments in the funds they watch out for.

A Fund-Board Reader

- [Fund Boards Feel the Heat](#)³
- [A Rundown on New Fund Rules](#)⁴
- [Wanna-Be Directors Need Patience](#)⁵
- [Seven Questions With Putnam Fund-Board Chairman John Hill](#)⁶
- [Fidelity's Johnson Wants to Stay As Fund Board Chairman](#)⁷

"We were surprised by the number of boards where members had no fund ownership stake," said

Tim Ranzetta, president and chief operating officer at Equilar, which specializes in compensation data compilation from public filings and is just starting to research fund directors. "Particularly at a time when people are asking corporate executives and directors to hold shares in the companies they oversee so they have skin in the game."

Three directors of more than 40 BlackRock funds, for instance, had no ownership in those funds at the start of this year, according to a prospectus filed with regulators for the BlackRock Small Cap Value Fund April 8.

Indeed, fund officials ownership of their own funds is becoming a hot topic due to the trading scandal. Fund directors have been required to disclose their compensation and fund ownership since 1995.

"Fund ownership by directors is a long-standing problem for the fund industry," says Kunal Kapoor, associate director of fund research at Morningstar Inc. in Chicago. "The alignment of directors' interests with shareholders' just isn't there to the extent you'd like."

Mutual-fund managers often say they prefer to invest in companies where management has a significant ownership. Current SEC proposals calling for disclosure of fund managers' ownership of their firm's funds and the structure of their pay close a public comment period on May 21. [Recent disclosures](#)⁸ by Bank One showed that most managers held shares of some funds they run, but not all.

Equilar's data on fund directors may provide more ammunition for those arguing that fund directors should be paid, at least in part, in fund shares they're required to hold for at least a few years.

Mr. Kapoor also says that many directors oversee so many funds that each might not get much attention. Equilar's research found that the median number of funds a board watched over was 40.

Mr. Payne, however, points out that the long list of proposed regulatory changes for fund directors may sharply change and improve fund governance. The SEC is currently considering an idea to mandate that fund-board chairman be independent, or unaffiliated with the fund's management company. This would allow an independent overseer to monitor fund governance, set a fund-board's priorities and negotiate management contracts with a fund's adviser.

In this scenario, Mr. Payne says that a chairman would be in a far better bargaining position if he or she oversees many funds, as compared with just a few. Of course, all that would come at a cost. Independent fund directors will typically get a 25% to 50% pay increase to take on the extra work and responsibility, Mr. Payne says.

And the Answer Is...

D. Some 88% are men. Equilar's findings are based on public filings made by more than 80 of the largest fund firms in the nation.

Write to Ian McDonald at ian.mcdonald@wsj.com⁹

URL for this article:
<http://online.wsj.com/article/SB108300888146593740.html>

Hyperlinks in this Article:

- (1) http://online.wsj.com/page/0,,2_1050,00.html
- (2) <http://online.wsj.com/article/SB108187284575981391.html>
- (3) <http://online.wsj.com/article/SB107947469266357102.html>
- (4) <http://online.wsj.com/article/SB108187284575981391.html>
- (5) <http://online.wsj.com/article/SB108085665702572033.html>
- (6) <http://online.wsj.com/article/SB107395237993400600.html>
- (7) <http://online.wsj.com/article/SB107947625431957159.html>
- (8) <http://online.wsj.com/article/SB107883861620650200.html>
- (9) <mailto:ian.mcdonald@wsj.com>

Copyright 2005 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.