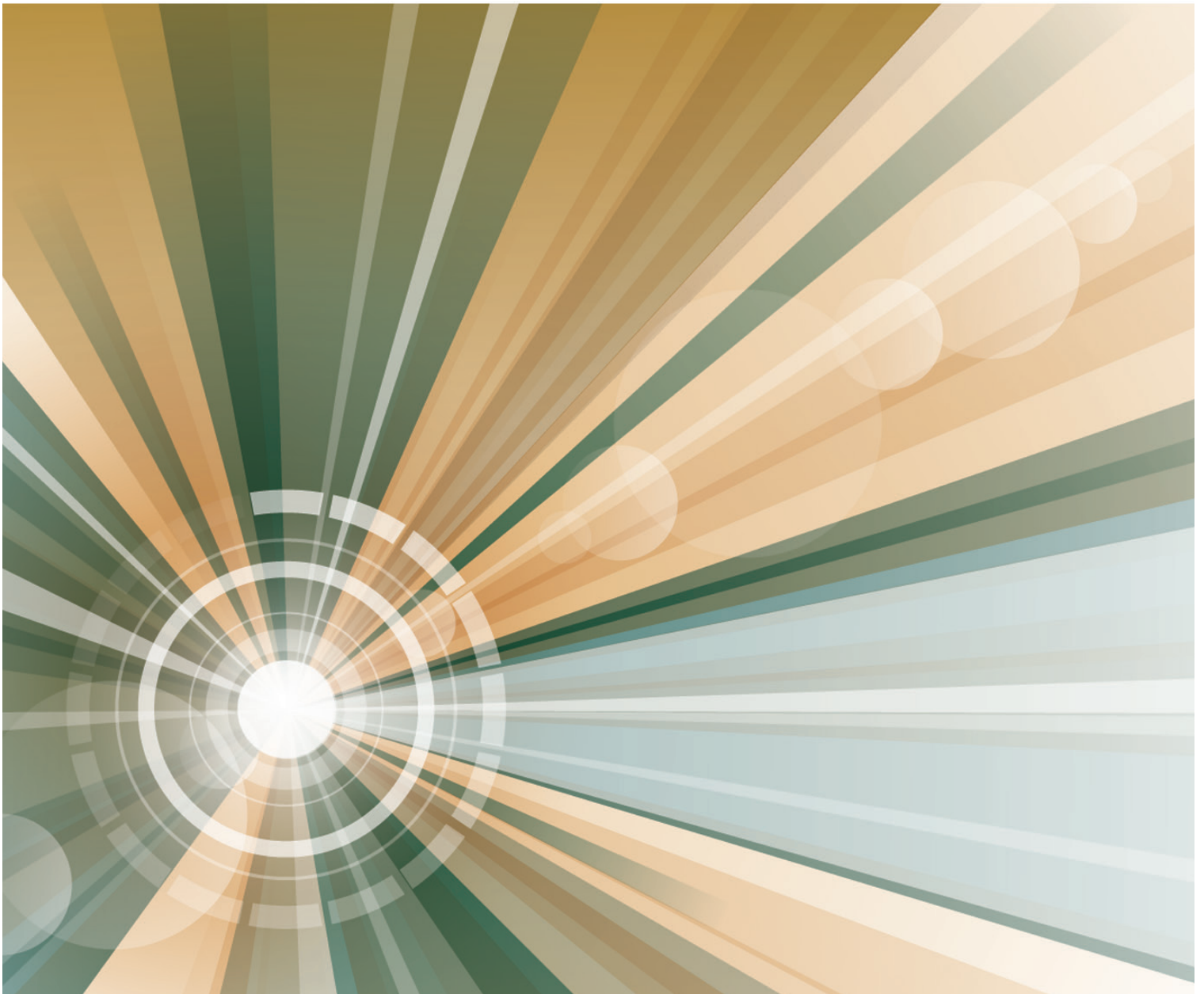
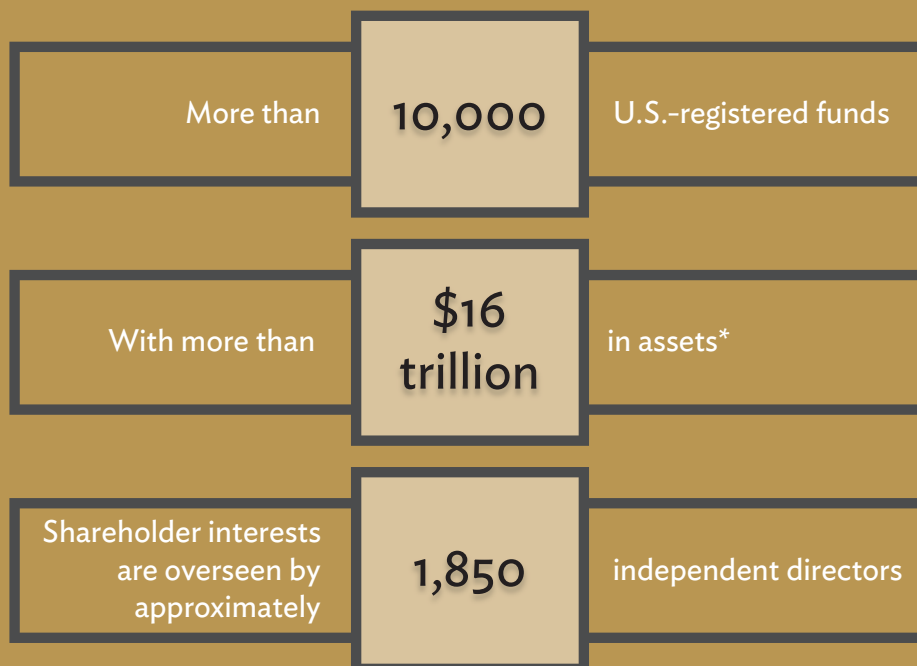


# 2013 Annual Review



The Independent Directors Council (IDC) supports investment company independent directors in fulfilling their responsibilities to promote and protect the interests of fund shareholders. IDC promotes the highest standards of fund governance, for the benefit of funds and their investors. This is accomplished through IDC's mission of advancing independent directors' education, communications, and policy positions and promoting public understanding of their role. IDC also provides practical guidance to fund boards about relevant issues, enabling them to adapt to regulatory and industry developments. IDC is part of the Investment Company Institute, the national association of U.S. investment companies.



*\*Assets include mutual funds, closed-end funds, and exchange-traded funds. Data for mutual funds and exchange-traded funds are as of November 2013. Data for closed-end funds are as of September 2013.*

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## LETTER FROM THE IDC Governing Council Chair

SUSAN B. KERLEY  
Chair, Governing Council,  
Independent Directors  
Council  
Independent Director,  
Legg Mason Partners  
Funds  
Independent Director,  
MainStay Funds

Dear Fund Director Colleagues,

As chair of the Independent Directors Council, I am pleased to present IDC's 2013 *Annual Review*.

It is a privilege to work with the 25 fund independent directors serving on IDC's Governing Council, and with IDC's outstanding professional team, led by Managing Director Amy Lancellotta. IDC is fortunate to have access to the Investment Company Institute's professional personnel, research, and data as well. We are all deeply committed to working together to support you—the fund director community—in fulfilling your responsibilities to promote and protect the interests of fund shareholders.

Since its founding in 2004, IDC has developed into a well-respected and highly effective organization with a singular focus on serving the fund director community. This evolution has taken place during a time of extraordinary change within the fund industry, marked by innovation in financial markets, increasing globalization, ever-changing technology, and heightened regulatory scrutiny.

Funds and their boards have had to adapt to this new environment at an accelerated pace. IDC, in turn, has adapted in supporting directors' evolving needs—introducing interactive educational tools to make it easier for directors to learn about industry and regulatory developments, engaging with policymakers to ensure that new regulations do not inadvertently hinder directors' ability to serve

funds and their investors, and bringing directors together through different forums to share their ideas and concerns.

As we mark IDC's 10th anniversary, we look forward to talking with you about how fund boards' responsibilities are likely to change, and how IDC can evolve to support boards in the future. Our 2014 Fund Directors Workshop will feature a panel titled "The 2024 Fund Board," which will examine how board oversight practices have changed and identify some of the opportunities and challenges facing directors in the years to come.

We hope to see you at that workshop in May and at other IDC events, including our chapter meetings and the 2014 Fund Directors Conference in November. These events enable us to engage with you and discuss the topics on your minds. With each conversation, my IDC colleagues and I learn something new about how we can most effectively support you and your board.

The past decade has brought incredible change, and I daresay the next one will bring even more. One thing that will not change, however, is IDC's mission.

We always will be committed to advancing director education, facilitating director engagement, communicating with regulators about policy issues affecting fund directors, and promoting public understanding of the role and responsibilities of fund boards.



## LETTER FROM THE IDC Managing Director

AMY B. R. LANCELOTTA  
Managing Director,  
Independent Directors  
Council

2013 was another productive year for IDC in supporting fund directors in their representation of shareholders' interests. IDC offered directors a range of robust educational programs and resources while ensuring that policymakers heard the fund director's perspective on important policy matters.

IDC's development and success is the result of consistently strong leadership and participation by fund directors. Indeed, IDC's Governing Council Chair, Susan B. Kerley, brought a high level of energy to the organization last year, helping us streamline priorities and ensuring that IDC makes continued progress in our mission to meet the future needs of the fund director community.

This past year we saw particularly heightened focus from regulators on director activities. Securities and Exchange Commission (SEC) Chair Mary Jo White characterized fund boards as "critical gatekeepers" in discussing the Commission's enforcement program. And throughout 2013, SEC Division of Investment Management Director Norm Champ reached out to directors to hear about areas where they "believe they are adding value and, in contrast, about areas where they feel that their oversight is more difficult to manage."

In light of this increased scrutiny from regulators, it is even more important that we continue to offer directors opportunities to stay informed and enhance their education about critical

matters. One of the new ways we will reach out in 2014 is through IDC's Core Responsibilities webinar series. Identifying key duties for directors, this webinar series will make available to a broader audience the highly successful core responsibilities special session held at the October 2013 IDC Fund Directors Conference. Other ways IDC will reach out include continuing our popular chapter meetings, our industry segment conference calls, and our webinars. We also will uphold the tradition of publishing papers on important topics. This year, we plan to update some of our previously released papers, including the ICI/IDC report, *Navigating Intermediaries*. These updates will reflect developments in the industry and governance practices.

In addition, we will celebrate our 10-year anniversary in 2014. While we take this opportunity to reflect on IDC's growth and successes, we will of course continue to look ahead to consider the ways we can best serve directors and their efforts on behalf of fund shareholders.

IDC strongly believes that an educated and informed director provides the best protection for a fund and its shareholders. As always, IDC will strive to support fund directors by helping them fulfill their duties, amplifying their voices in policy debates, and promoting public understanding of directors' roles. With the continued leadership and participation of the director community, we will ensure that the next 10 years are as successful as the first 10.



## IDC'S MISSION IN ACTION

# Advancing Director Education

As the fund industry continues to grow and evolve, and regulations affecting funds continue to increase, directors continue to look for opportunities to stay apprised of current developments. IDC serves this need through a wide range of educational programs and materials, as well as through opportunities for directors to interact with each other and with policymakers.

### Bringing Directors Together to Exchange Ideas

In this constantly changing industry, it is critical to bring independent directors together to facilitate learning and the exchange of ideas. To that end, IDC holds two events every year: the Fund Directors Conference and the Fund Directors Workshop.

IDC's Fund Directors Conference—the industry's premier event for fund directors—provides insights into navigating today's rapidly changing regulatory environment while giving directors the opportunity to network with their peers. Three hundred and fifty attendees gathered in Chicago last October to

attend panel discussions on a variety of important topics, including valuation, distribution, portfolio trading and best execution, and SEC enforcement and judicial developments. Participants heard luncheon speaker Norm Champ, Director of the Securities and Exchange Commission's (SEC) Division of Investment Management, offer his thoughts on the role of fund directors. In addition, Michael Moskow, former president and CEO of the Federal Reserve Bank of Chicago, discussed the outlook for the economy and U.S. monetary policy.

IDC's Fund Directors Workshop is another opportunity for directors to come together to learn about the latest industry developments. Held during the spring in Washington, DC, in conjunction with ICI's General Membership Meeting, the workshop offers independent directors the chance to gather with other representatives of the fund industry to discuss current issues. Last year, topics included oversight of portfolio performance, governance issues, and trends in omnibus accounts. Attendees also heard from top regulators.



Norm Champ, Director of the SEC's Division of Investment Management, discusses the role of fund directors.

### Providing Practical Guidance for Directors

IDC helps independent directors consider governance issues by providing a variety of educational vehicles, including well-researched and timely publications. In 2013, IDC continued its tradition of providing practical guidance and insight to directors by publishing two important white papers: *Investment Performance Oversight by Fund Boards* and *Considerations for Board Composition: From Recruitment Through Retirement*. In addition, IDC and ICI published *Overview of Fund Governance Practices, 1994–2012* and their annual *Directors Practices Study*.

*Investment Performance Oversight by Fund Boards* helps directors fulfill their investment performance oversight responsibilities by examining investment management concepts, processes, and considerations involved in establishing criteria to evaluate a fund's performance. The paper covers the board's role in monitoring and evaluating portfolio performance as well as the considerations a board might make when a fund has performance issues.

*Considerations for Board Composition* addresses issues directors must weigh when populating their fund boards, such as recruiting and director selection, onboarding, board mergers, and mandatory retirement policies. The paper underscores the importance of a properly constituted board to effectively perform its oversight role.

These 2013 white papers join more than 15 other publications that IDC offers directors to enhance their education for the benefit of fund shareholders. Other notable educational IDC papers include *Fund Board Oversight of Risk Management* and *Board Oversight of Derivatives*.

The *Directors Practices Study* is an extensive analysis of director compensation, board and committee structures, and board policies and practices. This year's survey included 1,351 independent directors from 171 fund complexes representing more than

\$13.6 trillion in assets under management. The study results are available to those fund groups and boards that participated in the survey.

In conjunction with the *Directors Practices Study*, IDC and ICI published the *Overview of Governance Practices 1994–2012*, a publicly available summary of the *Directors Practices Study* that highlights some of the key insights into and information about boards' policies and practices, as well as trends in these practices over the past 18 years.

### Informing Directors Through the Web

The Internet is one of the most important channels that IDC uses to help keep directors updated on the latest events and issues affecting the fund industry. Through webinars and its website, IDC informs directors about a wide range of topics.

IDC's website, [www.idc.org](http://www.idc.org), offers a friendly interface and features "quick links" on every page to frequently accessed topics. It operates as the portal to all of IDC's educational offerings, including white papers, materials from conference calls, information about upcoming events, and IDC's electronic newsletter, *Board Update*—a monthly newsletter summarizing regulatory, legislative, and judicial developments of interest to directors.

The site also contains links to IDC's popular webinar program, which enables directors to easily and efficiently access educational information from their homes or offices. In 2013, IDC offered webinars on a range of topics, including board oversight of alternative investment funds, emergency planning and lessons learned from Superstorm Sandy, portfolio trading and best execution, as well as cybersecurity and social media. IDC's webinars, conference calls, and other educational materials are archived at [www.idc.org/idc/events/past\\_events](http://www.idc.org/idc/events/past_events).

In addition, IDC's website gives directors access to ICI's website and resources, including *ICI Daily*, a digest of top fund industry news stories that also contains the latest ICI and IDC memos.



## IDC'S MISSION IN ACTION

# Convening the Director Community

Through a variety of outreach and communication efforts, IDC convenes the director community to facilitate interaction and keep directors updated on a regular basis about regulatory, legislative, judicial, and industry developments. By tapping into the collective wealth of directors' expertise, IDC provides many different opportunities—such as through chapter meetings and conference calls with segments of the director community (e.g., audit committee chairs and board leaders)—for directors to exchange ideas and practical tips.

### Chapter Meetings

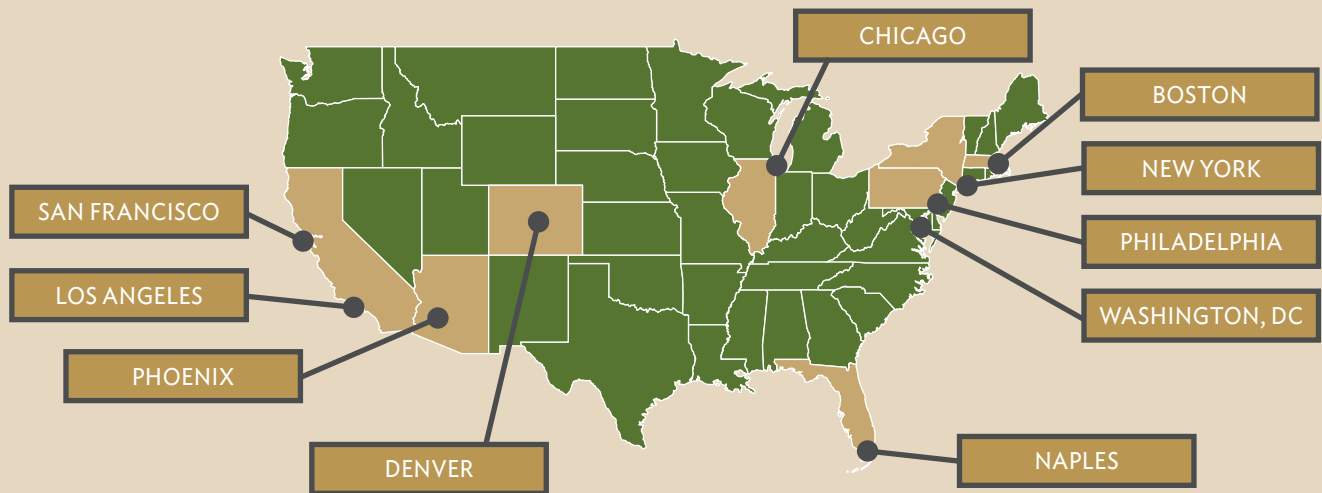
IDC's regional chapter meetings, held in ten locations across the country, promote director engagement and discussion about issues affecting the industry in general and the role of directors in particular. Members attending IDC's 2013 chapter meetings discussed fair valuation, compliance programs, peer assessments, risk

management, and mandatory retirement policies, among other topics. They also heard from industry experts on topics such as social media and oversight of alternative investment funds.

### Conference Calls with Audit Committee Chairs and Board Leaders

In 2013, IDC launched a new initiative to bring together segments of the director community for roundtable discussions. In separate conference calls, audit committee chairs and fund board leaders discussed developments and practices relevant to their roles on fund boards. This initiative offers directors a dedicated forum for candid discussions about the unique issues pertinent to their sector of the fund director community. These conference calls were extremely well-received, and the program will continue this year.

### Locations of 2013 IDC Chapter Meetings





## Providing the Voice of Independent Directors in Policy Debates

As one of its core missions, IDC communicates the perspective of fund independent directors to policymakers, including Congress, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB). This perspective reflects views on fund governance matters and directors' concerns with safeguarding the interests of fund shareholders.

### Money Market Funds

Money market fund reform was one of the most significant policy issues affecting funds in 2013. IDC was vigilant in monitoring the policy debate and providing the viewpoint of independent directors. In comment letters to the Financial Stability Oversight Council (FSOC) and the SEC, IDC joined many others in asserting that the SEC, rather than FSOC, should be the primary regulator of money market funds. To the SEC, IDC argued that the case had not persuasively been made that additional reform was necessary—particularly in light of the demonstrated effectiveness of the SEC's 2010 money market fund reforms. Those reforms enhanced the resiliency of money market funds in times of market stress, among other things.

### Valuation

IDC actively participated in discussions about the SEC's possible proposed guidance regarding fair valuation processes. When SEC Division of Investment Management Director Norm Champ announced that his staff was working on possible valuation guidance and that he was particularly interested in obtaining public input on fund

valuation processes, IDC arranged meetings between SEC staff and fund directors, as well as with independent counsel to fund boards. These meetings provided an opportunity for directors and their independent counsel to discuss with SEC staff current practices under the existing guidance and specific recommendations for any future guidance.

### Auditor Issues

IDC also participated in the debate about mandatory audit firm rotation, which the PCAOB proposed as a means to enhance auditor independence. At a hearing leading up to the House of Representatives vote on a bill to prohibit the PCAOB from requiring audit firm rotation, IDC and ICI submitted a written statement in support of the legislation. Asserting that there was no clear correlation between fund audit deficiencies and a lack of auditor independence, IDC pointed out that existing safeguards were more than adequate to assure the independence of auditors.

In addition, IDC joined with ICI in a vigorous response to a sweeping PCAOB proposal that would change the form of the audit opinion and clarify the auditor's responsibilities relating to information outside the financial statements that is included in the annual report filing. IDC and ICI commented on several issues within the proposal, including the required communication in the auditor's report of "critical audit matters," which IDC and ICI opposed.

## **JOBS Act**

IDC also weighed in on the SEC’s proposal to eliminate the prohibitions against general solicitations and general advertising by privately offered funds, such as hedge funds. To mitigate potential investor confusion as well as prevent misleading advertisements, IDC urged the SEC to require that private funds comply with advertising rules and restrictions similar to those imposed on registered funds, and to inform investors—in clear disclosures—about the important differences between private funds and registered funds.

## **Diversity Policies and Practices**

To implement a requirement of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC joined four other agencies last fall

in proposing standards for assessing the diversity policies and practices of the entities they regulate.

Through a comment letter, IDC expressed its support for the measured approach taken in the proposal, and explained that “fund directors are keenly aware of the importance of diversity and promote it on their boards through various means.” The letter observed that while the promotion of diversity and inclusion at SEC-regulated entities is unquestionably a laudable goal, it is not within the SEC’s core mission. Thus, IDC supported the proposal to make the standards voluntary and matters for self-assessments, rather than a mandate subject to an agency’s examination or supervision process.

## Telling the Story: What Directors Do for Fund Shareholders

Understanding the responsibilities of fund directors is vital to shareholder confidence in the fund industry. To that end, IDC actively informs the media, policymakers, and the investing public about the critical role fund directors play and the work they perform on behalf of 90 million fund shareholders.

### **Educating the Media, Policymakers, and Investors**

Because fund directors' responsibilities are markedly different than those of directors of publicly held corporations, IDC regularly educates members of the media who write about funds and fund boards. Through interviews and editorials, IDC explains the regulatory framework and appropriate role of fund boards, and describes what they do to protect the interests of fund shareholders.

IDC also carefully monitors and engages with the media on a range of issues, to explain the role of directors and to respond promptly and aggressively when media outlets mischaracterize or misunderstand their role.

To provide the media, policymakers, and investors with accessible-yet-detailed information about mutual fund governance and fund directors, IDC produced two helpful primers: "Overview of Mutual Fund Governance" and "Frequently Asked Questions About Mutual Fund Directors."

"Overview of Mutual Fund Governance" describes, in clear language, how a mutual fund is managed. It outlines the different ways that interests of shareholders are protected, including through rigorous review of advisory contracts and by independent directors acting as "watchdogs."

"Frequently Asked Questions About Mutual Fund Directors" addresses many of the particular questions that reporters, policymakers, and investors often have about fund directors. This resource covers the structure of a mutual fund, the responsibilities of independent directors, and the difference between corporate and investment company boards, providing readers with a greater understanding of mutual funds and the role of directors.

## APPENDIX A

# IDC Governing Council Members

*As of December 31, 2013*

**Ashok N. Bakhru\***  
Independent Chair  
Goldman Sachs Funds

**Dorothy A. Berry\***  
Independent Chair  
Professionally Managed Portfolios  
Independent Director  
PNC Funds

**James H. Bodurtha**  
Independent Director  
BlackRock Funds

**Robert P. Bremner**  
Independent Director  
Nuveen Funds

**David H. Chow**  
Independent Chair  
Market Vectors ETF Trust

**Bruce L. Crockett\***  
Independent Chair  
Invesco Funds

**Diana M. Daniels**  
Independent Director  
Goldman Sachs Funds

**Dennis J. Dirks**  
Independent Director  
Fidelity Equity and High  
Income Group of Funds

**Peter S. Drotch**  
Independent Director  
ING Funds

**Paul K. Freeman\***  
IDC Vice Chair  
Independent Director  
DWS Funds

**Anne M. Goggin**  
Independent Director  
RS Funds

**Karen N. Horn\***  
Independent Director  
T. Rowe Price Funds

**Leonade D. Jones**  
Independent Director  
American Funds

**John P. Kavanaugh**  
Independent Director  
MFS Funds

**Susan B. Kerley\***  
IDC Chair  
Independent Director  
MainStay Funds  
Legg Mason Partners Funds

**Garry L. Moody**  
Independent Director  
AllianceBernstein Funds

**Steven J. Paggioli**  
Independent Director  
Aston Funds  
Managers Funds  
Professionally Managed Portfolios

**Davey S. Scoon**  
Independent Chair  
Allianz Funds

**Erik R. Sirri**  
Independent Director  
Natixis Funds

**Laura T. Starks\***  
Independent Director  
TIAA-CREF Funds

**George J. Sullivan Jr.**  
Independent Director  
SEI Funds  
State Street Navigator Trust

**Ronald E. Toupin, Jr.**  
Independent Director  
Guggenheim Funds

**Ralph F. Verni\***  
Independent Chair  
Eaton Vance Funds

**Dawn M. Vroegop**  
Independent Director  
Driehaus Funds  
MetLife Funds

**Jonathan F. Zeschin**  
Independent Director  
Matthews Asia Funds

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*\* On ICI Board of Governors*

## APPENDIX B

# IDC Senior Staff

### **Managing Director**

#### **AMY B. R. LANCELLOTTA**

Amy Lancellotta has been the Managing Director of the Independent Directors Council since 2006. For 17 years before assuming this position, Lancellotta was a member of ICI's Law Department, serving most recently as Senior Counsel. Before joining ICI, Lancellotta was in private practice, focusing on issues relating to investment companies and variable insurance products. She is a graduate of the Pennsylvania State University and the George Washington University National Law Center.

### **Deputy Managing Director**

#### **ANNETTE CAPRETTA**

Annette Capretta joined IDC in 2006 from the U.S. Securities Exchange Commission, where she served in various capacities in the Office of Risk Assessment, the Division of Investment Management, and the Division of Enforcement. Capretta also previously served as Vice President and Senior Counsel at Charles Schwab. Capretta graduated from the University of Virginia School of Law and earned a B.S. in Mathematics from the University of North Carolina.

### **Senior Associate Counsel**

#### **LISA CHAIKIN HAMMAN**

Before joining IDC in 2004, Lisa Hamman worked at Morgan, Lewis & Bockius, LLP, counseling investment advisers and investment companies and their boards of directors/trustees about federal regulatory matters. Hamman began her career in the mutual fund industry in the Legal Department of Fidelity Investments. She earned a J.D. from Suffolk University Law School and a B.A. from the University of Michigan.



## APPENDIX C

# IDC 2013 Activities

### Comment Letters

- » Proposed Recommendations Regarding Money Market Mutual Fund Reform (FSOC)
- » Money Market Reform; Amendments to Form PF (SEC)
- » List of Rules to Be Reviewed Pursuant to the Regulatory Flexibility Act (SEC review of certain rules)
- » Amendments to Regulation D, Form D, and Rule 156 under the Securities Act (SEC proposed measures relating to general solicitation and advertising for private funds)
- » Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments (PCAOB, joint letter with ICI)
- » Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies and Request for Comment (joint proposal of SEC and other federal financial regulators)

### Webinars

- » Portfolio Trading and Best Execution
- » Superstorm Sandy: Emergency Planning and Lessons Learned
- » Board Oversight of Alternative Investment Funds
- » Fund Industry Litigation, SEC Enforcement Actions, and Insurance for Fund Directors
- » Beyond Morgan Keegan: Valuation, Compliance, and Enforcement Issues for Fund Directors
- » Social Media and Cybersecurity

### Roundtable Discussions

- » Audit Committee Chairs
- » Fund Board Leaders

### Publications

- » *Considerations for Board Composition: From Recruitment Through Retirement*
- » *Investment Performance Oversight by Fund Boards*
- » *2013: Directors Practices Study: Practices and Compensation* (ICI and IDC)
- » *Overview of Fund Governance Practices, 1994–2012* (ICI and IDC)

### Conferences

- » Fund Directors Conference
- » Fund Directors Workshop
- » Independent Counsel Roundtable

### Chapter Meetings

- » Los Angeles, CA (January, June)
- » Phoenix, AZ (January)
- » San Francisco, CA (January, June)
- » Naples, FL (February)
- » New York, NY (March, September)
- » Chicago, IL (April, September)
- » Denver, CO (June)
- » Boston, MA (April, September)
- » Philadelphia, PA (September)
- » Washington, DC (April)





INDEPENDENT DIRECTORS COUNCIL

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202-326-8300  
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