

INDEPENDENT DIRECTORS COUNCIL

2014 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. Through its mission of advancing independent director education, communications, and policy positions—and promoting public understanding of their role—IDC upholds the highest standards of fund governance, for the benefit of funds and their investors. IDC also provides practical guidance to fund boards about important issues, enabling them to adapt to regulatory and industry developments.

IDC is part of the Investment Company Institute (ICI), a leading, global association of regulated funds, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide.

MORE THAN
11,000
U.S.-REGISTERED FUNDS*

WITH MORE THAN
\$18 TRILLION
IN ASSETS*

SHAREHOLDER INTERESTS ARE OVERSEEN BY APPROXIMATELY
1,900
INDEPENDENT DIRECTORS

641
BOARDS IN IDC'S DATABASE

DIRECTORS FROM MORE THAN
70 PERCENT
OF THOSE BOARDS PARTICIPATED IN IDC ACTIVITIES IN 2014

* Data exclude unit investment trusts. Data for mutual funds and exchange-traded funds are as of November 2014. Data for closed-end funds are as of September 2014.



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Letter from the Governing Council Chair



PAUL K. FREEMAN

Welcome to the Independent Directors Council's *2014 Annual Review*. We publish a summary volume each year to document our work supporting your efforts to promote and protect shareholder interests—and to connect with you as we look ahead to our goals for the upcoming year.

As IDC's newly elected chair, I would like to thank my predecessor, Susan B. Kerley, under whose leadership IDC made great strides. Working with IDC's talented Governing Council, as well as its superb professional staff, is the highest privilege. Together, we'll continue to build on IDC's tradition of providing directors with first-rate educational resources, bringing directors together to share ideas, advocating on behalf of directors in policy debates that affect fund boards, and promoting public understanding of the critical role that boards play in the fund industry.

This four-point approach has been IDC's prime focus for more than 10 years now. Even as the industry has seen major changes, our dedication to serving fund directors has remained firm.

Now, as IDC enters its second decade, many new challenges lie ahead for directors. IDC will adapt to support your evolving needs, just as it always has, with a range of new initiatives. Three priorities stand out for me today:

» First, we plan to broaden the content of our educational programming beyond the regulatory, legislative, and judicial arenas and into the fund business itself. IDC's full access to ICI membership will help us accomplish this goal—and work already is under way. For example, our "expanded" chapter meetings, piloted last fall in Boston and New York, are incorporating informative presentations on important industry issues, including long-term strategic trends affecting fund boards.

» Second, we plan to further leverage technology to improve how we communicate and interact with you, including through a more user-friendly website complete with a glossary, enhanced content, and external resources.

» And third, we plan to expand director participation in IDC events to strengthen our connections with you, as well as connections among directors across fund boards. Our work here will incorporate a greater focus on directors of small fund complexes, including through new industry segment conference calls for them. We also will debut calls for governance committee chairs, directors of closed-end funds, and directors of exchange-traded funds.

These are exciting times for IDC—indeed, for the entire independent director community. As the fund industry continues to evolve, sharing knowledge and experiences among directors is becoming even more important than before. With that in mind, I look forward to hearing from you—perhaps at one of our many events and meetings this year—about the important issues facing your board and about how we might help you address those issues. The more we hear from you, the better we can support you in fulfilling your responsibilities to fund shareholders.

IDC has a long history of commitment to strong fund governance. That commitment was the theme when we celebrated our 10th anniversary in May. With your continued support, participation, and insight, it's a principle we will continue to uphold this year—and beyond.

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Letter from the Managing Director



AMY B. R. LANCELOTTA

With each passing year, IDC marks new progress in supporting fund independent directors' work on behalf of fund shareholders. But we don't rest on our accomplishments. We seize these opportunities to step back, take stock of how the landscape for fund boards has shifted, and plan for the future.

Sometimes, a long-term policy debate affecting fund boards has wrapped up, with a new package of regulations in the offing. Other times, a new proposal is up for comment, with implications for fund boards. And through it all, rapid technological advances have redefined how we communicate and deliver information, with no signs of slowing down.

IDC has built a record of success as we've navigated this tricky landscape over the past decade—with the tireless work of our immensely talented and driven Governing Council, and the participation of leaders across the fund director community. In 2014, IDC once again provided directors with a wide range of educational programming, convened directors to facilitate interaction across boards, and shared the director perspective on critical issues with policymakers and regulators—all while promoting the important role that fund boards play.

One of IDC's major initiatives last year was the launch of our educational webinar series, *Core Responsibilities of Fund Directors*. The five-part series—designed to introduce new directors to their many roles and responsibilities, as well as to give veteran directors a refresher—was very well received, drawing more than 100 attendees per session.

We also expanded our outreach, with more industry segment conference calls for board leaders and audit committee chairs. These calls gave directors an opportunity to discuss their unique responsibilities in an informal, interactive environment, rather than through the conventional route of a formal presentation.

Our Fund Directors Conference in Chicago—the premier event for fund directors—saw record attendance. And at our annual Fund Directors Workshop in Washington, DC, we celebrated our 10th anniversary. We extend our thanks to all who joined us, and we hope you continue to participate in our events in the coming year.

Looking forward, we expect the landscape for fund boards to continue to shift, though it's hard to predict precisely what the future will hold. That's why, under the expert leadership of IDC's new chair, Paul Freeman, we'll have plenty of ideas and resources to help directors keep up with the latest developments in 2015.

By continuing to provide directors with tools to help them perform their duties effectively, by hosting events where they can exchange ideas and practical tips, and by communicating their unique perspective in the policy arena, we will carry forward our commitment to strong fund governance—a commitment as steady as that provided by independent directors to their funds and shareholders every day.



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Education—Building a Director Knowledge Base

IDC's top priority is to ensure that fund directors have access to the resources they need to effectively oversee their funds and serve their fund shareholders. Through a vast array of educational offerings, IDC provides both formal and informal opportunities for directors to learn about the latest regulatory and industry developments and about the governance practices of other fund boards.

Learning the Latest—Together

One of the most important ways IDC educates directors is through its annual events: the Fund Directors Conference and the Fund Directors Workshop. At the Fund Directors Conference, held each fall in Chicago, the fund director community gathers to hear insights from industry thought leaders and senior regulators, and to take advantage of the many networking opportunities.

The 2014 conference, which focused on how the evolving marketplace is affecting funds and their boards, drew record attendance. Expert panels examined leadership in the fund industry, board practices for overseeing the growing risk of cyber threats, investment performance and risk oversight, and the status of ongoing sweep examinations being conducted by the Securities and Exchange Commission (SEC) Office of Compliance Inspections and Examinations.

The Fund Directors Workshop, held in May alongside ICI's General Membership Meeting in Washington, DC, is another opportunity for directors to learn and exchange ideas. Building on IDC's 10th anniversary theme, one forward-looking panel in 2014—"The 2024 Fund Board"—examined past, present, and potential future developments that could affect the composition and responsibilities of fund boards over the next decade. Another popular

panel considered practices for looking beyond day-to-day compliance program responsibilities in order to identify trends and developments that will affect compliance processes in the future.

IDC also educates the director community through board visits, where IDC staff shares insights with directors on regulatory, legislative, and judicial developments, as well as on issues of special interest to the boards.

In addition, IDC's *Directors Practices Study*—a joint venture with ICI—gives participating boards the opportunity to learn about trends in director compensation, board and committee structures, and board policies and practices. This year's survey, which covered director compensation and select practices of fund boards, included 1,345 independent directors from 168 fund complexes representing approximately 92 percent of the industry's total net assets.

A Robust Web Presence—Now Even Stronger

IDC delivers a range of educational content through the Internet. Driving IDC's web content is a diverse webinar program that keeps directors informed on a range of governance and regulatory issues. In 2014, IDC launched *Core Responsibilities of Fund Directors*, a popular five-part webinar series designed to give both newer and more experienced directors a thorough review of their essential roles and responsibilities.

IDC hosted four additional webinars in 2014:

- » a discussion with senior SEC officials on the SEC's examination program and regulatory agenda;

- » a review of the role of fund boards in overseeing fixed-income funds;
- » an update on the litigation and regulatory enforcement environment for funds, advisers, and directors; and
- » an examination of the midterm elections' impacts on the fund industry's policy agenda.

IDC also leverages the web to educate directors through its informative

website. At www.idc.org, directors can access all of IDC's resources, including webinar archives, conference presentation materials, and white papers, which provide directors with practical guidance and insight on a variety of issues. IDC plans to release updates to several of these papers in 2015.

Also included on IDC's website are archives of our e-newsletter *Board*

Update, which focuses on IDC events and activities, recent industry developments of interest to fund boards, and ICI news and research. In addition, the site gives directors access to ICI resources, including a wealth of fund industry data, a full archive of memos and comment letters, and *ICI Daily*, a digest of top fund industry news stories and the latest IDC and ICI memos.

IDC'S CORE RESPONSIBILITIES OF FUND DIRECTORS WEBINAR SERIES, 2014

SESSION	TOPICS
Fundamentals of Fund Director Oversight (February 27)	<ul style="list-style-type: none"> Overview of statutory and regulatory responsibilities <ul style="list-style-type: none"> » Director independence » Specific responsibilities Fiduciary duty of directors General oversight responsibilities <ul style="list-style-type: none"> » Conflicts of interest » Risk Board structures and governance practices
Advisory Contract Approval (April 30)	<ul style="list-style-type: none"> Review of the <i>Gartenberg</i> factors Evaluation of quality of services Profitability analysis Economies of scale analysis Consideration of comparative fees and services information
Investment Performance Oversight (June 4)	<ul style="list-style-type: none"> Governance structure and processes Fund-specific characteristics and expectations Performance oversight processes of advisers Practices for addressing underperforming funds
Oversight of Fund Service Providers (September 11)	<ul style="list-style-type: none"> Distributors Transfer agents Custodians Fund administrators
Specific Regulatory Responsibilities (December 10)	<ul style="list-style-type: none"> Valuation Disclosure The board's relationship with the fund's chief compliance officer Codes of ethics Affiliated transactions Audit committees Proxy voting Securities lending



Outreach—Facilitating Director Engagement

IDC recognizes that some of the most useful insights directors can acquire come from their peers on other fund boards. For this reason and others, IDC works year-round to bring directors together for meaningful dialogue in a variety of settings.

Regional Chapter Meetings

Regional chapter meetings are IDC’s primary outreach initiative. Offered in major cities across the country at no cost to directors of ICI member funds, these meetings feature presentations from industry experts and interactive discussions on issues that affect both the industry generally and the role of directors specifically. Meetings in 2014 covered valuation, fund distribution, regulatory reform of derivatives, passive versus active investing, strategies for alternative investment funds, board effectiveness, and much more.

To bolster our already-robust chapter meeting program, IDC introduced an expanded format in 2014, with pilot programs in New York and Boston. The New York meeting included an

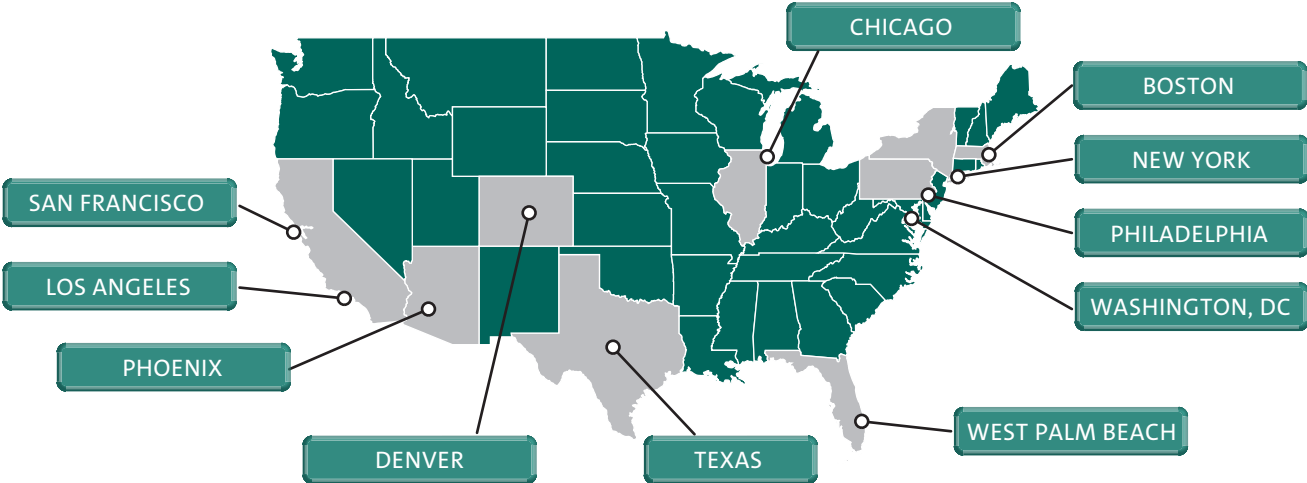
expert panel discussing long-term strategic trends in the fund industry. Attendees at the Boston meeting heard presentations on what the industry will look like in the future, with a focus on investors, investment management firms, and service providers. Due to the success of the expanded meetings, IDC plans to hold more in the coming year.

Industry Segment Conference Calls

Another way that IDC facilitates director engagement is through industry segment conference calls, which focus on issues facing directors who serve in a specific capacity on their board (for example, audit committee chairs and board leaders). Unlike broad, formal presentations, these periodic, hour-long calls offer directors the opportunity to discuss topics of interest in an informal session designed for their unique roles.

In 2015, IDC plans to expand these calls to reach governance committee chairs, directors of closed-end funds, directors of exchange-traded funds, and directors of small fund complexes.

IDC’S CHAPTER MEETINGS IN 2014





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Advocacy—Sharing the Director Perspective

The perspective of independent directors is a critical component in many debates affecting the fund industry. IDC ensures that this voice is heard—by regulators and by the media.

Fund Distribution

Payments by investment advisers and funds to intermediaries for the distribution of fund shares and servicing of shareholder accounts was a priority issue for Securities and Exchange Commission (SEC) staff in 2014. In its examination of this issue, SEC staff expressed concern that fund assets might inappropriately be used to pay for distribution outside a 12b-1 plan. Recognizing that the existing regulatory guidance could be outdated, IDC urged the staff to seek public comment before requiring any changes to those practices specifically or industry practices in this area more generally.

Target Date Funds

Target date funds (TDFs) were another SEC priority. Last year, when the SEC reopened the comment period for a 2010 proposal regarding disclosures in TDF marketing materials, IDC questioned the feasibility and advisability of requiring these materials to include a glide path based on a standardized measure of risk. IDC asserted that focusing on just one measure of risk could confuse or even mislead investors, and would ignore other important investment risks.

PCAOB Engagement

IDC also provided a voice for directors on audit issues. When staff at the Public Company Accounting Oversight Board (PCAOB) released a paper suggesting changes to auditing standards, IDC joined with ICI to express concern that the changes could raise costs for funds and investors—without a commensurate increase in audit quality. IDC also encouraged the PCAOB,

as it considers changes to its audit standards, to take the unique nature of investment companies and fund families into account.

In addition, IDC brought a PCAOB board member together with a panel of fund directors. The group discussed the inner workings of the PCAOB, the implications of its initiatives for the fund industry, and the challenges it faces in implementing those initiatives.

Money Market Funds

IDC endorsed the approach taken in the SEC's recently repropose definition of eligible security (the securities that money market funds are allowed to purchase), which no longer would require these securities to be rated or of comparable quality to rated securities. Reflecting IDC's comments from 2011, the repropose definition requires that an eligible security's issuer have an "exceptionally strong capacity to meet its short-term obligations," as determined by the fund's board of directors or the board's delegate.

Board Roles and Responsibilities

IDC continued to advocate for directors in the news media as well. In September, for example, IDC responded to a *Wall Street Journal* editorial suggesting that a fund board should fire the fund's adviser for poor performance, as a corporate board would fire a CEO.

IDC's response explained that firing a fund adviser can be costly, disruptive, and contrary to shareholders' express intention to invest with that adviser. Directors have other means of representing shareholder interests and improving fund performance—such as hiring a new portfolio manager or retaining a subadviser—that are more consistent with shareholders' desire to invest with a particular fund sponsor.

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A Decade of Commitment to Strong
Fund Governance

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BOARD VISITS

IDC GOVERNING COUNCIL CHAIRS—A DECADE IN QUOTES



“IDC’s formation came at a critical juncture. Rapid industry growth focused the media, regulators, and politicians on the activities of independent directors. We established IDC to strengthen the voice of directors in policy debates, to improve communication across fund boards, and to expand our predecessor committee’s education agenda. We evolve and grow stronger each year, but have never lost sight of our original mission.”

—JAMES H. BODURTHA (2004–2006)

“IDC’s offerings have played a crucial role in transforming how directors approach governance and fulfill their responsibilities. With access to enhanced communications and educational programs highlighting the diligence required of directors to address the wave of increasingly complex market developments and regulatory requirements, directors today are more proactive in their duties—and thus more prepared to manage shifting tides of change. It’s a pleasure to see, and an affirmation of IDC’s mission.”

—ROBERT W. UEK (2006–2007)



“The U.S. Supreme Court’s *Jones v. Harris* decision was a watershed moment for the fund director community. In part a product of IDC’s tremendous effort, the decision highlighted the crucial role that independent directors play in mutual fund governance—and reaffirmed the legal framework under which funds and their boards have long operated. Our legal mandate as directors is to look out for the interests of some 90 million fund shareholders. In our industry, there can be no greater responsibility.”

—MICHAEL S. SCOFIELD (2008–2010)

“In my experience, great ideas and strong professional relationships are often born out of informal conversations. IDC understands this, and since its inception has regularly provided independent directors with opportunities to engage in meaningful dialogue with their peers—including through conferences, chapter meetings, and conference calls. For directors, these opportunities have proven invaluable.”

—DOROTHY A. BERRY (2010–2012)



“IDC’s information cache, with access to ICI’s vast research and policy resources, is among its most useful assets. Through no other source can directors obtain so much well-integrated research and analysis, delivered through such a broad array of formats. I am honored to have helped expand and improve the repository—and am excited to see what new offerings IDC will develop for the director community.”

—SUSAN B. KERLEY (2012–2014)

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APPENDIX A

IDC Governing Council Members

AS OF DECEMBER 31, 2014

Paul K. Freeman*
IDC Chair
Independent Director, Deutsche Funds

Julie Allecta
Independent Director, Forward Funds

Ashok N. Bakhru*
Independent Director, Goldman Sachs Funds

Dorothy A. Berry*
Independent Director, PNC Funds and Professionally
Managed Portfolios

James H. Bodurtha
Independent Director, BlackRock Funds

David H. Chow
Independent Director, Market Vectors ETF Trust

Bruce L. Crockett*
Independent Director, Invesco Funds

Diana M. Daniels
Independent Director, Goldman Sachs Funds

Dennis J. Dirks
Independent Director, Fidelity Equity and High
Income Funds

Anne M. Goggin
Independent Director, RS Funds

Keith F. Hartstein
Independent Director, Prudential Retail Funds

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

Cynthia Hostetler
Independent Director, Aberdeen Investment Funds

Leonade D. Jones
Independent Director, American Funds

John P. Kavanaugh
Independent Director, MFS Funds

Marie L. Knowles*
Independent Director, Fidelity Fixed Income and
Asset Allocation Funds

Thomas P. Lemke
Independent Director, AXA Premier VIP Trust, JP
Morgan Exchange-Traded Fund Trust, Munder Funds,
and SEI Funds

Garry L. Moody
Independent Director, AllianceBernstein Funds

Steven J. Paggioli*
Independent Director, AMG Funds, Aston Funds, and
Professionally Managed Portfolios

Sheryl K. Pressler
Independent Director, Voya Funds

Davey S. Scoon
Independent Director, 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 and State Street
Navigator Trust

Ronald E. Toupin Jr.
Independent Director, Guggenheim Funds

Dawn M. Vroegop
Independent Director, Driehaus Funds and MetLife
Funds

Ralph F. Verni*
Independent Director, Eaton Vance Funds

Jonathan F. Zeschin
Independent Director, Matthews Asia Funds

* On ICI Board of Governors



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APPENDIX B

IDC Senior Staff

Managing Director Amy B. R. Lancellotta

Amy B. R. Lancellotta has been IDC's managing director 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 and 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 BS in mathematics from the University of North Carolina.

Senior Associate Counsel Lisa Chaikin Hamman

Before joining IDC in 2004, Lisa Chaikin Hamman worked at Morgan, Lewis & Bockius LLP, counseling investment advisers and investment companies and their boards of directors/trustees regarding federal regulatory matters. Hamman began her career in the mutual fund industry in the legal department of Fidelity Investments. She earned a JD from Suffolk University Law School and a BA from the University of Michigan.

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APPENDIX C IDC 2014 Activities

Comment Letters

Investment Company Advertising: Target Date Retirement Fund Names and Marketing (SEC)

Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule (SEC)

Staff Consultation Paper, Auditing Accounting Estimates and Fair Value Measurements (PCAOB, joint letter with ICI)

Webinars

Core Responsibilities of Fund Directors

Fundamentals of Fund Director Oversight (February)

Investment Advisory Contract Approval (April)

Investment Performance Oversight (June)

Oversight of Fund Service Providers (September)

Specific Regulatory Responsibilities (December)

Other

SEC Outlook: Senior OCIE and IM Officials (February)

Board Oversight of Fixed-Income Funds (April)

Fund Industry Litigation, SEC Enforcement, and Director Insurance (July)

Aftermath of Midterm Elections: A Legislative Update (December)

Industry Segment Conference Calls

Fund Board Leaders (February, June, October)

Audit Committee Chairs (February, June, October, December)

Conferences

Fund Directors Conference

Fund Directors Workshop

Independent Counsel Roundtable

Chapter Meetings

Los Angeles (January, June)

San Francisco (January, June)

Phoenix (February)

West Palm Beach (March)

Texas, by conference call (March)

Boston (April, November*)

Chicago (April, September)

Mid-Atlantic: Washington, DC (April)

New York (April, October*)

Denver (June)

Mid-Atlantic: Philadelphia (September)

* Meeting held in expanded format (see page 6)



1401 H Street, NW, Suite 1200
Washington, DC 20005-2148
202-326-8300
www.idc.org