# Fund Board Performance Evaluation

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The world of boards of investment funds – like that of corporations in general – has come under increasing scrutiny. These entities are constituted as companies in law, but their boards of directors have traditionally had only a helicopter view of the landscape. Making them better – getting them to contribute more to fund governance – may require us to look at these boards even more closely, and to employ the tools being development to evaluate corporate board performance.

In the early 1990s, as the Cadbury Code brought the term corporate governance into the vocabulary of business, board performance was associated mainly with board structure: independent chairman, non-executive directors, and committees that brought the most sensitive recommendations into the hands of outsiders. Those changes led to corporate boards and worked harder and were in a better position to monitor the chief executive and senior management. But they didn't stop catastrophic failure from occurring.

In the wake of the debacle of Enron, WorldCom and so many others, US regulation pointed a similar spotlight on fund governance, demanding over protests from the industry that mutual funds have chairs independent of the fund company management.

Such pressures, together with growing understanding of the subtleties of board dynamics, have led to pressure – starting in the UK in 2003, and then accelerating since the financial crisis of 2007-09, for corporations to undertake annual evaluations of board performance, and now to ensure that independent consultants conduct them at least every three years.

The most recent UK corporate governance code, 2018, setting the requirement for "*Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.*"

Although these Corporate Governance Codes are aimed at larger listed corporations, fund company boards are still corporate boards, i.e. non-executive directors are appointed to an incorporated company and the directors have fiduciary duties to the company and their investor base. However, unlike corporation boards there are no executive directors on the fund board for the non-executive directors to apply their traditional role of challenge and independence to. This relationship for fund boards and the challenge therein is thus changed. The non-executive directors' role is still one of enquiry and challenge however a fund board's relationship is extended to include outside service providers who are appointed to undertake various functions for the company's mandate, such as fund

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portfolio managers, administrators and the broker etc. This amends the duty of the non-executive directors to include oversight and control of service providers to the company, being quasi-executive in nature.

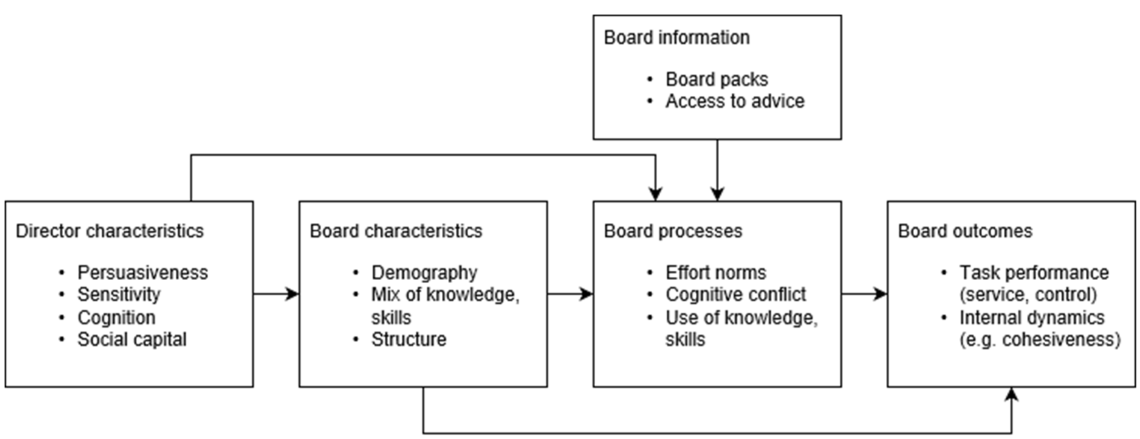
We see failings within fund boards, which need to the checked so the importance of board evaluation to achieve effectiveness at board level is still relevant. So how can the corporate governance code principle to assess board performance, including composition of the board, be applied to fund boards? And how can dynamics and relationships be assessed when the relationship extends past the board itself?

Fund boards, like corporate boards, are only partly able to assess whether their structures – the composition and design - are fit for purpose. By determining the skills and knowledge required for the type of fund and its regulatory requirements, be it skills and knowledge of geographic regions and asset class, governance and regulatory knowledge or accounting experience. Undertaking a gap analysis and implementing a succession plan to address any future requirements and current gaps can be useful tools for this evaluation.

The evaluation of the composition of the fund board and its performance in relation to dynamics and relationships both between themselves and their service providers are more difficult to achieve by the board itself. This is not only because self-assessment is rarely very truthful but also because as an 'insider' it may not be possible to 'step outside' and notice the practices within the boardroom which may be harmful to its effectiveness.

Extending the remit of evaluation to include the key representatives at each of the service providers, i.e. those that sit around the table at the board meetings, is an important extension of a fund board evaluation. This extended evaluation could be achieved by annual performance questionnaires to include service providers views on the board and the board's views on the service providers and/or boardroom observation by an external board evaluator.

The following chart provides a tool for board evaluation focussing on each individual's knowledge and skills (composition) and softer skills such as emotional intelligence and cognitive conflict (dynamics through personal attributes).




Adapted from: *Nordberg,D, Booth R, Evaluating the effectiveness of corporate boards, Corporate Governance: The International Journal of Business in Society, Vol.19, Issue 2 (2018).*

The board itself has a limited ability to undertake full evaluation, it can undertake a composition review of skills and knowledge for succession planning *however* effective evaluation of dynamics and relationships is not as easy to achieve. The additional use of an external evaluator will touch on the harder to achieve aspects of boardroom observation such as cognitive conflict between the board itself and with its service providers. It will highlight potential harmful dynamics and also the softer skills of the fund board such as emotional intelligence et al. Therefore, evaluation of the performance of the fund board is a multi-layered process which aims to achieve an effective board evaluation and lead to competent fund board performance.