

The FBC logo consists of the letters 'FBC' in a bold, white, sans-serif font, centered within a solid dark red square.

FBC

Excellence in
Fund Governance



NatWest
Trustee and
Depository Services

The background of the cover is a photograph of a modern building's facade, featuring a series of dark, angular concrete panels that create a complex, geometric pattern. The lighting is dramatic, with strong shadows and highlights.

FBC INED REPORT 2021

**THE STATE OF INDEPENDENCE ON
FUND BOARDS**



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FOREWORD

The role, importance and responsibility of the independent non-executive director (or iNED) in investment governance has never been in greater focus on fund boards in the UK and across Europe.

As the UK's most established independent depository, NatWest Trustee and Depository Services (NatWest TDS) has had a ringside seat to the evolving themes around investment governance for over 80 years. The regulatory and governance changes over the last few years with the implementation of the Financial Conduct Authority (FCA)'s Asset Management Market Study are more than just significant, with the requirement for greater independence on fund boards especially so.

NatWest TDS has been a keen supporter of Fund Boards Council and are delighted to be sponsoring the FBC iNED Report and Bootcamp 2021.

The State of Independence on Fund Boards 2021 report, now in its second year, is rapidly developing into an essential barometer and guide for iNEDs of course, but also for others who are interested and committed to good outcomes on fund boards. In addition to the ever-present theme of Assessment of Value, the growing importance of diversity and inclusion, culture and purpose, and governance and oversight are all well-reflected in the data collected and analysed in the FBC iNED Survey 2021 and presented in this report.

This report forms the foundation of the four-day live and curated FBC iNED Bootcamp 2021, and along with my colleagues at NatWest TDS, I wish all the delegates and attendees a most informative, educative and enjoyable experience.



Peter Christmas

Director, Client Management
NatWest Trustee and Depository Services

INTRODUCTION

Now in its second year, the FBC iNED Report: The State of Independence on Fund Boards 2021 builds on the work that Fund Boards Council began last year with the inaugural FBC iNED Report, and in many instances has broken new ground with this second iteration.

This year, the FBC iNED Report is being launched to coincide with our third annual iNED Bootcamp with a wide range of insight, engagement, research and of course thought-leadership available via two 'live-streamed' events and a catalogue of on-demand sessions.

The FBC iNED Survey 2021, conducted in January and February 2021, is the 'source of truth' for this year's FBC iNED Report, and to begin with we would like to place on record our appreciation for the over 130 survey respondents who took time to complete the survey – a more than 40% increase over last year.

FBC iNED members featured very prominently in the list of respondents, and this year we also had a very sizeable representation of respondents who sat on fund boards outside of the UK. These, along with iNEDs on UK fund boards and a small cohort of aspirant fund boards directors made up the three categories of survey respondents in 2021.

Whilst the report in 2020 focused on what was the first year for many UK fund board iNEDs, a big emphasis of the 2021 report is on culture, purpose diversity and inclusion. Not only is this reflective of the corporate and investment governance *zeitgeist*, but also something that FBC iNEDs specifically asked for a greater exploration of in this year's report.

We have also been able to go much further with the discussion around Assessment of Value as many fund boards in the UK settle in for Year 2 of AoV reporting. There is also a more nuanced discussion on some key aspects of fund board engagement and process. In fact, alongside AoV, the issue of board effectiveness is becoming a key discussion point on fund boards, and will be explored in much greater detail at an FBC event in October.

And finally, no report on fund boards is complete without a discussion on governance and oversight, and we are especially grateful to Peter Christmas and his colleagues at NatWest Trustee and Depository Services for their input here, as indeed their continued support of and partnership with FBC.

ABOUT FBC

Fund Boards Council (FBC) is a specialist professional membership organisation established to support and develop good governance on fund boards in the UK, and internationally.

We work closely with fund board chairs, board directors – both independent and executive – and senior executives who work closely with their fund boards, to help them navigate governance challenges and opportunities, providing access to insight, expertise and good practice from industry specialists from the UK, Europe and further afield.

Visit Fund Boards Council at <https://fundboards.org>

KEY FINDINGS

CHAPTER ONE

THE STATE OF INDEPENDENCE ON FUND BOARDS

As iNEDs hit their stride in, what for many will be, their second full year of a fund board directorship, some key themes are starting to emerge. More than four-fifths of iNEDs surveyed in the UK said their boards have two iNEDs (the minimum stipulated by the regulator). Whilst one third of our respondents said they're the iNED chair on their fund board, more generally less than one in five respondent fund boards has an iNED chair (not yet a requirement of the regulator, but they're keen on the idea). And maybe unsurprisingly, more than half of the respondents said they had two years or less experience on a UK fund board; though quite impressively, over one in five have four or more years of experience.

CHAPTER TWO

BOARD ENGAGEMENT & PROCESS

The effectiveness, or lack thereof, on fund boards is starting to get a fair amount of attention – and the themes runs the gamut. In the list marked 'usual complaints' expect to find items like the size of the board pack, the late arrival of minutes, the length of the agenda etc. But there is a more nuanced discussion that is starting to take place on issues that potentially can have a more meaningfully negative impact on the effectiveness of the board.

These include the extent to which discussions leading to decisions are had by executives (often multiple times) outside of board meetings, and therefore a need to better understand what role the board will play around decisions of governance and oversight. There is a growing recognition for the need to ensure a balance between standing oversight items discussed at board meetings, and making sure there is enough time for more strategic discussions. And finally, an understanding how the Assessment of Value process is embedded into the business-as-usual functioning both by the fund board, but also by the wider organisation.

CHAPTER THREE

ASSESSMENT OF VALUE

It is becoming very apparent to many that the Assessment of Value process is as much about the end report (generally visible), as it is about what happens within the fund boardroom and the wider organisation (far less visible).

Arguably, over time the novelty of the report may somewhat wane, but not its importance. It will, after all, remain the one key mechanism for the fund board, and especially the iNEDs, to communicate the result of their governance endeavours in the boardroom. Further, there is strong consensus that AoV is not a once-a-year outing, but something that needs to be built into 'business-as-usual' product governance activities. Or as the global head of product at one of FBC corporate member firms put it: "It is now the annual product review on steroids."

CHAPTER FOUR GOVERNANCE & OVERSIGHT

Service providers like the depository, play a critical role in the long-term success of fund management. The depository has a particular role in overseeing how funds are managed and equally importantly making sure that investors' assets are safe.

And whilst iNEDs, and certainly the respondents to the FBC iNED Survey 2021, have a high degree of awareness of the depository and other service providers, a fairly sizable number of them were not aware that one of the roles of the depository is to oversee the fund board, or the ACD (the authorised corporate director) in the UK. With the appointment of iNEDs and the evolving role of fund boards, there are likely to be several opportunities for the iNEDs to engage with the depository who may be able to assist in several ways.

CHAPTER FIVE CULTURE & PURPOSE

The importance of culture and purpose of fund boards isn't the sole responsibility of the iNEDs, but the seriousness with which they have taken to this important issue is palpable – both in the responses in the FBC iNED Survey, 2021 but in subsequent discussions that FBC has had on the topic, and is amply reflected in multiple sessions scheduled at the FBC iNED Bootcamp.

Some of the key themes that have emerged from this year's survey suggest culture and purpose is increasingly integral to board discussions, but not as evenly spread out across all boards, as one may imagine. It is now very apparent that the role of the Chair of the board is critical in ensuring that culture and purpose is well-embedded in the board process; and yet no less the responsibility of the others on the board, too. And on highly technical fund boards, cognitive diversity remains the key deliverable, but shouldn't come at the cost of other forms of diversity and inclusion.

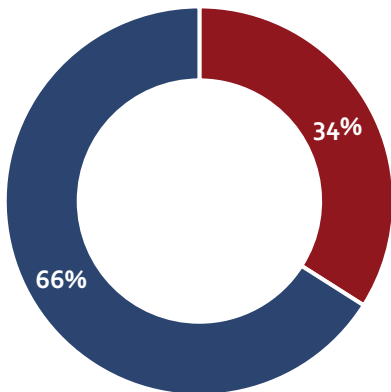
CHAPTER SIX COMPENSATION

iNED fees are very much a case of in the eye of the beholder. Some are happy to settle for half as much as others are willing to, but in almost all instances, there is a growing recognition, especially for first-time non-execs, it is fatal to expect a replication of executive remuneration in the iNED world. Research suggests it can take anywhere up to three years and more to achieve that – and even then, not everyone does.

As the role of the fund board directors evolves, the extent of involvement – a combination of both time and responsibility – it will be interesting to see to what extent that is reflected in the directors' fees. For now, the supply of directors continues to far exceed publicly stated demand, so it may be a while before we start to see the any significant uptick in fees.

OUR SURVEY RESPONDENTS

Exhibit 1
Survey respondent by gender



Female Male

Exhibit 2
Survey respondent by age

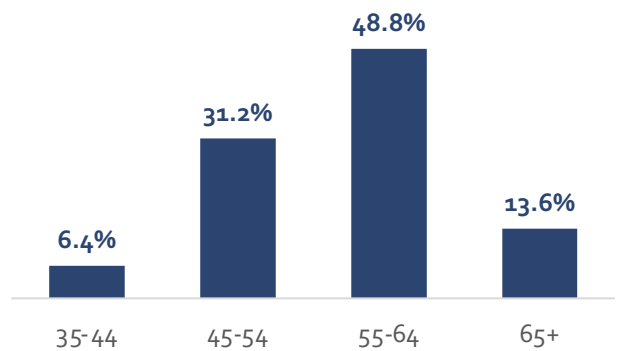


Exhibit 3
Survey respondent by iNED qualification

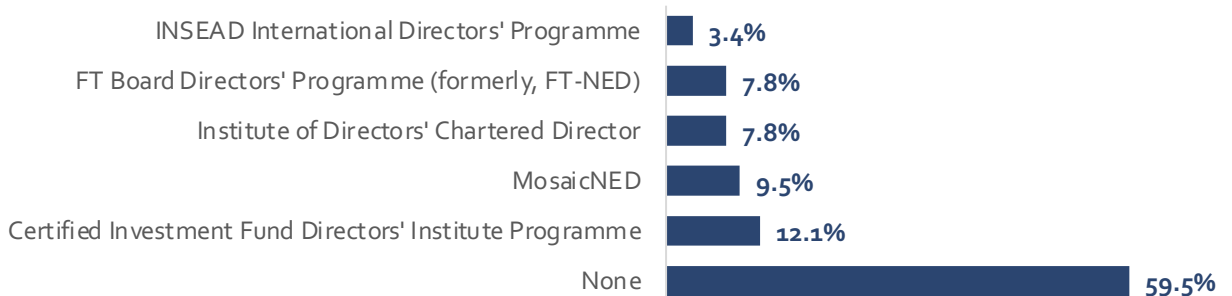


Exhibit 4
Survey respondents: Executive experience in asset management

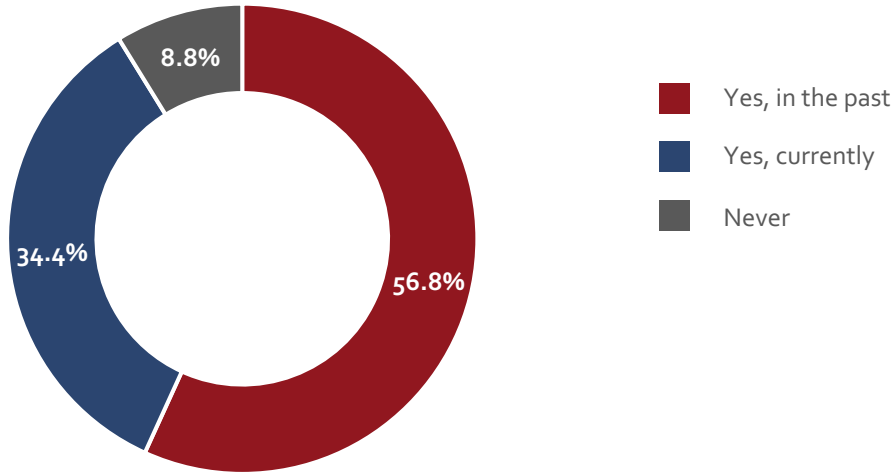
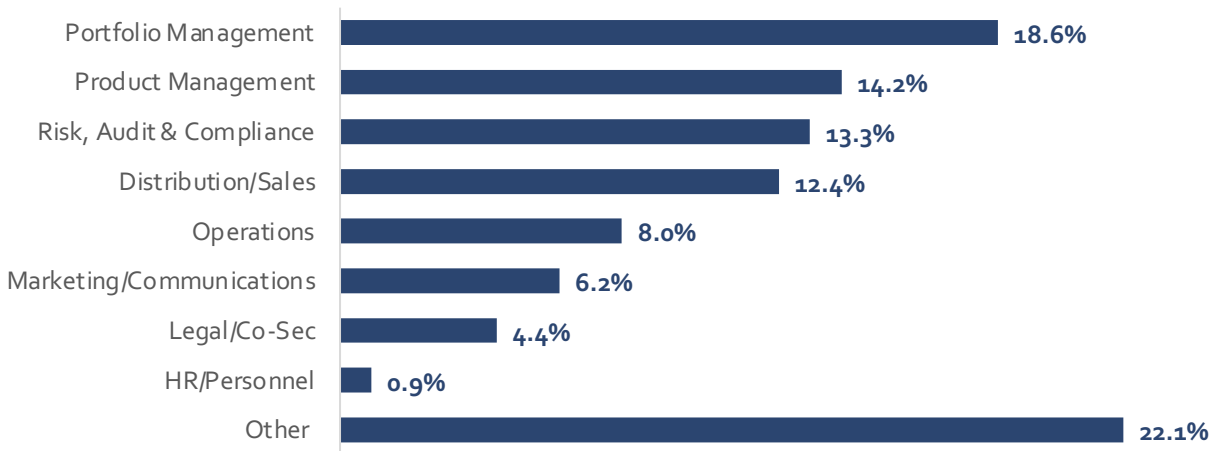


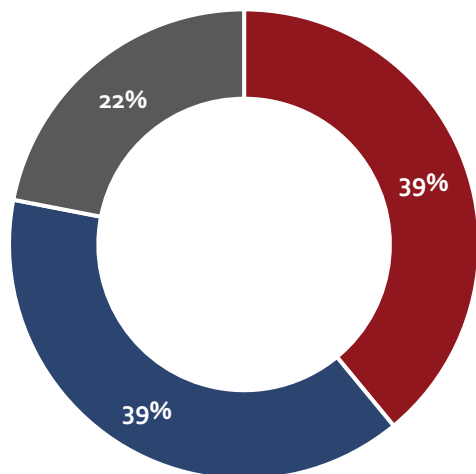
Exhibit 5
Survey respondents: Senior executive experience



Note: 60% of "Other" was C-Suite (CEO, COO, CFO etc) experience and Consultants to the industry.

Exhibit 6
Survey respondents: iNED status

- UK AFM fund board
- Corporate board/ManCo/Other investment board in the UK/Europe
- Neither, but I have aspirations to sit on a UK AFM fund board



Chapter 01

THE STATE OF INDEPENDENCE ON FUND BOARDS

As iNEDs in the UK hit their stride in, what for many will be, their second full year of a fund board directorship, some key themes are starting to emerge.

For instance:

- More than four-fifths of iNEDs surveyed said their boards have two iNEDs (the minimum stipulated by the regulator).
- Whilst one third of our respondents said they're the iNED chair on their fund board, more generally less than one in five respondent fund boards has an iNED chair (not yet a requirement of the regulator, but they're keen on the idea).
- And maybe unsurprisingly, more than half of the respondents said they had two years or less experience on a UK fund board; though quite impressively, over one in five have four or more years of experience.

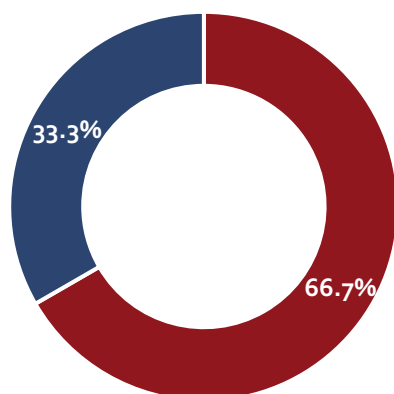
Also reflected, in a comparative analysis, are the views of aspirant directors and how they measure up against those of the incumbents. Visibility of roles continues to be the real bugbear for aspirant directors, with more than 9 out of 10 in agreement that a large number of new roles did not come into the open market. Interestingly, almost half the incumbent directors 'somewhat agree', and several 'strongly agree' with this assertion, which is indicative of the extent of this problem.

Whilst most iNEDs report they have a good and strong working relationship with their executive colleagues on fund boards, about one third are in agreement (strongly or somewhat) of the challenges they face in managing conflicts with executive colleagues. Based on the work that FBC has done in this area, this usually comes down to (a) the capability and competence of the board's chair and (b) ensuring very clear terms of reference for the fund board. And it goes without saying that this year thanks to COVID-19, all of this has been made that much harder.

THE STATE OF INDEPENDENCE ON FUND BOARDS

Exhibit 1 iNED Chairs of UK AFM boards

Survey question: Are you the iNED chair of your AFM board?



Survey question: Is there an iNED chair on your AFM board?

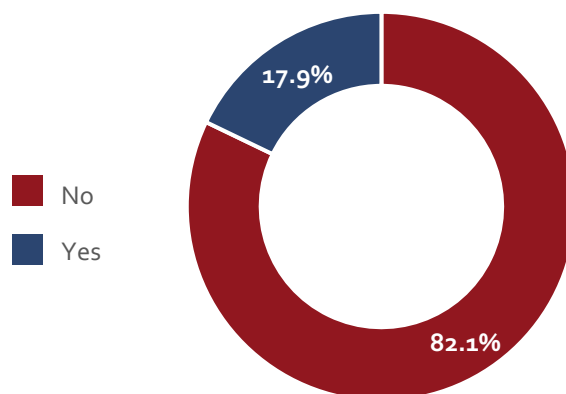


Exhibit 2 Number of iNEDs on UK AFM boards

Survey question: Including yourself, how many other iNEDs (including the chair, if independent) are there on this fund board? Do not include non-execs who are not independent.

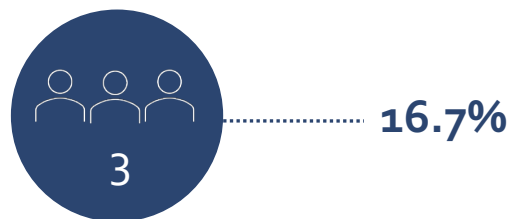


Exhibit 3
Number of AFM board directors

Survey question: What is the total number of directors on your AFM board. Include the chair, the other iNEDs, the executive directors, and of course, yourself!

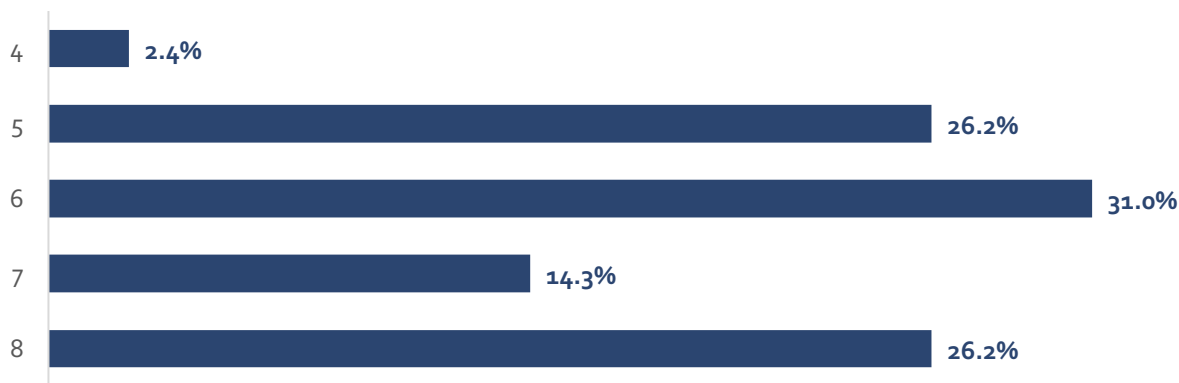


Exhibit 4
Length of experience of UK AFM iNEDs

Survey question: How many years experience do you have as an AFM iNED?



Exhibit 5
Multiple iNED roles

Survey question: Are you one of the few who has more than one ACD/fund board role?



Exhibit 6
Concurrent iNED roles

Survey question: What would you consider to be the most appropriate number of concurrent iNED directorships/roles that you would like to hold? Please include all types of board roles, paid and unpaid, including all your current roles.

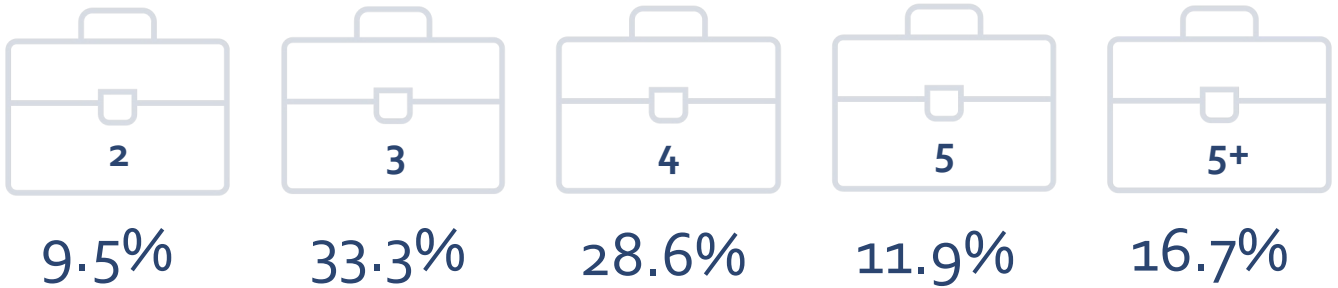
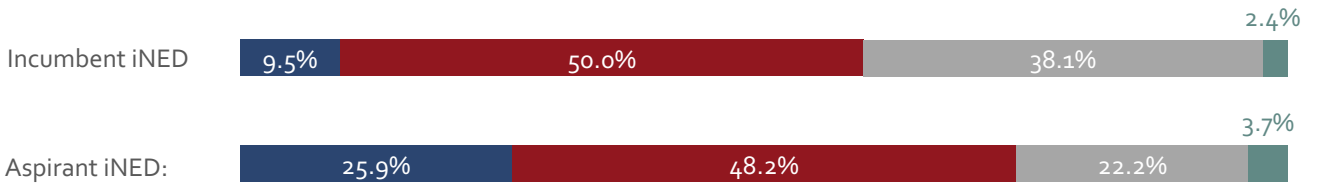
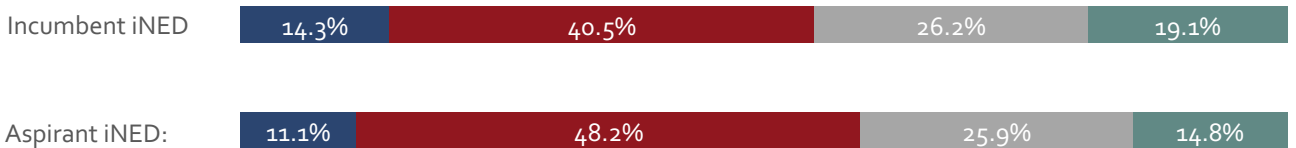


Exhibit 7
iNED roles: visibility, availability and diversity

I was led to believe there were going to be far more AFM iNED roles available because of the FCA Asset Management Market Study rules



I now believe that many AFMs had the requisite number of iNEDs in place, and hence the need for new iNEDs is less than earlier anticipated



A large number of new roles did not come into the 'open' marketplace, as they were filled by mostly internal means

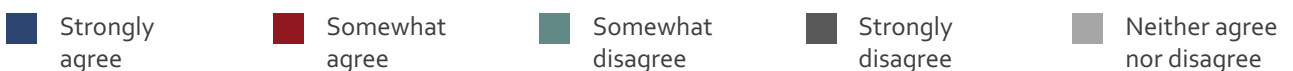
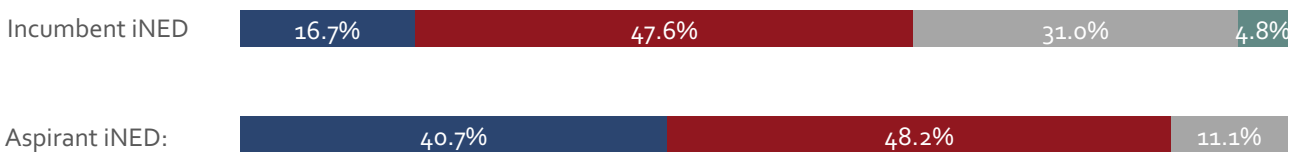
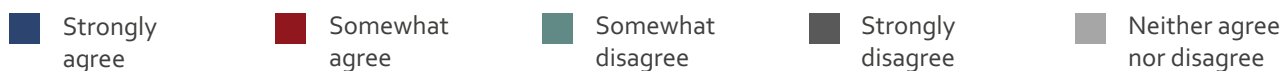


Exhibit 8**iNED governance: investors champion, iNED chairs, conflicts/balance of interest**

Note: Incumbent iNEDs only

My role as an iNED is to primarily represent the interest of fund investors*An AFM's chair should be an independent NED to deliver the best outcomes for investors**It is challenging to manage conflicts of interests of executive directors who sit on the AFM board**I/we (the iNEDs) manage to strike a good balance between the interests of (fund) investors and the executives on the fund board**In the future there is going to be more diversity, in all forms, on AFM boards than there currently is*

Chapter 02

BOARD ENGAGEMENT & PROCESS

As outlined in the Introduction, the effectiveness, or lack thereof, on fund boards is starting to get a fair amount of attention – and these themes run the gamut. In the list marked 'usual complaints' expect to find items like the size of the board pack, the late arrival of minutes, the length of the agenda etc. But there is a more nuanced discussion that is starting to take place on issues that potentially can have a more meaningfully negative impact on the effectiveness of the board.

For instance:

- The extent to which discussions leading to decisions are had by executives (often multiple times) outside of board meetings, and therefore a need to better understand what role the board will play around decisions of governance and oversight.
- Ensuring a balance between standing oversight items discussed at board meetings, and making sure there is enough time for more strategic discussions.
- Understanding how the Assessment of Value process is embedded into the business-as-usual functioning both by the fund board, but also by the wider organisation.

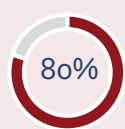
BOARD ENGAGEMENT & PROCESS

Exhibit 1

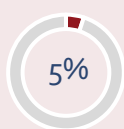
Time commitment at board meetings in Year 1: Expectation versus reality

Survey question: Going in to this role, your expectations of time commitment, number of days per month, to this board role (include board meetings, ad hoc meetings, informal discussions/phone/video calls, and prep time) was?

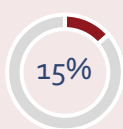
Expectation



1-3 days

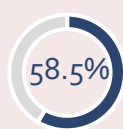


4-5 days

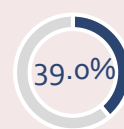


6 days
and over

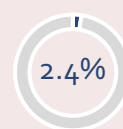
Actual



Greater than
your initial
expectation



In line with
your initial
expectation



Less than
your initial
expectation

iNED Respondent Views

"Unsurprisingly time commitment [was] higher given this was the first year of the value assessment process and I was new to the role."

"First year was bedding in. We now have 8 meetings a year not 12. VA workshops were newly introduced and I expect these will soon reduce too."

"Value Assessment took much more time than I think anyone expected in first year."

Exhibit 2
Board Engagement

Before every board meeting, the iNEDs will meet with the chair in a "pre-meet"



The iNEDs meet regularly with executives (both on- and off-board) outside the board cycle



By virtue of the executives meeting regularly, and often, outside of board meetings, most decisions are effectively taken by the time they get to board meetings



There is a high degree of engagement in board meetings, with strong challenge



Exhibit 3
Board Agenda and Minutes

Far too much time spent on standing oversight items, and not enough time on more strategic issues



Minutes of previous meetings only come along with the agenda of the next meeting



Minutes are presented verbatim with good examples of challenge by individual board members

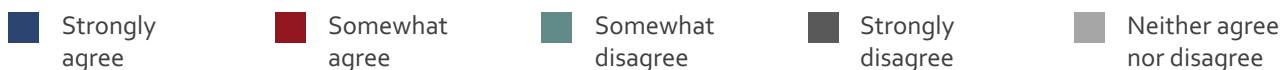
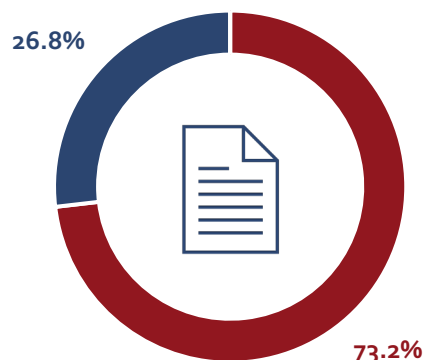


Exhibit 4 Board pack

Survey question: *The content of the board pack is...*

- Thorough, well-organised and complete
- Usually complete, but not always well-organised and as thorough as I would like
- Incomplete, and not well-organised



iNED Respondent Views

"Metamorphosis - has improved drastically. Was new territory for all."

"There is an imbalance between volume and perceptiveness of content. This varies by function, and the risk of having very full papers on a 'what gets measured should be shown' versus what matters basis is high."

"Driven by the iNEDs we have significantly improved the board pack contents last year. We had very good support from the executives and the NEDs."

Exhibit 5 Board pack arrival

Survey question: *Generally speaking, the board pack arrives...*

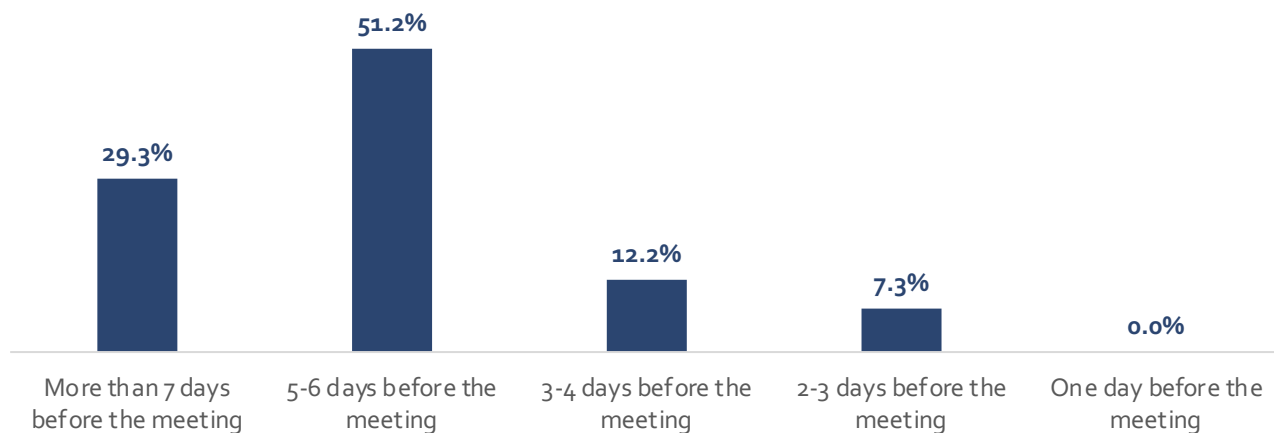


Exhibit 6 Arrival of late papers

Survey question: It is not uncommon for late papers/documents to arrive the day before/on the day of the board meeting

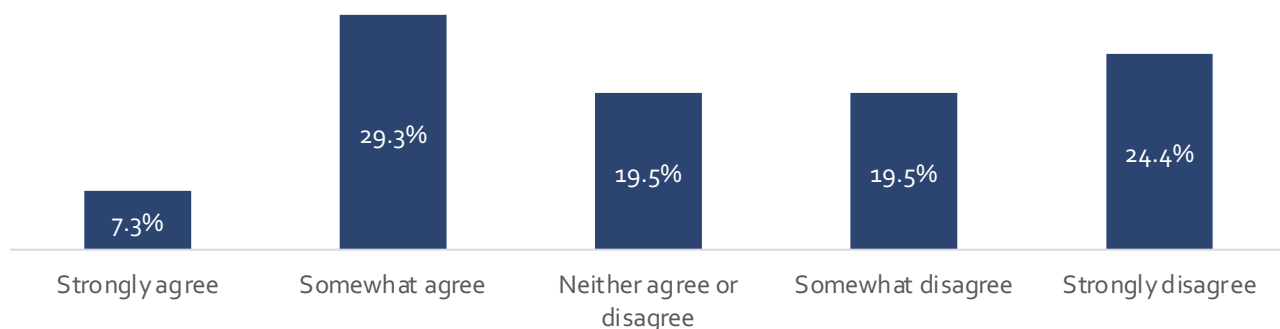


Exhibit 7 The size of the board pack

Survey question: The average size (number of pages) of the board pack is

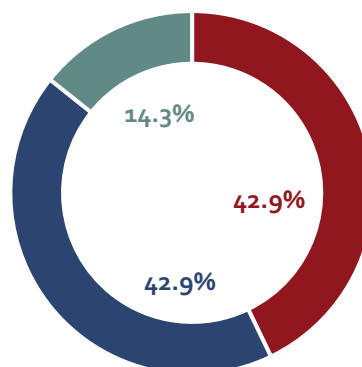
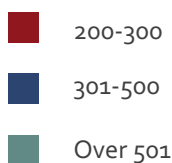
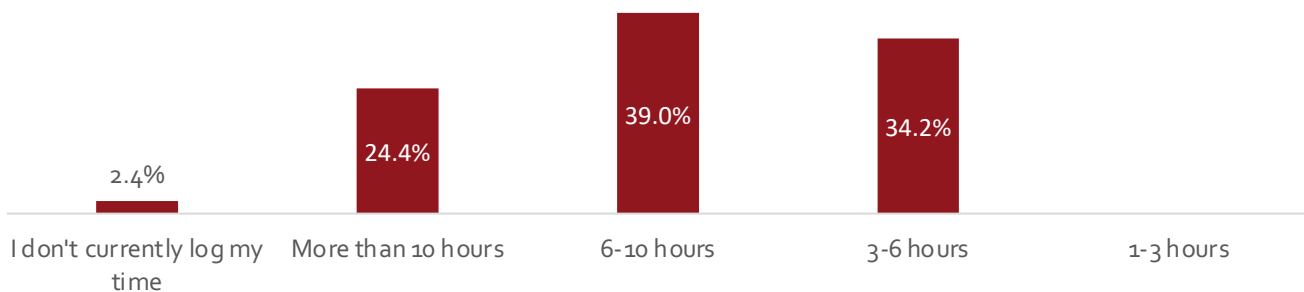


Exhibit 8 Prep time for board meetings

Survey question: On average, how much time do you need to prep for a typical board meeting



iNED Respondent Views

"Some of the answers are coloured by COVID as exchanges with senior management outside board meetings would normally be much greater to everyone's benefit."

"Great idea for FBC to launch the tool to track board time. I'm trying to use it more going forward."

"Less hours than when I started as packs more focussed and better organised and less repetition. Papers still too long."

Chapter 03

ASSESSMENT OF VALUE

It is becoming very apparent to many that the Assessment of Value process is as much about the end report (generally visible), as it is about what happens within the fund boardroom and the wider organisation (far less visible). Arguably, over time the novelty of the report may somewhat wane, but not its importance. It will, after all, remain the one key mechanism for the fund board, and especially the iNEDs, to communicate the result of their governance endeavours in the boardroom.

For now, there is much work to be done on both fronts.

For instance:

- There is strong consensus that AoV is not a once-a-year outing, but something that needs to be built into 'business-as-usual' product governance activities. Or as the global head of product at one of FBC corporate member firms put it: "It is now the annual product review on steroids."
- It is early days yet, but there are signs that the conversations relating to product/fund performance resulting from the AoV process are starting to become more meaningful, but this is still work-in-progress.
- Whilst one half of the respondents of FBC's iNED Survey 2021 indicated they expect to spend less time on AoV, subsequent discussions with iNEDs suggest this may be somewhat optimistic, as the emphasis of their focus changes from 'build' to 'bed-in'.

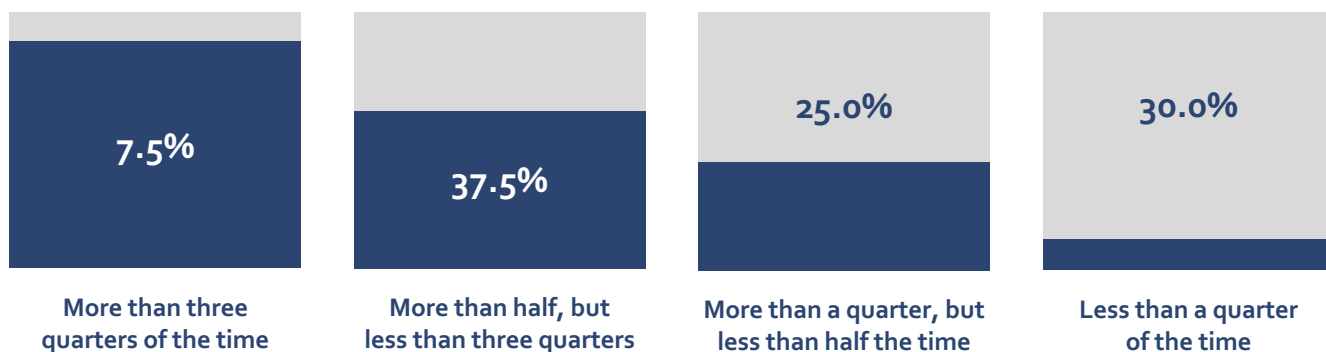


And is a version of AoV likely to find its way to markets further afield? A solid two-thirds of our respondents didn't have a point of view, but there is a lot going on in Europe and even further afield in Australia to suggest this is not likely to be just a UK-specific effort. This is an important item on FBC's engagement agenda for 2021.

ASSESSMENT OF VALUE

Exhibit 1 AoV in Year 1

Survey question: As you consider the last 12 months, how much time did you and your AFM board colleagues spend on the AoV report as a proportion of all time spent in meetings, calls, working groups etc?



iNED Respondent Views

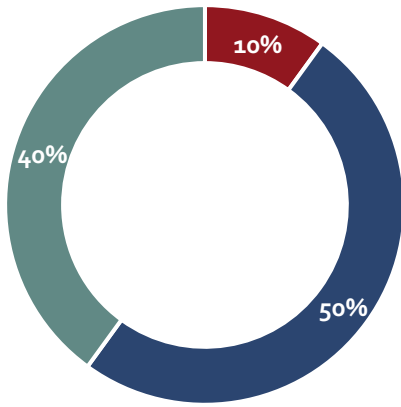
"Less executive focus and time spent on Year 2 report compared to Year 1. Perception (is) that (the business) can easily build on Year 1. This has been challenged by iNEDs."

"The executive team did the donkey work and gave us a deep and good pack of data to support the final statement, the Board then focused on the conclusions and form of the AoV."

"I would argue that the Board should be clear what it is looking for in advance, which prevents the risk of losing control of the process or being swamped with data with too little time to distil it into something effective."

Exhibit 2
AoV in Year 2

Survey question: As you think about the report for Year 2, do you anticipate spending more or less time on AoV than you did for Year 1?



More time Less time About the same amount of time

iNED Respondent Views

"Still needs a lot of work to get the right end product, giving best insight to readers, but a good start last year."

"Initial framework for most considerations can be carried across, then about reviewing changes and progress since year 1, definitely behind where we were this time last year."

"There wasn't enough internal management review before presenting to the VA committee. This is being addressed so should not cause more time to be invested this year, whilst still allowing for appropriate challenge and debate."

Exhibit 3
Approaching AoV in Year 2

Survey question: On average, how much time do you need to prep for a typical board meeting

No change in approach to Year 1



Considering what AoV means more broadly in the context of our AFM's business



Building AoV into our "business-as-usual" product governance activities



Expanding AoV to our non-UK fund ranges



Strongly agree Somewhat agree Somewhat disagree Strongly disagree Neither agree nor disagree

iNED Respondent Views

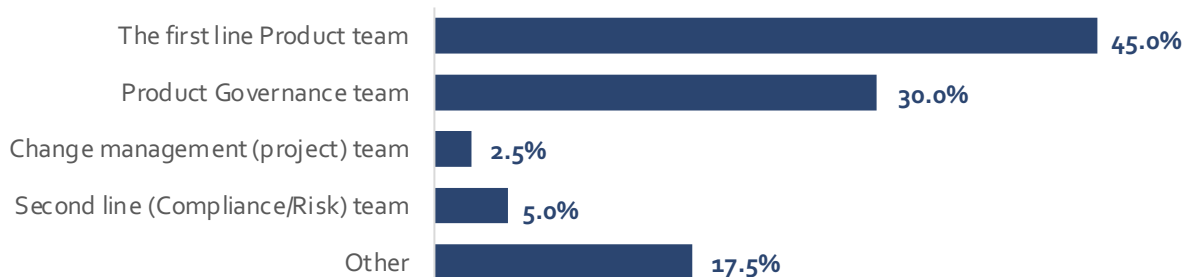
"It increasingly is about being aware that 'winning on AoV' is about embedding as much as we possibly can into business-as-usual activities."

"The AoV report annual is just the culmination of a year's worth of business-as-usual activities, rather than some heavy lifting towards the end of the year to produce something solely for external consumption."

"So all in all, I think we'd probably need two or three years for this (the AoV process) to settle down."

Exhibit 4 AoV process lead

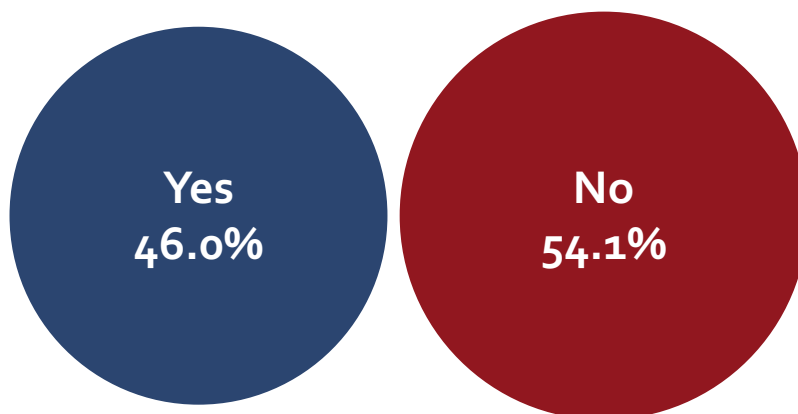
Survey question: The AoV exercise is led by



Note: 'Other' is largely made of key C-suite officers (CEO, COO, CFO etc)

Exhibit 5 Performance discussions resulting from AoV

Survey question: Have there been any significant changes to how you discuss performance since the introduction of AoV?



iNED Respondent Views

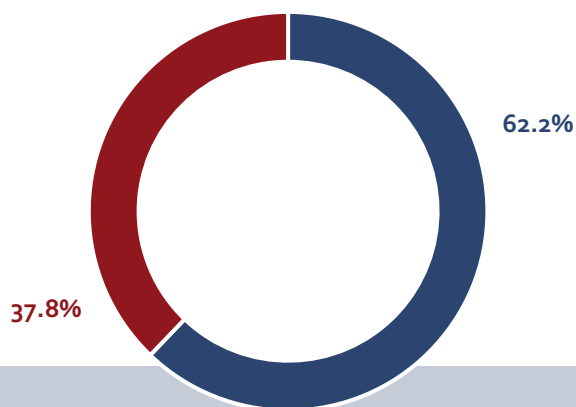
"It is difficult to say what happened before, but I have found the response to challenge was initially one of surprise at our rigour and persistence from the investment and product specialists. The good news is that the quality and depth of the regular investment reviews has improved markedly over the period."

"Too soon to tell, but I hope so!"

"The AoV measurement methods have become a further part of our performance reporting on an on-going basis leading to better discussion."

Exhibit 6 Funds on watch

Survey question: Do these changes include the length of time for which a fund is on 'watch' before action is required?



iNED Respondent Views

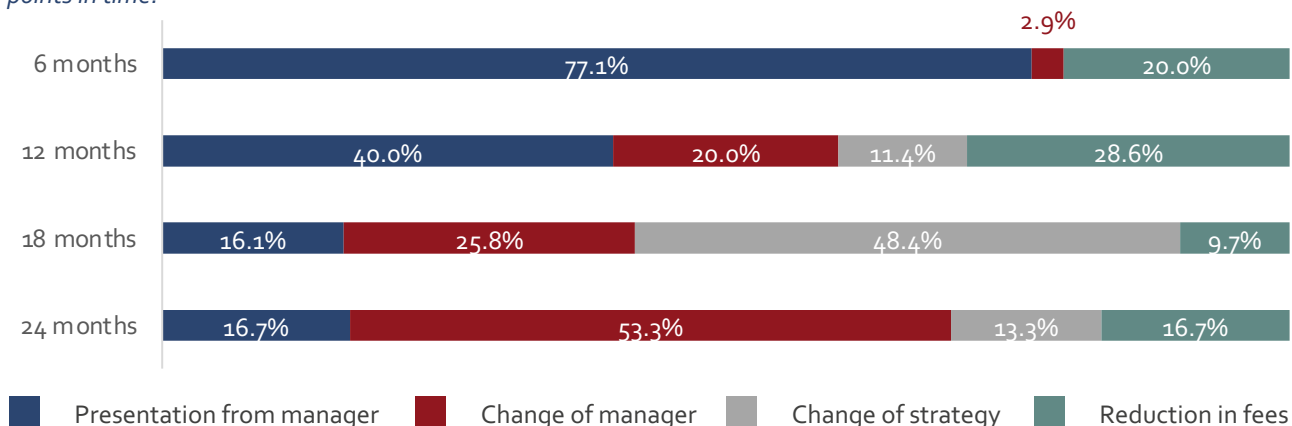
"The visibility of performance has created better conversations so that the timing of challenges is more appropriate to the issues in hand. Sometimes tighter, sometimes more extended."

"This is currently a debate we are having."

"This is difficult to evidence but I think it is more likely that performance challenges will rise to the top and get board level attention earlier."

Exhibit 7 Actions taken at different points of time

Survey question: Considering the timescale ("grace periods") below, what possible actions may be taken at different points in time?



iNED Respondent Views

"If a fund is underperforming significantly for a substantial amount of time, a fee reduction in isolation is unlikely to be sufficient response. I see fee reductions being driven more by customer demand and key competitors than performance, as you are unlikely to be able raise fees if performance improves."

"At this stage the board has not considered over why time period it might consider changing strategy or introduce fee reductions to compensate for poor performance."

"I don't see these answers as binary or necessarily progressive over such timescales. The AoV should confirm what actions are being considered, and the Board should choose the most appropriate tool and timing. The INEDs should represent the interests of all shareholders."

Chapter 04

GOVERNANCE & OVERSIGHT

Service providers like the depository, play a critical role in the long-term success of fund management. The depository has a particular role in overseeing how funds are managed and equally importantly making sure that investors' assets are safe.

And whilst iNEDs, and certainly the respondents to the FBC iNED Survey 2021, have a high degree of awareness of the depository and other service providers, a fairly sizable number of them were not aware that one of the roles of the depository is to oversee the fund board, or the ACD (the authorised corporate director) in the UK.

With the appointment of iNEDs and the evolving role of fund boards, there are likely to be several opportunities for the iNEDs to engage with the depository who may be able to assist in several ways.

For instance:

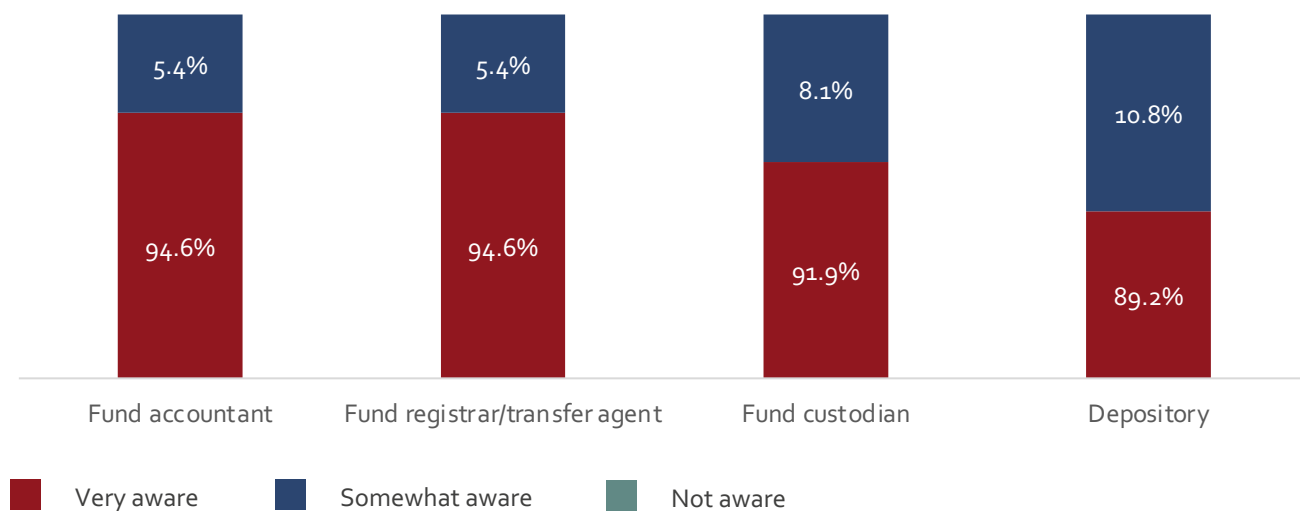
- There is a relatively low level of awareness amongst iNEDs that their depository may be able to assist them with information to provide board challenge.
- For their part, iNEDs report they would benefit (greatly or somewhat) by regular benchmarking updates, and reports from the depository.
- And even when it comes to AoV, just over one half of the respondents feel there is a role for the depository in providing the iNEDs with information and advice to support their efforts.

GOVERNANCE & OVERSIGHT

Exhibit 1

Awareness of service providers

Survey question: As a fund board iNED, are you aware of the roles/responsibilities of the following service providers/fund administrators



iNED Respondent Views

"It is a compliment (to the) depository (as they are) considered the lowest risk of all. You know, if you're sitting on a board, and you're thinking where the landmines? It's going to be in your everyday operations."

"My background includes being Head of Global Operations and daily oversight."

"Presentations from subcontractors are given directly to the board."

Exhibit 2
Role of the Depository

Survey question: Are you aware that one of the roles of the depository is to oversee the ACD/fund board?

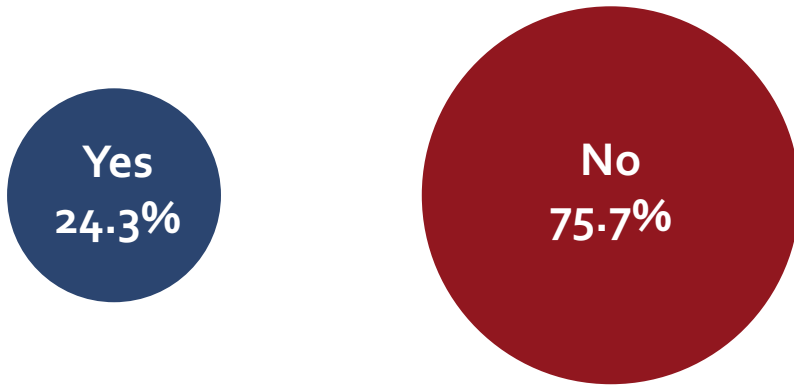


Exhibit 3
Depository attendance at board meetings

Survey question: How often does your AFM's depository attend your board meetings?

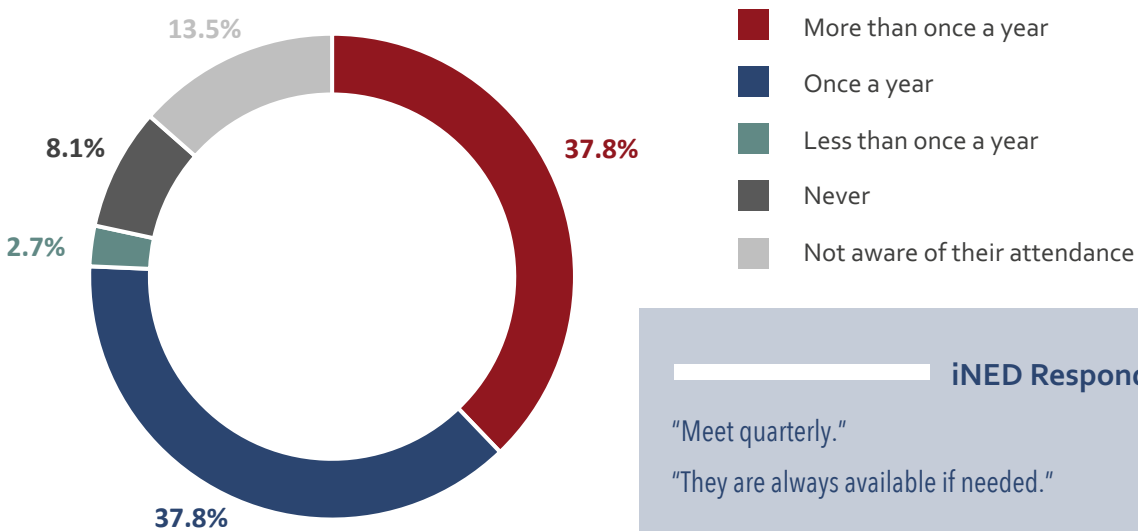


Exhibit 4
Role of Depository in assisting with iNED challenge

Survey question: Are you aware of how the depository can help you in your role as an iNED, especially around challenge?



Exhibit 5
Depository support for benchmarking, regular updates, and reporting

Survey question: *Would you benefit from receiving information from the depository in the following areas?*

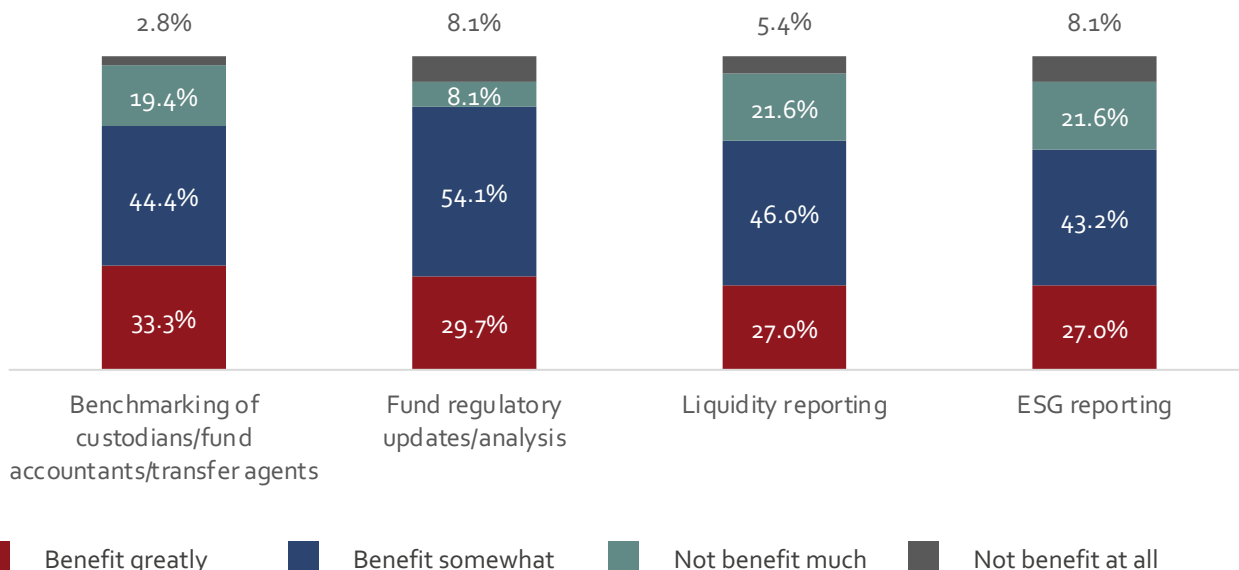


Exhibit 6
Regularity of information from Depository

Survey question: *Thinking of the previous question, would you value having the information provided at regular intervals (monthly, for instance) with ongoing trend analysis?*



iNED Respondent Views

- “Monthly might be useful for liquidity reporting.”
- “Under normal circumstances, quarterly would seem sufficient.”
- “This would be most welcome.”

Exhibit 7
Depository support for AoV information

Survey question: *Is there a role for the depository in providing you, as an iNED, with information and advice to support your efforts in producing your board's AoV report?*

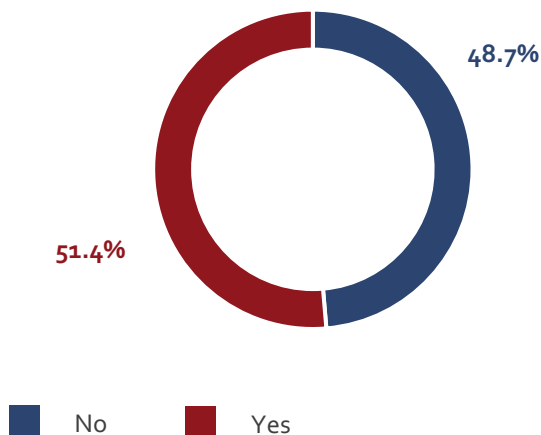
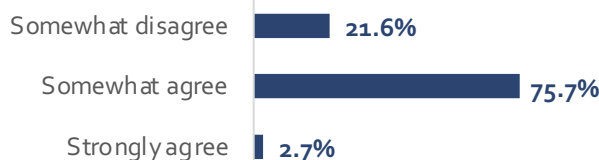


Exhibit 8
Depository oversight conflicts

Survey question: *Do you believe there is a conflict in having depositories oversee custodians and fund accountants that are part of the same business group?*



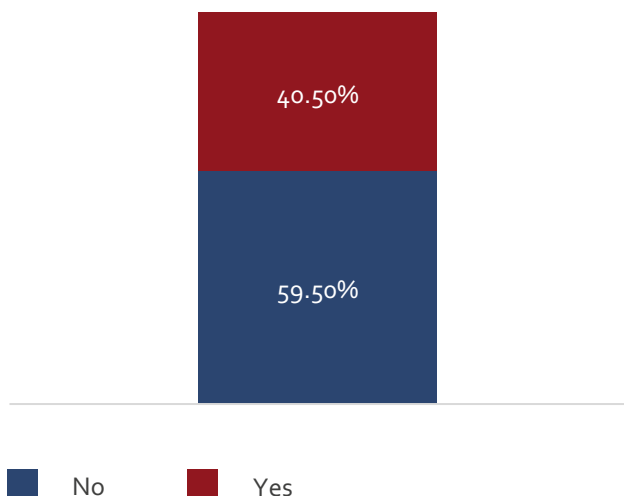
iNED Respondent Views

"Safeguards must be in place with assurance received."
 "Chinese walls should be in place."



Exhibit 9
ACD conflict in appointment of depository

Survey question: *Do you believe there is a conflict of interest with the ACD appointing the depository, who then oversees the ACD?*



iNED Respondent Views

"Potentially ... though in my experience I haven't seen any conflict."
 "Whilst I don't feel this is the case with the Board I sit on, there could be a perceived or inherent conflict in this area."
 "A good ACD would want a robust depository who helps 'kick their tyres' and vice versa."

Chapter 05

CULTURE AND PURPOSE

The importance of culture and purpose of fund boards isn't the sole responsibility of the iNEDs, but the seriousness with which they have taken to this important issue is palpable – both in the responses in the FBC iNED Survey 2021 but in subsequent discussions that FBC has had on the topic, and is amply reflected in multiple sessions scheduled at the FBC iNED Bootcamp 2021.

For instance:

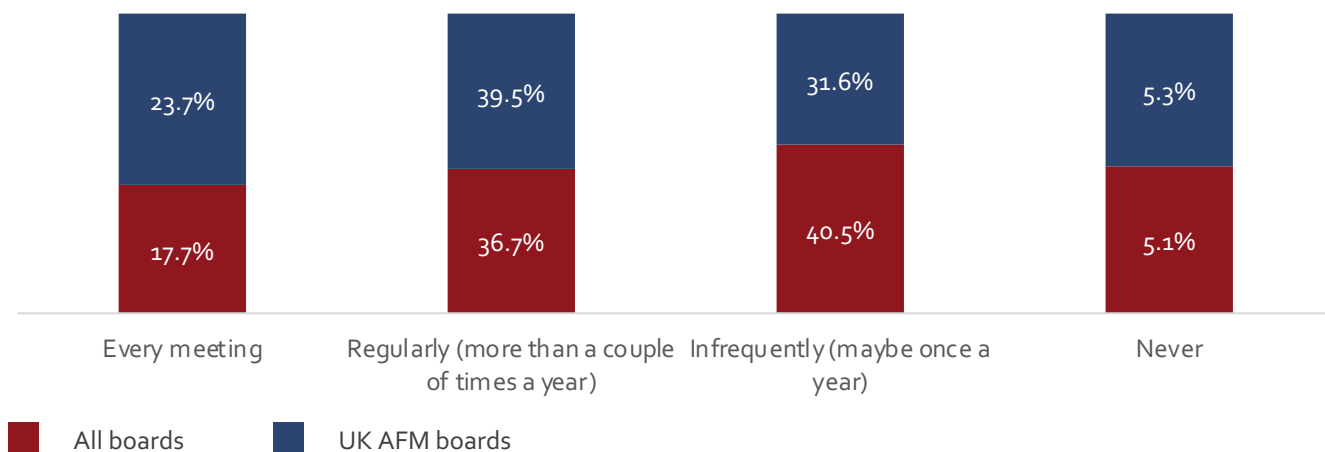
- Culture and purpose is increasingly integral to board discussions, but not as evenly spread out across all boards, as one may imagine.
- The role of the Chair of the board is critical in ensuring that culture and purpose is well-embedded in the board process, and yet no less the responsibility of others on the board too.
- On highly technical fund boards, cognitive diversity remains the key deliverable, but shouldn't come at the cost of other forms of diversity and inclusion.

And yet, can the fund board that may sit within a much larger financial institution be able to influence change across the wider organisation? "That would be naïve," one experienced iNED remarked, but added that even in the last couple of years, the impact that the iNEDs have had on the fund board has been significant. "Their impact is beginning to be felt amongst the senior managers, who are now definitely feeling far more exposed, and far more liable." Not the last we will be hearing on this subject.

CULTURE & PURPOSE

Exhibit 1 Culture and purpose discussion on fund boards

Survey question: *Is culture on your fund board something which features in your board discussions?*



Note: All boards also include fund boards outside of the UK.

iNED Respondent Views

"We are developing a more regular targeted process of reporting linked to remuneration and rewards."

"I am wary of any cultural discussion as it tends to be trite or a contrivance on the part of Exec. In small firms facing a lack of diversity, culture gets little look in. I observe a number of cultural dysfunctions within the firm. However whilst a Chair can be strong on corporate ethics; this appears more outward than inward reflecting."

"On the whole, culture is integral to board discussions as decisions are sensed checked against the organisation's values and operating principals re: responsible investment and conduct question 'how would this impact Mrs Miggins?'."

Exhibit 2 Assessing values

Our board has established a clear purpose and articulated values



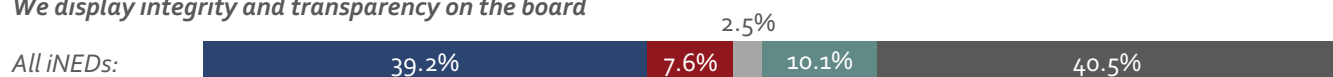
Clear expectations are set on board behaviours, and this is actively championed by the chair



We respect and empower our colleagues on the board



We display integrity and transparency on the board



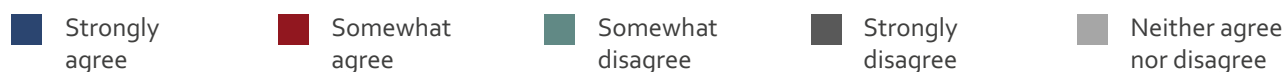
The board is well-represented in terms of diversity and inclusion



We have a strong client focus in the work that we do on the board



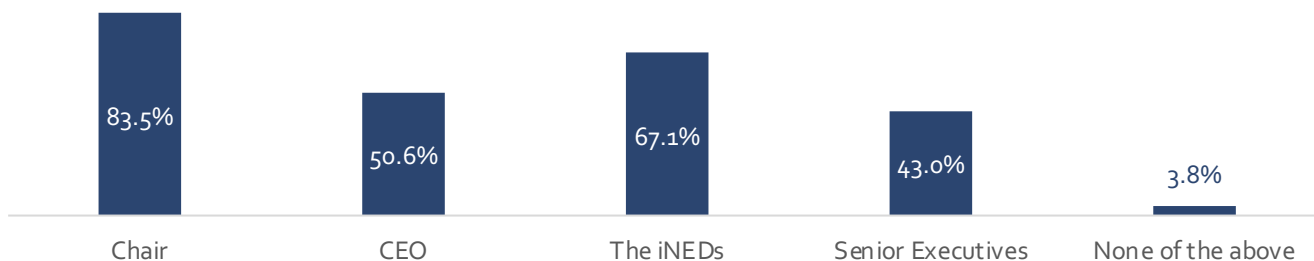
Constructive challenge is encouraged



Note: All iNEDs also include those who sit on boards outside of the UK.

Exhibit 3**Responsibility for culture and purpose on fund boards**

Survey question: *Who in your view should ensure greater prominence is given to 'culture and purpose' in board discussions?*
 Check all that apply.

**iNED Respondent Views**

"A clear framework over and above SMCR and industry training modules is needed."

"For Irish ManCos (management companies) this might be expected to fall to Organisational Effectiveness Director."

"Culture and purpose should be integral to the way the whole board/senior exec think."



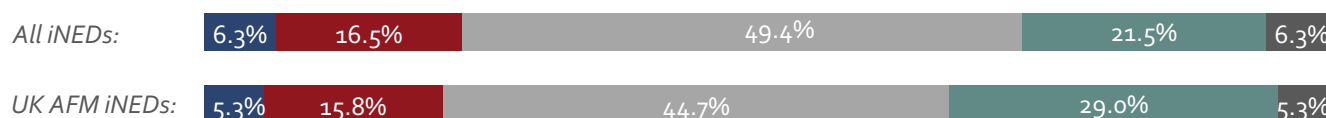
Exhibit 4 Diversity & Inclusion

Survey question: Regarding diversity and inclusion, your board is focusing attention on achieving a balance across

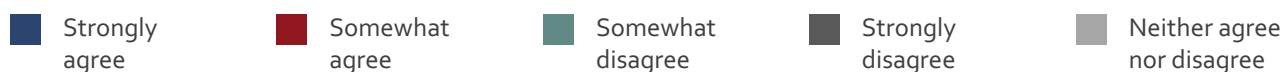
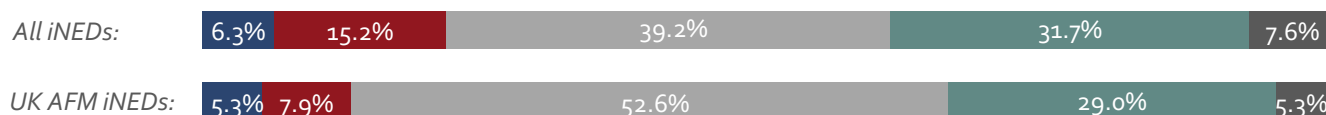
Gender



Race



Age



Note: All iNEDs also include those who sit on boards outside of the UK.

iNED Respondent Views

"I've come to the view that in terms of diversity and inclusion, companies should be deliberately tilting the balance."

"I think we should be actively bringing more women on to boards, actively looking to diversify the racial mix on boards, and actively trying to get younger people on to boards."

"I know for too long we have been saying we should be doing this ... I've come to the view, actually, you've got to make it happen ... it isn't going to happen spontaneously."

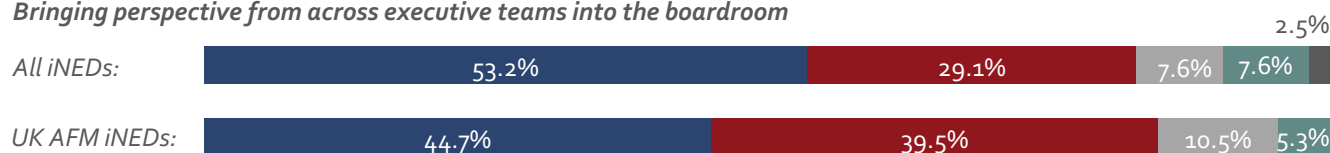
Exhibit 5 Executive and external perspectives

Survey question: *Your board achieves a balance between*

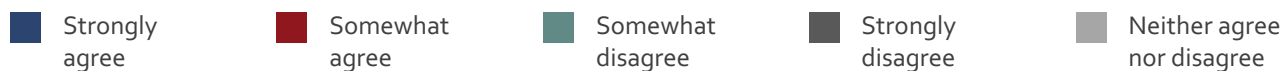
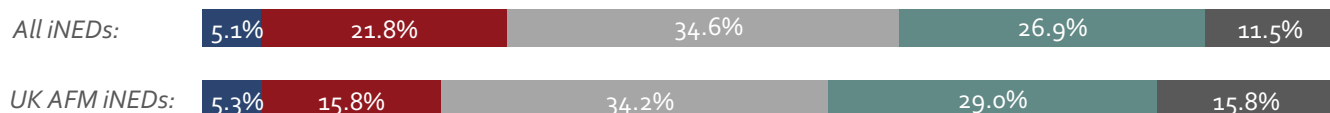
iNED v Executive perspective in the boardroom



Bringing perspective from across executive teams into the boardroom



Bringing perspective from other industries



Note: All iNEDs also include those who sit on boards outside of the UK.

iNED Respondent Views

"I think you need a broadly cognitive diverse board - achieving a greater representation of the society we live in, and the clients we serve isn't mutually exclusive with achieving greater cognitive diversity."

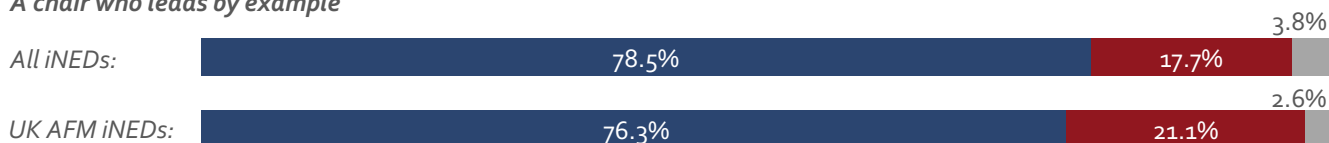
"Just as important as representation on the board, are the recruitment practices that firms employ. What are they doing about diverse applicants?"

"D&I on boards is both a long-term process and many short-term ones, and both have to happen in parallel."

Exhibit 6 Fostering a culture of trust and respect

Survey question: To what extent do you believe the factors below contribute effectively to fostering a culture of trust and respect on your board?

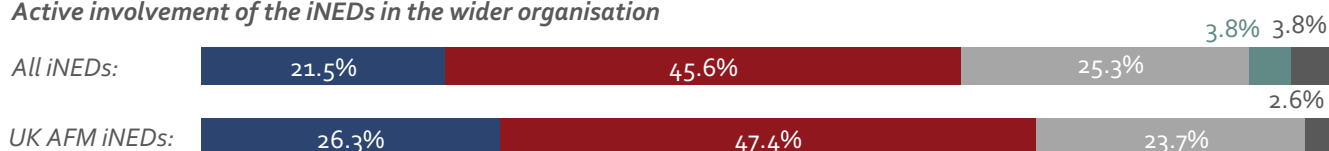
A chair who leads by example



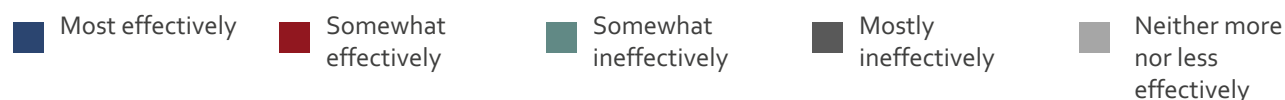
Regular opportunities for directors to get together, informally, outside of the boardroom



Active involvement of the iNEDs in the wider organisation



A clear focus on governance, rather than management, amongst all directors



Note: All iNEDs also include those who sit on boards outside of the UK.

iNED Respondent Views

"It is some times very hard to resist (getting involved) but you have to; it is their job to run the firm, and it's you job to support and challenge."

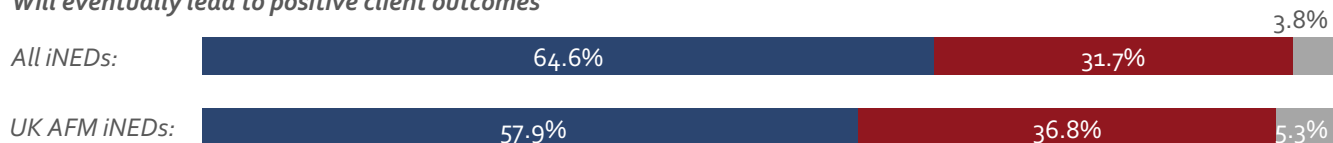
"I am very wary of over-reaching, and yes, it is very easy to be tempted to become a 'consultant'."

"You are not there to manage and have to be very clear to stay on the right side of that line, but otherwise I think we are on a path of more involvement as non-execs."

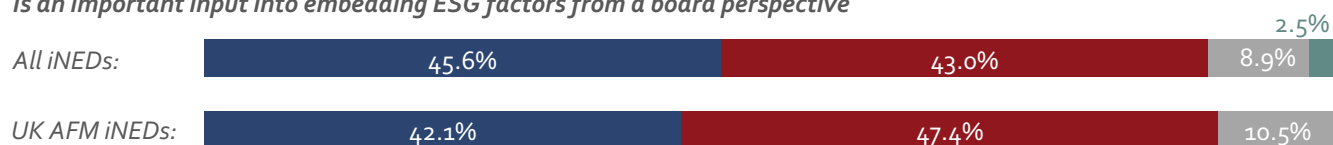
Exhibit 7 The keys to an effective boardroom

Survey question: *And finally, a focus on culture/purpose on fund boards*

Will eventually lead to positive client outcomes



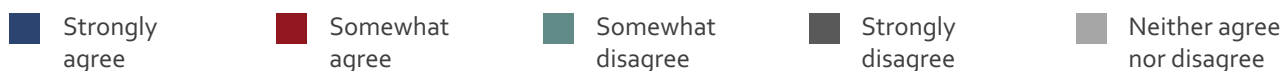
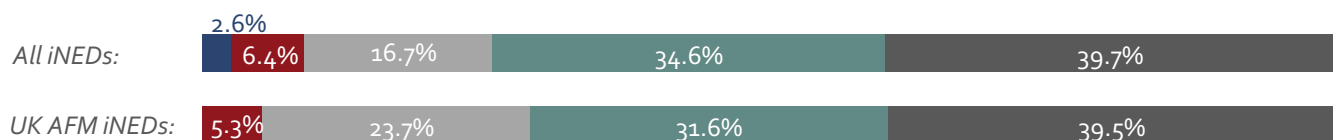
Is an important input into embedding ESG factors from a board perspective



Leads to a far more effective boardroom environment



Is just another set of regulatory questions to answer, but won't make much of a difference



Note: All iNEDs also include those who sit on boards outside of the UK.

Chapter 06

COMPENSATION

iNED fees are very much a case of in the eye of the beholder. Some are happy to settle for half as much as others are willing to, but in almost all instances, there is a growing recognition, especially for first time non-execs, it is fatal to expect a replication of executive remuneration in the iNED world. Research suggests it can take anywhere up to three years and more to achieve that – and even then, not everyone does.

The key themes from the FBC iNED Survey 2021 show:

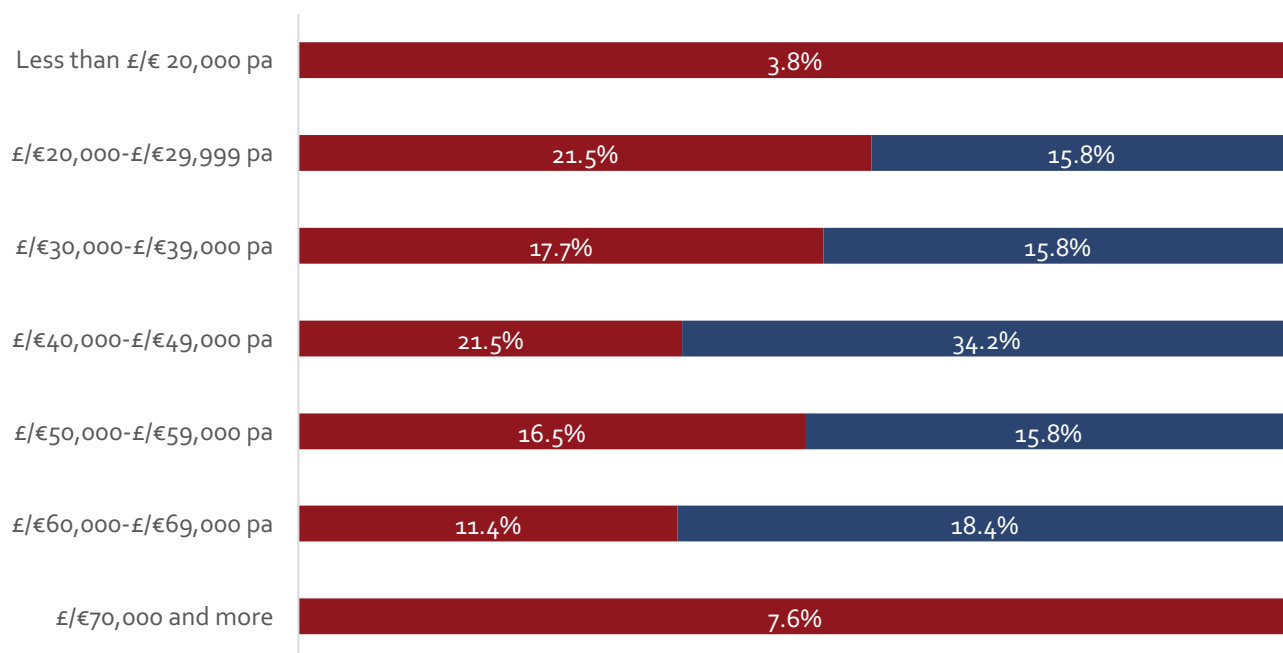
- The sweet spot seems to be between €/**£**30,000 and €/**£**50,000 for basic fees, though more experienced directors, and those with additional responsibilities can expect to receive considerably more.
- Additional fees for sitting on committees and other activities are still quite rare in the fund board world, but there is compensation for out of pocket expenses.
- Unlike in crossborder markets like Ireland and Luxembourg, or even with investment trusts in the UK, sitting on multiple fund boards in the UK is still a rarity, and therefore iNEDs looking to build a plural portfolio career either have to look to other parts of the financial services industry, or outside it altogether.

As the role of the fund board directors evolves, the extent of involvement – a combination of both time and responsibility – it will be interesting to see to what extent that is reflected in the directors fees. For now, the supply of directors continues to far exceed publicly stated demand, so it may be a while before we start to see any significant uptick in fees.

COMPENSATION

Exhibit 1 Board fees

Survey question: Please indicate the basic fee you receive for your role as an iNED on your board. Do not include fees for other roles, committees, incidentals, etc that you may receive in addition to your board fees.



■ All iNEDs ■ UK AFM iNEDs

Note: All iNEDs also include those who sit on boards outside of the UK.

Source: FBC iNED Survey 2021

Exhibit 2 Other fees

Survey question: Please indicate the cumulative fee you receive for other roles you may perform for your AFM board, including sitting on committees, etc, but excluding advisory and other non-board roles.

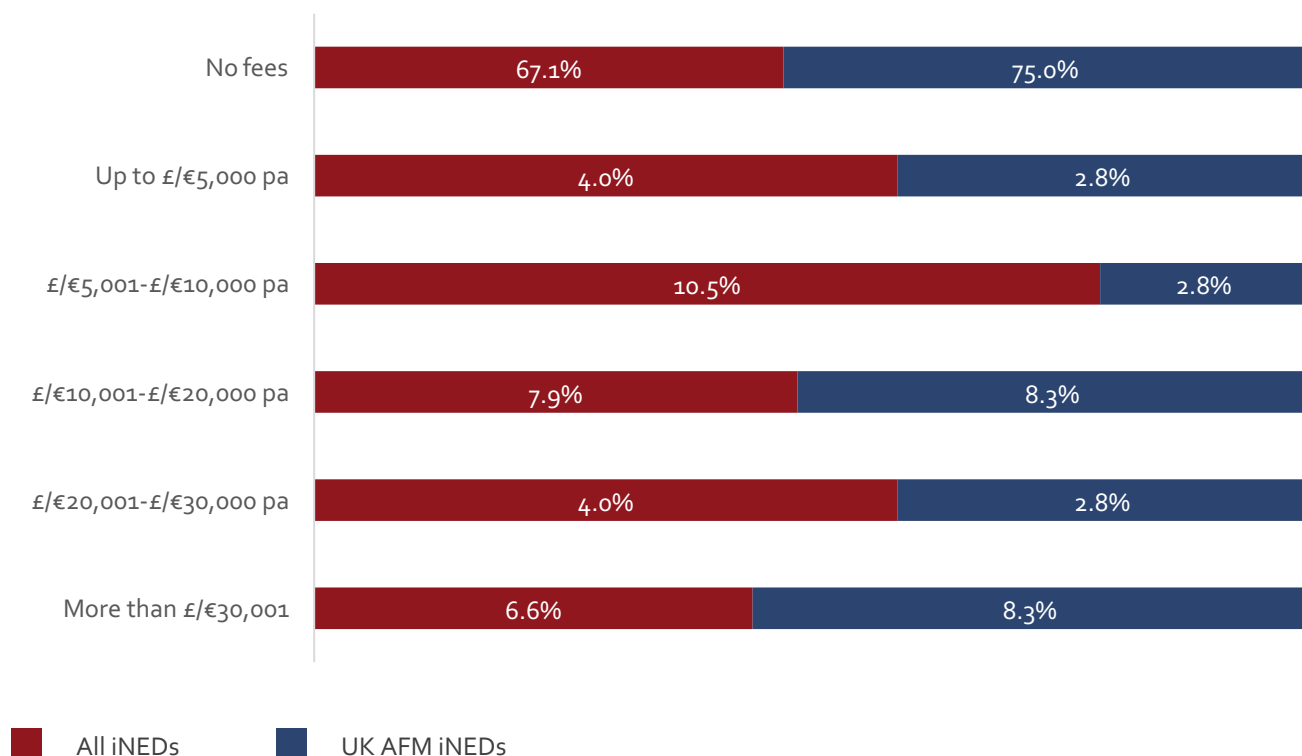
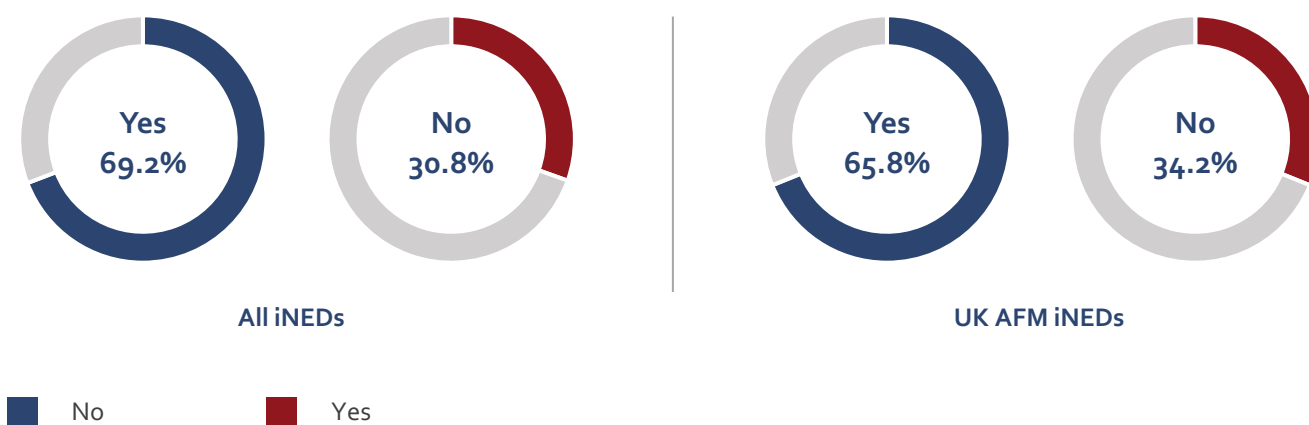


Exhibit 3 Out of pocket fees

Survey question: Do you receive any additional/out-of-pocket fees for incidental expenses, T&E etc?



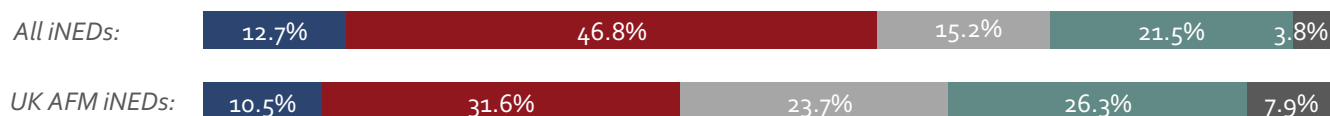
Note: All iNEDs also include those who sit on boards outside of the UK.

Source: FBC iNED Survey 2021

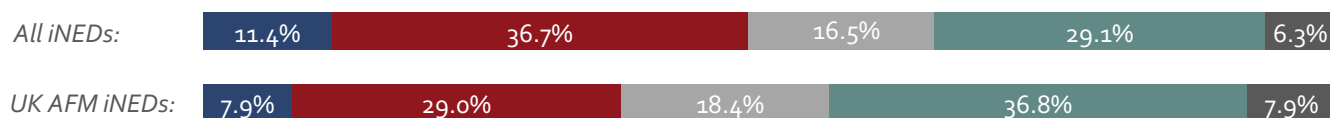
Exhibit 4 It's all relative ... time, responsibilities and potential liabilities

Survey question: As you consider your iNED role over the past 12 months or so, do you believe your fees (in total) are:

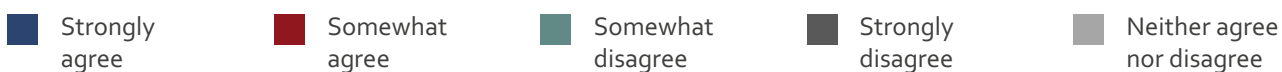
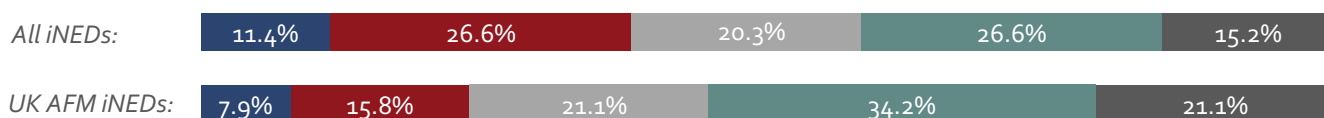
Set at the right level for the commitment of TIME involved with the role



Set at the right level for the extent of the RESPONSIBILITY involved with the role



Set at the right level for the amount of LIABILITY you may have to bear



Note: All iNEDs also include those who sit on boards outside of the UK.

GLOSSARY OF TERMS

ACD – Authorised Corporate Director
AFM – Authorised Fund Manager
AoV – Assessment of Value
FBC – Fund Boards Council
FCA – Financial Conduct Authority
iNED – Independent Non-Executive Director
ManCos – Management Companies
SM&CR – Senior Managers & Certification Regime

For more details about Fund Boards Council and how you can get involved, please visit <https://fundboards.org>, or get in touch at contact@fundboards.org



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