FUND BOARD VIEWS

Volume 6, Issue 8 *September 2023*

Top of the Agenda - Compensation

IDC study: Director pay up more than 5% in 2022

Independent mutual fund directors earned more in 2022 than they did in 2021, according to industry data obtained by *Fund Board Views*. The year-on-year increase—a median of 5.7% and average of 5.5%—returned to levels seen before 2021 when uncertainty in the markets and continuing COVID-related issues may have caused boards to grant more modest raises in pay. The median pay increase in 2021, at 2.3%, was less than half what directors received in 2022, while the average of 1.6% was a fraction of last year's increase, according to figures from Independent Directors Council's two most recent studies on director compensation and governance practices.

The *2023 Directors Practices Study*, which recently was distributed exclusively among participating IDC members and produced in conjunction with Investment Company Institute, includes calendar year 2022 data from 179 fund complex representing 97% of the industry's nearly $29 trillion in open-end, closed-end, and exchange-traded fund assets. The 1,295 independent directors at those fund complexes sit on 232 fund boards and represent 80% of the directors tracked in ICI's database.

The median pay for all independent directors who participated in the most recent survey was $268,000 in 2022, and the average was $267,451. For the 173 fund complexes that provided data for calendar 2021 and 2022, median and average compensation levels for independent directors increased 5.8% and 5.4%, respectively.

More Assets, Funds = Higher Pay

The range in compensation paid to independent directors is wide, with—unsurprisingly—those overseeing large fund complexes (both in terms of assets under management and number of funds) earning much more than those overseeing smaller fund groups. At the low end, median compensation for directors overseeing less than $1 billion in AUM was $50,000 in 2022, while the average pay was $59,477. At the other end of the spectrum, median pay for directors overseeing $500 billion or more in AUM was $432,301 last year and the average compensation was $425,415.

Several groups of directors saw double-digit growth in median income in 2022, including many of those overseeing AUM between $1 billion and $75 billion. Those who saw the largest

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Total Compensation, by role

	Median	Average
Independent chair	$262,000	$300,109
Independent vice-chair	$330,500	$293,133
LID	$199,750	$235,538
Committee chair	$298,200	$276,416
Director (no special role)	$245,000	$249,991

Source: 2023 Directors Practices Study

increase in median income just (more than 42% year on year) were the directors overseeing between $25 billion and $35 billion. Those who experienced the smallest increase (just over 3% year on year) were the directors overseeing between $75 billion and $100 billion.

Again in 2022, directors hit six-figures in compensation at the $3 billion-to-$5 billion in AUM level, with the median for those directors at $111,750 and the average at $125,883. Directors earned more than $200,000 when AUM reached $25 billion, sooner than in the year prior when that line was crossed at $35 billion in AUM. Similarly, in 2022 directors earning more than $300,000 reached that level when AUM hit $50 billion, compared to 2021 when directors didn't top $300,000 until AUM had reached $75 billion.

Compensation also varies depending on the number funds a director oversees. Those overseeing between one and five funds earned a median of $89,251 and an average of $109,883 in 2022, while those serving more than 150 funds took home median compensation of $448,250 and average pay of $444,006. Directors' compensation hit a median level of $200,000 when overseeing between 16 and 30 funds, topped $300,000 when serving between 51 and 75 funds, and went above $400,000 when overseeing more than 100 funds.

Allocating Director Expenses

Nearly all fund complexes (97%) pay independent directors a base fee or retainer, and more than half (58%) pay directors board meeting fees.

More than 88% of boards evaluate compensation annually, with 5% evaluating every two years and 5.6% of participants saying they review compensation as needed.

Total expenses for director compensation are considerably different when comparing a unitary board structure to a cluster board structure. For all complexes, these expenses—which include independent directors, honorary directors, and directors emeriti—the median was $1.1 million and the average was nearly $2 million. For cluster boards, the median was $5 million and the average $5.5 million, compared with unitary boards' median of almost $935,000 and average of about $1.5 million.

Total director support expenses tell a similar story. The median and average for all complexes was about $439,000 and $874,000, respectively. For cluster boards, those figures were $1.7 million and $1.6 million, compared to unitary boards' $388,000 and $767,000, respectively. The wide variances between median and average figures (for all complexes) is attributable to expenses related to outside counsel, consultants

FUND BOARD VIEWS

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Published By:
Monteagle Ridge Media, LLC.
405 Ressler Street, Holly Springs, NC 27540

and third-party services (including 15(c)-related fees), publications and subscriptions, and electronic board book costs.

Additional key points include:

- 53% of boards allocate director compensation expenses proportionally relative to average net assets of each funds; 53% of boards allocate director support expenses in the same way.
- When setting compensation, almost all directors consider the amount of assets and number of funds served, as well as the time commitment required; about three-quarters also consider the type of funds and type of asset classes served, and more than half take into account the size of the board, board self-assessments, and complexity of the job.
- Directors also consider multiple sources of information when setting compensation, including the *Directors Practices Study*, public filings, and "commercially available information."
- Some 38% pay per-meeting fees for all board and committee meetings (both regularly scheduled and unanticipated), while just over 13% only pay per-meeting fees for regularly scheduled board and committee meetings; 38% do not pay per-meeting fees at all.
- A small percentage of boards (15.6%) pays special activity or per-meeting fees for 15(c) contract meetings and dividend meetings.
- Nearly two-thirds of boards have not adopted a formal expense reimbursement policy.
- Only about one-fifth of boards provide a deferred compensation plan for independent directors.

IDC and ICI conduct a study on independent director compensation annually, including expanded information on board practices every other year. The study is distributed exclusively to members, and an IDC spokeswoman underscored that it is confidential and the contents proprietary. She told *FBV* that IDC has plans to publish select data from the report and added: "We are proud of the data showing strong fund governance practices that continue to evolve and serve investors' best interests."

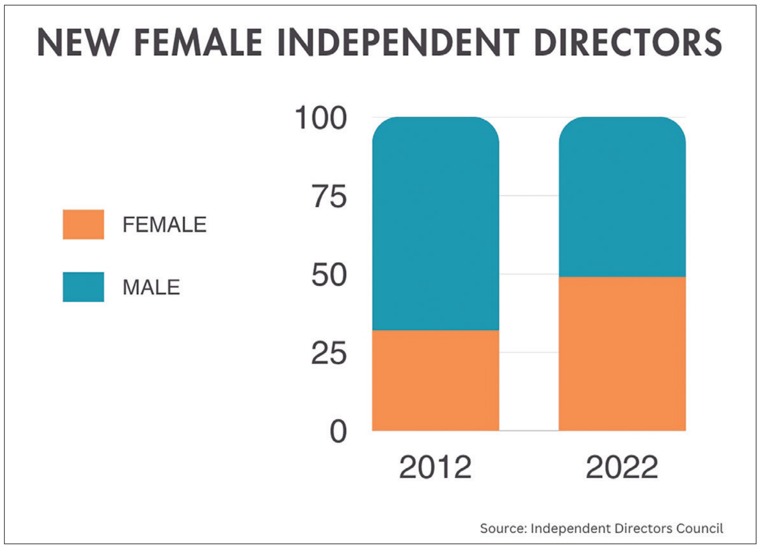
Top of the Agenda - Governance

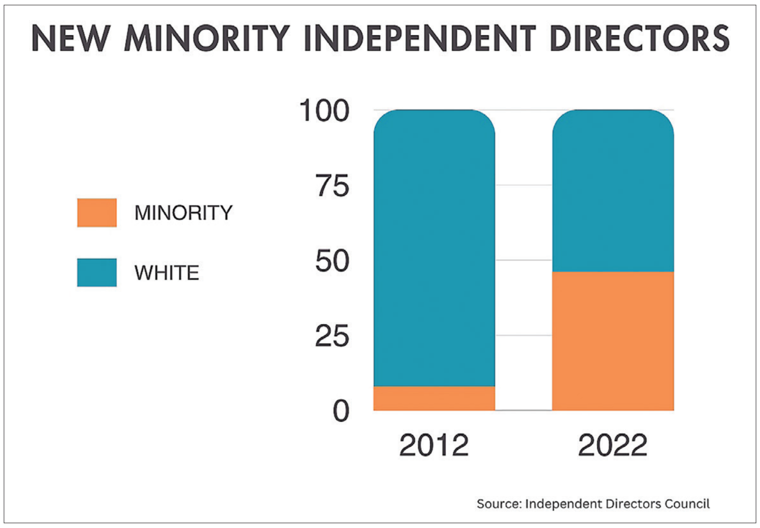
New IDC data: Diversity takes hold in fund boardrooms

Mutual fund boardrooms are more diverse than ever, with the percentage of women and individuals representing a racial or ethnic minority group increasing annually—and at a rapid pace in recent years. According to data from the Independent Directors Council, in the 10-year period from 2012 to 2022, the percentage of women serving on fund boards increased from 20% to 36.6%, and in the eight-year period from 2015 (the first year IDC reported) to 2022, the percentage of minority group representatives more than doubled from 8% to 17%.

"I see boards continuing to focus on diversity in the boardroom," Paulita Pike, a partner at Ropes & Gray in Chicago, told *Fund Board Views*. "Many boards approach new director searches with the belief that diversity is important because it brings additional perspective into board deliberations. Many boards also believe that diversity among directors is an important reflection of alignment with the diversity represented among fund investors."The IDC's *2023 Directors Practices Study*, which was distributed exclusively among participating IDC members, contains data from the 2022 calendar year, whereas historical data was released by IDC in October 2021. An IDC spokeswoman, who pointed out that the *Directors Practices* studies are confidential and the contents proprietary, told *FBV* the group is "proud of the data showing strong fund governance practices that continue to evolve and serve investors' best interests."

In 2022, the number of new directors (those serving for less than two years) who are female or represent a minority group also was impressive. Women made up 49.1% of those directors in 2022, compared to 32% 10 years prior, while minorities were 46.1% last year, compared to 8% in 2012.





"The demographic data does show the fund director community's commitment toward greater diversity, especially in recent cohorts of independent directors," noted Kathleen Barr, independent chair of Professionally Managed Portfolios and independent director for William Blair Funds. "While there is still work to be done, I am pleased to see the progress thus far," she said.

"It was great to see change across the board and at an accelerated pace," Theresa Hamacher, independent chair of Morningstar Funds, said of the new data from IDC. "The challenge will be to maintain the momentum and remain committed to making the industry more inclusive."

Numbers Increasing

Not only is the percentage of female directors growing overall, the number of boards which count women among their number is increasing:

- Boards with one or more female director: 89.2% in 2021—>90.5% in 2022
- Two or more female directors: 59.1% in 2021—>64.2% in 2022
- Three or more female directors: 36.2% in 2021—>40.5% in 2022

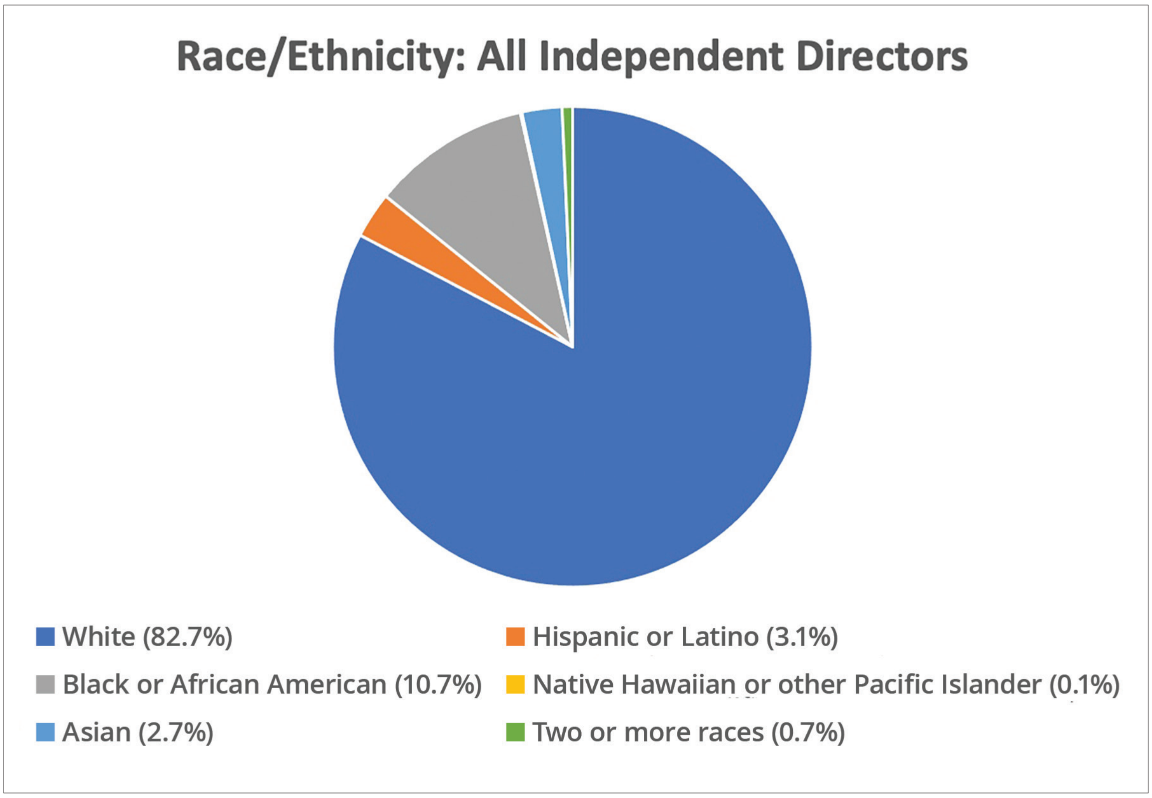
The *2023 Directors Practices Study* appears to be the first time IDC has provided these statistics for directors who represent a racial or ethnic minority group, and the numbers are impressive:

- Boards with one or more minority director: 56.6%
- Two or more minority directors: 26.4%
- Three or more minority directors: 12.1%

Looking more closely at the racial and ethnic profiles of directors, the largest race or ethnic group represented on fund boards in 2022 was White, at 82.7%; the second-largest group—and only other at a double-digit percentage level—was Black or African American, at 10.7%.

Topic of Discussion

According to the IDC data, some three-quarters of boards discussed diversity and/or inclusion topics at board meetings in 2022, and two-thirds said



those discussions were part of a formal board meeting agenda. "There certainly are boards that dismiss the notion that board diversity is important and enhances the effectiveness of the board, but the vast majority of registered fund boards recognize the value of a broad range of backgrounds, experience, and perspectives," said JoAnn Strasser, chair of the Investment Management practice group at Thompson Hine. "The best boards engage in meaningful debate that is fueled by those diverse perspectives. Women and minority candidates are a priority for nearly every nominating committee, and while change is slow, it is happening."

Ronald Feiman, a partner at Carter Ledyard & Milburn, said he's seeing a lot of women hired to serve on boards and noted that the group of directors chairing nominating committees on boards are more diverse. And, he said, diversity and inclusion is being prioritized at many advisers as well. "Management companies have stated that they believe it important for their officers to look like their clients and support diversity on fund boards as well—not that they control the nominating process," he told *FBV*.

Management's practices are a topic for discussion in the fund board room nearly as often as not, with 39% reporting they did not discuss the diversity and inclusion practices of the adviser and other service providers in 2022 and 37% saying they did have such discussions.

10 Things

10 Things...about the amended Names Rule

The Securities and Exchange Commission last week adopted amendments to Rule 35d-1, commonly referred to as the Names Rule. According to a Sept. 20 statement from the regulator, "the amendments modernize and enhance the Names Rule and other names-related regulatory requirements to further the Commission's investor protection goals and to address developments in the fund industry in the approximately 20 years since the rule was adopted." Market participants will have at least two years to comply with the new rule, which will require advisers to review each fund and potentially change the name and/or adopt or change its 80% policy. "This is a heavy lift," one '40 Act lawyer told Fund Board Views. "Coupled with other recent rule changes that have been adopted, and others in the pipeline, the rule puts a heavy incremental burden on adviser and compliance/legal resources. The additional burden extends not only to implementation of the rule but to ongoing compliance as well. Therefore, fund board members will want to be comfortable that the adviser has sufficient resources to address these increased demands."

Among the issues that will need to be addressed are:

- *The expansion of the 80% policy requirement beyond its current scope to include any fund with terms in its name that suggest the fund focuses on investments that have—or investments whose issuers have—particular characteristics.*
- *The need for ongoing monitoring of funds' alignment with the 80% investment policy since temporary departures from that 80% policy will require the fund to come back into compliance "as soon as reasonably practicable," which in most cases is within 90 days.*
- *Changes in the final rule that address the valuation of derivatives instruments for purposes of determining compliance with a fund's 80% policy, as well as the derivatives that a fund may include in its 80% basket.*
- *Requirements, in certain circumstances, to inform shareholders of any change in the 80% policy, including those regarding the incorporation of greater specificity on the content and format of the notices and those designed to address the needs of investors who elect to receive notice electronically.*
- *Enhanced prospectus disclosure for terminology used in fund names.*
- *Requirements that N-PORT funds adopt an 80% policy to report whether each investment in the fund's portfolio is in the fund's 80% basket and the value of the fund's 80% basket, as a percentage of the value of the fund's assets.*

We asked fund governance professionals what boards need to be thinking about and asking ahead of compliance with the new Names Rule. Here's what they said:

1. Since changes to fund names and/or 80% investment policies would normally require board approval, boards can expect they will be called upon over the next two years to consider approvals of such changes. Has there been a study or scrutiny of the possible impact of the rule on funds' performance, volatility, and/or risk?
2. The board, adviser, and CCO will need to consider what periodic or special reporting to the board would be appropriate under the amended rule. What reporting should be provided

as to implementation of the rule? Will there be reporting of the results of the quarterly review mandated by the rule? Will the board receive any reporting of deviations from a fund's 80% policy under abnormal circumstances or otherwise?

3. Under Rule 38a-1, boards are required to approve fund compliance policies and procedures. This would include policies and procedures to comply with the Names Rule as amended, and the expanded requirements under the rule are likely to make those policies and procedures more complex. The board will be tasked with determining that all associated policies and procedures are reasonably designed to comply with the rule. Are the SEC's compliance expense estimates accurate? If not, where are they off and by how much? Where will additional compliance expenses be absorbed (adviser or fund)?
4. Because the SEC is not prohibiting "ESG integration" funds from including ESG in their name (as initially proposed, the amendments would have prohibited this), how is management approaching the naming of ESG integration funds? Will they put—or continue to keep, as applicable—"ESG" or a similar term in those funds' names? How will the evolving ESG landscape and political headwinds impact management's decision about naming conventions for ESG integration funds?
5. What funds previously not subject to the Names Rule will now fall into the scope of the rule as a result of the amendments? Will the attachment of the Names Rule requirements to those funds cause any changes to the funds' strategies or portfolios? If so, will there be any anticipated transaction costs associated with the repositioning? Are there funds that currently are partially in scope that will increase in scope?
6. For the new requirements that funds come back into compliance with their 80% policy if there's a temporary departure, what systems or processes are in place—or will be put in place—to conduct effective monitoring of the fund's portfolio relative to the 80% policy? What teams/individuals will be responsible for monitoring this, and what communications will there be with the portfolio managers?
7. What process will the adviser uses to determine a fund's name? Will a fund's name be reevaluated after the initial launch? If so, how frequently will this reevaluation take place? Is the renaming of any funds being considered to avoid having to comply with the amended rule?
8. Given that the SEC has said the Names Rule is not a safe harbor, what assurances can the adviser provide that the SEC would not find the proposed name to be "materially deceptive or misleading" even if the name would satisfy the requirements of the rule?
9. Are there any funds that will raise unique issues, such as an environmental-focus fund that measures environmental "friendliness" differently from other funds with similar names?
10. How will the adviser structure and conduct quarterly testing?

Reach out if you've got an idea for a *10 Things...* list: hillary.jackson@fundboardviews.com.

Top of the Agenda - Legal

Defendants, SEC spar in Pinnacle liquidity rule case

Lawyers for the defendants and for the Securities and Exchange Commission have filed dueling briefs with the U.S. District Court for the Northern District of New York in the regulator's first-ever case related to enforcement of the liquidity risk management rule it adopted in 2016. This follows motions to dismiss the case filed in July and the original charges, announced last spring.

The SEC's May 5 complaint against Pinnacle Advisors LLC, *Nysa Fund*, independent directors Mark Wadach and Lawton "Charlie" Williamson, fund president and portfolio manager Robert Cuculich, and CCO Benjamin Quilty centers around charges of "aiding and abetting liquidity rule violations by a mutual fund it advised and whose Liquidity Risk Management Program it administered."

In July, Stradley Ronon lawyers Jan Folena and Eric Porter filed a motion to dismiss the case against the two independent directors, calling the SEC's complaint "an exercise in government overreach," maintaining Wadach and Williamson complied with their obligations under the liquidity rule, and calling for dismissal with prejudice. The other defendants—the adviser and two officers—argued in their own motion to dismiss that the liquidity rule is actually invalid, and therefore the SEC's claims are "fatally flawed."

In response, the SEC filed a brief opposing the motions to dismiss, arguing they were "premature and meritless." The 38-page brief, filed on Aug. 25, reiterates the regulator's original claims and maintains that accusations that the rule is invalid are incorrect and unfounded. Todd Brody, senior trial counsel, requests the court deny defendants' motions to dismiss entirely. A spokesman for the SEC declined to comment.

Stradley Ronon, representing the independent directors, and Brian Butler and Suzanne Galbaato of Bond, Schoeneck & King PLLC, representing Pinnacle Advisors, Cuculich, and Quilty, filed reply briefs on Sept. 25. In both, the defendants doubled down on assertions that the SEC's case lacks substance and that the liquidity rule was improperly promulgated and violates the fair notice requirement. A Stradley Ronon spokeswoman declined to comment on active litigation. Butler and Galbaato did not respond to a request for comment.

When the SEC announced the charges back in May, industry lawyers told *Fund Board Views* the case was based on an extreme set of facts that fell far outside the norm of what typically goes on in the mutual fund industry and its boardrooms. Some noted that the SEC's action demonstrated that the regulator is serious about looking at the role of fund boards within the context of rule violations. They advised independent directors to stay alert, follow up on items brought to the board's attention, and listen to the experts around them, including counsel and auditors.

Top of the Agenda - Succession

Wasatch Funds adds director ahead of retirement

Wasatch Funds has added a fifth independent director ahead of a retirement—and loss of “deep industry knowledge”—at year-end. The addition allows for an overlap of several months before the all-independent board returns in January to its normal size of four directors around the table, Chairman Heikki Rinne told *Fund Board Views*.


Heikki Rinne

The Wasatch Funds board oversees 20 mutual funds, and Kate Fleming has joined the group in the final months of Miriam “Mim” Allison’s tenure. The board also includes Kristen Fletcher and Mark Robinson, so the gender split following Allison’s retirement will remain 50-50, higher than the industry norm of 37% female, 63% male.

Fleming has decades of experience in financial services and investment management, as well as legal and regulatory sectors. She was president of Northwestern Mutual Series Fund from 2013 to 2021 and a vice president from 2004 to 2013. Before that, Fleming served as president of Mason Street Advisors from 2015 to 2021, vice president from 2004 to 2014, and treasure from 2008 to 2014 and from 2020 to 2021. She has served as a director of Rath Foundation since 2002 and of the Wisconsin Deferred Compensation Board since 2022.

”Kate Fleming was chosen because of her professional and personal qualifications, as well as her long and deep background in the mutual find industry—and to replace some of the deep industry knowledge we will lose when Mim Allison retires,” Rinne told *FBV* in an email.

Allison, 76, has served on the Wasatch Funds board since 2010 and was board chair from January 2020 to December 2022. Allison founded fund administrator, accountant, and transfer agent Sunstone Financial Group in 1990, serving as its CEO and chair. UMB Financial Corp. acquired Sunstone in 2001, renaming it UMB Fund Services and installing Allison as CEO and chair. She served as CEO until 2003 and as chair until 2005; she is listed in Wasatch Funds documents as a rancher since 2004. Allison was an independent director of Northwestern Mutual Funds from 2006 to 2021, during which time she served as Audit Committee chair and then lead independent director.

The Wasatch Funds board has a retirement policy that requires directors to step off at the end of the calendar year in which they turn 75; the board approved a one-year waiver from the policy for Allison.

Salt Lake City-based small-cap manager Wasatch Global Investors has just over $24 billion in assets under management.

Viewpoints

Adviser converting fund to ETF? Here are some tips for boards

By Susan J. Templeton

More than 90% of financial advisors who participated in a recent Financial Planning Association survey said they use or recommend exchange-traded funds, and of those, half said they plan to increase their usage in the next 12 months. The findings of *The 2023 Trends in Investing Survey* demonstrate that the popularity of ETFs remains high.

Susan J. Templeton

The reason for this fundamental industry change is well known and understood. The demand for ETFs by investors and their advisors is due to tax efficiency, transparency, lower operating costs, lower cash drag on performance, and the ability to trade intraday. In a move to capture those investor dollars, a number of fund groups in recent years have launched ETFs and/or converted existing mutual funds into ETFs. For boards overseeing mutual funds, the move to overseeing ETFs through a fund conversion can be challenging and complicated. According to a fund industry legal expert, it's important for independent directors to understand the intricacies of ETFs—and be confident the adviser does as well. "We see a lot of folks who think they understand ETFs because they ran mutual funds, until they actual get [into] the day-to-day operations," the expert said.

In addition to the ability to meet investor demand for ETFs, there are less obvious benefits to converting a mutual fund into an ETF. For instance, a mutual fund holding securities with significant embedded gains can convert to an ETF, enabling shareholders to defer the recognition of capital gains. And while ETFs are subject to the same 15% illiquid limitation as mutual funds, if an ETF is trading in-kind with its authorized participants (APs), it is not subject to the same bucketing requirements. Of course, there are cons to eliminating a mutual fund by converting it into an ETF.

Much of the decision-making around converting (or not) will depend on the client base and how and where assets typically are raised for the mutual fund in question.

Challenges to Consider

If the mutual fund is sold through a broker, there are aspects associated with that distribution model that will need to be considered before deciding to convert. There are often a variety of fees associated with mutual funds on which brokers rely and which don't exist for ETFs, including sales loads, 12b-1 fees, and charges for various classes of shares for certain funds (a fund with multiple share classes will need to consolidate those share classes into one in advance of any transition). For funds like these to be successful once they're converted to the ETF structure, the adviser must have a plan for retaining and continuing to raise assets.

If the mutual fund is primarily bought and held directly by the investor via a transfer agent, rather than through a third party such as a registered investment advisor or brokerage firm, those investors will be required to set up an account with a brokerage firm to hold their newly converted ETF. Because of this, the fund risks losing investors ahead of or upon conversion to another fund group that can more easily accept their money.

If shareholders of the mutual fund include retirement plan participants and the provider determines the offering of fractional shares is necessary, the new ETF will not be able to be substituted for the original mutual fund. This also can lead to a loss of investors and assets from the fund.

ETFs are required to disclose holdings on a daily basis. If the adviser or the board deems this information proprietary and does not feel such disclosure is in the best interest of the fund, applying for exemptive relief from the Securities and Exchange Commission may be an option, though one that is time-consuming and expensive.

Structuring the Conversion
Once the decision to convert a mutual fund into an ETF is made, most fund groups opt to do so via a merger rather than through a direct conversion or reorganization.

The direct conversion approach involves the organization building an internal shell ETF under Rule 17a-8 and putting in place the supporting back office. The fund prospectus is changed, and managers are spared a proxy vote unless the trust documents or the state in which the fund is registered explicitly require this. The fund board approves the conversion, provided it deems the move to be in the best interest of the shareholders. Once everything is set up and approved, the existing mutual fund is merged into the shell ETF.

Under this approach, the organization is subject to all the rules and regulations required to manage an ETF, including the board's role of overseeing the process. It can feel to the board members as if they are doing two jobs at once, given the overlap in oversight of and responsibilities to the existing mutual fund and the soon-to-be formed ETF. As an asset transfer, the funds' track record can be kept intact.

The merger/reorganization method is probably the most cost effective, but least used. Under this approach, the trust agreement and registration statements are amended, and the fund complex is required to put forth a shareholder vote prior to the conversion. A shareholder vote requires a proxy vote solicitation, a time-consuming process that most directors would prefer to avoid. This is mainly why the direct conversion method is preferred.

Typically, this structuring is not taxable to shareholders and, as with the direct conversion, the track record of the fund can be kept intact.

Board Responsiblities
ETFs have many of the same oversight requirements as open-end mutual funds, but there are additional—and different—board responsibilities directly related to the conversion process and as they transition to, and go forward with, overseeing the ETF structure.

To start, the board will need to approve the plans to convert, including ensuring that the interests of existing shareholders will not be diluted. The board's initial responsibilities include:

- authorizing various regulatory filings, including a registration statement and prospectus;
- approving an amendment to consolidate share classes for those funds that have multiple share classes;
- devising a plan to communicate with shareholders in advance;
- determining how redemptions related to the conversion will be handled, especially if there are transaction costs associated with redemptions; and
- considering the costs of the conversion and whether those costs should be borne directly or indirectly by shareholders.

Additionally, there will be a contract to review regarding the primary exchange on which the ETF will be listed, including considering a designated or lead market maker for the ETF, and the listing exchange may have its own requirements for the board. If there is a non-U.S. component to the ETF, this can add to the risks and potential liabilities for the adviser and is something the board will likely monitor going forward.

Investment Objective, Fund Design

If the proposed ETF's investment objective is going to be similar to any existing funds, the board will want to understand and consider how the new ETF will impact those mutual fund shareholders and the funds' asset levels. In many cases the adviser may need to adjust the portfolio in advance of the conversion to be compliant with exemptive relief; therefore, the board will need to understand tax implications for shareholders. Other considerations relate to any size limitations there might be on the ETF, costs, and break-even levels associated with the new ETF.

To understand how well the mutual fund's investment objective will transfer to an ETF structure and how it is expected to perform once converted, directors may want to start with some questions to the adviser:

If the fund tracks an index, does this pose any SEC or limitation issues related to diversification?

- For an index ETF, will the holdings be optimized and/or weighted differently from the underlying index?
- How might those differences affect costs in the creation and redemption process?
- How might those differences affect tracking error?

Boards should understand the process for creating and redeeming ETF creation units and should understand the secondary market and how it is working to benefit ETF investors. The attention should be on how much and how often the fund trades at a premium or discount, the bid-ask spreads, tracking error, and trading volume.

When evaluating contracts with providers, special attention should be given to the distributor and its services in connection with the APs (typically, a large institutional investor/broker-dealer who has entered into an agreement with the ETF to provide the creation basket or cash or both) and market makers. The board will want to know and understand if the APs will be allowed to purchase and redeem creation units in-kind, with cash, or both. They should understand the impact of that decision on dilutive costs and tax consequences and consider requesting ongoing reporting on these transactions.

The board should be aware that international equity ETFs typically have wider spreads than domestic equity ETFs and that those wider spreads are a result of higher transaction costs in the securities and the risks associated with the underlying markets being closed during ETF trading hours.

Finally, boards should remember that a mutual fund-to-ETF conversion can be in the best interest of the current shareholders that they represent, despite the extra work that needs to be put in during the transition process. Even though a variety of approvals are necessary to complete a merger or conversion, it has never been easier to create an ETF or merge/convert a fund to an ETF. The upside includes potential asset growth, meeting investors' needs and demand, and overseeing globally recognized products that can attract positive attention to the fund complex.

Susan J. Templeton serves on the board of Claridges Trust Co. and on the advisory boards of Morningstar Inc. and Seyen Capital. Earlier in her career, she held senior roles at William Blair Funds and The Newton Funds.

