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Even Some Boards Are Getting Into the Tidying Trend

By Greg Saitz February 12, 2019

In a Marie Kondo-inspired move, **Rydex Funds** directors have reduced the number of board committees by half to foster better communication among members. The changes come as fund boards' workloads continue to grow and regulators have focused on the quality of directors' oversight.

Rydex directors decided to dissolve two committees and consolidate oversight under another one or the full board, concluding it would "enhance communication among and information flow to the trustees of the board," says Sandra Sponem, who became independent chair at the end of last year. Other boards, while stopping short of rejiggering their committee structures, have taken some issues off of committee agendas and moved them to full-board discussions.

"There are a lot of topics these days the full board needs to be conversant with," says **Putnam Funds** independent chair Kenneth Leibler. "Our full board meetings are a little longer, and our committee meetings are a little shorter."

Directors are required to review the committee structure as part of their board's annual self-evaluation process, but "nine times out of 10, or more, it's appropriate," says Douglas Dick, a partner at **Dechert**.

The Rydex board's decision to eliminate its compliance and risk oversight and investment and performance committees and work as a committee of the whole coincided with the retirement of two directors Dec. 31. There are now six independent directors, along with one interested director on the board.

The entire board has taken over responsibilities of the investment and performance committee and the risk oversight duties of the other committee, while the audit committee assumed the compliance tasks, according to a fund filing. Independent director J. Kenneth Dalton joined the governance and nominating committee last month to make it a committee of the whole.

"We believe that these changes will allow the board to operate more efficiently and will also reduce [the] burden on fund management as there will be fewer committee meetings to prepare for and to attend," Sponem writes in an email.

Last fall, the Securities and Exchange Commission issued a risk alert about areas examiners from the Office of Compliance Inspections and Examinations would focus on during their sweep of certain funds, ETFs and advisers. One topic is boards and director oversight of the compliance program and management conflict of interest.

Rules compel fund boards to have an audit committee, composed solely of independent directors, but beyond that directors are not obligated to form any others. The boards of **Tweedy Browne Funds**, **Manager Directed Portfolios** and **Fidelity**'s **North Carolina Capital Management Trust** all have just an audit committee, filings show.

At the other end of the spectrum, another of Fidelity's boards has 11 committees that focus on everything from fair value oversight to proxy voting. It even has a research committee, whose stated purpose is to "assess the quality of the investment research available to FMR's investment professionals."

A review of various board disclosures shows that, beyond the audit committee, the most popular working group is nominating and governance. Compliance committees and ones that oversee valuation, investment performance or contracts also appear multiple times. Less popular are committees focusing on director education, sub-TA fees, securities lending and board compensation.

"There really hasn't been any SEC push for more or less committees," Dick says.

The board of multiple series trust **RBB Fund** also has an extensive committee structure. In fact, it has more committees (nine) than independent directors (eight). The number of committees has grown from four in 2010 as the complex of unaffiliated managers has expanded.

"Our committee structure is a function of us trying to run this board as if it were a business," says independent chair Arnold Reichman, who has been on the board since the start in 1991. "We have a goal to grow this much larger."

The board has a product development committee that evaluates managers who want to launch a fund or funds, and members look to weed out products that don't have the potential to reach scale, he says. The regulatory oversight committee digs into various issues, such as analyzing the manual processes a service provider uses to compute funds' net asset values, Reichman says.

"That committee takes a full day where we're going over all the services and issues where our advisers and products touch vendors of ours," he says. "You want working groups to get really down in the weeds."

Leibler, the Putnam chair, agrees that it makes sense for committees to focus on the finer points of a topic but says he also recently has brought those issues to the full board. The Securities and Exchange Commission's liquidity risk management rule and intra-complex fund mergers are two examples he cites.

"We're dealing with the details of [the mergers] in committee, but we're also talking about the overall product strategy with the full board," says Leibler, whose board has eight committees.

During their annual assessment, directors look at each issue the committees worked on and talk about whether there is a better or more efficient way to deal with them, he says. In 2015, the board folded its distributions committee into the audit and compliance committee, which had the same members.

Adding or dissolving a committee "really depends on the importance of the issue from a regulatory standpoint or a shareholder standpoint," he says. "It's a judgment call."

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