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Funds' Board Structures Promote Efficiencies and Cost Savings for Shareholders

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Reporters, academics, and others who are unfamiliar with investment companies sometimes question the unusual structure of fund boards. Unlike operating companies—where each company as a rule is overseen by its own board—multiple funds in a complex typically share common boards. In *Overview of Fund Governance Practices, 1994-2010*, we found that 83 percent of fund complexes use a “unitary board” (one board for all their funds), while 17 percent use “cluster boards” (two or more boards, each overseeing a group of funds within the complex).

Unitary and cluster boards reflect the unique governance challenges in the fund industry. Unlike corporate directors, fund directors not only perform general oversight but they are required by federal law to perform many specific duties, including annually approving the investment advisory contract and the adviser’s compensation. In addition, directors must approve underwriting contracts and distribution plans. As a consequence of these and other responsibilities, meetings of fund boards are both lengthy and frequent, and require review of voluminous and complex board materials.

U.S. fund complexes meet this unique challenge by employing the unitary or cluster board structure. As IDC's task force paper *Director Oversight of Multiple Funds* points out, this structure is designed for efficient oversight of multiple funds. Given the breadth of the responsibilities directors must fulfill, and because many issues vital to fund oversight are common in funds across the complex, this structure allows directors to gain greater knowledge of fund operations and to strengthen their oversight of the investment adviser. This structure also lowers fund shareholders’ expenses, because administrative burdens are reduced.

Fund shareholders enjoy unique protections under the [Investment Company Act of 1940](#), the primary federal law governing funds and their directors. By employing a unitary or cluster board structure, directors efficiently oversee multiple funds in fulfilling their responsibilities on behalf of millions of fund shareholders.

Additional resources:

- [Commentary: Court Strikes Down SEC's Proxy Access Rule](#)
- [Frequently Asked Questions About Mutual Fund Directors](#)
- [Independent Directors Council](#)

Amy Lancellotta was Managing Director of the Independent Directors Council (IDC).

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