

DIRECTORS FEES REVIEW

Cross-Border

1st Annual Edition, 2022

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Introduction

It is with great pleasure that we introduce to you our first edition of the Fitz Directors Fees Review. This annual summary will provide an overall picture of the fees paid to independent non-executive directors across the asset management industry in both Luxembourg and Ireland. This review aims to explore the current regulatory landscape regarding board composition and director remuneration. We have reviewed the independent director remuneration and fund board composition of all fund ranges domiciled in Luxembourg and Dublin included in the Fitz International Fund Charges databases. We aim to disclose the distributions and relationships that centre on independent directors fees. We believe our assessment of director remuneration will act as an important point of reference for fund ranges domiciled in Europe.

Corporate Governance and Regulation

Over the last decade, we have seen sustained regulatory pressures in the European asset management industry, evidenced by the development of codes of conduct concerning fund governance by the Irish Funds Industry Association (“IFIA”) for Irish UCITS funds and the Institut Luxembourgeois des Administrateurs (“ILA”) in tandem with the Association of the Luxembourg Fund Industry (“ALFI”) for fund ranges in Luxembourg.

Ireland

In 2012, the IFIA produced, under a comply or explain regulatory framework, a set of rules and recommendations to guide the corporate governance standards of Irish UCITS funds. This code of conduct was developed with constant cooperation with the Central Bank of Ireland. It was recommended that “the board comprise a majority of non-executive directors, and at least one independent director who would not be an employee, partner, significant shareholder or director of a service provider firm, or provider personally of services receiving professional fees”. These rules and recommendations have provided a clearer understanding of director independence for asset managers and how they can best implement higher standards of corporate governance. Independent directors are now widely recognised as maintaining a necessary authoritative position on boards possessing the purpose of ensuring investors are provided value, their interests are met to the best of the fund’s ability, and any conflicts of interest arising on fund boards are mitigated.

Luxembourg

In Luxembourg, there is no obligation for funds to have an independent director. The “X Principles of Corporate Governance” by the ILA, initially proposed in 2005 and most recently updated in 2017, states that *companies on the Luxembourg stock exchange* should have at least two independent directors as part of the board where an independent director is described as not having “any significant business relationship with the company, close family relationship with any member of the Executive Management, or any other relationship with the company, its controlling shareholders or members of the Executive Management which is liable to impair the independence of the Director’s judgment”.¹ Despite funds in Luxembourg not having to strictly adhere to this guidance, the ILA has worked with ALFI to produce a set of recommendations which aim to encourage funds to ensure high standards of corporate governance. The ALFI Code recommends that consideration be given to the inclusion in the Board of Directors of one or more members who are independent.²

The question of the necessity of independent directors has been raised in the industry as the lack of evidence supporting causality between director independence and the costs and performance offered by funds suggests they may not be critical for offering investors value.³ Regardless of their efficacy, increased transparency and awareness regarding director independence in the last ten years has determined the large increase in the percentage of independent directors sat on the boards of funds in Luxembourg from just 39% in 2012 to 65% in 2021.⁴ As the proportion of funds that are utilising the services of independent directors increases in conjunction with an already limited supply of highly skilled, experienced talent, we would expect to see upwards pressure on independent director remuneration levels.⁴ The following analysis will focus on how the average fees paid to independent directors in Luxembourg and Dublin compare and contrast. Furthermore, we analysed how the fees paid to independent directors correlate to the size and complexity of fund ranges in addition to investigating how average independent directors fees vary between fund ranges with one independent director and multiple.

About our Research Universe

As part of our first annual review of director remuneration we analysed 370 annual reports from 118 different promoters listed in the Fitz International Fund Charges database. 107 of these annual reports were for fund ranges domiciled in Dublin and 243 cover Luxembourg domiciled funds. A full database containing information extracted from these reports has been presented in conjunction with this report. The database details quantitative and qualitative characteristics of each umbrella, its board structure and director remuneration, when it is disclosed.

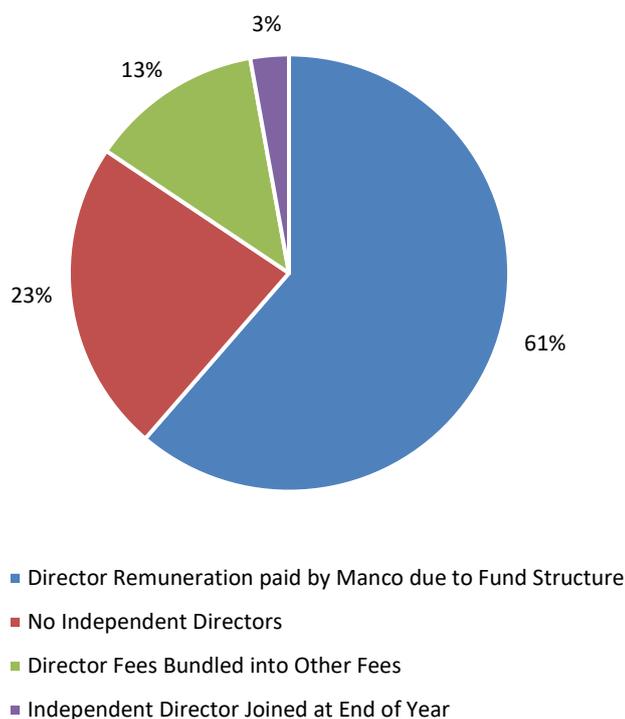
Proportion of Fund Ranges Disclosing Directors Fees



For the main section of this review, we formed our analysis on funds that explicitly disclose director remuneration. This meant that a range of umbrellas were excluded due to the structure of the fund and its fund board. The following analysis will centre on fund ranges that have a fund board, as opposed to ranges which have a board at management company level only. As a result, we found that in Dublin, a number of funds under review were found to be unit trusts and therefore do not have any independent directors at fund board level but instead are at management company level, therefore directors fees are not disclosed in the fund financial statements. In Luxembourg, Fonds Commun de Placement (FCP) also do not have any independent directors at fund board level but instead they sit at management company level, hence, FCPs have been excluded from the review. 49 umbrellas domiciled in Luxembourg did not have an independent director at fund board level meaning no directors fees were disclosed in the financial statements of the annual report. Other reasons for the absence of quoted directors fees for some fund ranges in Luxembourg include directors fees being bundled into other fixed, operational, or administrative fees or the only independent directors joining near to the date of annual report publication.

Our following analysis is based on those 156 fund ranges for which we were able to obtain a complete set of quantitative data regarding director remuneration monetary amounts and board composition. All figures, statistics, and visualisations will be in reference to this sample of 156 fund ranges, of which 62 are domiciled in Luxembourg and 94 are domiciled in Dublin.

Reasons for the Umbrella not Disclosing Director Remuneration

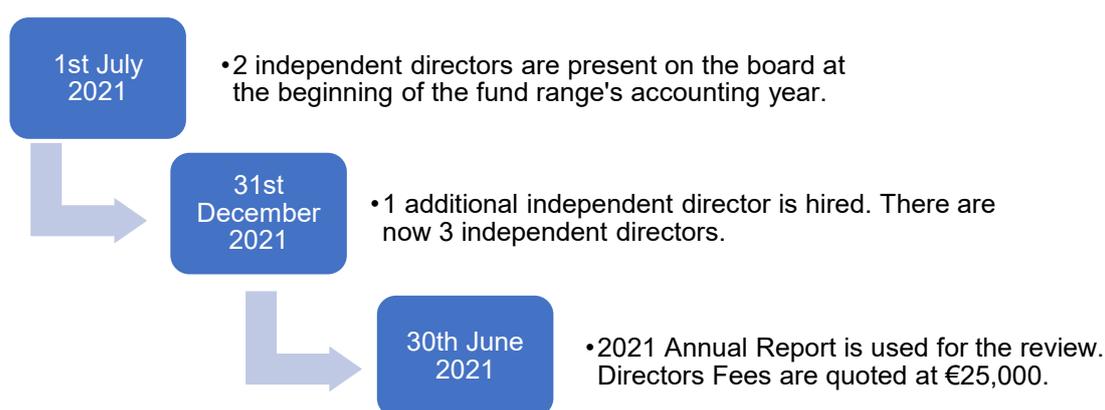


Methodology

For each umbrella, we collected quoted total directors fees, the quoted fee per director when disclosed, the total number of directors and the total number of independent directors who received a fee. Using this information, we have calculated the average directors fees paid to each independent director. To do this we have divided the quoted directors fees (in a specific fund's annual report) by the average number of independent directors sitting on the board of directors throughout the year.

Example Scenario Calculation

If three independent directors were included on the board throughout the year but one joined halfway through the year, and directors fees are quoted at €25,000 for the year.



Average number of independent directors throughout year	$((2 \times 12 \text{ months}) + (1 \times 6 \text{ months})) / 12 = 2.5 \text{ independent directors}$
Quoted total directors fees	€25,000
Average independent directors fees for this umbrella	$€25,000 / 2.5 = €10,000$

This calculation is then repeated for all umbrellas. Full information for each fund range is included within the supplementary database provided for additional analysis. It should also be noted that for the following analysis throughout this report, **all references to average independent directors fees unless otherwise stated are calculated at umbrella level**. Also combined with this review is the data collected from all reports with all calculations and other qualitative data in excel format for additional analysis. A full table of field definitions can be found in the appendices. All financial data collected has been converted into EUR for the comparison of average directors fees.



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