



# MUTUAL FUND DIRECTORS FORUM

*The FORUM for FUND INDEPENDENT DIRECTORS*

October 19, 2006

Kerry O'Boyle  
Morningstar, Inc.  
225 W. Wacker Drive  
Chicago, Illinois 60606

Dear Mr. O'Boyle:

We read with interest your article entitled "Golden Parachutes for Fund Directors." While we have no comments on the specific situation described in the article, we were concerned by the general tone of the article, particularly its implication that directors do little to deserve the compensation they receive from their funds. Indeed, the article asserts at a key point that being a fund director is something that "can easily be described as a part-time job." That single throw-away phrase seemingly forms the basis for the entire judgmental tone of the article. We, however, seriously question how accurate that observation is.

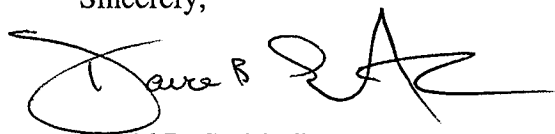
Directors have always had a fiduciary duty to oversee funds in the best interests of shareholders. In recent years, however, both regulators and industry commentators have increasingly emphasized the role and importance of fund directors. This has resulted both in new demands being placed on directors and directors devoting more attention and effort to the funds they oversee. Specific SEC regulatory initiatives, the passage of Sarbanes-Oxley, the impact of investigations and enforcement actions brought by Elliott Spitzer and other state attorneys general, and "best practices" reports such as those published by the Mutual Fund Directors Forum and the ICI's Independent Directors Council have all made the job of an independent director much more difficult and time-consuming than it was previously.

And, while it is certainly true that ordinary independent directors devote significant efforts to overseeing their funds, it is almost impossible to say -- as the article nonetheless does -- that a conscientious independent director who takes on other boardroom roles, such as serving as board chair, as chair of the fund's audit or valuation committee, or chair of any other significant board committee, exerts little more effort than "the few days they devote a quarter to overseeing their charges." In today's environment, being an effective fund director requires a highly skilled individual who is fully engaged in meeting responsibilities to fund shareholders and willing to make a significant commitment of time. Many fund directors therefore also must give up other appealing opportunities (whether to pursue other work, other types of board memberships, leisure opportunities, and so forth). The implication of the article that being a director is effectively an entitlement to "free money" is certainly wrong.

In addition to the increasing amount of time directors are required to put into overseeing their funds, today's fund environment also effectively requires that fund directors have greater qualifications than ever before. The requirement that fund boards identify financial experts on their audit committees is but one example of this trend. There are a limited number of persons with the requisite skills, and they are likely to have other opportunities, whether those opportunities are serving on operating company boards, pursuing their own careers more actively, or whatever. Hence, attracting those individuals to serve as fund directors requires offering them competitive compensation packages -- packages that sometimes, in appropriate circumstances, may conceivably include retirement benefits.

In conclusion, the topic of fund independent director compensation is complex. Directors are necessary to protect fund shareholders and skilled individuals are unlikely to donate their services to achieve this critical goal. Thus, attracting the right individuals to be fund directors thus requires compensating them in a fair and competitive manner. Although there may be situations in which directors have overcompensated themselves, analyzing and understanding these situations requires more effort than asserting that directors do little to deserve their compensation, and that any compensation is therefore too much. This is an issue that the members of the Mutual Fund Directors Forum will continue to closely monitor.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Smith, Jr.", with a stylized flourish extending to the right.

David B. Smith, Jr.  
Executive Vice President and General Counsel