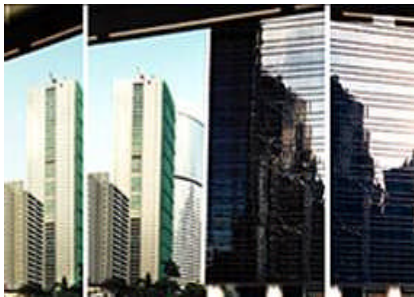


Fund Governance Survey 2008 Results

15 December 2008

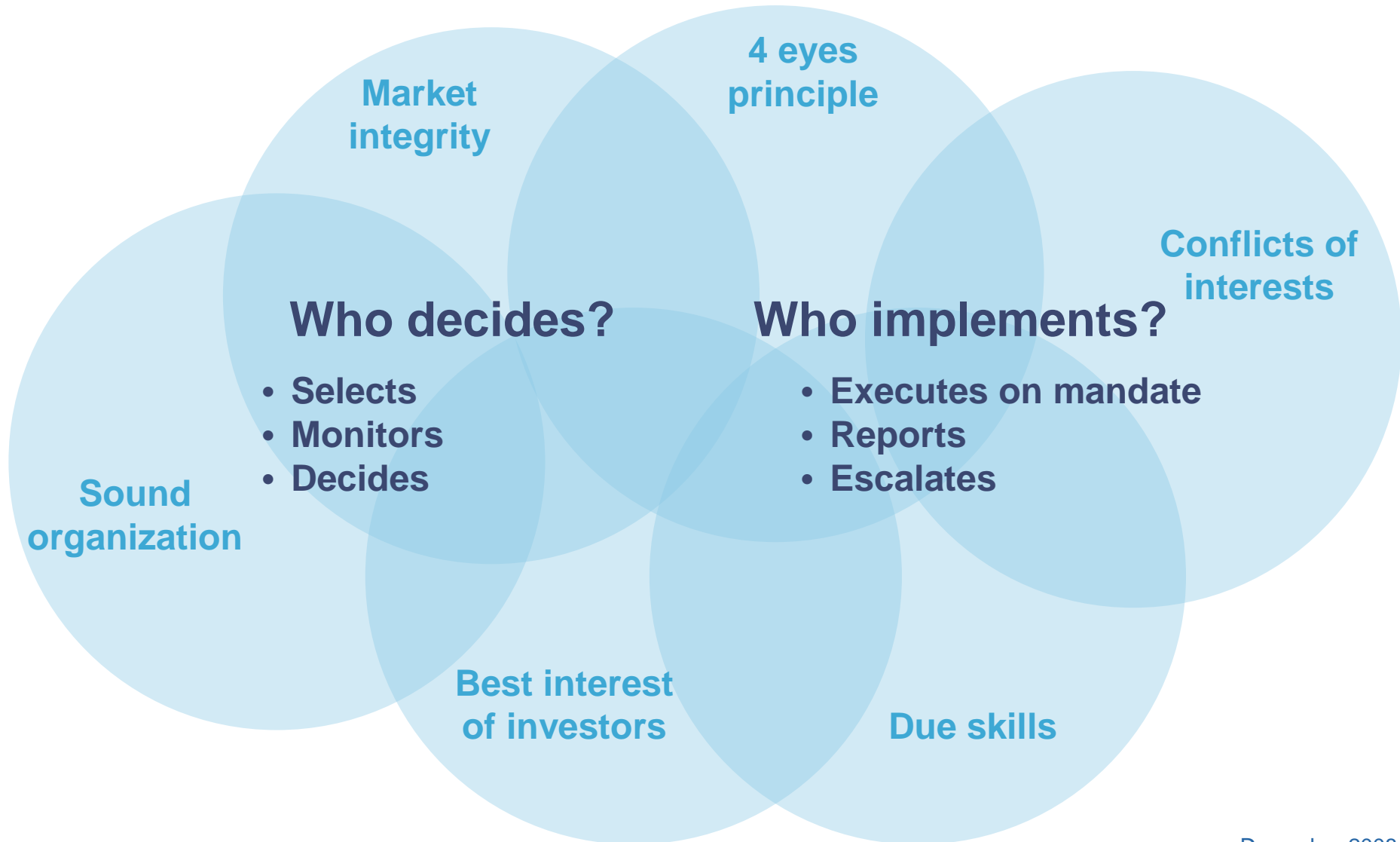


Agenda

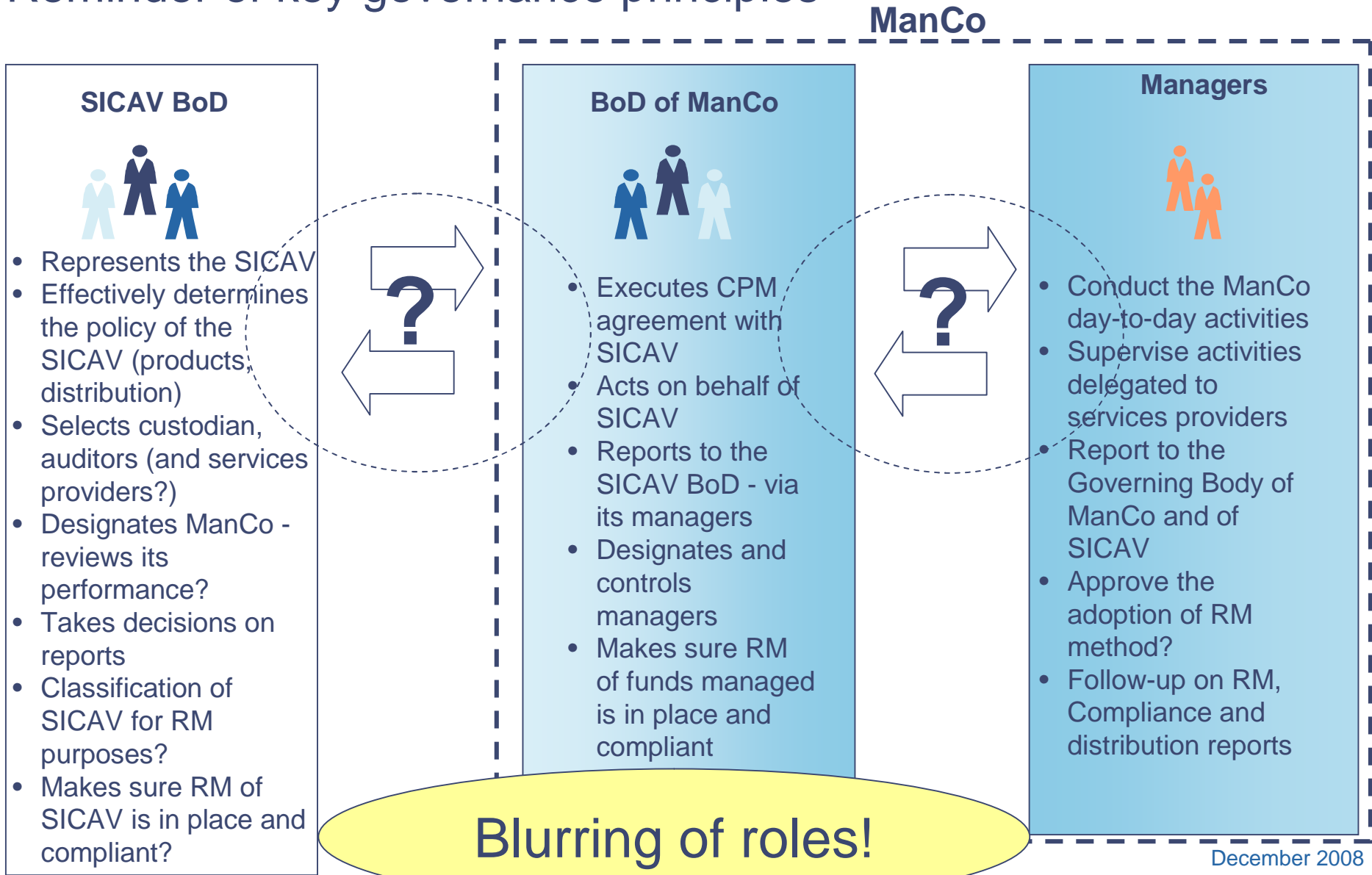


- I. Introduction and objectives of the Survey**
- II. Participants information
- III. Board organisation
- IV. Roles and responsibilities
- V. Focus on distribution
- VI. The impact of the subprime crisis
- VII. Major issues

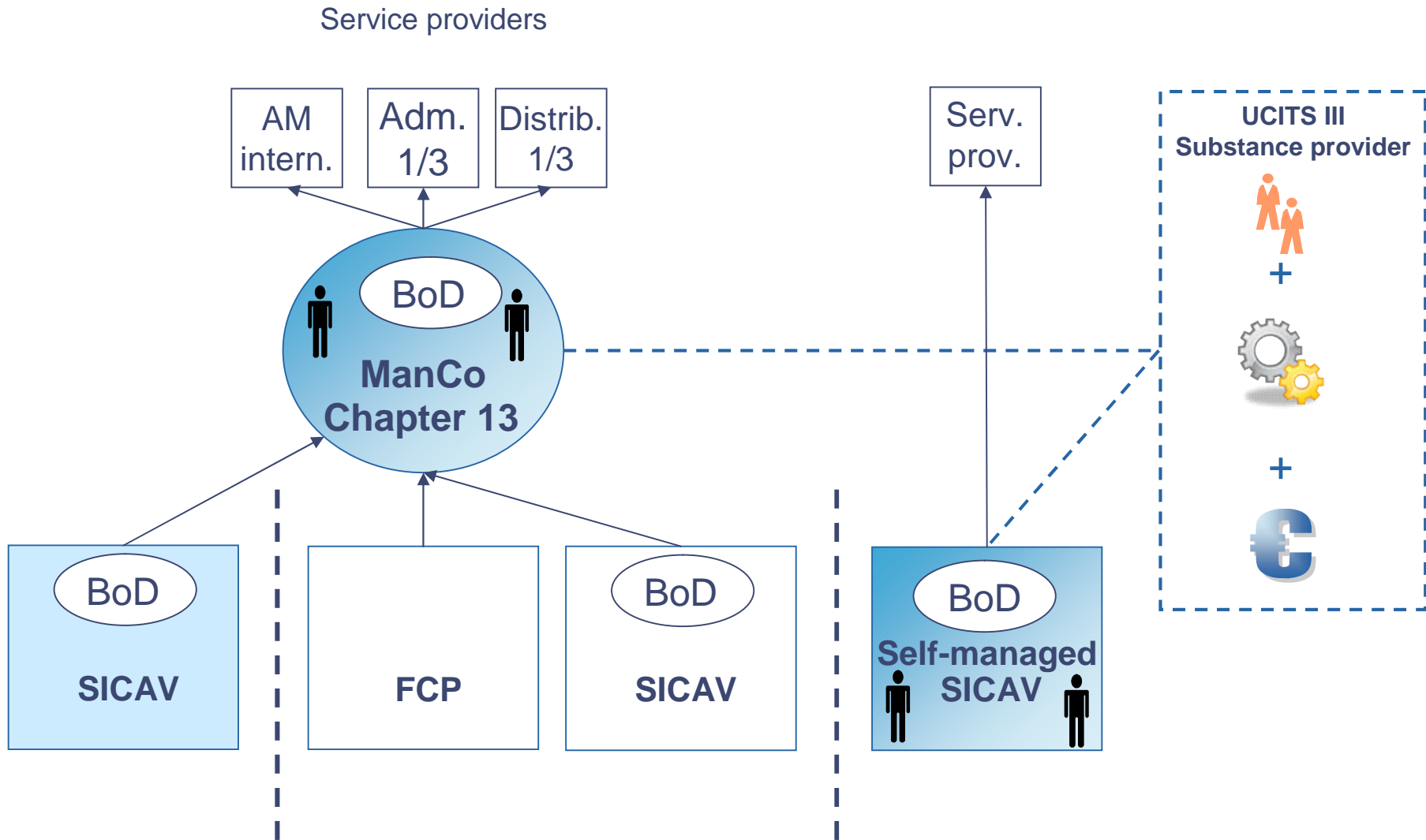
Reminder of key governance principles



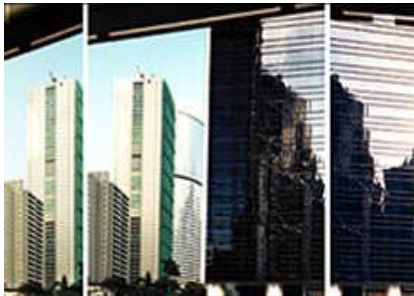
Reminder of key governance principles



Several organization models



Agenda

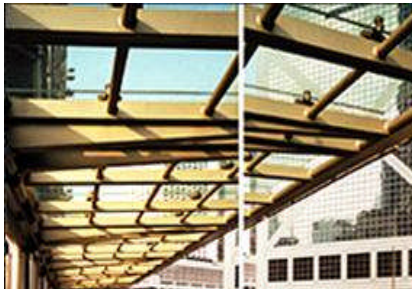
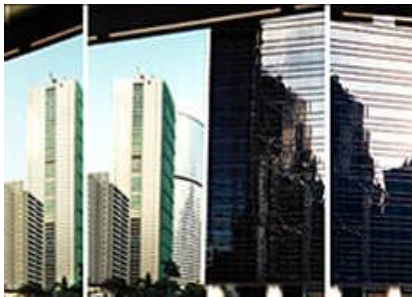


- I. Introduction and objectives of the Survey
- II. Participants information**
- III. Board organisation
- IV. Roles and responsibilities
- V. Focus on distribution
- VI. The impact of the subprime crisis
- VII. Major issues

Participants' profile

- 19 asset managers, 21 responses: 4 SIAG, 5 SICAV (with MC), 6 MC (of FCP), 6 MC (of SICAV)
- Large geographical diversification in terms of origin
- Distribution in 21 countries on average
- 52% are “fully integrated” (asset management + administration)
- 47% use 1/3 party administration service providers, 3 respondents use “UCITS III substance providers”

Agenda



- I. Introduction and objectives of the Survey
- II. Participants information
- III. Board organisation**
- IV. Roles and responsibilities
- V. Focus on distribution
- VI. The impact of the subprime crisis
- VII. Major issues

Board meetings organisation

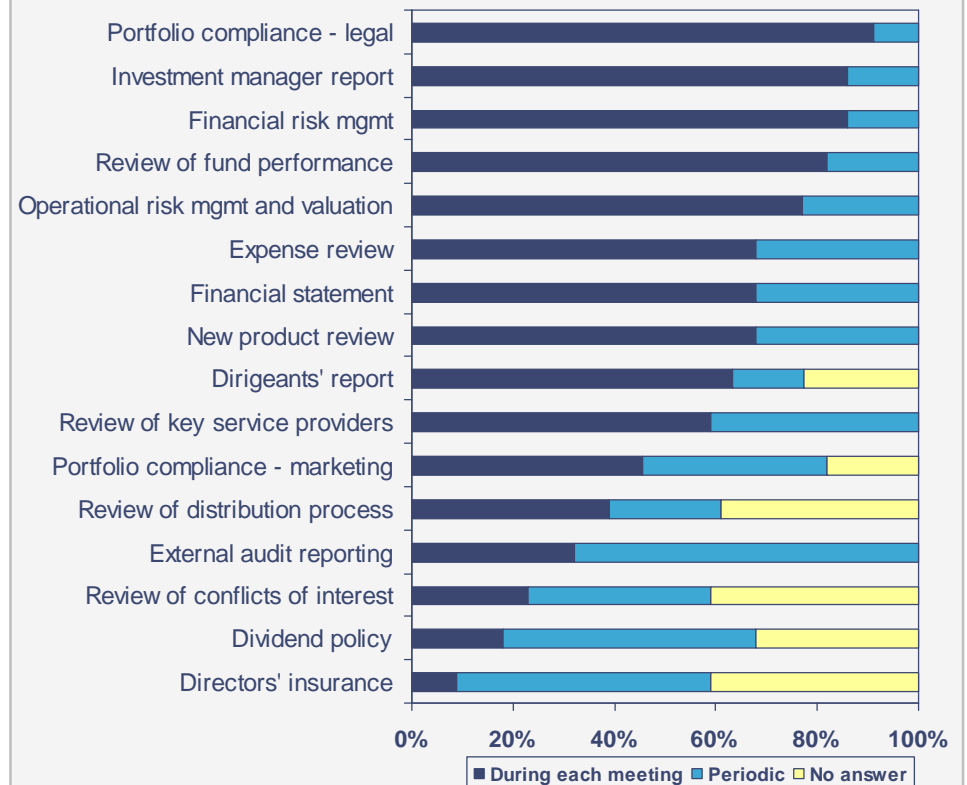
- Average of 4 Board meetings per year
- It takes 6 hours to prepare these meetings
- They last 3.6 hours on average
- They are well prepared:
 - ✓ all participants receive a board pack
 - ✓ more than 90% have a standard agenda

Standard issues on the agenda

Information received to prepare the meeting

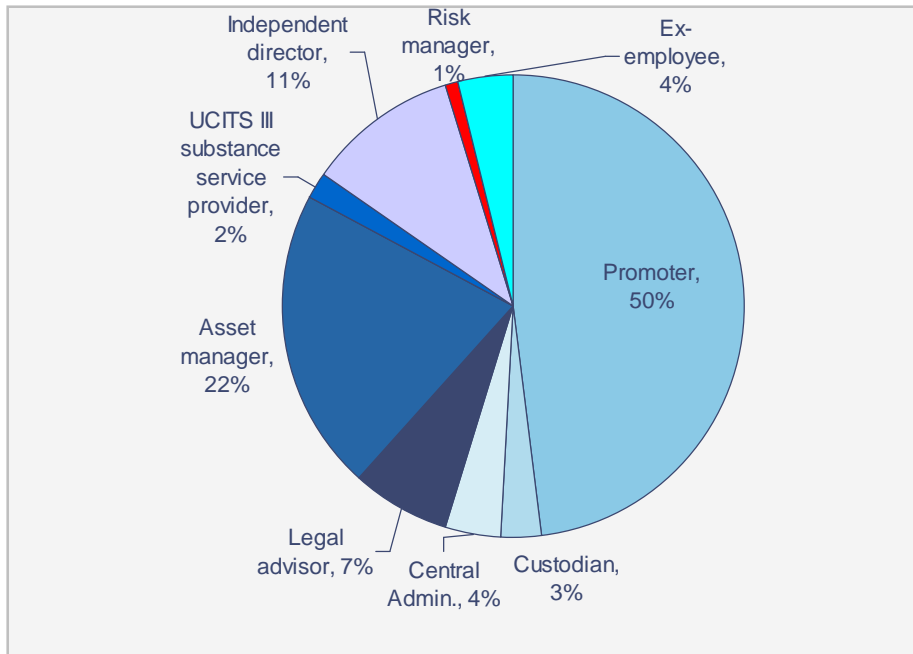
- As a standard (100%): financial figures, RM reports, compliance
- 90% of respondents receive as a standard legal updates, fund sales statistics
- Occasionally only do boards receive independent or third party reviews (57%) or competitor info (62%)

Information reviewed during the meeting

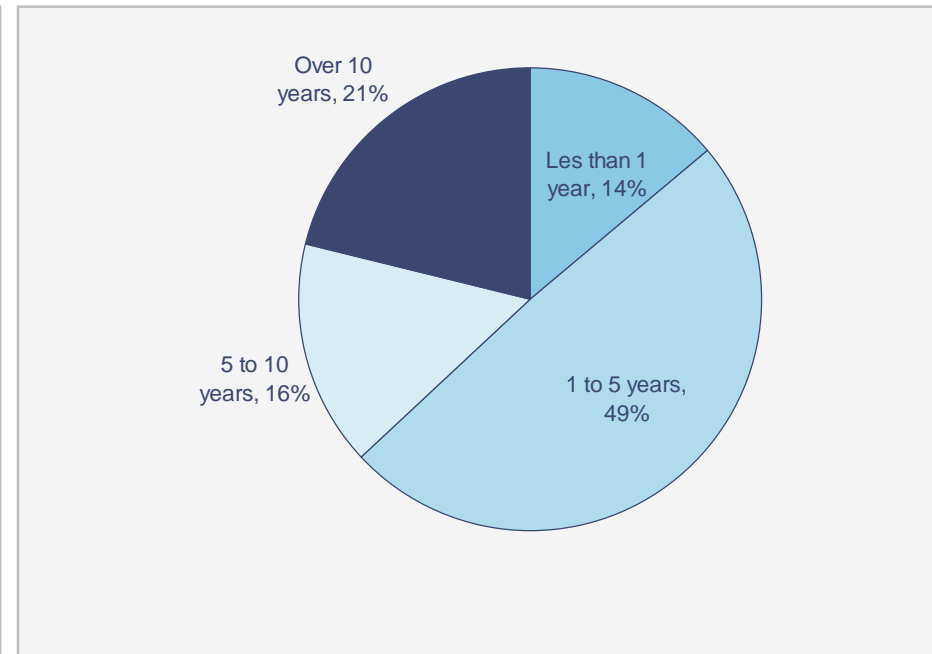


Who are the board members?

Professional background



Job tenure

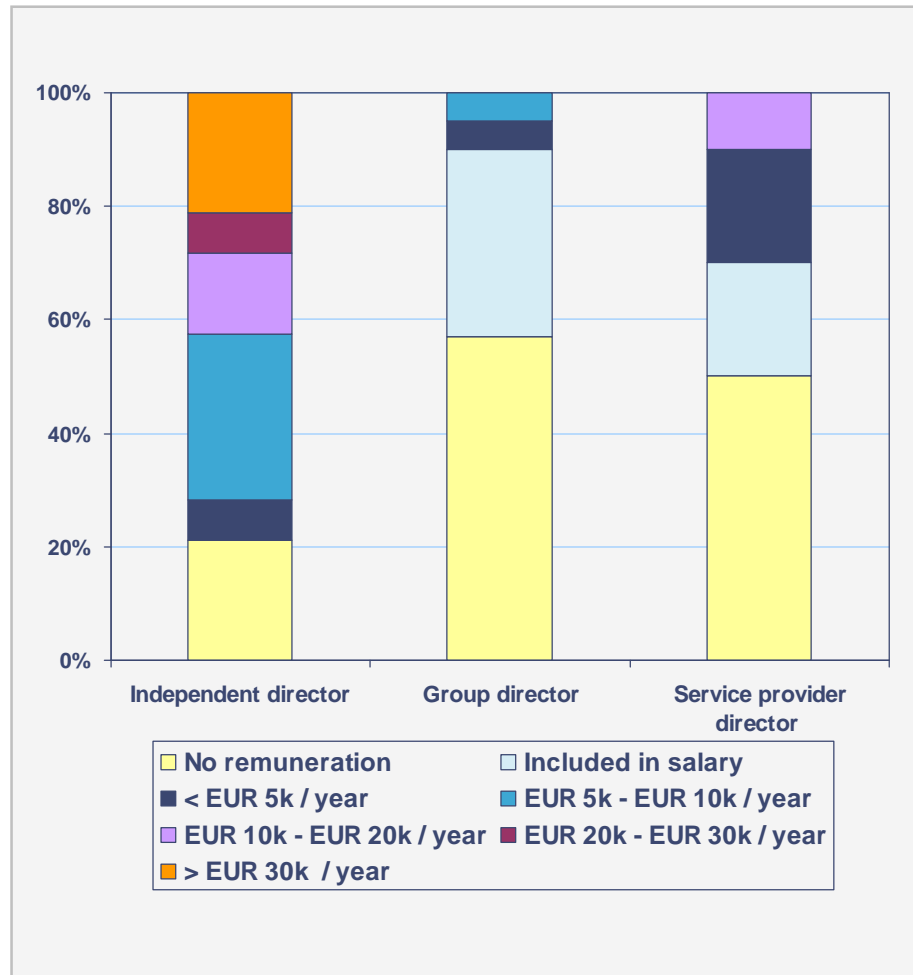


Independent Board Members

- 62% of the respondents have independent Board members
- The average share of independent board members reaches 30% in 2008
- They mainly come from professional firms (50%) and prominent industry figures (36%)

Board members' benefits and support

Remuneration



Other benefits

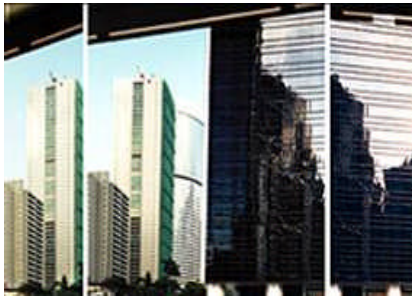
Liability Protection

- 48% are covered by both insurance and indemnification
- 19% have no protection at all

Board member support

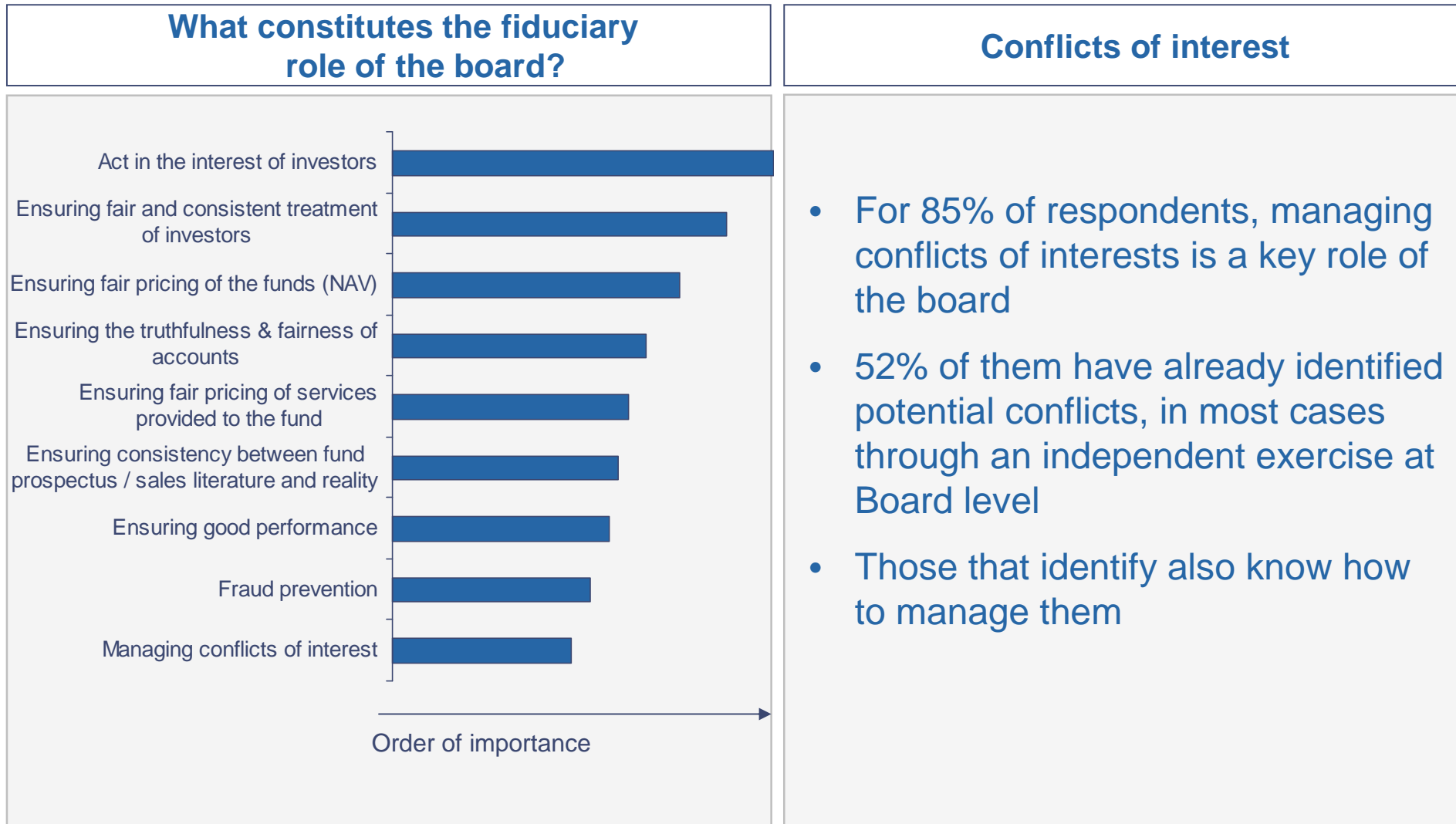
- 76% have been explained what their tasks as directors would be
- 33% of respondents have a process in place for information and education
- Training is still poor: 71% receive no training at all or less than 1 day / year
- Only 29% have more than 1 day of training / year

Agenda



- I. Introduction and objectives of the Survey
- II. Participants information
- III. Board organisation
- IV. Roles and responsibilities**
- V. Focus on distribution
- VI. The impact of the subprime crisis
- VII. Major issues

How do board members see their roles ?



Roles and responsibilities

Examples of key conflicts that respondents have identified in their duty as Board member – some quotes

“Fee split between fund and asset management for security lending or Forex”

“Conflict between being member of the Board of the SICAV and of the ManCo”

“TER management vs. desire of distributors to charge costs to the fund”

“Compensation of independent directors”

“Management Company and custodian are of the same group”

“Risks of using group counterparty (asset management, broker, ...)”

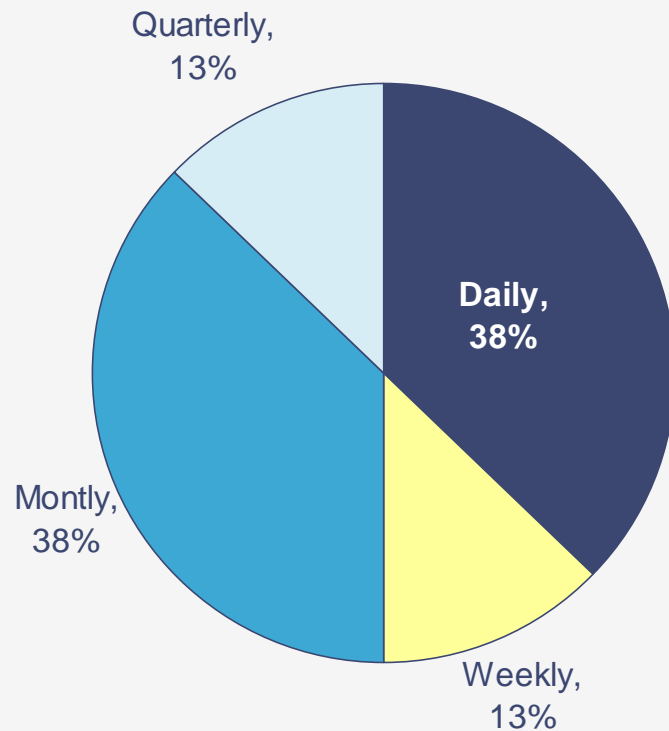
“Performance of fund vs. increasing costs and demands”

Management decisions during board meeting

- 95% of respondents have an “oversight and management by exception”
- Management decisions taken in the Board typically include:
 - ✓ Adoption of RM methods (90%)
 - ✓ Classification of funds for RM purposes (90%)
 - ✓ Termination of service providers (74%)
 - ➔ Who decides for the other 26% ?
- Additional Board decisions would include: creating new products, launching new sub-funds, entering new markets, deciding on mergers and delegations
- 3 respondents indicate that the Board ratifies or merely formalises decisions taken elsewhere!

Interactions with “dirigeants”

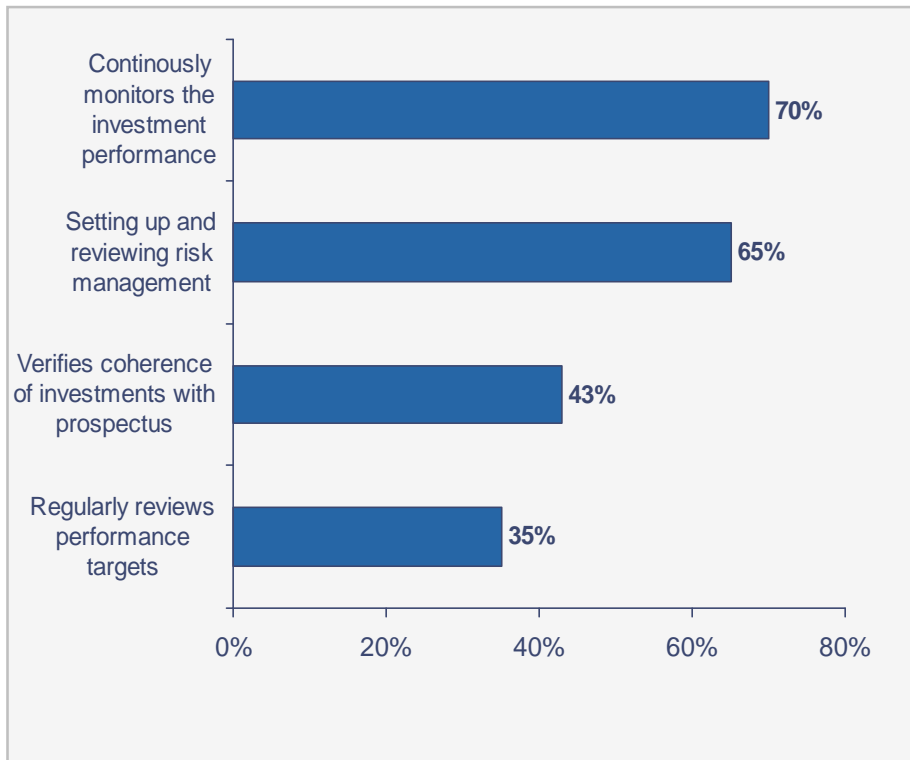
How often does the Board interact with the dirigeants?



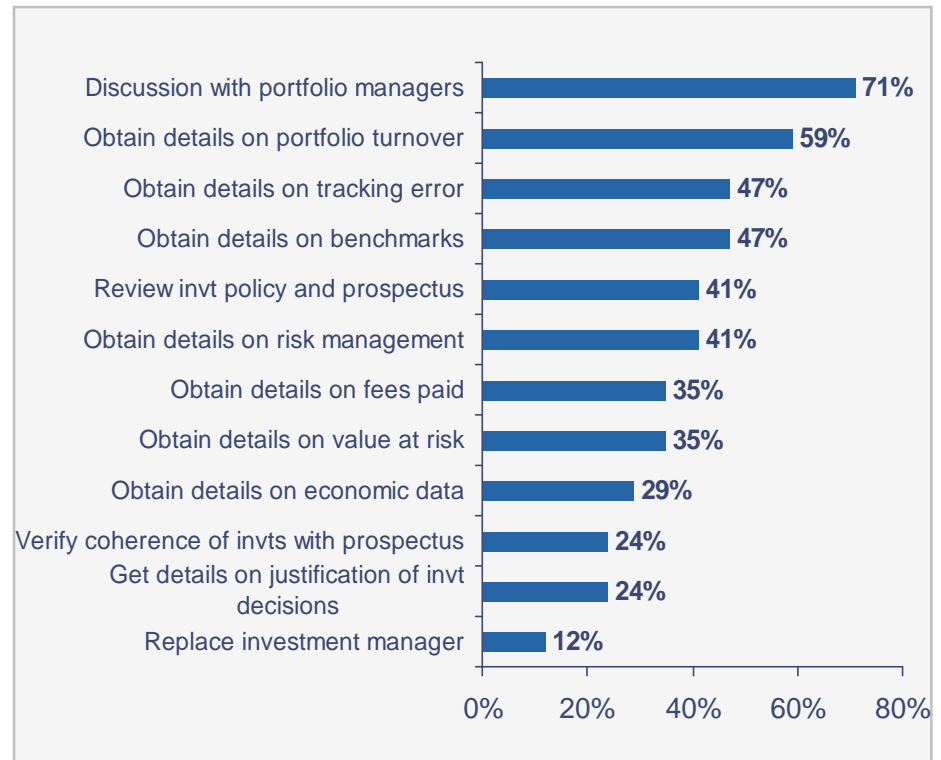
- Only 13% of respondents considered the dirigeant as a pure UCITS III compliance function
- 25% of respondents do not know how their role as Board member differs from that of the “dirigeant”!

Board activities regarding fund performance

Primary functions regarding fund performance



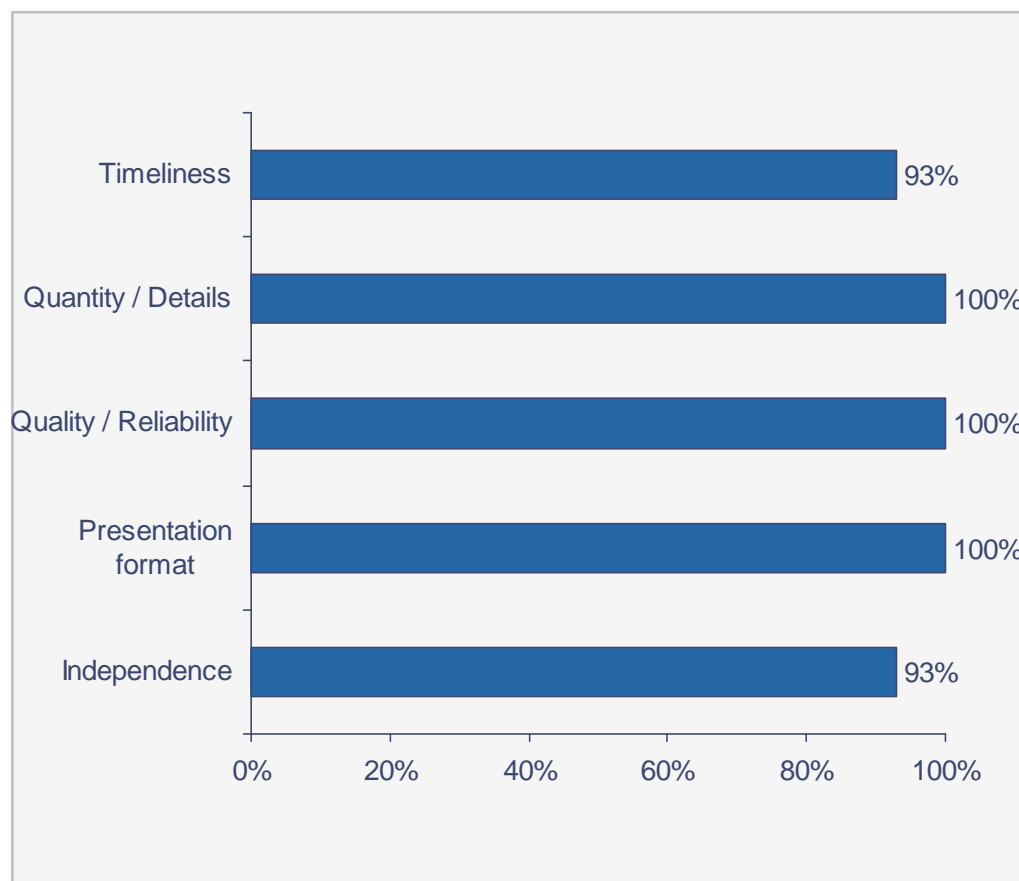
Actions taken in case of underperformance



- 6 respondents indicated that the Board is not involved in fund performance review!
- 78% use an internal tool to review fund performance and rely on managers' report

Information to assess performance - Use of the VaR method

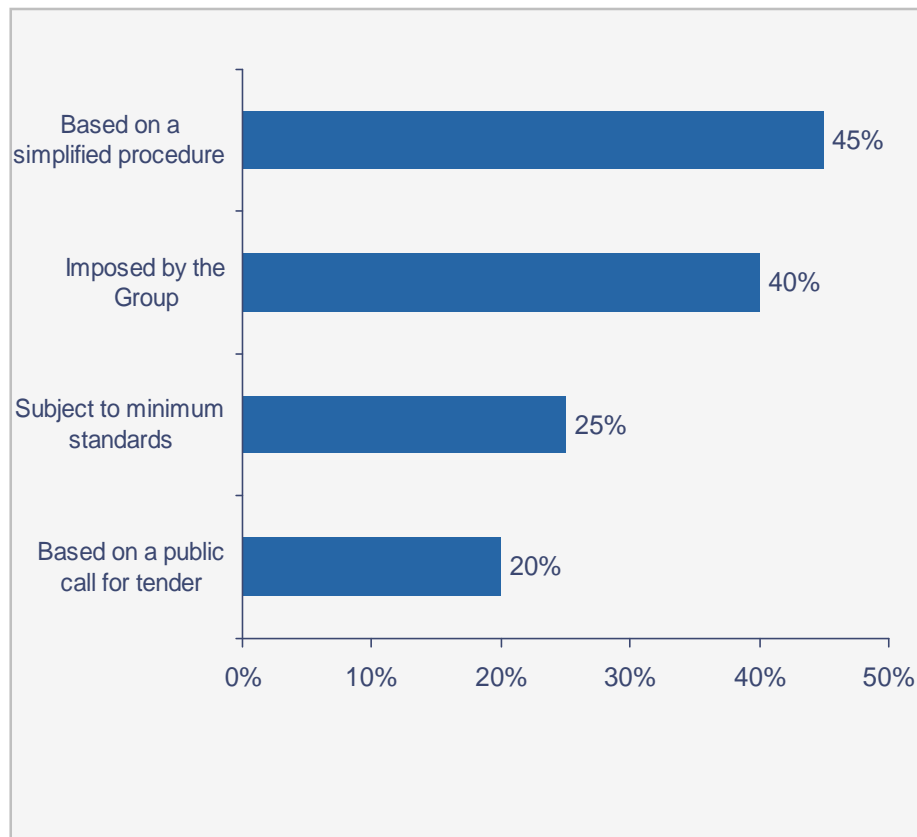
Generally, more than 90% of respondents are satisfied with information provided in order to analyse the performance of the funds



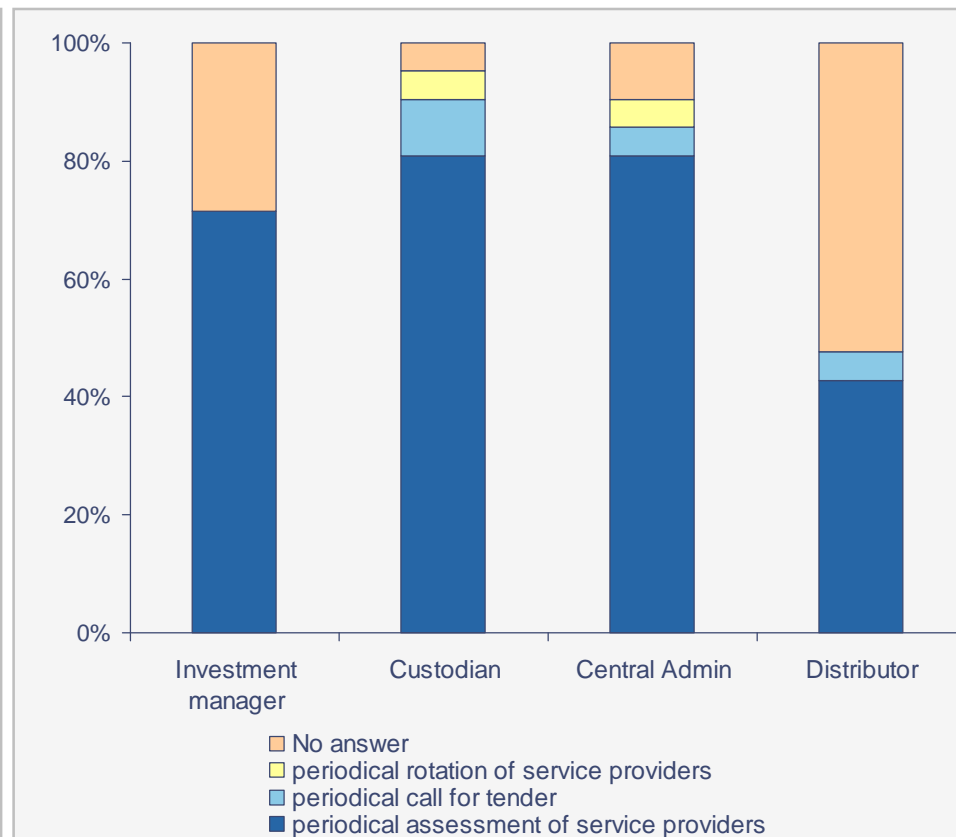
- 48% of participants reported an increase in the use of the VaR method within the past 2 years
- 62% think the use of VaR will also increase over the next 2 years
- 26% of participants declare not being sufficiently trained to VaR techniques

Selection and assessment of service providers

Selection of service providers



Process of choice to ensure quality of services



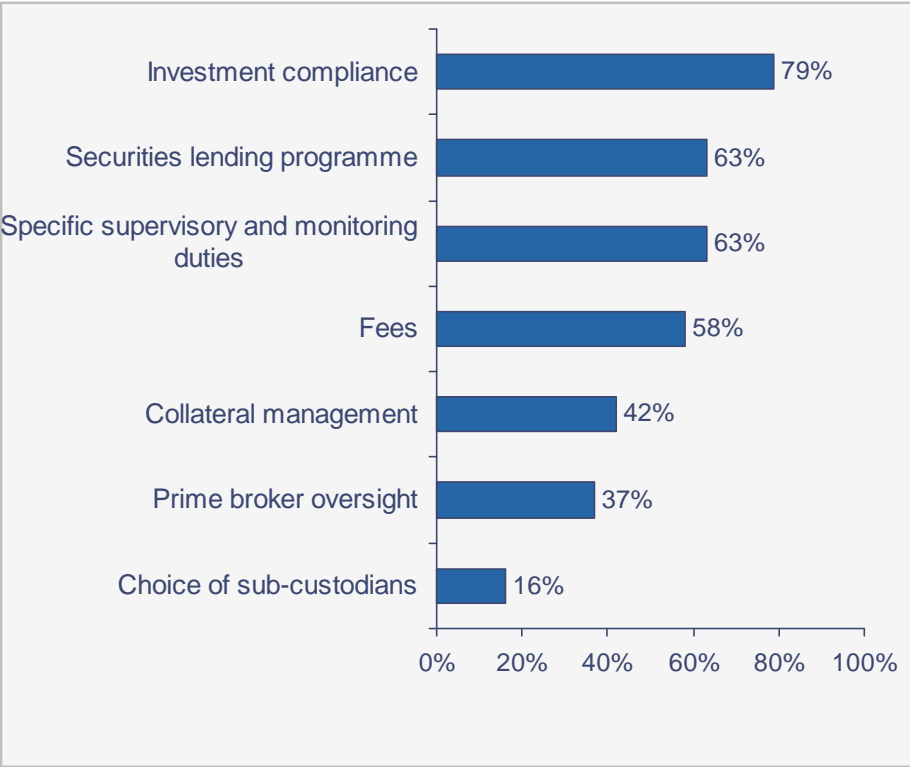
- 47% of respondents have no outsourcing policy in place
- Assessment of service providers is in all cases done via KPIs; 2 participants also use a consultant in addition to KPIs

Roles and responsibilities

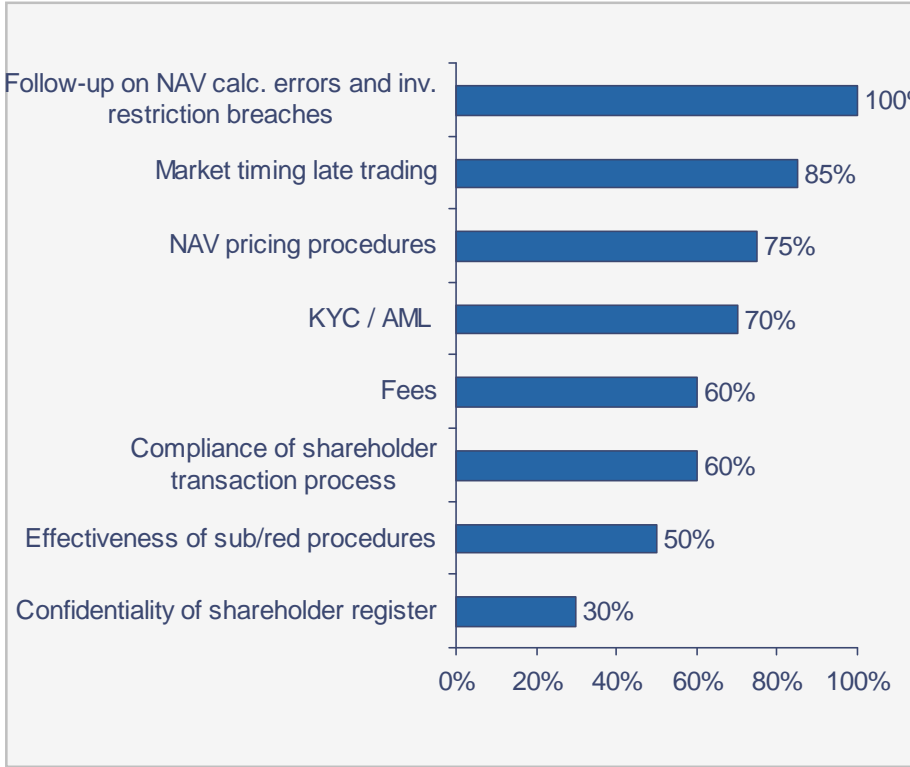
Review of service providers (1/2)

Which of the following issues are being reviewed on a regular basis?

Custodian



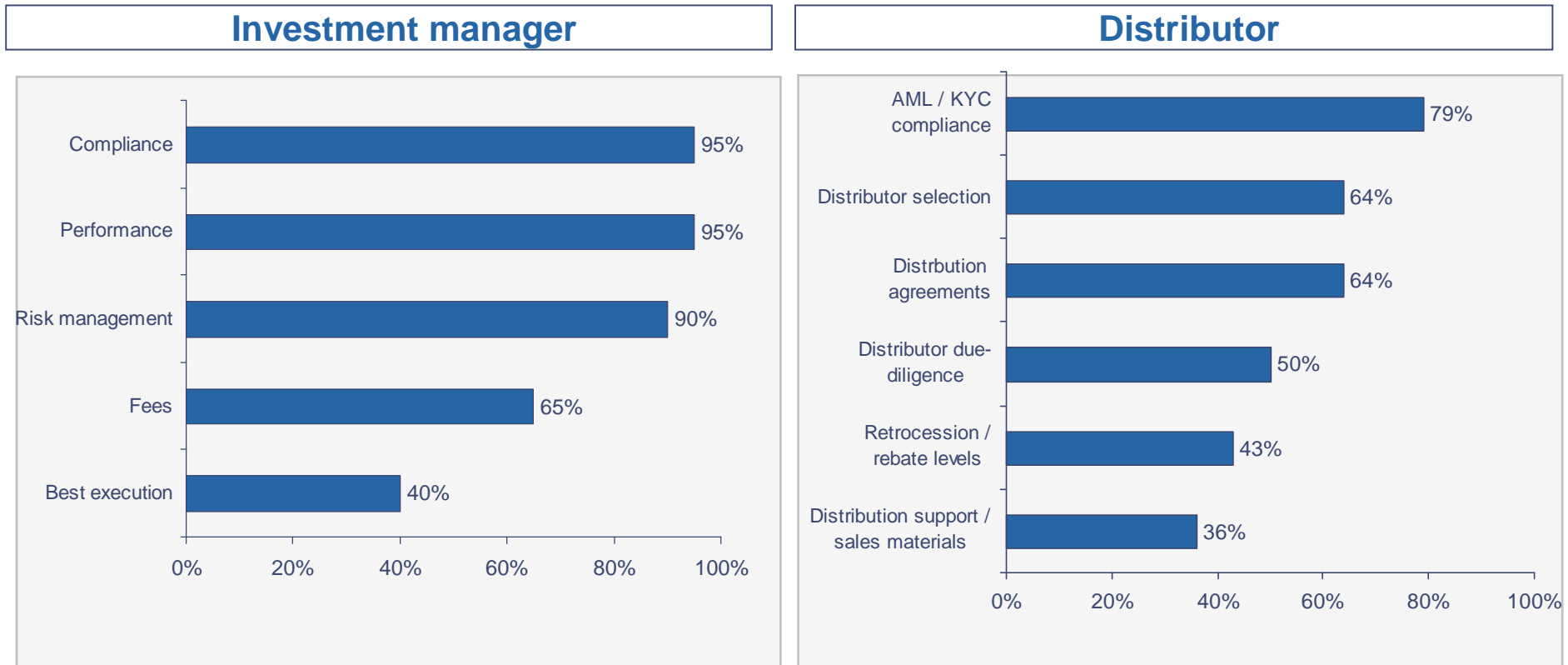
Central administration



Roles and responsibilities

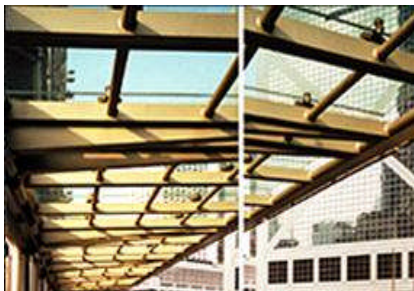
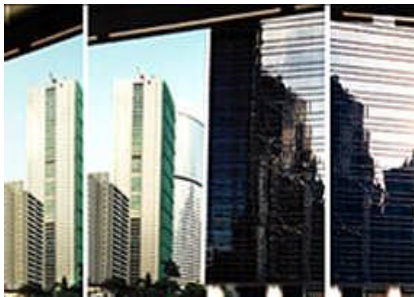
Review of service providers (2/2)

Which of the following issues are being reviewed on a regular basis?



Several respondents noted that these reviews are done – but not at Board level!

Agenda



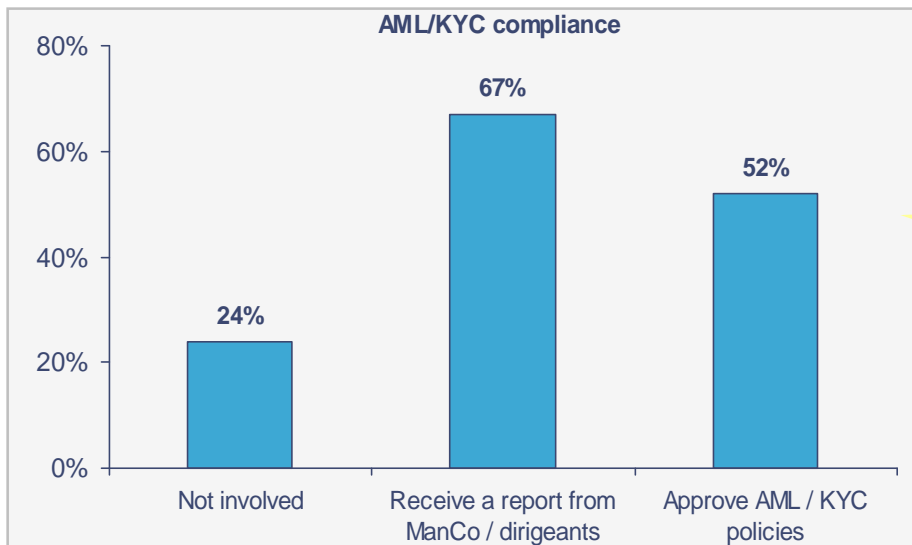
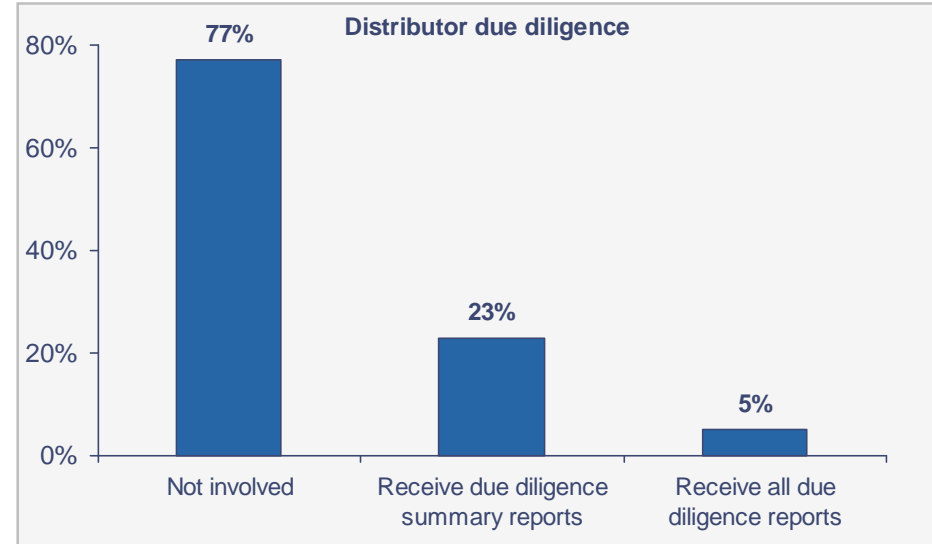
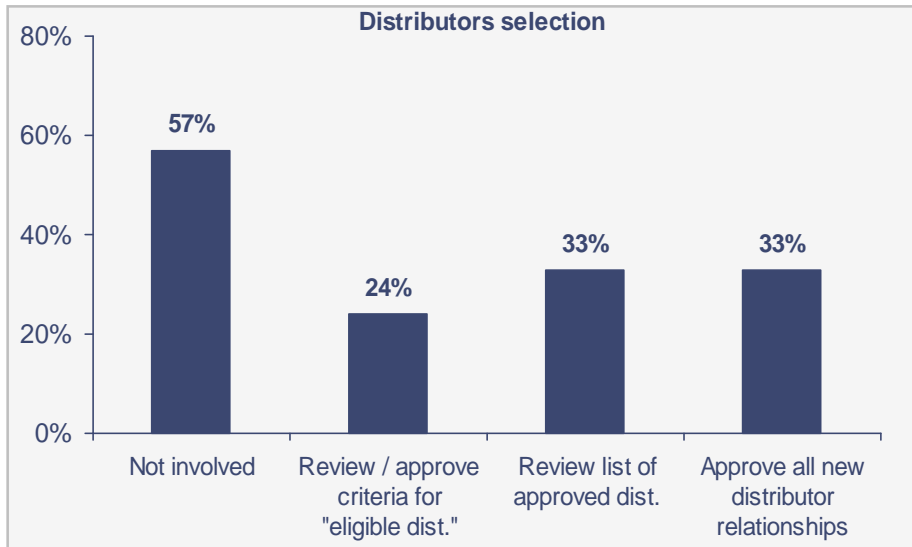
- I. Introduction and objectives of the Survey
- II. Participants information
- III. Board organisation
- IV. Roles and responsibilities
- V. Focus on distribution**
- VI. The impact of the subprime crisis
- VII. Major issues

Focus on distribution

Use of MiFID distributors

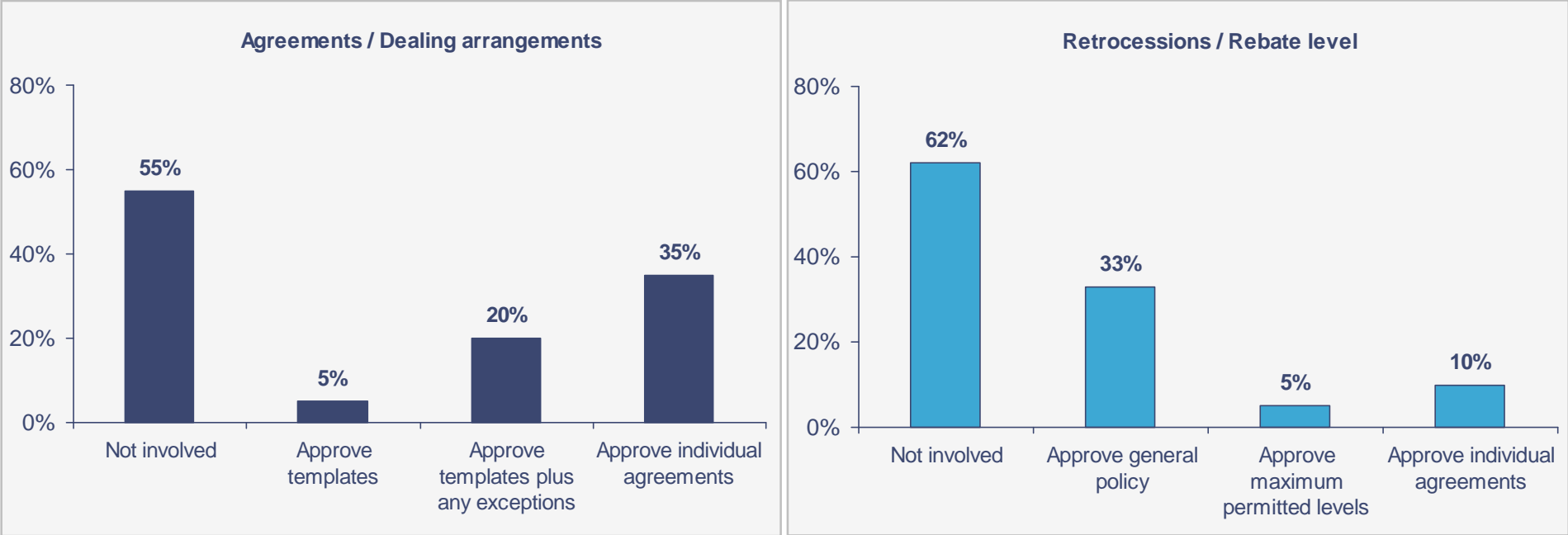
- 39% of participants do not have a clear view on whether distributors are MiFID or non-MiFID compliant
- Only 17% make a distinction of board oversight between MiFID and non-MiFID distributors

Board implication in the distribution process



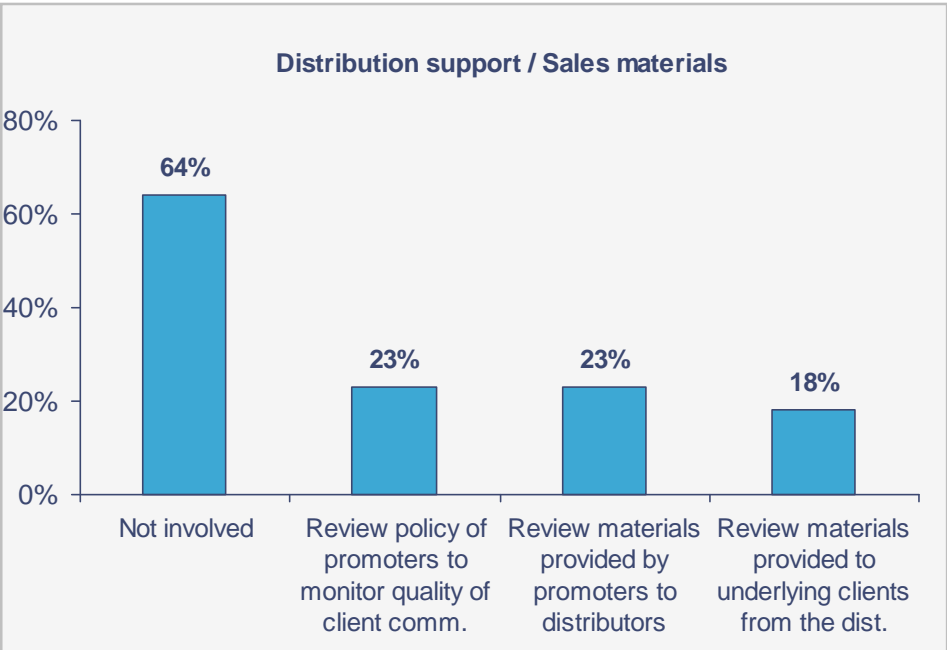
Save for AML/KYC related issues, Boards are not very involved in the distributor choice!

Board implication in the distribution process



Focus on distribution

Board implication in the distribution process



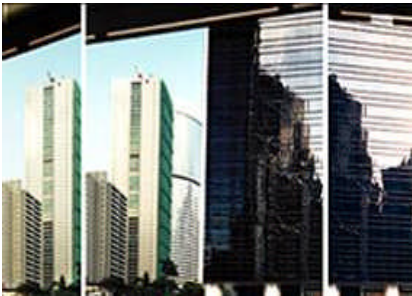
Focus on distribution

Greatest risks perceived

1. AML/KYC (50%)
2. Misselling (42%)
3. Fund registration issues (21%)
4. Distributors don't comply with contractual requirements (14%)

88% of respondents felt comfortable that the risks were adequately managed

Agenda



- I. Introduction and objectives of the Survey
- II. Participants information
- III. Board organisation
- IV. Roles and responsibilities
- V. Focus on distribution
- VI. The impact of the subprime crisis**
- VII. Major issues

Consequences of the subprime crisis

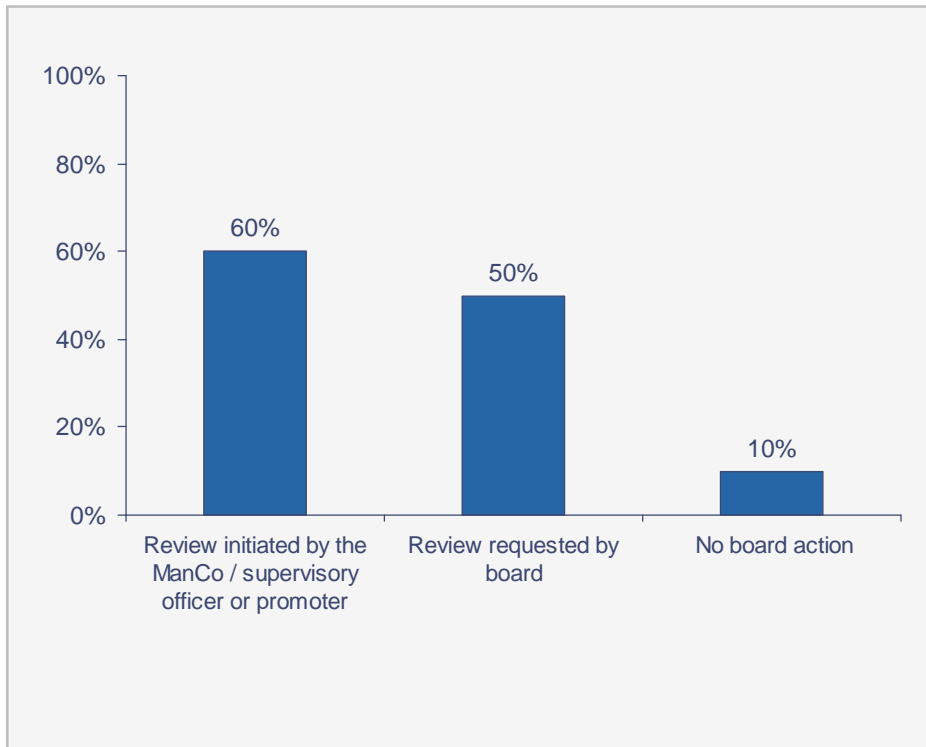
Main consequences on the fund



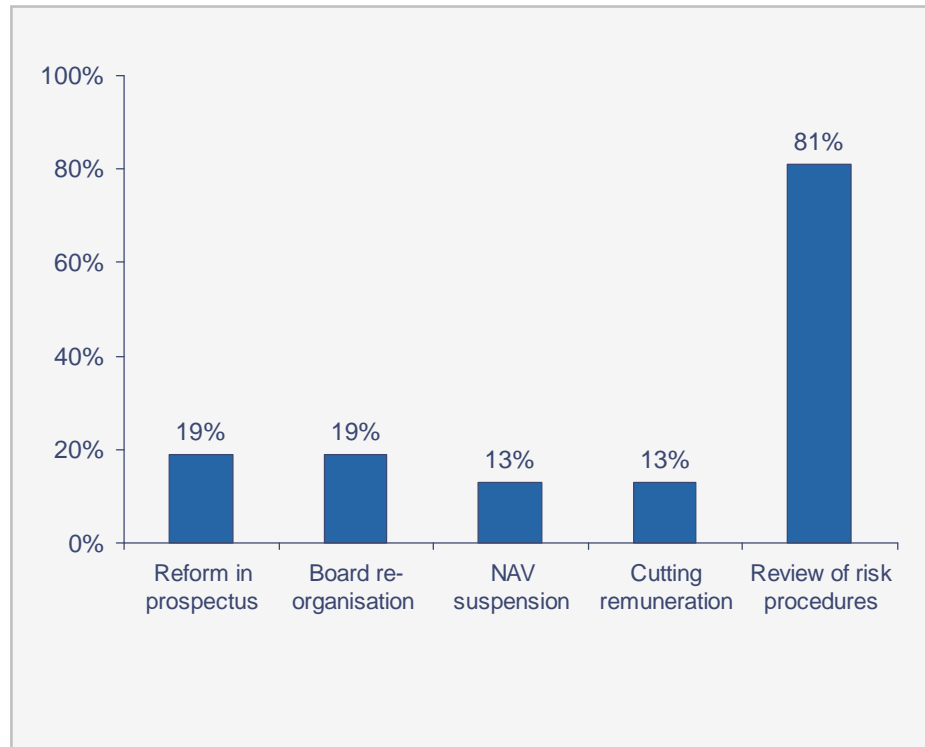
- For 50% of respondents, the subprime crisis had a limited impact on their fund at the time of their response
- For 45% it had significant consequences
- 33% confirmed it will affect significantly their business in the 6 coming months

Actions taken

Process for Board of crisis



Main measures taken upon crisis

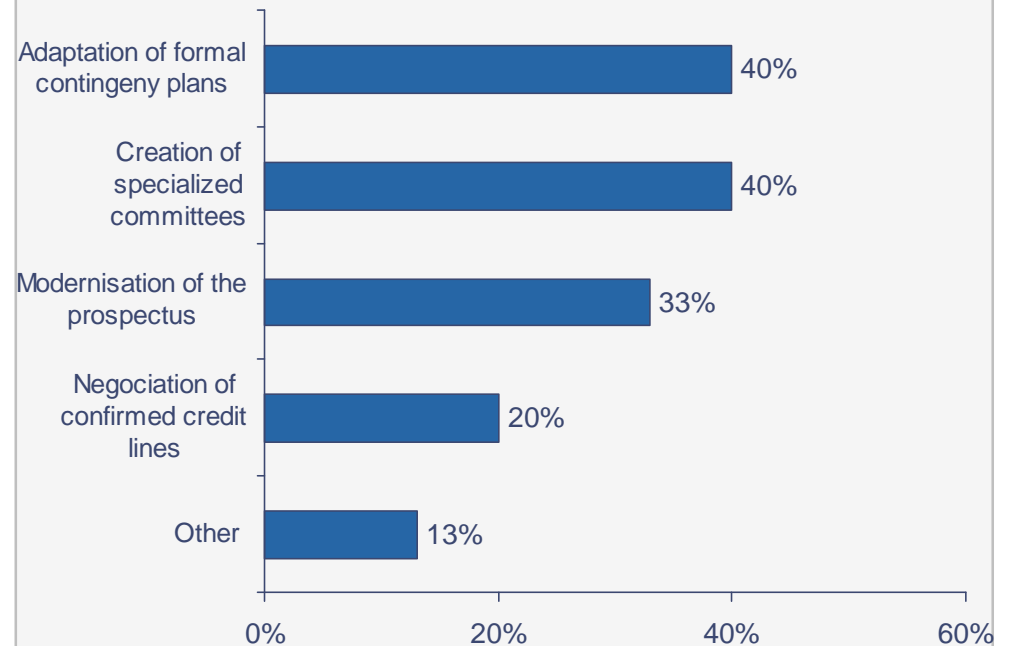


Main lessons already drawn

Importance of communication

- 60% issued a communication to clients / Only 27% to their service providers
- 67% of them are in favour of an ongoing communication via regular reports or phone calls
- In 50% of cases, it helps avoiding potential redemptions

Lessons drawn



63% of respondents do not think more regulation could prevent crisis periods in the future !

Strengths and weaknesses of the board face to the crisis

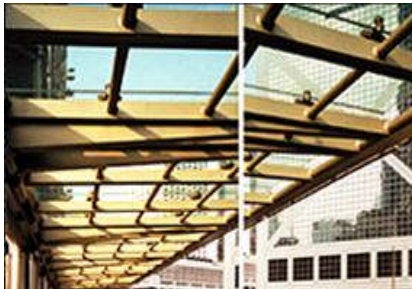
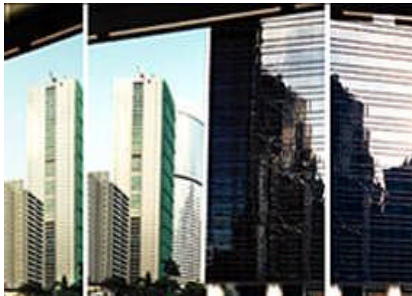
Strengths	Weaknesses
<ol style="list-style-type: none">1. Ongoing communication within the board, the promoter and service providers2. Reactivity3. Monitoring and controlling tools in place4. Board and management assumed responsibilities	<ol style="list-style-type: none">1. Reactivity2. Diversified level of quality and responsiveness at service providers3. Touchy communication towards investors4. Unclear investment guidelines / prospectus wording

“Honesty, integrity, diligence, read the packs, understanding responsibility”

“Regular review of counterparties, regular review of risks and controls of processes”

“Be informed and keep informed and proactively manage events”

Agenda



- I. Introduction and objectives of the Survey
- II. Participants information
- III. Board organisation
- IV. Roles and responsibilities
- V. Focus on distribution
- VI. The impact of the subprime crisis
- VII. Major issues**

Major issues

Main focus of Boards in the coming months

1. UCITS IV

2. New regulations, including AML

3. Risk management, OTC derivative pricing, valuation issues

And:

- MiFID evolution
- Distribution
- Conflicts of interest
- Fee pressure
- Market consolidation

Contacts

Odile Renner

Partner

Odile.Renner@lu.pwc.com

+352 49 48 48 2615