Boards Set up Direct Lines with Shareholders
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Fund boards are establishing postal or e-mail addresses independent of advisors to which shareholders can send their questions and complaints. They're now giving shareholders direct access to boards without going through the advisor.

For instance, the Scudder Funds board has set up a post office box for the board. Meanwhile the chairman of the Evergreen Funds, Mike Scofield, recently set up a new address for the board in Charlotte, N.C., where the trustees' office is located. The address for the trustees is currently that of the advisor, Evergreen Investments, which is in Boston.

And the Munder Funds board, during its most recent board meeting, decided to set up an address for shareholders to directly contact the board. Whether the board will use e-mail or regular post remains to be determined.

"I think that it is just good corporate governance that those people who have invested their money have a way to communicate either their pleasure or displeasure to the board," says Tom Eckert, independent director of the Munder Funds.

An SEC rule effective the first of this year requires boards to disclose the means, if any, by which shareholders can communicate with directors. The rule does not mandate that such means of communication be adopted. But disclosing that there is no means to communicate directly with shareholders leaves a board open to criticism. The new disclosure rule effectively puts pressure on boards to show they have clear channels of communication with shareholders.

The rule is intended to make board operations more transparent to shareholders. It also is in line with the SEC's method of getting boards to change their ways through disclosure. For example, a rule requiring that boards disclose whether their audit committees have a financial expert has put pressure on boards to name such experts. In addition, a rule proposed in February would require boards to disclose the specific reasons why the board selected a particular advisor, and whether the board comparison shopped before making the selection. If passed, the rule would increase pressure on boards to implement more stringent processes for renewing advisory contracts.

At the same time, directors are trying to be responsive to shareholder concerns.

Shareholders typically vote with their feet by moving their investments if they're dissatisfied with either the board or the advisor. But having an address solely for the board at least assures shareholders that directors will hear their concerns, says Eckert.

Indeed, lack of communication between shareholders and directors is the biggest problem with governance in the mutual fund arena, says Don Phillips, managing director of Morningstar. Anything to improve that, such as a separate address for the board, will improve governance, Phillips says.

Although there is no standard practice, many boards list the advisor's address as the way to reach the board. Generally, contact information for directors is included in the statement of additional information, which is often difficult for shareholders to get their hands on. When the advisor receives mail for the board, it forwards the letters to the directors who then respond accordingly.

That's now changing. At Scudder, the address listed for the directors in fund literature had been that of Deutsche Asset Management, the advisor to the funds. The board decided that having shareholder letters go straight to the directors was a better idea, says Dawn-Marie Driscoll, lead independent director of the Scudder Funds board.

As of yet, no letters have arrived, but it's still important that the avenue of communication exists, Driscoll says. "For the one person who may try to reach us, it's worth having," she says.

At Evergreen, both the new directors' address in North Carolina and the advisor's Boston address will be listed in fund literature until everybody knows about the new address. Letters will get to him more quickly at the new address than if they are routed through the advisor, Scofield says.

"It's to facilitate the communication," says Scofield.

Having an address for the board that is separate from the advisor is probably the best solution for dealing with communication between the board and shareholders, says Niels Holch, founder of the Coalition of Mutual Fund Investors. While letters will certainly get to directors via the advisor, having a separate address may be better perceived by shareholders, Holch says.

Other shareholder advocates view this change as superficial, however.

"Of potential reforms, it's not particularly impressive," says Mercer Bullard, president of Fund Democracy, a fund shareholder advocacy group. A more important reform, he says, would be for directors to increase communication with shareholders about the efforts they are making on investors' behalf. Bullard's criticism is that establishing a separate address for the board may just be window dressing, and not bring about substantive change.

But fostering communication between boards and investors is in everybody's interest, says Holch, and will help to rebuild some of the trust that's been lost due to the recent scandals.

Ultimately, though, what's most important is that shareholders are assured their letters will reach the board through whatever avenue of communication is provided, says Holch. "I would like to see a more defined process so that shareholders know that their communication will eventually reach the board," he says.

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