



Mutual Fund Governance Survey 2004*

Executive Summary

With the ever increasing focus on corporate governance throughout the business world and as corporate governance starts at board level, we are pleased to present this, our second survey on board practices in Luxembourg investment funds.

This survey was conducted in May 2004 with 19 fund promoters from 8 territories and varied sizes representing 48% of assets under management in Luxembourg. The funds managed were mainly UCITS products that are distributed in several countries across Europe.

To set out an inventory of corporate governance practices in the Luxembourg UCITS industry at board level, we focused our survey on the following issues:

- Board structure and composition
- Board agenda and functionings
- Board monitoring
- Hot issues on the board's agenda: UCITS III directive implementation, late trading and market timing

The conclusions drawn up in this survey are based on responses to a questionnaire sent to the participants and also on subsequent interviews with board members. The following executive summary summarises the main findings of the survey.

Executive Summary

Globally, the results of the 2004 survey reveals an increasing focus on the corporate governance management of the board compared to 2003 survey. The evolution of board composition, the frequency of physical meetings and the scope of issues reviewed and discussed during board meetings demonstrate the willingness to further improve the effectiveness of Luxembourg investment fund boards. As in 2003, the new survey also highlights the divergence of views on the concept of Director's independence between Anglo-Saxon and continental European promoters.

The average of size of board of directors of Luxembourg UCITS amounts to six members with a majority of promoter's representatives (this has historically been a CSSF requirement) and some representatives of service providers. Board members interviewed are on average members of seven UCITS' Boards.

Regarding the definition of independence, on average participants agreed that a director's remuneration should originate from different sources and the amount paid should not be significant in comparison to their total compensation. Anglo-Saxon participants are more neutral on these two statements. Participants do not accept the need for directors to reject mandates with funds from other promoters. In contrast to the opposing views of continental European participants, Anglo-Saxon promoters strongly agree that a director should not carry out a professional activity within the fund's promoter group and should not be employed by the fund's service providers.

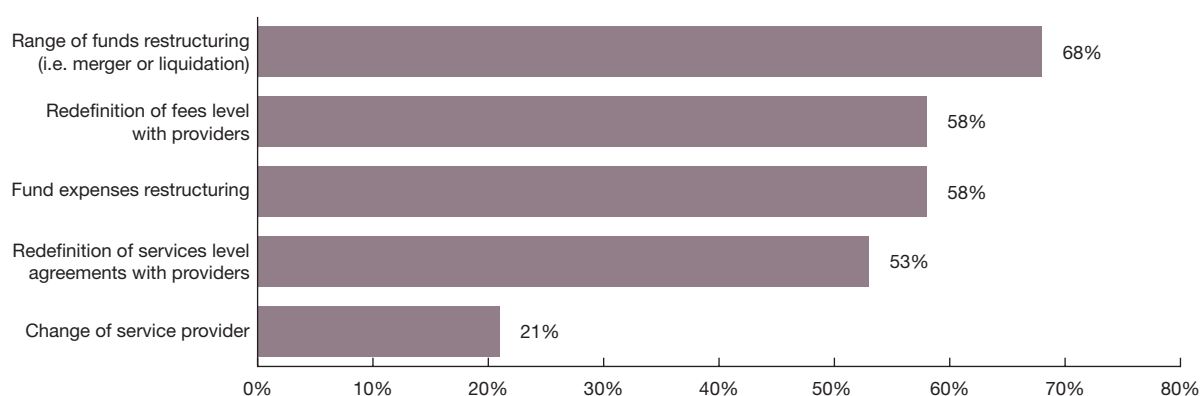
With regard to remuneration, directors employed by the promoter of the fund or its service providers are generally not remunerated while more than 80% of independent directors are remunerated for their directorship. A quarter of these receive a remuneration exceeding €20,000 per year per mandate.

Board meetings are usually held three to four times a year in Luxembourg or abroad. These are generally well organised with a standard agenda and board papers provided well in advance.

In contrast to our 2003 survey, a majority of board of directors now invites the fund's auditor, either once a year or on a case by case approach. 21% of participants have appointed or are going to appoint an audit committee.

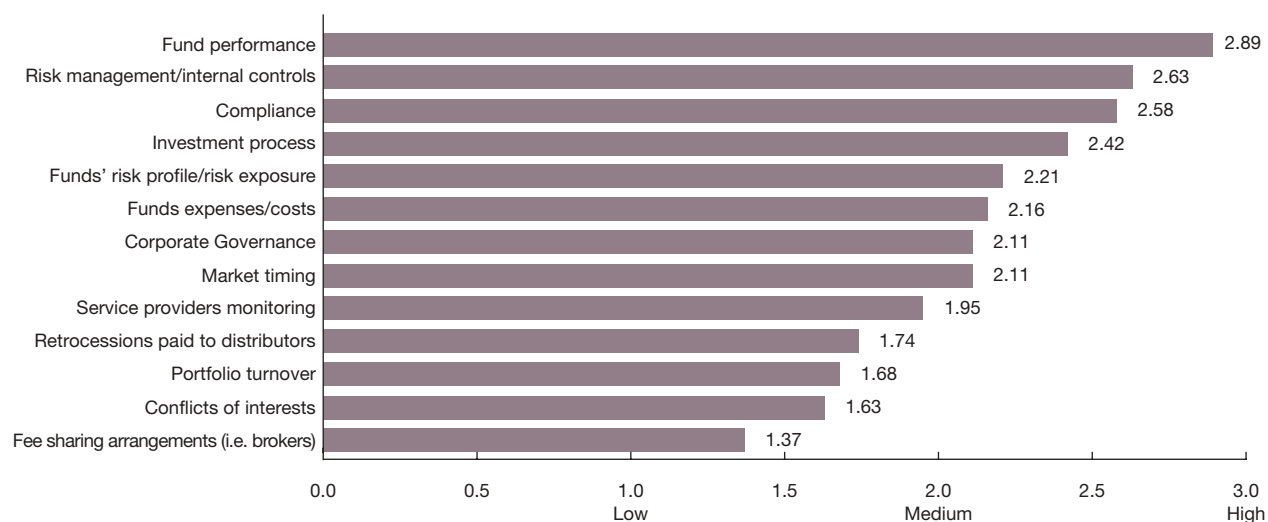
When asked about the actions taken following board reviews of a service provider's activity, which include the investment manager, the central administration agent, the custodian and the distributors, 68% of participants mentioned the restructuring of the fund range followed by the restructuring of funds expenses and redefinition of fees level with providers (58%).

Actions taken following review of service provider's activity



Top issues facing boards of directors in 2004 are fund performance, risk management and compliance. All these issues, as well as corporate governance have increased in importance compared to 2003.

Importance of issues facing board of directors



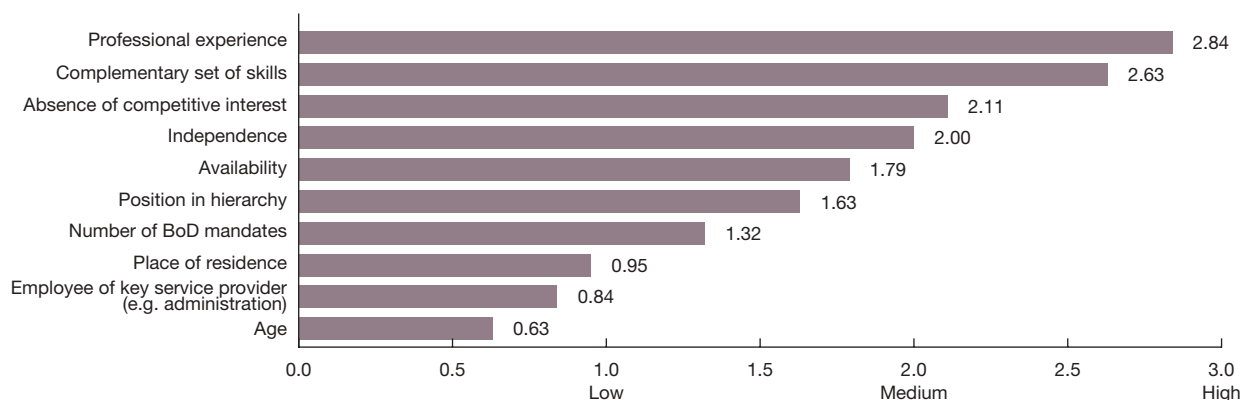
With regards to UCITS III, two thirds of boards of directors have already decided on a UCITS III transition strategy. Almost half of the participants surveyed did not plan to comply with both the profession and the product directives before 2006.

On late trading and market timing issues, three quarters of participating boards have decided on actions. Assessing the risks and monitoring the effectiveness of procedures and controls have been the preferred actions taken by board members.

Looking forward...

32% of participants intend to review and/or change their policies regarding board composition. Top new selection criteria for board composition include professional experience, complementary set of skills, absence of competitive interest and independence and demonstrate the willingness to further enhance the effectiveness of the board.

Importance of selection criteria



Over the next two years, participants believe that fund expenses, risk profiles and risk exposures of funds, and risk management and internal controls will be the three items at the top of their agenda. These items are also areas where increased transparency towards investors will be a priority for the board of directors.

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