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Research highlights ongoing challenge of fund boards in aligning investor governance expectations

The rise of ESG investing, demands for specific experience and greater expectations on transparency are all shaping the fund governance landscape – but there is still a way to go for managers and boards to align with the governance objectives of investors, according to new research published this month by IFI Global and supported by Jersey Finance.

Building on a series of IFI Global reports published over the past two years in partnership with Jersey Finance, which focused on fund domiciliation and structuring, and a previous IFI Global report on fund governance undertaken in 2016, this new report explores how approaches to fund governance are shifting amongst international investors in a post-pandemic ‘ESG era’.

Based on the views of investors and their advisors in North America, Europe, Asia Pacific and the Middle East, the research for this new report – entitled ‘Funds Governance in 2021: What it Means to Investors’ – was carried out between April and June this year. Overall, the survey found that most investors (54%) believe that ESG considerations will have an impact on fund governance. The research also found that there is an increasing demand for board directors to have specific portfolio management or industry experience in the underlying strategy, for them to be independent, and for them to have term limits imposed on them.

Among the report’s other key findings were:

- The overwhelming majority of respondents (84%) said they thought governance is helpful but not that important. 8% said that they view fund governance as very important, the same number who replied saying it is not important.
- All respondents felt that the purpose of fund governance is protect the interests of investors, rather than to serve the interests of the fund
Experience is the quality investors want to see in directors of the funds they invest in. This is closely followed by independence. Gender diversity on the board did not evoke particularly strong feelings, though there was a sense that ESG investing might impact this. Term limits for directors were wanted by the overwhelming majority of respondents (85%). 81% said that they would like to see more transparency in fund governance, including in the selection process of directors.

Commenting on the findings, Elliot Refson, Head of Funds at Jersey Finance, said: “The findings of this new study provide a valuable insight into the thinking of investors, who we know, based on this and previous research, are driving change in the alternatives space.

“It is perhaps surprising that, in a period where we have seen unprecedented change, fund governance continues to evolve at a relatively slow pace. Nevertheless, approaches to governance are maturing in response to the ESG drive, greater demands for transparency and the need for deeper levels of experience. This is now the clear challenge for fund boards and managers - to focus on ensuring that their approaches to governance are fully aligned with those of their investors.

“It’s a challenge we are fully engaged with in Jersey, where we have a deep and broad talent pool across asset classes and have already taken great strides in terms of the G element of board diversification.”

Simon Osborn, CEO of IFI Global and author of the report, added: “This is the first research study we have conducted with investors on fund governance in five years, and it is therefore the first time that we have surveyed investors on governance in the ‘ESG era’. Whilst there are some persistent views on governance amongst institutional investors, attitudes and levels of sophistication are changing, and the findings of this report should act as a benchmark in an area that continues to evolve.”

The new research can be viewed and downloaded here.

Ends.

Notes to Editors

Methodology
The NED surveyed investors and their advisors between April and mid-June 2021. 12% were in the Asia-Pacific region; 4% in the Gulf; 8% in Canada; 46% in the UK and 31% were in the US.

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