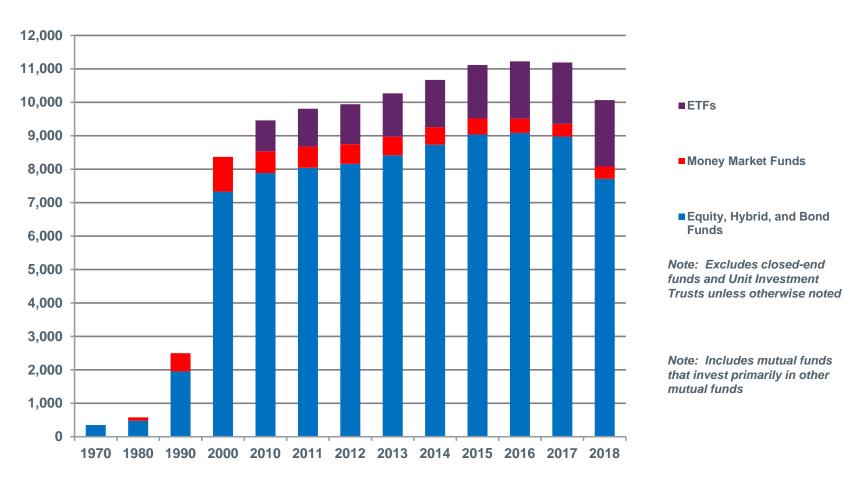


2019 WASHINGTON D.C. INVESTMENT MANAGEMENT CONFERENCE – November 12, 2019

Overview of the Investment Company Complex

Mark Goshko, Partner, K&L Gates LLP Franklin Na, Partner, K&L Gates LLP Yoon Choo, Of Counsel, K&L Gates LLP

NUMBER OF FUNDS

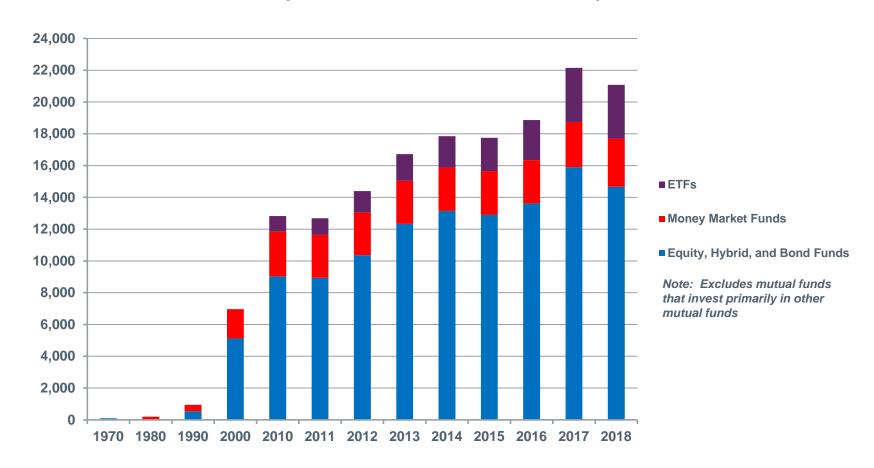


Investment Company Institute, "2019 Investment Company Fact Book"

16.04

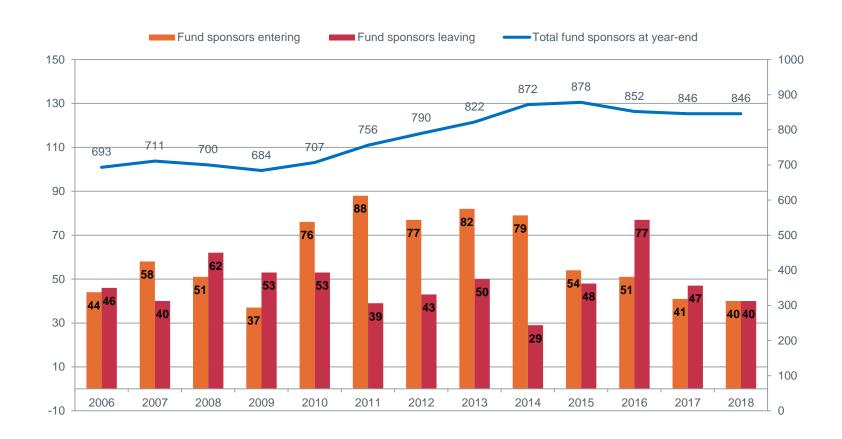
2,913,100

ASSETS OF FUNDS (BILLIONS OF DOLLARS)



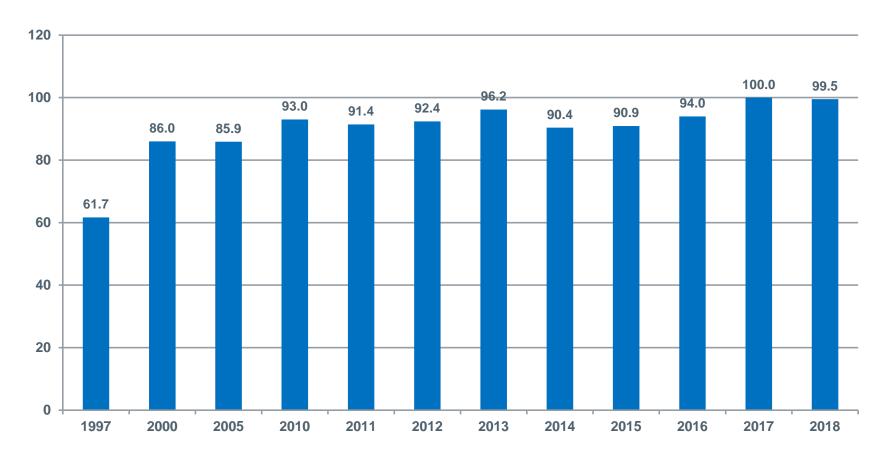
Investment Company Institute, "2019 Investment Company Fact Book"

NUMBER OF FUND SPONSORS



2,913,100

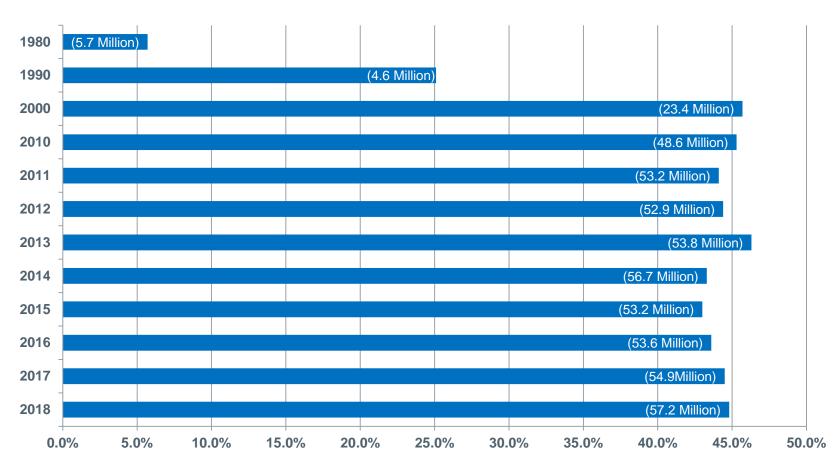
NUMBER OF MUTUAL FUND SHAREHOLDERS (MILLIONS)



ICI Research Perspective, Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2018 (November 2018)

16,273,100

HOUSEHOLD OWNERSHIP OF MUTUAL FUNDS (PERCENT OF U.S. HOUSEHOLDS)



Investment Company Institute, "2019 Investment Company Fact Book"

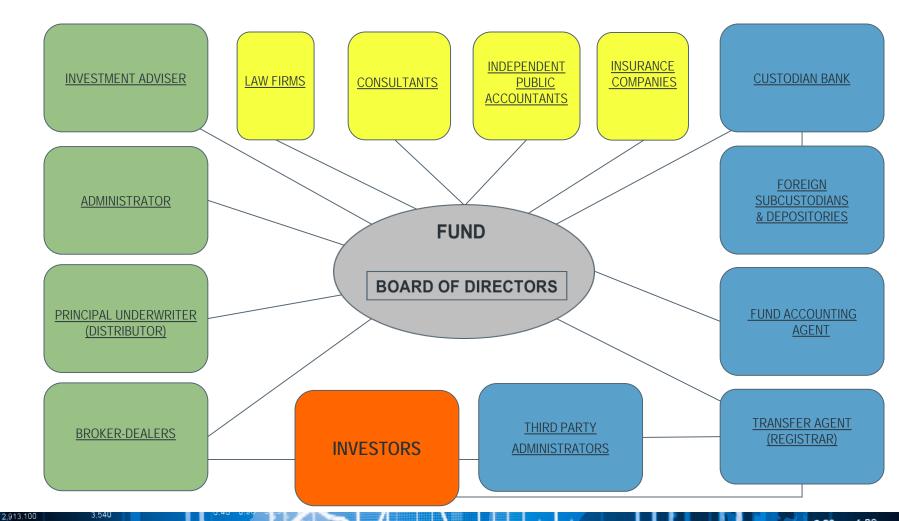
2,913,100

16,273,100

FUND INDUSTRY PLAYERS & REGULATION

- U.S. Fund Industry Vendors
- Principal Services of Fund Vendors
- Principal Regulatory Statutes and Regulators for Fund Vendors
- Mutual Fund Distribution Channels

U.S. FUND INDUSTRY VENDORS



2

1,051

16,273,100

1.94

16.04

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-34.06 55.1

2,389 3,300

2.02 0.41

0.53 -1.03

LAW FIRMS **INDEPENDENT INVESTMENT ADVISER CONSULTANTS INSURANCE COMPANIES CUSTODIAN BANK** Legal Marketing Plans PUBLIC **Develop Products** Fidelity Bond (Required) Safekeeping of Assets Tax Contract Review Data **ACCOUNTANTS** D&O/E&O Insurance Manage Investments Deposit Accounts Consulting Compliance Audit Place Trades Supplemental Coverage Fed Wire Orders Performance Data Tax Returns Compliance for Independent Directors · Maintain Assets with **Board Governance** Consulting Select and Monitor Sub- Cybersecurity Policy Subcustodians Advice Securities Loans Advisers Repurchase Agreements **ADMINISTRATOR** · Line of Credit Corporate Officers Board Meetings Prepare Minutes Prepare Shareholder and FOREIGN SUBCUSTODIANS SEC Documents and & DEPOSITORIES Reports Other Services **FUND ACCOUNTANT FUND** PRINCIPAL UNDERWRITER Pricing of Portfolio Assets (DISTRIBUTOR)

- Advertising
- Marketing
- Distribution

BROKER-DEALERS

Sales and Redemptions of Fund Shares

16.04

- **Execute Fund Brokerage Orders**
- Research
- Clearance and Settlement
- Settlement Pricing Assistance

INVESTORS

THIRD PARTY ADMINISTRATORS

- Sales and Redemptions of Fund Shares
- Shareholder Records and Statements
- Shareholder Servicing

Fund Accounting

Share Price Calculations

- TRANSFER AGENT Process Orders
- Shareholder Records and Statements
- Shareholder Servicing
- Dividend Disbursing Agent

0.82

2,389 3,300

INVESTMENT ADVISER

- **Develop Products**
- Manage Investments
- Place Trades
- Compliance
- Select and Monitor Sub-Advisers

- Contract requirements, including:
 - Written contract
 - Manner of approval, amendment and continuance
 - Description of compensation
 - Standard of care
 - Termination upon "assignment" no trafficking
- Other advisory contract considerations

16,273,100







ADMINISTRATOR

- Corporate Officers
 Board Meetings
 Prepare Minutes
 Prepare Shareholder and SEC Documents and Reports
- General Accounting Services and Internal Controls
- ComplianceOversight of Certain Other Service Providers













PRINCIPAL

- Advertising
- Marketing
- Distribution

BROKER-DEALERS

- Sales and Redemptions of Fund Shares
- Execute Fund **Brokerage Orders**
- Research
- Clearance and Settlement
- Settlement Pricing and Assistance

- Marketing and Distribution of Fund Shares
- Contract requirements, including:
- Written contract
- Manner of approval, amendment and continuance
- Standard of Care
- Termination upon "assignment"
- 12b-1 Plans Funds Paying for Distribution

16.04









0.53 -1.03

- Safekeeping of the Fund's Assets
- General Investment Company Act requirements applicable to types of custody arrangements:
- Bank custody
- Broker-dealer custody
- Self-custody
- Central depositories and book-entry systems
- Margin for futures contract transactions
- Foreign custody

CUSTODIAN BANK

- Safekeeping of Assets
- Deposit Accounts
- Fed Wire Orders
- Maintain Assets with Subcustodians
- Securities Loans
- Repurchase Agreements
- Line of Credit

FOREIGN SUB-CUSTODIANS & DEPOSITORIES

16,273,100













FUND ACCOUNTANT

- Pricing of Portfolio Assets
- Fund Accounting
- Share Price Calculations

TRANSFER AGENT (REGISTRAR)

- Process Orders
- Shareholder Records and Statements
- Shareholder Servicing
- Dividend Disbursing Agent

THIRD PARTY ADMINISTRATORS

- Sales and Redemptions of Fund Shares
- Shareholder Records and Statements
- Shareholder Servicing

LAW FIRMS

- Legal
- Tax
- Consulting

CONSULTANTS

- Marketing Plans
- Contract Review Data
- Compliance
- Performance Data
- **Board Governance Advice**

16,273,100











INDEPENDENT PUBLIC ACCOUNTANT

- Audit
- Tax Returns
- Consulting

- Selection of Accounting Firm
 - Independent directors approve in person
 - Shareholder ratification unless Rule 32a-4 satisfied
- Approval of services
- Sarbanes-Oxley Act imposes additional requirements regarding auditor independence

INSURANCE COMPANIES

INSURANCE COMPANIES

- Fidelity Bond (Required)
 - **Amount**
 - **Annual Board consideration**
 - Filing of bond
- D&O/E&O Insurance (Directors and officer/errors and omissions liability insurance)
 - Industry practice
 - Form of policy
- Supplemental Coverage for **Independent Directors**
- Cybersecurity Policy

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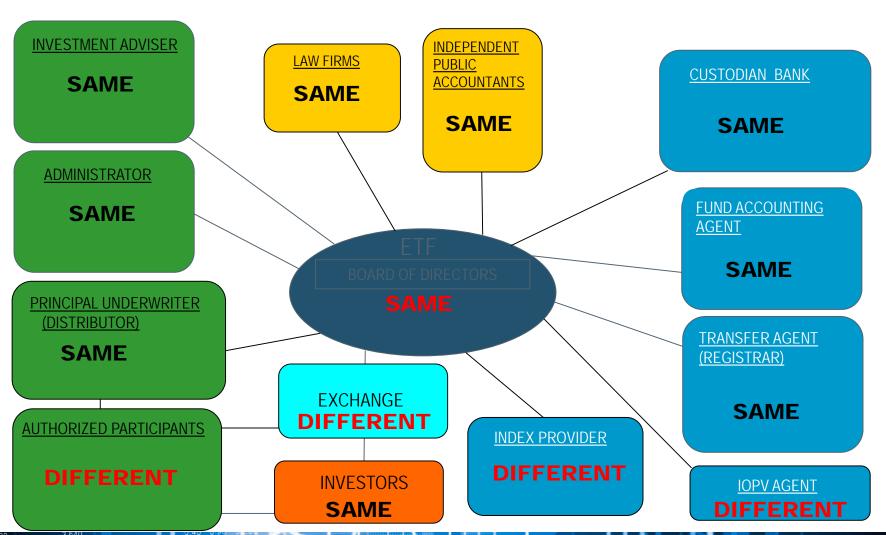






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U.S. ETF INDUSTRY VENDORS



16,273,100

PRINCIPAL REGULATORY STATUTES AND REGULATORS FOR FUND VENDORS

CUSTODIAN BANK INVESTMENT ADVISER **INSURANCE** Organized and regulated under CONSULTANTS INDEPENDENT PUBLIC LAW FIRMS Registered and regulated under Banking Laws (US or States Bank agencies) Not required to **COMPANIES** ACCOUNTANTS Not required to Investment Advisers Act of 1940 reaister Regulated by Registered with PCAOB register Also subject to some provisions of (SFC) Should understand Advise clients on Must conduct audits states Investment Company Act of 1940 Also regulated under Investment regulatory consistent with regulatory requirements Company Act of 1940 (SEC) SEC and PCAOB requirements applicable to advice requirements **ADMINISTRATOR** FOREIGN SUBCUSTODIANS Not required to register & DEPOSITORIES Must comply with requirements Regulated under the laws of the applicable to Funds under applicable foreign country Investment Company Act of 1940 FUND ACCOUNTING AGENT PRINCIPAL UNDERWRITER Not required to register Must comply with requirements (DISTRIBUTOR) FUND Registered and regulated under applicable to Funds under Securities Exchange Act of 1934 (SEC) Investment Company Act of 1940 Also regulated under Investment Company Act of 1940 (SEC) TRANSFER AGENT REGISTRAR Registered and Regulated under Securities Exchange Act of 1934 **BROKER-DEALERS** THIRD PARTY (SEC or bank agencies) Registered and regulated under **ADMINISTRATORS FOR** Must comply with requirements Securities Exchange Act of 1934 (FINRA RETIREMENT PLANS applicable to Funds under **INVESTORS** Regulated Under Employee Investment Company Act of Also subject to some provisions of Retirement Income Securities Act 1940 (SEC) Investment Company Act of 1940 (SEC) of 1974 (Dept. of Labor)



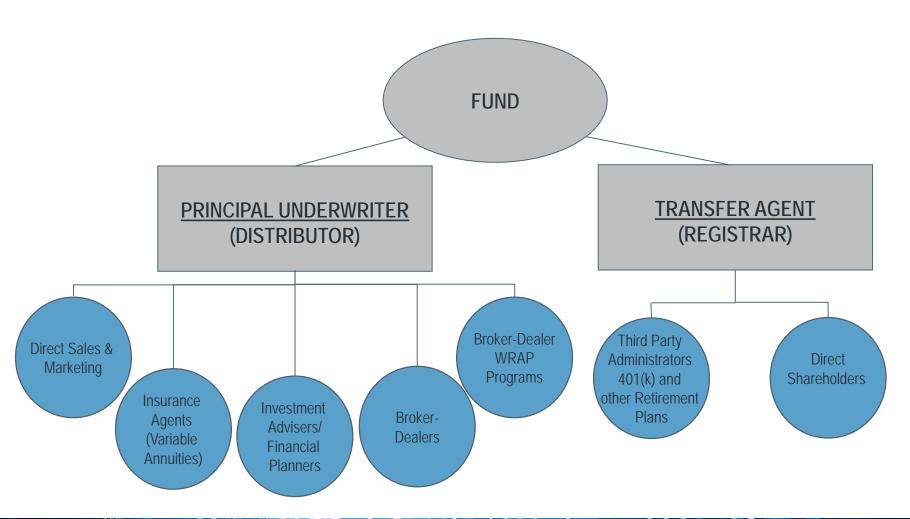




INVESTMENT COMPANY ACT OF 1940

- Issues Addressed by 1940 Act (§2(b))
 - Inadequate disclosure
 - Managed to benefit advisers and other affiliates
 - Unsound valuation and accounting
 - Changes in fundamental operations without shareholder approval
- Four Requirements Imposed by 1940 Act on Directors
 - Approval of advisory agreements
 - Approval of underwriting agreements
 - Approval of independent auditors
 - Valuation of securities for which no "market quotations are readily available"

MUTUAL FUND DISTRIBUTION CHANNELS





Questions?



K&L GATES