

# Contract Provisions

	Status Quo	Long-term Model	Exploratory
<b>Fees</b>	<ul style="list-style-type: none"> <li>Asset based fee (often declining with size)</li> <li>—Or—</li> <li>Performance fees</li> </ul>	<ul style="list-style-type: none"> <li>Discount AUM fee for mandate longevity</li> <li>Discount AUM fee for relationship longevity</li> <li>Calculate performance fee over at least three to five years with deferrals rather than clawbacks</li> <li>Use compounding hurdle rate</li> </ul>	<ul style="list-style-type: none"> <li>Discount fee for strategy-level AUM in engagement mandates</li> <li>GP to invest deferred performance fees in fund</li> <li>LP to co-invest in the GP</li> <li>Use retainer fee to access investment ideas</li> <li>Pay fixed-dollar fee</li> </ul>
<b>Benchmark</b>	<ul style="list-style-type: none"> <li>Cap-weighted reference index</li> </ul>	<ul style="list-style-type: none"> <li>Cap-weighted or custom reference index, as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Alternate index that includes long-term metrics (e.g., S&amp;P LTVC Global Index)</li> <li>Absolute return with capital call/return</li> <li>Owner's liability discount rate or LIBOR+/CPI+</li> <li>Scenario- or projection-based</li> </ul>
<b>Contract Term</b>	<ul style="list-style-type: none"> <li>At-will</li> </ul>	<ul style="list-style-type: none"> <li>Set three- to five-year contract term with wide discretion to terminate</li> <li>Continue contract at renewal points unless either party elects to terminate</li> </ul>	<ul style="list-style-type: none"> <li>Narrow the discretion to terminate to focus on process discipline</li> <li>Lock-ups for public equity mandates</li> </ul>
<b>Redemptions</b>	<ul style="list-style-type: none"> <li>Limited ability to redeem in-kind</li> </ul>	<ul style="list-style-type: none"> <li>Consider investment impact of manager's ability to redeem in kind</li> </ul>	<ul style="list-style-type: none"> <li>Permit in-kind redemption for any long-term mandates</li> </ul>
<b>Manager or Strategy Capacity</b>	<ul style="list-style-type: none"> <li>Not contractually managed</li> </ul>	<ul style="list-style-type: none"> <li>Cap strategy-level AUM for liquidity-constrained mandates in absolute terms or as a percentage of investable market capitalization</li> </ul>	<ul style="list-style-type: none"> <li>Build in rebalancing mechanism to enable countercyclical investment flows, regardless of a fund's closed status</li> </ul>

	Status Quo	Long-term Model	Exploratory
<b>Performance Reporting</b>	<ul style="list-style-type: none"> <li>• Commentary and reporting focused on events of recent quarter</li> <li>• Yearly and annualized reporting available</li> </ul>	<ul style="list-style-type: none"> <li>• Focus commentary and reporting on events of recent year and have quarterly reporting secondary</li> <li>• Provide commentary more prominently than performance data</li> <li>• Present data from longest period on left to shortest period on right (see <a href="#">FCLTGlobal Long-term Reporting Template</a>)</li> <li>• Report transaction and operational costs/rebates clearly</li> </ul>	<ul style="list-style-type: none"> <li>• Provide commentary only on rolling annual or longer data (no quarterly commentary)</li> <li>• Report short-term performance less prominently (e.g., only through separate hyperlink)</li> <li>• Report on economic parameters (e.g., aggregate revenue, earnings, or portfolio modeled as a business)</li> </ul>
<b>Active Ownership</b>	<ul style="list-style-type: none"> <li>• No consideration</li> </ul>	<ul style="list-style-type: none"> <li>• Manager details current engagement practice</li> <li>• Manager details proxy voting practices</li> </ul>	<ul style="list-style-type: none"> <li>• Asset owner defines specific engagement expectation</li> <li>• Asset owner defines proxy voting practices</li> </ul>
<b>Other Disclosure</b>	<ul style="list-style-type: none"> <li>• Major changes in firm ownership or portfolio team</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in firm ownership levels, portfolio or relationship team</li> <li>• Delineate KPIs and changes to them (see <a href="#">FCLTGlobal Key Performance Indicator Template</a>, pg. 14-15)</li> </ul>	<ul style="list-style-type: none"> <li>• PM investment in fund</li> <li>• Relationship team compensation structure</li> <li>• Key person succession and compensation</li> <li>• Open dialogue about key person's personal circumstances (e.g., health, marital status, personal residence, outside activities)</li> </ul>
<b>Evaluation Process</b>	<ul style="list-style-type: none"> <li>• Terminate based on short-term underperformance</li> </ul>	<ul style="list-style-type: none"> <li>• Document and monitor hiring reasons</li> <li>• Meet with managers on a predetermined schedule</li> <li>• Measure transition costs before terminating</li> </ul>	<ul style="list-style-type: none"> <li>• Concede one-year management fee for termination outside of process</li> <li>• Continue reporting and monitoring manager performance for three years after termination and evaluate decision</li> </ul>

# Key Performance Indicators

In addition to monitoring performance, long-term asset owners monitor the way that asset managers manage portfolios and their businesses. Specifying KPIs that may be leading indicators of performance can provide structure for that monitoring. Institutional investors select among these disclosure terms based on their investment strategy and are unlikely to use all of them in one mandate.

KPI	Description	KPIs could include	Other discussion items could include
<b>Portfolio</b>	Stating investment beliefs and having metrics for them will allow an asset owner to determine if a manager is implementing the strategy consistently over the long term.	<ul style="list-style-type: none"> <li>• Portfolio statistics on valuation, dividends, cash flow or growth</li> <li>• Turnover</li> <li>• Drawdowns</li> <li>• Leverage ratios</li> <li>• Active Share</li> </ul>	
<b>Business and Personnel</b>	Evaluating an asset manager’s business structure and culture will help an asset owner determine if it is durable for the long term.	<ul style="list-style-type: none"> <li>• Personnel turnover (internal and external)</li> <li>• Service level</li> <li>• Client concentration</li> <li>• Data and systems integrity issues</li> <li>• Trusted relationships with third-party providers</li> </ul>	<ul style="list-style-type: none"> <li>• Succession planning</li> <li>• Time element of compensation and promotion practices</li> <li>• Integration of long-term beliefs into research, trading, operations, legal, management, client service and other staff responsibilities</li> </ul>
<b>Operations</b>	Asset owners need confidence that asset managers can implement their investment strategy consistently over the long term.	<ul style="list-style-type: none"> <li>• Trading effectiveness (e.g., implementation shortfall, market impact)</li> <li>• Trade routing &amp; venue performance</li> <li>• Mapping of issue priorities to proxy votes and their outcomes</li> <li>• Proxy vote assurance, including evaluation of missed or miscast proxy votes</li> <li>• Securities lending practices</li> </ul>	

KPI	Description
<b>Engagement</b>	<p>Being an active and engaged owner can be a critical part of long-term investing.</p> <p>KPIs could include</p> <ul style="list-style-type: none"> <li>• Frequency and number of company interactions, potentially including: <ul style="list-style-type: none"> <li>– Asset-weighting engagements</li> <li>– Method (e.g., letter, call, in-person meeting, site visit)</li> <li>– Organized individually, collaboratively or by third-party</li> <li>– Principal interlocutor (e.g., Lead Independent Director, Committee Chair, CEO, Secretary, IR, etc.)</li> <li>– Principal lead (e.g., PM, analyst, corporate governance, etc.)</li> </ul> </li> <li>• Counts of proxy votes supporting or opposing significant corporate actions, director’s nominations, capital proposals or executive compensation</li> <li>• Sponsorship of proxy resolutions and vote outcome</li> </ul> <p>Other discussion items could include</p> <ul style="list-style-type: none"> <li>• Method for choosing engagement priorities</li> </ul>
<b>Impact</b>	<p>Long-term investors may evaluate managers on the broader impact of the investment.</p> <p>KPIs could include</p> <ul style="list-style-type: none"> <li>• Stimulus to home market</li> <li>• Level of CO2 emissions</li> <li>• Advancement of Sustainable Development Goals</li> </ul>