



Finding the Right Match for the Long Term

DUE DILIGENCE TOP TEN LIST

In addition to a typical due diligence questionnaire or RFP, which are essential for gathering information and for thoroughly completing the due diligence process, FCLTGlobal recommends ten considerations that can help focus discussions with prospective managers and determine whether the manager is long term or not. It is crucial to achieve alignment early in the process and to make sure there is an “opportunity fit” between the asset owner and manager – on philosophy, investment beliefs, and long-term value creation.

Top Ten Considerations

1 Investment Strategy

- Does the manager’s investment thesis – the core element of its ability to add value – reconcile with the stated investment strategy, particularly related to long-term opportunities and risk?

2 Repeatability

- Is the manager’s ability to add value repeatable and sustainable over the long term and supported by a strong organizational culture of long-term investing?
- Does the manager have the talent and diversity to achieve their investment thesis?

3 Risk Management

- Does the manager utilize a multi-horizon approach to risk management and has this approach been consistent through periods of market stress?

4 Active Ownership and Engagement

- How does the manager add value through stewardship, active ownership, and engagement, and does this relate to the manager’s investment thesis?
- Are there examples that can be shared?

5 Proxy Voting

- Does the manager use proxy advisors? If so, what is their process and criteria for selecting and using these services?

6 Fees

- In what way are investment management fees aligned with client outcomes?
- Will the manager accommodate fee arrangements based on FCLTGlobal’s Long-Term Model for Institutional Investment Mandates?

7 Compensation

- How is investment decision makers’ compensation linked to long-term investment performance through incentives or ownership vs. assets under management?
- Over what time horizon are incentives calculated?

8 External Affairs

- Does the manager seek to promote long-termism through engagement with policymakers, associations, investors, think-tanks, or other groups?
- Can these activities be disclosed?
- Does the manager actively participate in these initiatives or comment on policy proposals?

9 Investor Responsibilities

- How are investment opportunities and risks related to investor responsibilities (like net-zero commitments or DEI) identified and prioritized?
- How are sustainability factors integrated into the investment decision-making process?

10 Manager Responsibilities

- What responsibilities has the manager accepted (e.g., net-zero) in the course of doing business and earning returns for clients?
- How has the manager promoted greater diversity?