








Long-Term Model for Institutional Investment Mandates

CONTRACT PROVISIONS

This matrix provides a menu of key contract provisions for mandates. We compare typical provisions, which tend to reflect a short-term mindset, to those promoting a longer-term approach, and offer ideas for exploratory provisions. The provisions are relevant for separately managed accounts and commingled funds, with unique provisions described for the latter.






The implementation of contract provisions can be facilitated through the use of other tools in this report, such as the *Finding the Right Match for the Long Term: Due Diligence Top Ten List*, *Aligning Expectations for Long-Term Success: Onboarding Checklist*, and *Trust but Verify: Manager Scorecard*. In addition to selecting provisions from this matrix, a clear objective for the mandate should be agreed upon between asset owners and managers, including return or excess return objectives over a specific long-term evaluation period.

	STATUS QUO	LONG-TERM MODEL	EXPLORATORY
Fees 	<ul style="list-style-type: none"> Asset-based fee (often declining with size) -Or- Performance fees 	<ul style="list-style-type: none"> Discount AUM fee for mandate longevity Discount AUM fee for relationship longevity Calculate performance fee over at least three to five years with deferrals rather than clawbacks Use compounding hurdle rate 	<ul style="list-style-type: none"> Discount fee for strategy-level AUM in engagement mandates GP to invest deferred performance fees in fund LP to co-invest in the GP Use retainer fee to access investment ideas Pay fixed-dollar fee <p><i>Commingled fund specific:</i></p> <ul style="list-style-type: none"> Longevity discounts, rebates outside the NAV
Benchmark 	<ul style="list-style-type: none"> Cap-weighted reference index 	<ul style="list-style-type: none"> Cap-weighted or custom reference index, as appropriate Clear understanding of the investible universe, including any exclusions, restrictions, or deviations from the benchmark 	<ul style="list-style-type: none"> Alternate index that includes long-term metrics (e.g., S&P LTVC Global Index) Absolute return with capital call/return Owner's liability discount rate or RFR+/CPI+ Scenario- or projection-based
Contract Term 	<ul style="list-style-type: none"> At-will 	<ul style="list-style-type: none"> Set three- to five-year contract term with wide discretion to terminate Continue contract at renewal points unless either party elects to terminate 	<ul style="list-style-type: none"> Narrow the discretion to terminate to focus on process discipline Lockups for public equity mandates
Redemptions 	<ul style="list-style-type: none"> Limited ability to redeem in-kind 	<ul style="list-style-type: none"> Consider investment impact of manager's ability to redeem in kind 	<ul style="list-style-type: none"> Permit in-kind redemption for any long-term mandates <p><i>Commingled fund specific:</i></p> <ul style="list-style-type: none"> Partial in-kind redemptions, side pockets Exit fees that accrue to fund Swing pricing Quantify transaction costs and disclose to investors
Manager or Strategy Capacity 	<ul style="list-style-type: none"> Not contractually managed 	<ul style="list-style-type: none"> Cap strategy-level AUM for liquidity-constrained mandates in absolute terms or as a percentage of investible market capitalization 	<ul style="list-style-type: none"> Build in rebalancing mechanism to enable countercyclical investment flows, regardless of a fund's closed status



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CONTRACT PROVISIONS (CONTINUED)

	STATUS QUO	LONG-TERM MODEL	EXPLORATORY
Reporting 	<ul style="list-style-type: none"> • Include commentary and reporting focused on events of recent quarter • Make yearly and annualized reporting available • Provide Sharpe Ratio, Info Ratio, and other risk statistics extrapolated from monthly data 	<ul style="list-style-type: none"> • Focus commentary and reporting on events of recent year and make quarterly reporting secondary • Elevate the prominence of commentary over performance data • Present table data from longest period on left to shortest period in right • Clearly report transaction and operational costs/rebates • Report on active engagement and stewardship outcomes • Report on investor responsibilities, e.g. net-zero progress • Report Sharpe Ratio, Info Ratio, and other risk statistics by tracking data over time (i.e. not from extrapolation) 	<ul style="list-style-type: none"> • Provide commentary only on rolling annual or longer data (no quarterly commentary) • Report short-term performance less prominently (e.g., only through separate hyper-link)
Projections 	<ul style="list-style-type: none"> • Provide performance projections of risk and return for the end point of the investment without a breakdown of the interim scenarios 	<ul style="list-style-type: none"> • Provide projections of risk and return across multiple time horizons to reflect the differences between short and long-term risks (i.e., the long term is not just a series of short terms) 	<ul style="list-style-type: none"> • Project returns based on economic parameters (e.g., aggregate revenue, earnings, or portfolio modeled as a business)
Active Ownership/Engagement 	<ul style="list-style-type: none"> • No consideration 	<ul style="list-style-type: none"> • Manager details current engagement practice • Manager details proxy voting practices • Manager details their stewardship code commitments 	<ul style="list-style-type: none"> • Asset owner specifies engagement expectations • Asset owner specifies proxy voting practices • Asset owner specifies stewardship code commitments
Other Disclosure 	<ul style="list-style-type: none"> • Major changes in firm ownership or portfolio team 	<ul style="list-style-type: none"> • Changes in firm ownership levels, portfolio or relationship team • Delineate KPIs and changes to them (see FCLTGlobal Key Performance Indicators (KPIs) template) 	<ul style="list-style-type: none"> • PM investment in fund • Relationship team compensation structure • Key person succession and compensation • Open dialogue about key person's personal circumstances (e.g. material changes in health, marital status, personal residence, outside activities)
Evaluation Process 	<ul style="list-style-type: none"> • Terminate based on short-term underperformance 	<ul style="list-style-type: none"> • Commit ex-ante to parameters for out-of-cycle performance review • Document and monitor hiring reasons • Meet with managers on a predetermined schedule • Measure transition costs before terminating • Use the FCLTGlobal Manager Scorecard 	<ul style="list-style-type: none"> • Concede one-year management fee for termination outside of process • Continue reporting and monitoring manager performance for three years after termination and evaluate decision



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KEY PERFORMANCE INDICATORS (KPIs)

In addition to monitoring past investment performance, long-term asset owners monitor how managers manage portfolios and their businesses. Specifying key performance indicators (KPIs) from the KPIs matrix can provide structure for that monitoring. Investors may select among these disclosure terms based on their goals and are unlikely to use all of them in one mandate.

KPI	DESCRIPTION	KPIs COULD INCLUDE	
Portfolio	Stating investment beliefs and responsibilities 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"> • Portfolio statistics on valuation, dividends, cash flow or growth • Money-weighted returns versus time-weighted returns • Style factors • Turnover • Drawdowns • Leverage ratios • Active share 	<i>Other discussion items could include</i> <ul style="list-style-type: none"> • Setting performance indicators for investor responsibilities such as net-zero, DEI, etc.
Business and Personnel	Evaluating a 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"> • Personnel turnover (internal and external) • DEI • Service level • Client concentration • Data and systems integrity issues • Trusted relationships with third-party providers 	<i>Other discussion items could include</i> <ul style="list-style-type: none"> • Succession planning • Time element of compensation and promotion practices • Integration of long-term beliefs into research, trading, operations, legal, management, client service and other staff responsibilities
Operations	Asset owners need confidence that managers can implement their investment strategy consistently over the long term.	<ul style="list-style-type: none"> • Trading effectiveness (e.g., implementation shortfall, market impact) • Trade routing & venue performance • Mapping of issue priorities to proxy votes and their outcomes • Proxy vote assurance, including evaluation of missed or miscast proxy votes • Securities lending practices 	<i>Other discussion items could include</i> <ul style="list-style-type: none"> • Technology solutions across firm operations



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KEY PERFORMANCE INDICATORS (KPIs), (CONTINUED)

KPI	DESCRIPTION	KPIs COULD INCLUDE	
Investment Risk	Communicating proactively about the risk inherent in any investment strategy can help asset owners and managers maintain a long-term commitment through periods of difficulty.	<ul style="list-style-type: none"> • Demonstrated commitment to predetermined investment strategy when it is challenged by portfolio downturns • Results of simulated stress-test scenarios • Ex-ante parameters for internal review of performance • Strategy- and manager-level value-at-risk (interim and ending) relative to minimum viable capacity • Prospective redemption schedule 	<p><i>Other discussion items could include</i></p> <ul style="list-style-type: none"> • Mismatch in liquidity between fund terms and underlying investment strategy and securities • Investment beliefs, strategic advantages, risk appetite statement, and rebalancing policy • Compatibility of risk parameters (interim loss and final shortfall) with expected return • Top risks of strategy • Assumptions about risk • Processes for managing myopic loss aversion, hyperbolic discounting, and other foreseeable behaviors • Scenarios for stress testing of returns in different environments and conditions of expected out- and under-performance
Engagement	Being an active and engaged owner can be a critical part of long-term investing.	<ul style="list-style-type: none"> • Frequency and number of company interactions, potentially including: <ul style="list-style-type: none"> – Asset-weighting engagements – Method (e.g., letter, call, in-person meeting, site visit) – Organized individually, collaboratively or by third-party – Principal interlocutor (e.g., lead independent director, committee chair, CEO, secretary, IR, etc.) – Principal lead staff person (e.g., PM, analyst, corporate) 	<p><i>Other discussion items could include</i></p> <ul style="list-style-type: none"> • Monitoring of material corporate governance, environmental and/or social issues
Impact	Long-term investors may evaluate managers on the broader impact of the investment.	<ul style="list-style-type: none"> • Stimulus to home market • Level of CO2 emissions • Advancement of sustainable development goals 	