Top Ten List For Long-term Mandates

The terms and conditions that asset managers and asset owners use can drive long-term or short-term behavior. Based on a series of working groups with leading asset owners and asset managers from around the world, we offer this list of questions to anchor investment mandate negotiations in a long-term direction:

1 FEES

Do the fees and fee structures reward a long-term focus? Discounts that increase to reward longevity may strengthen owners' commitment and give managers more flexibility to make long-term investments.

2 BENCHMARK

To what extent does benchmark-relative return capture a specific strategy's performance? Are any other metrics as important, such as absolute return or engagements with portfolio companies?

3 TERM

Does the contract encourage long-term commitment and protect against overreacting to short-term events? For instance, a three- to five-year contract term may set longer-term expectations than an at-will contract and still give the owner discretion to terminate, if necessary.

4 REDEMPTIONS

Is the asset manager able to commit to the long-term strategy while maintaining the liquidity needed to meet permissible redemptions? Would allowing in-kind redemptions help to strike this balance?

5 CAPACITY

Does the investment strategy have asset capacity limits? Noting capacity limits in the contract may instill discipline and mitigate the common buy-high, sell-low pattern of asset gathering following strong performance.

6 PERFORMANCE REPORT

How will the tables and commentary address long-term priorities and future prospects? Reporting could note long-term returns first and primarily comment on annual or longer performance.

7 DISCLOSURES

Does the manager conduct business in a way that is consistent with long-term investing? Disclosing personnel or process changes may offer better leading indicators of future performance than past returns do.

8 ACTIVE OWNERSHIP

Is part of this strategy to add value through activities beyond portfolio-specific decisions? These activities may include maintaining dialogue with portfolio companies and casting proxy votes strategically.

9 EVALUATION

Does the contract establish a plan for how the owner will evaluate the manager? For instance, scheduling regular evaluations may enable more open communication than watch-listing during periods of underperformance.

10 INTEGRATION

Are the contract terms complementary and supportive of long-term investing? In particular, does the owner's commitment to the manager enable the manager to commit capital according to the strategy?