



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

GISD Global Investors for Sustainable Development
Alliance 

ICGN - GISD Model Mandate



Published by the International Corporate Governance Network (ICGN) and the Global Investors for Sustainability and Development Alliance (GISD)
June 2022.

All rights reserved. Dissemination of the contents of this paper is encouraged. Please give full acknowledgement of the source when reproducing extracts in other published works.

DISCLAIMER

This submission reflects the views of the GISD Alliance itself rather than those of any one member or observer organisation. Individual GISD Alliance members and observer institutions may have views that differ from those expressed in this document.

The recommendations, guidance, findings, interpretations and conclusions expressed in this Model Mandate do not necessarily represent the views of the United Nations, its funds and programmes, or other UN entities involved with the GISD Alliance or Member States of the United Nations.

Under no circumstances shall the United Nations be liable for any loss, damage, liability or expense incurred or suffered that is claimed to have resulted from the use of this Model Mandate, including, without limitation, reliance upon the recommendations, guidance and findings contained herein, or any fault, error or omission, with respect thereto.

ICGN and the GISD Alliance accept no responsibility for loss occasioned by any person acting or refraining from action as a result of any views expressed in these pages. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

This Model Mandate provides sample (standard) clauses which may or may not be used by asset owners and their managers. They are drafted with care. However, it should be noted that these clauses are standard clauses and, as such, of a high level nature. These draft sample (standard) clauses and the advice how to use them are not be regarded as legal advice. These clauses must be negotiated and tailored to particular circumstances such as applicable jurisdiction(s), applicable mandatory law and regulations and differences in interpretation which all may vary from time to time and from case to case. The clauses become legally binding once they are incorporated into an investment management agreement (IMA) or similar documentation that is executed by the relevant parties.

British Library Cataloguing in Publication Data

ISBN 978-1-907387-28-9

© ICGN & GISD Alliance

ACKNOWLEDGEMENTS

Many individuals and organisations have contributed to the development of the Model Mandate, and we are very grateful to all of them for their input and support. In particular, we would like to express our thanks to:

- The GISD Alliance and ICGN secretariats for coordinating the overall process of developing the Model Mandate, and in the case of the ICGN secretariat for producing the published version and the resources on the ICGN website;
- The GISD working group on long term incentives chaired by Claudia Kruse and Magnus Billing, the ICGN policy team and the ICGN Global Stewardship Committee for their advice throughout the process;
- Chris Hodge for creating the draft of the updated Model Mandate, consulting with stakeholders and acting as editor-in-chief;
- Guus Warringa and Mica Cocco from Grant & Eisenhofer (www.gelaw.com) for their invaluable assistance in preparing the draft clauses;

- Toby Belson, Diba Ahour and their colleagues at PRI for their advice and for the many useful resources that PRI has published which are referenced in the Model Mandate;
- All ICGN and GISD Alliance members who attended round table discussions on the scope and purpose of the Model Mandate and commented on earlier drafts; and
- Trio Offset for designing the final publication.

We would also like to acknowledge the work of the ICGN Working Group that produced the seminal 2012 ICGN Model Mandate being Ebba Schmidt, Paul Lee, Keith Johnson, Richard Fuller and Valborg Lie. The revisions in this updated Model Mandate draw heavily on their original drafting and which was developed in consultation with ICGN Members worldwide.

Special thanks to the Swedish International Development Cooperation Agency for providing financial support and to the United Nations Department of Economic and Social Affairs for facilitating the work.

Acknowledgements	03
Commitments	06
Part 1: Introduction	07
1.1 Context	07
1.2 Purpose of the Model Mandate	07
1.3 Structure of the Model Mandate	08
1.4 How to use the Model Mandate	08
Part 2: Sustainable Development Investing	09
2.1 What is Sustainable Development Investing?	09
2.2 What should investors do?	09
Part 3: Before negotiating mandates	11
3.1 Understanding fiduciary duties and regulatory requirements	11
3.2 Developing an investment strategy	11
3.3 Implementing strategic policies and procedures	12
3.4 Designing mandates and asset manager selection	12
3.5 Negotiating the investment management agreement (IMA)	13
3.6 Reviewing the mandate and asset manager performance	13
Part 4: Alignment	14
4.1 Applying the asset owner's investment policies	14
4.2 Portfolio design	16
4.3 Systemic risks	17
4.4 Fee structures and remuneration	18

Part 5: Stewardship	20
5.1 Exercising stewardship responsibilities	20
5.2 Voting rights and oversight	22
5.3 Asset manager oversight of third parties	24
5.4 Securities lending	24
Part 6: Accountability	26
6.1 Culture and capabilities	26
6.2 Risk management	27
6.3 Conflicts of interest	27
6.4 Commissions and counterparties	28
6.5 Asset manager reporting to clients	29
Summary of Information	31
Appendix A: Referrals for Proposals and due diligence	32
Information provided by asset owners	32
Information sought from asset managers	33
Appendix B: Asset manager reporting to clients	35
Appendix C: Glossary of terms	37

There is an increased public and political expectation that investors should contribute to long-term sustainable value creation, by contributing to the UN Sustainable Development Goals and exercising active stewardship of the assets for which they are responsible.

For this to happen, there should be an alignment of incentives between asset owners and their managers and a shared understanding of the outcomes being sought. The terms of the mandate agreed between them are crucial to achieving these objectives.

The primary purpose of the Model Mandate is to provide guidance to asset owners to ensure that their stewardship and sustainability objectives are fully reflected in investment management agreements (IMAs) and contract terms with the managers they have selected to manage their assets, and to provide practical assistance to enable them to do so.

Achieving long-term sustainable value creation requires action not just from asset owners and asset managers but those who advise them and the organisations responsible for setting the regulatory framework and standards within which investors operate. For this reason, ICGN and GISD Alliance invite these parties to commit to using and promoting the Model Mandate.

ICGN and the GISD Alliance encourage:

- **Asset owners** to use the Model Mandate as the basis for negotiating mandates with their asset managers, and to disclose to their own clients and beneficiaries the extent to which it has been used in their contracts with asset managers.
- **Asset managers** to review their own standard contract terms and reporting to clients against the Model Mandate, and to be willing to use draft clauses from the Model Mandate when requested by clients.
- **Investment consultants** and other advisers to raise awareness of the Model Mandate among their clients, and to reflect it in the advice that they provide.
- **Relevant regulators**, standard-setters, and investor bodies to endorse the Model Mandate and consider how it could be adopted or adapted for use in their markets.



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

Established in 1995, the International Corporate Governance Network (ICGN) advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment. Our Members, led by institutional investors responsible for assets under management of around \$70 trillion, are based in over 40 countries and also include corporations and market intermediaries.

ICGN's international work programme draws from the ICGN Global Governance Principles and ICGN Global Stewardship Principles both of which are often used by Members in voting policies and company engagements. Our flagship Principles are supplemented by a suite of other guidance such as the Model Mandate, first published by ICGN in 2012.

ICGN's mission is promoted through the following core activities:

- **Influence:** Promoting ICGN Principles as investor-led global standards for governance and stewardship and influencing public policy and professional practice.
- **Connect:** Delivering high-quality global events and webinars with unrivalled opportunities for networking, knowledge-sharing and collaboration.
- **Inform:** Enhancing professionalism in governance and stewardship practice through information and education.

www.icgn.org

GISD Global Investors for Sustainable Development
Alliance

The Global Investors for Sustainable Development (GISD) Alliance is a group of global business leaders convened by the United Nations Secretary-General to facilitate the scaling up of finance and investment that is essential for achieving the Sustainable Development Goals (SDGs).

The GISD Alliance reaffirms its support for the 2030 Agenda for Sustainable Development – which sets out a vision for a prosperous future for people and planet, underpinned by sustained, inclusive and sustainable economic development. Members of GISD aim to do this in a number of ways including through:

1. Enhancing financial reporting to establish effective measures that internalize environmental and social externalities and promote sustainable business practices.
2. Transforming incentives towards a long-term approach for business and investment decisions that considers the interests of all stakeholders.
3. Introducing targeted instruments and platforms to channel investment to sectors and countries that need them the most.
4. Calling on multilateral and regional development banks and their shareholding governments to support our efforts to mobilize additional private capital for the SDGs, especially in developing countries.

www.gisdalliance.org

1.1: CONTEXT

The Model Mandate was originally published in 2012 by the **International Corporate Governance Network (ICGN)**. Led by investors responsible for assets under management of around \$70 trillion, ICGN advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to healthy and sustainable economies, society, and environment.

The Model Mandate was introduced to help asset owners express what they expected of the asset managers that they engaged, and to reflect those expectations in mandates and IMAs. The particular focus was on the parts of mandates and IMAs relating to the investment approach, stewardship, ESG and the manager's accountability to their clients rather than on other issues covered by mandates such as financial performance.

The environment in which asset owners and managers operate, and the expectations and obligations placed on them, has changed considerably since then. There have been significant changes in capital allocation both between and within asset classes and exponential growth in the value of assets allocated to sustainable and responsible investing.

In parallel, there has been an increased emphasis on investors' responsibilities as stewards, not just of the interests of their own clients and beneficiaries but of the future of society and the planet itself. In addition to guidance such as the **Principles for Responsible Investment (PRI)** and the **ICGN Global Stewardship Principles**, national Stewardship Codes and mandatory public reporting requirements for investors are increasingly common. Greater focus is now placed on the need for investors to explain how they assess social, environmental, and other non-financial factors and how they monitor their investments.

There is also an increased public and political expectation that investors should contribute to long-term sustainable value creation, including through addressing the **UN Sustainable Development Goals (SDGs)**. In recognition of this, the **Global Investors for Sustainable Development (GISD) Alliance** was established in 2019. The GISD Alliance's members consist of 30 leaders of major financial institutions and corporations spanning all the regions of the world, and its mission is to encourage Sustainable Development Investing (SDI) – investment that is explicitly intended to make a positive contribution to one or more of the SDGs.

For this to happen, there should be an alignment of incentives between asset owners and their managers, and a shared understanding of the outcomes being sought. The terms of the mandate agreed between them are crucial to achieving both objectives. This is reflected in this updated edition of the Model Mandate, developed in partnership by ICGN and GISD Alliance.

Whatever the nature of the mandate, asset owners should ensure that their expectations in relation to sustainability and stewardship are reflected in IMAs, side letters and other legal contracts with asset managers. Even when investing in a sustainable or responsible investment fund it cannot be taken for granted that this will be the case, as asset managers can take very different approaches to addressing sustainability factors or undertaking stewardship.

1.2: PURPOSE OF THE MODEL MANDATE

The revised Model Mandate is addressed to all asset owners and managers, as well as to those who advise them and set the regulatory and reporting frameworks in which they operate. While intended to be relevant to all mandates irrespective of the owner's investment strategy, it contains specific advice on how to reflect SDI objectives in mandates and IMAs, as well as more generally applicable guidance.

The primary purpose of the Model Mandate is to provide guidance to asset owners to ensure that their investment strategy and their own fiduciary obligations to clients and beneficiaries are properly reflected in the IMA terms with asset managers, and that they can monitor whether their objectives and interests are being met.

The Model Mandate does so by working systematically through the different issues related to stewardship and sustainability that mandates should address, and by providing draft contract clauses including specific references to SDI. It identifies information that asset owners should seek to obtain through the tendering and due diligence process that could help them identify the asset manager whose investment approach best meets their own expectations and those of their beneficiaries.

The Model Mandate also identifies information that asset owners should aim to obtain throughout the lifetime of the mandate. It is important that asset owners conduct ongoing monitoring, as they retain fiduciary responsibility for the way in which their investments are managed even though some stewardship functions have been delegated to an asset manager.

The Model Mandate may also be valuable to guide asset managers, as it potentially provides a common framework for discussing with existing and potential clients how issues relating to sustainability and stewardship can be incorporated into their mandates. Asset managers are encouraged to incorporate draft clauses in their own standard contract terms or offer them as options for those clients that request them.

The benefits of such a common framework increase considerably the more widely it is adopted. For that reason, the guidance has been designed to be used across different asset classes and markets. By addressing the range of stewardship and sustainability issues that should be covered in contracts at a relatively high level, this framework can be adapted or built on to work alongside local requirements.

The Model Mandate may therefore also be of interest to advisors to asset owners and managers such as investment consultants, and to organisations that aim to promote long-term sustainable value creation through the investment chain such as standard-setters, regulators, and industry associations. By endorsing and encouraging the use of the Model Mandate they can contribute to providing that common framework.

1.3: STRUCTURE OF THE MODEL MANDATE

One of the main changes between this edition of the Model Mandate and the previous version is the greater emphasis that the former places on the importance of sustainability as an investment consideration, and encouragement to commit to SDI.

Part 2 provides a brief overview of what SDI means and how it can be undertaken by investors. This is followed by Part 3 which identifies the issues that asset owners should consider before negotiating IMAs with asset managers, such as clarity about their own fiduciary duties, the investment outcomes they are seeking and the strategy and detailed policies through which they are to be achieved. These considerations are important when selecting a manager to ensure that they have the policies and capabilities required to meet the owner's needs. Part 3 is supplemented by Appendix A which identifies topics that asset owners might wish to include in their Requests for Proposals (RFPs) and due diligence questionnaires.

Parts 4-6 cover the specific issues relevant to sustainability and stewardship that should be addressed in mandates and IMAs. They explain the different considerations that are relevant to each issue and provide general draft contract clauses that asset owners and managers may wish to use as the basis for the wording in relevant parts of the IMA.

Throughout Parts 4-6 there are examples of SDI related wording which asset owners could consider using either directly in mandates and IMAs or in policies that can be appended to the IMA. As an asset owner's objectives and priorities can be subject to change, many prefer the latter option. The draft clauses provided are not a definitive or comprehensive list. The aim is to help asset owners think about which approach might be most suitable for their investment approach and SDI objectives.

These sections are divided into three broad themes, building on the **ICGN Global Stewardship Principles**:

- **Part 4: Alignment** – which includes, for example, incorporating the asset owner's investment principles and priorities into the mandate, and integration of sustainability and other long-term factors;
- **Part 5: Stewardship** – which includes, for example, the monitoring and engagement to be undertaken by the asset manager and the exercise of voting rights; and
- **Part 6: Accountability** – which includes, for example, the asset manager's own governance arrangements, how conflicts of interest are managed, and the information to be provided by the manager to the client for monitoring purposes. This last issue is particularly important, and further information is therefore provided in Appendix B.

The Model Mandate is broadly applicable and therefore does not provide definitive guidance on any of the individual issues that it covers. Relevant papers and initiatives are hyperlinked throughout this document for further reading. Links to more detailed information and guidance about these issues can be found on the **ICGN website**.

1.4: HOW TO USE THE MODEL MANDATE

The Model Mandate is intended to be applicable to a wide range of investment approaches and asset classes, and capable of being adopted by asset owners and managers who may have differing fiduciary duties and legal obligations.

Not all the contents will be relevant to all mandates. This is particularly true of the general draft contract clauses, SDI related draft clauses, and the information identified in the appendices. Asset owners and managers using the Model Mandate should consider how to apply the guidance to their own circumstances.

Depending on the market or markets in which the asset owners and their managers operate there may be local regulations or other requirements, for example in relation to the asset owners' fiduciary duties, that also need to be considered when assessing how to apply the Model Mandate. Different categories of asset owners may have differing fiduciary duties, and the duties and legal obligations of their asset managers may also vary.

Another consideration for asset owners is whether they can negotiate the exact terms to be included in the IMA terms. This is more likely to be the case for segregated mandates for which they are the sole owner than for jointly owned pooled funds.

Asset managers will typically have standard terms for their investment products, and while many are willing to vary these terms to a degree or agree to additional terms in an appendix or side letter, this will not always be the case, particularly if they are investing in a pooled fund.

In these circumstances, asset owners may wish to assess whether the terms offered by the asset manager are compatible with those in the Model Mandate before making an appointment. They may also wish to make the same assessment when considering whether to renew or extend existing mandates.

2.1: WHAT IS SUSTAINABLE DEVELOPMENT INVESTING?

There are different definitions of Sustainable Development Investing (SDI). This guidance uses the definition developed by the GISD Alliance to support the achievement of the UN Sustainable Development Goals (SDGs).

The SDGs provide a blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice – challenges that create risks to our economic systems and all those who depend on them.



To achieve the SDGs, there is a pressing need to increase the level of capital and financing committed to each of these objectives. By allocating a greater share of their resources to SDI and being active stewards of those investments, asset owners and managers can make an essential contribution.

Sustainable Development Investing (SDI) refers to deploying capital in ways that make a positive contribution to sustainable development, using the Sustainable Development Goals (SDGs) as a basis for measurement.

The contribution can be made through products, services, and/or operations or through projects financed across asset classes and in multiple sectors or themes.

The positive contribution of an investment should not be outweighed by negative impacts from the same investment over the life of this investment. Investors can strengthen their positive contribution through active ownership, such as engagement for more sustainability in companies, sectors, and projects they invest in, as well as through greater investment in developing countries.

GISD Alliance definition

Many investors already integrate sustainability factors into their investment decision-making and stewardship to a varying degree and for a variety of reasons. They recognise that long-term systemic risks and opportunities will determine their ability to achieve a return on their investments over the longer term, have ethical concerns or are responding to client or regulatory pressure.

As important as this is, SDI goes further. It requires investors to target intentionally their investments and act to influence the behaviour of markets and investee companies to achieve sustainability objectives. Investment institutions can also use the SDGs as a set of criteria to assess potential firm-specific environmental and social risks. An SDI perspective can also help investors identify emerging technologies, products and services that have potential for solving or addressing environmental and social challenges.

Some investors have already started on this journey, recognising that failure to address issues like those identified in the SDGs raises grave consequences for societies and economies. An increasing number of institutional investors, particularly those with a long investment horizon, see addressing these concerns as fully compatible with generating sustainable investment returns and with their fiduciary duties.

Regardless of their current position, all investors should take prompt action in response to the increasing number of national, regional, and international regulations and public policy interventions designed to incentivise or require them to do so.

2.2: WHAT SHOULD INVESTORS DO?

We encourage all investors to undertake a three-step process to determine how best they can use their investments to support the SDGs and achieve positive outcomes for their beneficiaries and clients. For asset owners, these steps are explained in more detail in Part 3 of the guidance.

STEP 1: RESEARCH

Asset owners:

- Ensure that you understand the extent to which your fiduciary duties permit or require SDI.
- Familiarise yourself with any current and impending regulatory requirements that might affect what you invest in, where you can invest and how you are expected to report.
- Engage with your clients, beneficiaries, and other stakeholders to understand their expectations and priorities.

Asset managers:

- Assess the extent to which your current portfolio and investment products address sustainability objectives.

STEP 2: REVIEW

Asset owners:

- Review your investment objectives, strategy and supporting policies to ensure that priority sustainability considerations are reflected across your portfolio.
- Consider setting a target for the percentage of your assets to be allocated to SDI.
- Identify which SDGs you wish to prioritise when allocating your SDI.
- Develop capabilities and processes to enable you to monitor how the SDI elements of your mandates are being managed.

Asset managers:

- Review your asset allocation, investment decision-making and stewardship policies and processes to ensure they can deliver SDI outcomes across your portfolio.
- Consider adjusting the balance of your portfolio and investment products to increase the share allocated to SDI.
- Review your standard contract terms to ensure they adequately reflect SDI outcomes.

STEP 3: IMPLEMENT

Asset owners:

- Incorporate SDI objectives and targets in segregated mandates.
- Incorporate SDI selection criteria when awarding mandates in pooled funds.
- Ensure SDI is on the agenda when reviewing or renewing existing mandates.
- Undertake regular monitoring to ensure objectives and targets are being met.

Asset managers:

- Consider introducing new SDI focused funds.
- Consider increasing the SDI content of your existing funds in terms of asset allocation and resources devoted to monitoring and engagement.

Incorporating sustainability in investment portfolios and mandates

The levels below show the different ways in which sustainability can be reflected in investment mandates. It does not represent a sequence that needs to be followed, nor are the different approaches it describes mutually exclusive. The approaches described in Levels 1-3 can help to meet the objectives of Level 4. Investment portfolios and individual mandates may include elements of more than one of these approaches.

Level 1: Negative screening

Excluding certain sectors, companies, or projects for their poor sustainability performance relative to industry peers or based on the negative contribution those assets and companies may provide towards the SDGs.

Level 2: Positive screening

Including or overweighting investments in sectors, companies, or projects selected for their positive sustainability performance relative to industry peers or based on the positive contribution those assets and companies may provide towards the SDGs.

Level 3: Full integration

Building the assessment of sustainability factors into all aspects of the investment decision-making and portfolio management process, including stewardship activities, as a long-term strategy to manage risks and improve returns.

Level 4: Sustainable development investing

Targeting companies, sectors, markets, or projects with the express objective of supporting the achievement of one of more of the SDGs while also realising a financial return.

3.1: UNDERSTANDING FIDUCIARY DUTIES AND REGULATORY REQUIREMENTS

Fiduciary duty is at the core of investor stewardship. Fiduciary duties exist to safeguard the current and future interests of beneficiaries and are fundamental to the development of stewardship policies and practices. It is vital that asset owners adopt investment strategies and stewardship practices which allow them to meet, and are compatible with, their fiduciary obligations.

Asset owners may have to balance potentially competing interests across different beneficiary groups, particularly when managing assets to cover long-term liabilities with different maturities. By their very nature, certain asset owners such as pension funds and insurers are more likely to have a long-term approach for their investments.

A primary obligation of investor fiduciaries with long-term liabilities is to align investment practices with the creation of long-term, sustainable value – for example, by identifying investment opportunities arising from the SDGs – while minimizing risks that could impact future returns. This should include material sustainability and ESG risks.

The **ICGN Guidance on Investor Fiduciary Duties (2018)** provides general guidance to investors on how fiduciary duty relates to a range of factors, including investor governance, systemic risks, and fiduciary duties throughout the investment chain.

Asset owners cannot discharge their fiduciary obligations to their end beneficiaries simply by hiring an asset manager. They may delegate investment tasks to asset managers, but fiduciary duty itself is a core stewardship concept that cannot be delegated. It is therefore essential that asset owners take steps to ensure that their managers act in a way that is consistent with the owner's fiduciary obligations – including in the design and monitoring of their mandates.

In addition to their underlying duties, asset owners and managers are increasingly subject to requirements set out in legislation and regulation, standards and stewardship codes that will influence how they invest their assets and how they report publicly and to their clients and beneficiaries. For example, one recent trend in regulation has been the introduction of the concept of 'double materiality', whereby companies are expected to consider and report on external environmental and social impacts of their activities as well as internal impacts on the company's own financial performance.

Fiduciary duties and regulatory requirements will differ between categories of asset owners and between markets, and investors investing in multiple markets may be subject to a range of local requirements that are not always entirely compatible.

A Legal Framework for Impact: Sustainability Impact in Investor Decision-Making, a 2021 report by PRI, UNEP FI, and the Generation Foundation, provides a comprehensive legal analysis of the extent to which investors are required or permitted to invest for sustainability impact in 13 different jurisdictions.

It is important that asset owners have a clear understanding of the various obligations to which they (and their asset managers) may be subject when making investments. It is good practice to review regularly – for example, once a year – whether there have been any changes in these requirements.

3.2: DEVELOPING AN INVESTMENT STRATEGY

The investment strategy should set out the asset owners' investment beliefs, the desired outcomes and, in broad terms, how they will be achieved. In many respects this is the most important stage in the process as the strategy will subsequently determine the investments that are made and how they are overseen.

When developing their strategy and beliefs, asset owners should take into consideration: their fiduciary duties and any relevant regulatory obligations; the needs of their clients or beneficiaries; the period over which their liabilities extend; the different factors that could affect the value of their portfolio; and their available resources and capabilities.

The process of developing the investment beliefs and strategy should therefore be robust. One good practice that should be considered is some form of consultation with clients, beneficiaries, and other key stakeholders so that their perspectives are understood before the strategy is finalised. It is good practice to review the investment strategy at regular intervals as priorities and external factors are likely to change.

It is at this stage of the process that decisions should be taken about the overarching sustainability outcomes that the investor is seeking to achieve, for example by identifying which SDGs or sustainability themes to prioritise. For asset owners this might, for example, include setting a target for the percentage of assets to be allocated to investment in the SDGs, or specific SDGs, as well as ensuring that their portfolio has a net positive impact. For asset managers this might, for example, include developing financial products and services and stewardship activities that are specifically designed to address SDGs.

Contents of a typical investment strategy:

- | | |
|--|---|
| • Investment beliefs | • Realisation of investments, cashflow, and liquidity management |
| • Expected return on assets | • Risk appetite, capacity, and management |
| • Time horizon | • Investment constraints and limitations linked to scale or duration of liabilities |
| • Material sustainability considerations | • Proxy voting and engagement expectations |
| • Type of investments to be held | |
| • Balance between different types of investments | |

3.3: IMPLEMENTING STRATEGIC POLICIES AND PROCEDURES

Asset owners will typically have an investment policy or policies which sets out how the principles in the strategy should inform individual investment decisions and how investments will be managed and monitored. These will often address, for example, asset allocation, investment parameters, the use of benchmarks and counterparties and other topics. These should set out at least in general terms the approach to sustainability and stewardship.

Some asset owners will also include detailed expectations in relation to sustainability and stewardship issues addressed in this Model Mandate. Others prefer to address them in separate responsible investment and/ or stewardship policies and guidelines, either for the entire portfolio or for individual mandates. These will typically address not only the basis on which investments are to be selected but how the asset owner – or their manager where activities are delegated – will exercise stewardship over their investments.

There is no preferred practice; the important thing is that the asset owners' policies on these issues should be clearly set out in writing so that they can be shared with current and prospective asset managers, and with the asset owners' clients and beneficiaries.

Contents of a typical Responsible Investment Policy or Guideline

[If these topics are not addressed in the overall investment policy]

- Investment objectives and principles
- How sustainability factors and systemic risks are integrated into investment decision-making
- Sustainability priorities and their materiality to the portfolio – for example, by reference to specific SDGs
- Exclusions and divestments (if any)
- What will be delegated to external asset managers and how they will be monitored
- Monitoring of and engagement with investments – methods, selection criteria, and priority issues
- Exercising voting rights – covering management and shareholder resolutions
- Stock lending policy
- Participation in collaborative engagement and industry initiatives
- How the asset owner will report publicly and to clients

3.4: DESIGNING MANDATES AND ASSET MANAGER SELECTION

For each individual mandate, asset owners should develop a detailed specification that fits their requirements, and which clearly describes their expectations for the way in which investment decisions are made and how the asset manager exercises stewardship on the owner's behalf. They should ensure during the selection process that they obtain the information they need to assess whether an asset manager can meet those requirements.

As well as the tailored specifications for individual mandates, some asset owners have developed asset manager assessment processes that are applied to all mandates of a certain type, for example by setting minimum criteria related to sustainability that managers must meet to be considered for SDI or impact investing mandates.

PRI's Investment Manager Selection Guide provides more detailed guidance on the three stages of the selection process: longlisting, shortlisting and in-depth due diligence.

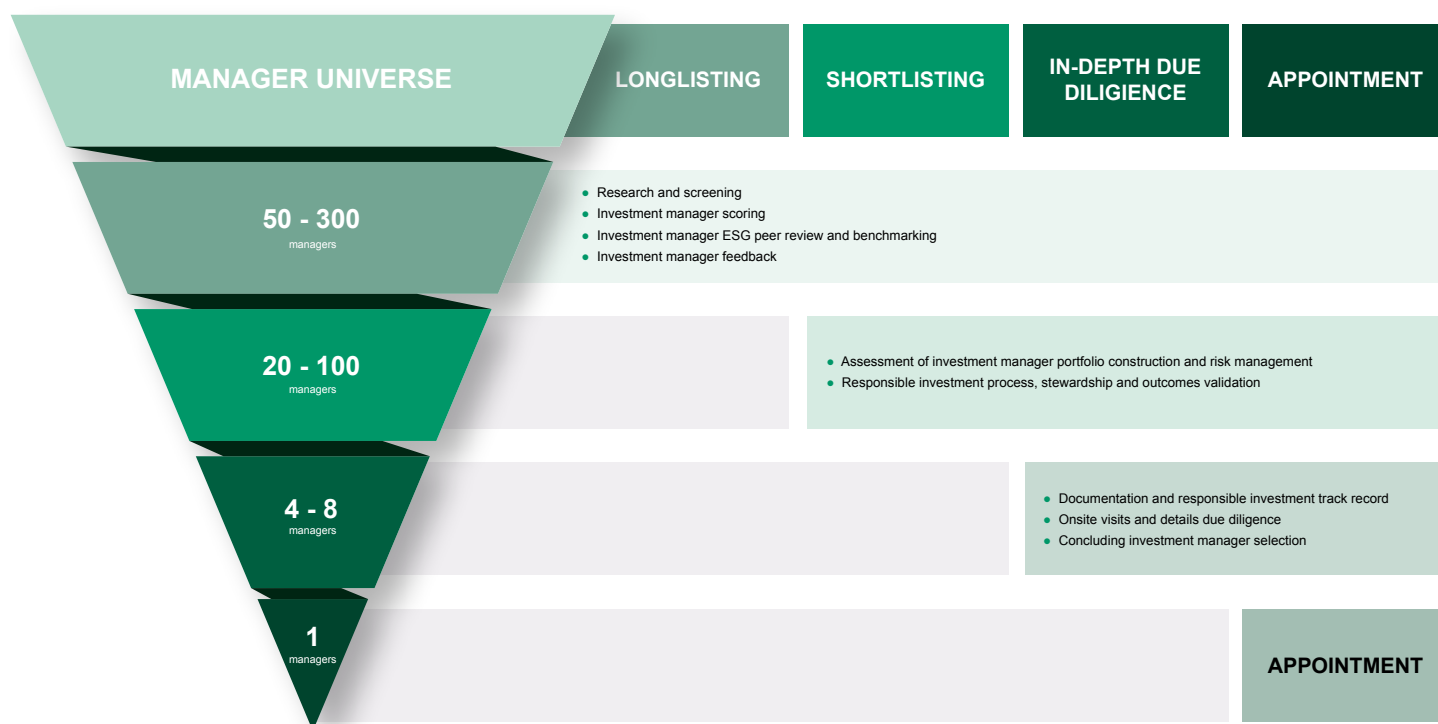
Key to successfully matching an asset manager to the mandate is the Request for Proposals (RFP) and the accompanying due diligence process. While all RFPs will have some elements in common, the content should be tailored to each specific mandate to take account of factors such as asset class, investment horizon and the weight to be given to sustainability considerations.

- **Appendix A** contains examples of information related to sustainability and stewardship that asset owners should consider including in their specifications and seeking from asset managers during the due diligence process.

PRI has published a series of more detailed **ESG Due Diligence Questionnaires** covering a range of asset classes and stewardship topics.

Asset owners should also ask potential asset managers for their standard terms to compare them with the example contract terms in this Model Mandate as part of their assessment of a manager's suitability. This can be useful when investing in pooled funds or other circumstances where the ability to negotiate different or additional terms may be limited.

The investment manager selection process



Source: Investment Manager Selection Guide; PRI

3.5: NEGOTIATING THE INVESTMENT MANAGEMENT AGREEMENT (IMA)

Asset owners should be clear and realistic about their ability to negotiate the exact terms of the IMA. Asset managers will typically have standard terms for their investment products, and while many are willing to vary these terms to a degree or agree to additional terms in an appendix or side letter, this will not always be the case (for example, if the product is a pooled fund). In addition, in some jurisdictions there may be regulatory constraints on the asset manager's ability to negotiate variations to their standard mandate terms.

Asset owners should also determine whether the sustainability and stewardship services that they require are part of the standard terms, and therefore covered by the fee for managing the mandate, or whether the asset manager considers such services to be optional extras which will require additional fees. This information should be sought during the RFP process.

This negotiation is also an opportunity to define the specifics of information reported by the asset manager. Reporting requirements might include terms related to frequency of reports, reporting on sustainability attributes and impacts within portfolios and updates on stewardship activities. Defining reporting terms within the mandate will help with regular review of asset manager performance.

- **Parts Four to Six** of the Model Mandate address the different sustainability and stewardship components of the IMA in detail.

3.6: REVIEWING MANDATE AND ASSET MANAGER PERFORMANCE

The consideration of stewardship and sustainability issues should be integrated in asset manager selection, appointment, monitoring, and evaluation processes. This applies to existing mandates as much as it does to the awarding of new ones. These issues should be assessed when evaluating a possible extension or renewal of a contract with an asset manager. In addition, if the asset owner's own sustainability objectives and policies have been updated since the mandate was awarded, they may wish to consider discussing with the manager at this stage in the process whether there is scope to adjust the mandate or issuing formal guidelines and/or reporting expectations to them.

- **Part Six and Appendix B** provide more guidance on monitoring the manager's performance.

Asset owners should review whether they have the internal capabilities to undertake the necessary monitoring. Where asset owners engage consultants or advisors they should also review the objectives and service level agreements with these consultants to ensure that they will support the asset owner in holding asset managers accountable on sustainability and stewardship issues.

ICGN Global Stewardship Principles (2020)



Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance factors in investment decision-making and stewardship activities (Principle 6)

Investors should develop and implement stewardship policies which outline the scope of their responsible investment practices (Principle 2)

4.1: APPLYING THE ASSET OWNER'S INVESTMENT POLICIES

Asset owners should agree with their asset managers a commitment to long-term value creation and consideration of sustainability in the investment process that appropriately reflects the asset owner's investment strategy and policies. Asset owners should expect managers will be able to explain how this has been reflected in their investment approach and decision making.

For most mandates the onus will be on the asset owner to ensure that their needs and expectations are clearly set out in the IMA. Sometimes this could be in the form of a statement of commitment from the asset manager to apply recognised standards written by third parties; this is the most likely approach if investing in pooled funds, for example. As well as standards with general application across investments, such as the Principles for Responsible Investment, there are standards that are specific to particular asset classes.

- **Appendix A** provides examples of recognised standards.

However, in many cases, particularly in segregated mandates, asset owners may wish to ensure that their own investment strategy, targets, and policies will be applied when investment decisions are taken and will inform the way in which the asset manager oversees the investments.

Whichever is the case, the expected standards or principles are more likely to be carried into practice if they are either incorporated in or appended to the IMA or contained in a side letter agreed by the two parties. Depending on how they are written, this might be done by requiring adherence to the policies in some form or requiring the asset manager to take account of the policies in carrying forward their investments.

Where the asset owner has its own responsible investment policy or investment guidelines it is good practice for these to be appended to and referenced in the IMA. Some owners may also wish to set more specific investment and/or stewardship objectives for individual mandates; these should also be appended to the agreement.

There may be cases – for example, if asset owners are investing in funds dedicated to sustainable development or impact investment – where the fund prospectus and the asset manager's standard terms are sufficient. Even then, the asset owner may wish to incorporate in or append to the contract specific themes or priorities – for example, which SDGs it wishes to promote.

- **Section 4.2** provides guidance on incorporating additional conditions in portfolio design.
- **Part Five** provides guidance on developing guidelines on how the asset owner wishes the asset manager to exercise its stewardship responsibilities.

Whatever set of policies or guidelines are agreed to be applied, the asset owner should expect the manager to be able to demonstrate that they are abiding by that agreement. This may be done primarily through written reports from the asset manager to the asset owner, the content and frequency of which should be agreed upon when the contract is negotiated.

- **Section 6.5 and Appendix B** provide guidance on reporting from the asset manager to the client.

In addition, asset owners may wish to ensure that the contract provides for regular face-to-face discussion at a suitably senior level. While the frequency of discussions will be a matter for agreement, good practice is that they take place at least once or twice a year.

GENERAL DRAFT CONTRACT CLAUSES

Compliance: Ensuring that the asset manager undertakes to comply with the investment principles agreed with the client.

Clause 1: Commitment

Alternative 1 [where the manager will apply the client's investment policies]:

The Manager shall perform its duties under this Agreement in accordance with the Client's [Responsible Investment Policy – or other name used for the standard policy] [and/or separate written guidelines], which may be amended from time to time, the most recent version(s) of which [is/are] attached at Schedule A [and other Schedules if required].

The Manager will manage the portfolio in accordance with the ICGN Global Stewardship Principles [and other relevant standards and industry best practice as specified in Schedule B]

Alternative 2 [where the manager will apply its own policies]:

The Manager shall perform its duties under this Agreement in accordance with the Manager's Responsible Investment Policy, attached as Schedule A. [The Manager shall not make amendments to its Responsible Investment Policy or the way it is executed without Client's prior written approval]

The Manager will manage the portfolio in accordance with the ICGN Global Stewardship Principles [and other relevant standards and industry best practice as specified in Schedule B]

[Schedule A – the Client's [or Manager's] responsible investment policy or investment guidelines.]

[Schedule B – the standards agreed by the Client and Manager. This could be either the Manager's standard list of commitments to standards and best practices or a bespoke list reflecting the Client's policies, as appropriate]

Clause 2: Conflicts

Where the Manager believes that any policies or standards conflict with one another or with the Manager's own fiduciary duties, whether generally or in specific circumstances, the Manager will consult in good faith with the Client as to which policies and standards shall and shall not be applied.

Consistency: Ensuring that the asset manager's own assessment and decision-making processes are consistent with the agreed investment principles.

Clause 3: Standards

The Manager's investment process and individual decisions shall reflect the policies and standards set out in Schedules A and B [and the ICGN Global Stewardship Principles], and the Manager will establish written guidelines to this end.

Clause 4: Care and diligence

The Manager shall ensure that its staff apply due care and diligence to comply with the requirements stated in Clause 3 above and shall report to the Client *[insert agreed frequency]* on how the process has been implemented.

Clause 5: Risk

The Manager understands that real or perceived non-compliance with the agreed policies and standards is a key risk for the Client and can, in severe cases, cause the Manager to default, leading to a possible reduction of assets under management or early termination of the agreement by the Client without any compensation being due to the Manager.

Due diligence: Permitting due diligence by the client into how the asset manager is meeting its commitments.

Clause 6: Dialogue

The Client and the Manager shall engage in a meaningful dialogue with respect to the implementation of the agreed policies and standards. This dialogue shall be regular, taking place at least *[insert agreed frequency]*, and senior representatives of each party shall participate.

The Manager shall facilitate access by the Client to its staff such that the Client can gain assurance on an ongoing basis.

SDI-RELATED EXAMPLE CLAUSES

Example 1: Incorporating SDI and SDGs

In carrying out its duties under this Agreement, the Manager shall describe how SDIs and the SDGs inform its investment approach and policies. The statement should include reference to systemic material risks and recognise that materiality is dynamic and that sustainability topics can become financially material over time.

Example 2: Mapping SDGs

In carrying out its duties, the Manager shall undertake and disclose efforts to map the SDGs to the standards set out in Schedule A to identify gaps in current investment practices and evaluation methodology.

[Schedule A – the Client's [or Manager's] responsible investment policy or investment guidelines]

4.2: PORTFOLIO DESIGN

Asset allocation

Asset owners should consider the extent to which they wish to provide additional instructions or guidelines to the asset manager relating to investment decisions in addition to those set out in the responsible investment policy.

For example, some asset owners may have screening criteria or exclusion lists applying to all their mandates which are intended to exclude investment in certain industries, products, services, and/or named companies whose activities may raise other concerns. Some may have additional criteria in individual mandates, for example, relating to the markets or type of stocks in which the asset manager should invest or sustainability targets and benchmarks.

In many instances, such investment criteria will be incorporated in the responsible investment policy or investment guidelines, in which case the draft clauses in Section 4.1 may be sufficient. The wording of Clause 1 in Section 4.1 can also be adapted to cover any objectives or guidelines that are specific to the mandate, but the asset owner may wish to ensure that they are either incorporated in or appended to the IMA by other means.

Portfolio turnover

Turnover of holdings can be a significant indicator of whether an asset manager's processes are fully aligned with the identified strategy and interests of clients. A turnover rate that is higher than expected can be an indicator of a lack of conviction to the strategy on the part of the asset manager or market-following behaviour, neither of which is likely to be in the asset owner's best interests in the long term. Conversely, unexpectedly low turnover might signal inattention to risk management or a drift towards a more passive investment approach.

Asset owners will have different approaches to this issue – as will asset managers – but the proposed draft clauses suggest a model whereby the client agrees to an expected range of turnover with the asset manager, actual portfolio turnover is disclosed on a regular basis, and any turnover outside the expected range must be explained by the asset manager. The expected turnover range can be altered over time to reflect changes in the mutual expectations of the asset owner and manager and varying market conditions.

GENERAL DRAFT CONTRACT CLAUSES

Screening: Ensuring that screening criteria or exclusion lists are applied by the asset manager.

Clause 7: Exclusions

Alternative 1 [where the asset manager is instructed to exclude investments based on specified criteria]

The Manager shall not make investments on behalf of the Client which would contravene the Client's responsible investment policy or would be in contravention of the restrictions on investments referred to in Schedule A *[or Schedule C if the screening criteria do not form part of the Client's responsible investment policy or investment guidelines]*.

These restrictions may be changed at the Client's discretion, in which case the Manager shall be bound by such amendments [x] days following receipt of the amended List.

Alternative 2 [where the manager is instructed not to invest in named companies]

The Manager shall not make investments on behalf of the Client in certain companies or assets contained in a list to be sent by the client to the Manager from time to time. As of the effective date, the companies and/or assets to be excluded from the portfolio are listed in Schedule A *[or Schedule C if the exclusion list does not form part of the Client's responsible investment policy or investment guidelines]*

This list may be changed at the Client's discretion, in which case the Manager shall be bound by such amendments [x] days following receipt of the amended List.

In the event of the Exclusion List supplied by the Client conflicting with exclusions suggested by the Manager or a data provider engaged by the Manager, the exclusions specified by the Client shall prevail.

[Schedule C – the Client's screening criteria or exclusion lists if maintained separately from the responsible investment policy or investment guidelines]

Turnover: Including an appropriate expected turnover range and requiring disclosure and discussion when this is breached.

Clause 8: Expectations

The expected annual turnover for this investment strategy is expected to [range between XX% and YY% or be below YY%], though the Client acknowledges that certain objective market circumstances and necessary investment decisions may lead it to accept a level exceeding this.

The Manager shall report Portfolio turnover on a *[insert agreed frequency]* basis and will provide an explanation if turnover [falls outside the agreed range or exceeds YY%] on an annualised basis [over the agreed period].

The Manager may ask for a review of the expected turnover level on an *[insert agreed frequency]* basis.

SDI-RELATED EXAMPLE CLAUSES

These examples are drafted as clauses to be included in the contract but might also be incorporated into the asset owners' responsible investment policy, investment guidelines or a separate statement of objectives specific to a particular mandate.

General instruction

Example 1: Sector specific weighting

In carrying out its duties, the Manager shall identify relevant general and sector-specific material SDG-related key performance indicators and outcomes [including those endorsed by the GISD Alliance]. Such indicators and outcomes shall inform the overall assessment of investment prospects and be given significant weight for determining allocations. The Manager shall describe how such factors have impacted the composition and risk-return performance of the portfolio.

Example 2: Social capital

The Manager shall incorporate consideration of the following factors into investment analysis, asset allocation [and portfolio company engagement]:

- i. Diversity, equity and inclusion – Consideration of diversity, equity and inclusion as part of human capital management including, but not limited to company policies and procedures and board and senior leadership diversity.
- ii. Indigenous Rights – Consideration of Indigenous rights and reconciliation in a manner with the provisions of the United Nations Declaration on the Rights of Indigenous Peoples.
- iii. Human Rights – Consideration of human rights in accordance with the UN Guiding Principles on Business and Human Rights
- iv. *[Other factors as identified by the Client from time to time/ as specified in Schedule A]*

Targets and benchmarks

Example 1: SDI Mandates

In carrying out its duties under this Agreement, the Manager shall ensure that at least [50%] of the value of the assets under management is invested in investments that are Sustainable Development Investments (SDIs) *[or investments that contribute to [one or more specified SDGs].*

Example 2: Carbon reduction

The Manager shall adjust the portfolio to reduce the absolute carbon footprint across Scope 1, 2 and 3 emissions by [50%] by [2030] while working to achieve a net-zero carbon footprint by [2050].

Exclusions

Example 1: SDG positive contribution

In carrying out its duties under this Agreement, the Manager shall invest [only] in companies that generate more than [50%] of their revenue from products and services that contribute to [the SDGs/ specified SDGs].

Example 2: Nature exploitation

In carrying out its duties under this Agreement, the Manager shall exclude from the portfolio companies associated with exploiting resources [within International Union for the Conservation of Nature (IUCN) protected areas I-IV.]

Example 3: Gender imbalance exclusion

The Manager shall exclude from the portfolio companies that have no women on the board of directors and shall strive to achieve a portfolio with only issuers that have 30% women on the board by [2030].

Example 4: UN Global Compact violations

The Manager shall exclude from the portfolio companies that are found to have violated the principles of the UN Global Compact as identified by [name of data provider].

Assessment and review

The Manager shall [insert agreed frequency] review all investments to determine their ongoing suitability to qualify as SDIs.

4.3: SYSTEMIC RISKS

As well as the specific risks affecting their individual investments, asset owners should be aware of risks which can affect the investment value of their overall portfolio. This includes not only risks which affect the immediate volatility of their portfolio, but also those systemic risks which can affect value over a longer period or a broader spread of investments, markets, and economies.

Systemic risks are those that place the financial system or a major part of it – either in an individual country, a region, or globally – in real and immediate danger of collapse or serious damage with the likelihood of material damage to the economy.

They include some of the environmental and social risks to long-term sustainability that the SDGs aim to address. Long-term investors in general are highly exposed to systemic sustainability issues and may have limited ability to diversify away from them, but they can influence them through their stewardship activities.

Direct investments are not the only means by which investors can contribute to addressing systemic risks, preserving market stability, and promoting the SDGs. An increasing number of asset owners and managers are actively engaging in public policy debates and sectoral or regional initiatives. Asset owners may wish to make use of their mandates to encourage their asset managers to be active participants in such activities.

GENERAL DRAFT CONTRACT CLAUSES

Systemic risks: Aligning the asset manager and client's understanding of what the key risks are to achieving the client's portfolio goals.

Clause 9: Identifying and monitoring

The Manager acknowledges the need to consider long-term and systemic risk factors and market failures to manage risks which are relevant on the Client's long-term investment horizon and to the Client's fiduciary responsibilities.

The Manager shall have a process for monitoring current or potential investments in relation to relevant long-term and systemic risks and market failures. The Manager shall ensure that its staff exercise due care and diligence when complying with this monitoring process, including considering the extent to which such long-term factors generate investment risks or opportunities.

Clause 10: Advocacy

The Manager shall play a positive role in advocating for appropriate and fit-for-purpose market regulation and infrastructure needed to manage and mitigate systemic risks and correct market failures that have the potential to threaten the stability of the financial system and the long term returns of the Client and shall report to the Client at least [*insert agreed frequency*] on its activities in this regard.

SDI-RELATED EXAMPLE CLAUSES

Systemic Risks

Example 1: Climate related disclosure

The Manager shall commit to the [Final Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) – *or other standard or best practice*] and shall provide the Client [*insert agreed frequency*] with a clear and comparable overview of how the investment process incorporates climate-related risks.

Example 2: Biodiversity loss

The Manager acknowledges the importance of biodiversity and nature health in safeguarding environmental sustainability. In doing so the Manager shall commit to the [The Task Force for Nature-related Financial Disclosures (TNFD) – *or other standard or best practice*] and shall provide the Client [*insert agreed frequency*] with a clear and comparable overview of how the investment process incorporates biodiversity loss-related risks.

Public Policy

Example 1: Advocacy

The Manager shall identify and exploit opportunities to engage regulatory bodies and standard-setters to improve the development and application of standards regarding the SDGs [for example, disclosures on TCFD or TNFD].

Example 2: Collective engagement

The Manager shall participate in appropriate collective and collaborative efforts to advance the SDGs and enhance influence with government authorities and standards-setting bodies with the intention of producing impacts which are aligned with the SDGs [or specific SDGs].

4.4: FEE STRUCTURES AND REMUNERATION

Asset owners may wish to ensure to the extent possible that the fees to be paid to the asset manager and the manager's own remuneration structures and culture are appropriately aligned with the owner's investment objectives.

Fee structure

Asset owners should have a clear understanding of the proposed fee structure before entering into an IMA. Decisions on the appropriate fee structure are a matter for negotiation between the asset owner and manager and should be set out in detail in the contract. The contract should cover:

- **The management fee** – this is normally set either as a fixed amount; as a proportion of the client's assets (the 'ad valorem' approach); or calculated as a proportion of fund returns on a relative or absolute basis – or a combination of these approaches.

Asset owners should establish what services will be covered by the management fee. Practice varies among asset managers and individual investment products. For example, some managers will include the cost of their stewardship activities on behalf of the client in the standard management fee, but in other cases these may be subject to additional fees or charges.

- **Performance fees (if any)** – for example, based on the return to the client or on the achievement of any targets or benchmarks specified in the agreement (including those relating to sustainability and stewardship).

Remuneration

Asset owners should also seek reassurance that the asset manager's remuneration structure is aligned with their interests and those of their beneficiaries, and that it does not incentivise the manager's staff who are responsible for taking investment decisions to take on excessive levels of risk or be overly focused on short-term returns.

Asset owners should request information from asset managers about their remuneration policy and structure and other incentives available to individual fund managers as part of the due diligence process, to assess whether they are compatible with the owner's investment objectives.

- **Appendix A** contains guidance on seeking information about the asset manager's approach to remuneration.

GENERAL DRAFT CONTRACT CLAUSES

Fee transparency: Ensuring that the fee structure for the services provided by the asset manager is transparent.

Clause 11: Disclosure

The Manager shall disclose to the Client information on the fee structure, including details of the specific services that the Manager will provide for these fees, any services or circumstances which would incur additional fees, any costs and expenses for which the Client may be liable, and the criteria to be met by the Manager in order for any performance fees to be paid.

[Note: this is a general 'catch all' clause and is not a substitute for the more detailed fee schedule which should be included in or appended to the investment management agreement]

Aligning interests: Requiring that remuneration structures appropriately align the interests of the asset management firm and individual fund managers with those of the client.

Clause 12: Alignment

The Manager shall ensure that the pay and incentive policies and structures for its staff align their interests appropriately with those of the Client and the investment time horizon of the portfolio. The Manager shall disclose how this is done and any other actions taken to ensure that its incentive structure is appropriate for generating balanced long-term risk-adjusted investment returns.

ICGN Global Stewardship Principles (2020)



Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment (Principle 3)

Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to enhance engagement outcomes (Principle 4)

Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence, and judgement across their entire portfolio in the interests of beneficiaries or clients (Principle 5)

5.1: EXERCISING STEWARDSHIP RESPONSIBILITIES

At an individual company level, investor stewardship helps to promote high standards of corporate governance which contributes to sustainable value creation. At an investor level, stewardship involves preserving and enhancing long-term value as part of a responsible investment approach. In a broader context, stewardship enhances overall financial market stability and economic growth, and, by focusing on long-term value creation, stewardship is directly linked to sustainable benefits for the economy, environment, and society.

For asset owners, being an active owner of the assets in which they have invested can generate long-term investment value. These benefits can accrue across asset classes including, for example, companies held through equity or bond portfolios or real estate through property or infrastructure mandates.

Some asset owners undertake this activity themselves, but many have limited in-house capacity to implement all aspects of stewardship. Where this is the case, some will contract with specialist firms to undertake this work separately from the investment mandate, but most expect this to be part of the process of asset management.

In this regard, asset owners should aim to ensure, wherever possible, that the asset manager's approach to exercising stewardship is fully consistent with the asset owner's investment strategy, policies, and objectives over the appropriate time horizon. They should also ensure that the manager has the capacity to undertake the expected level and quality of monitoring and engagement.

- **Appendix A** lists some of the information about an asset manager's approach and capabilities that asset owners might aim to obtain to identify a manager that is willing and able to meet their needs.

Some asset owners may wish to identify the most material issues that they believe should be a focus for stewardship activity. The simplest way of doing so is by reference to their responsible investment policy or investment guidelines, but asset owners may sometimes wish to specify more detailed objectives or instructions for individual mandates. This may particularly be appropriate for SDI mandates.

This can be done either by incorporating these specific requirements in the contract or appending them through a separate schedule or side letter, the advantage of the latter approach being that it is easier to amend if the asset owner's objectives or priorities change.

- **Draft Clause 1 in Section 4.1** can be adapted to cover any stewardship objectives or guidelines that are specific to the mandate.

Asset managers will also require clarity of which ownership rights and powers (such as voting at general meetings or taking the decision to divest) are placed in their hands by clients to be exercised as they choose, those which must be exercised in line with policies specified by the client, and those that require client approval. Where client direction is required, the IMA should set out the criteria for determining when the asset manager should notify the asset owner of their concerns and the procedure for doing so.

Engaging with and voting on investee companies are not the only ways to promote the asset owner's investment objectives. An increasing number of asset owners and managers consider participation in public policy debates to be an important element of stewardship. Many also participate in sectoral or regional initiatives to have a greater impact than they could achieve on their own. Asset owners may wish to make use of their mandates to encourage managers to participate in such activities if doing so will support the achievement of their investment objectives.

- **Section 4.3** of the guidance contains a draft clause (Clause 10) intended to ensure the asset manager participates in activities intended to address systemic risks; asset owners may wish to consider adapting that draft clause to address their policies and objectives more broadly. Alternatively, a more broadly worded draft clause is included in this section.

Asset owners may also wish to ensure that they can monitor how the asset manager is performing its stewardship obligations on the owner's behalf. The frequency and format in which the manager will report to the client should be specified either in the IMA or in a separate schedule or side letter appended to the IMA.

- **Section 6.5 and Appendix B** contains guidance on the frequency and content of reporting.

As noted in Section 4.4 of the guidance, stewardship services are not always covered by the asset manager's standard fee. Where this is not the case, the IMA should specify which services are and are not covered by the fee and the financial arrangements for those services that are not covered.

GENERAL DRAFT CONTRACT CLAUSES

Stewardship practice: Requiring the asset manager to adhere to good practice in terms of stewardship

Clause 13: Monitoring

Alternative 1:

The Manager shall, in accordance with the policies and standards set out in Schedules A [and/or B], engage in such activities as are appropriate in the circumstances to monitor and influence the management of the [investee companies/underlying funds/underlying assets], where such activity is considered by the Manager to be likely to enhance the value of such securities or assets or the portfolio as a whole and in the best interests of the Client. In so doing, the Manager commits to adhere to the principles of the ICGN Global Stewardship Principles [and relevant national Stewardship Codes].

Alternative 2:

The Manager shall consistently encourage the management of the [investee companies/underlying funds/underlying assets] to adhere to its [or the Client's] Responsible Investment Policy [and/or the standards set out in Schedule B] and to prevent, mitigate and remedy any negative impact that they are causing or are directly linked to through their business relationships.

Engagement: Encouraging the asset manager to take part in collective engagement.

Clause 14: Collective engagement

The Manager shall participate in collective and collaborative engagement efforts with the management of the [investee companies/ underlying funds/ underlying assets] where it considers it to be the most effective means of achieving compliance with its [or the Client's] Responsible Investment Policy [and/or the standards set out in Schedule B].

Shareholder rights: Clarifying which ownership rights and powers are in the hands of the asset manager and which retained by the client. The need for a clause of this sort may depend on the extent of delegation of stewardship activities to the manager.

Clause 15: Engagement

The Client retains the following rights in respect of assets held in the Portfolio [*delete as applicable*]:

- voting
- bringing forward counterproposals
- proposing shareholder resolutions
- recalling shares on loan
- calling for special audits
- attending general meetings

- calling an EGM
- participate in and/or commence class actions or other litigation including derivative actions and group litigation.

The Manager is granted authority to carry out the following rights in respect of assets held in the Portfolio [*delete as applicable*]:

- voting
- bringing forward counterproposals
- proposing shareholder resolutions
- recalling shares on loan
- calling for special audits
- attending general meetings
- calling an EGM
- participate in and/or commence class actions or other litigation including derivative actions and group litigation.

The Manager undertakes to raise with the Client situations in which the exercise of some of these rights might be appropriate.

Extraordinary concerns: Requiring the asset manager to alert the client to any significant concerns about specific investments.

Clause 16: Inform

In the event of any significant concerns about an investment or the performance, activities or behaviour of an investee company [that cannot be resolved through engagement with the company concerned], the Manager shall inform the Client [immediately or within a specified time period]. The Manager shall proactively inform the Clients about possible remedies, which may include voting against management, engagement, collaborative engagement, filing of a shareholder proposal, calling a special meeting, divestiture, litigation, or some combination thereof.

SDI-RELATED EXAMPLE CLAUSES

Engagement

Example 1: Identifying SDIs

The Manager shall engage with all [investee companies [or investments] [that it has identified as Sustainable Development Investments (SDIs) – *if the Client wishes to prioritise engagement of these investments rather than across the portfolio as a whole, for example, in order to make best use of limited resources*] to assess whether the desired sustainability outcomes are likely to be achieved, and shall report at least [insert agreed frequency] to the Client on its assessment.

Example 2: Assessing SDG Risks

In carrying out its duties under this Agreement, the Manager shall conduct annual assessments to identify material risks associated with the 17 Sustainable Development Goals [or *specific SDGs*]. The assessment shall be used to identify [investee companies or investments] to be engaged by the Manager. The purpose of the engagements shall be to improve the performance of the investments with respect to the SDGs. The engagement shall include objectives and milestones to be achieved, recognizing that improvements can require time. The Manager shall report at least [insert agreed frequency] to the Client on its assessment and activities.

Example Themes

Example 1: Net-zero transition

The Manager shall actively engage with portfolio companies [or investments] to take action to [reduce greenhouse gas (GHG) emissions across the value chain to move towards net-zero emissions by 2050 or sooner [– *or other specified SDG outcome*].

The Manager shall report on its engagement activity to the Client at least [insert agreed frequency], detailing in respect of both ongoing engagements as well as those that have concluded:

- i. why companies were selected and prioritized for engagement;
- ii. what the [climate-related] objectives for the engagements were;
- iii. what methods of engagement were used; and
- iv. what improvements in SDG performance were achieved following engagement.

Example 2: Human rights

The Manager shall publicly state its support for international principles and standards on human rights including, where relevant, the:

- United Nations Universal Declaration of Human Rights;
- International Labour Organisation's labour standards;
- United Nations Guiding Principles for Business and Human Rights;
- United Nations Global Compact; and
- The OECD Guidelines for Multinational Enterprises.

The Manager shall engage with investee companies about their management of human rights issues in accordance with hard and soft laws. The Manager shall report to the Client at least [insert agreed frequency] issues identified, and actions taken – through engagement with investees or policy makers – to prevent or mitigate negative outcomes.

Investor collaboration

Example 1: Collective engagement

The Manager shall identify and exploit opportunities for collaboration with other investors to leverage influence and provide consensus on desired engagement outcomes in relation to [specified SDG outcomes] and shall report to the Client at least [insert agreed frequency] on:

- i. the collaborations in which it has participated;
- ii. what role it played in those collaborations;
- iii. the companies with which it was engaged; and
- iv. the impact of the engagements achieved

5.2: VOTING RIGHTS AND OVERSIGHT

Some asset owners prefer to retain control of their voting rights and vote either directly or through an agent. Some prefer to delegate responsibility for voting to the asset manager but expect them to vote in accordance with the owner's responsible investment policy and/or voting guidelines. Others will completely delegate voting decisions to the asset manager. For some mandates, for example, if the asset owner is investing in a pooled fund, this may often be the only option offered by the asset manager, although some managers now offer greater proxy voting choice. Whatever the approach, it should be specified in the IMA.

If asset owners intend to instruct asset managers to follow the manager's own voting policies and guidelines when voting on the owner's behalf, the owner should ensure that the manager's policies are compatible with its own policies and beliefs. This should be assessed as part of the selection process.

- **Appendix A** lists the information about an asset manager's voting policies, guidelines and practices that might be sought during the selection process.

Where voting is to be delegated to the manager, asset owners should ensure they can exercise oversight. In these cases, the IMA should specify the frequency and format in which the asset manager will report to the client and if the manager has been instructed to vote in accordance with the client's policies.

- **Section 6.5 and Appendix B** contain guidance on reporting by the asset manager.

Many asset managers will engage proxy advisers to provide them with voting recommendations and/or to execute votes on their behalf. In these circumstances, asset owners may want to be satisfied that these third parties are applying the agreed policies when making their recommendations.

- **Section 5.3** contains guidance on the oversight of third parties engaged by the asset manager.

GENERAL DRAFT CONTRACT CLAUSES

Vote execution: Setting out the basis on which the underlying shares are to be voted.

Clause 17: Vote discretion

Alternative 1 [where the Client or its agent has voting control]:

The Manager shall enable the Client or its designated agent to direct the exercise of any voting rights attached to the Portfolio investments. [The Manager shall provide the Client with ballots and vote recommendations (if requested) [X] days ahead of the date for voting].

Alternative 2 [where the Manager votes according to Client guidelines]:

The Manager shall procure the exercise of any voting rights attached to the Portfolio investments in accordance with the Client's expressed voting guidelines, as attached at Schedule [A or D].

Schedule D – the Client's voting guidelines, where not contained in their responsible investment policy (Schedule A – see Part 4.1)

Alternative 3 [where voting control is delegated to Manager]:

The Manager shall procure the exercise of all voting rights attached to the Portfolio investments on the Client's behalf, in accordance with the Managers' voting policy and any specific guidelines approved by the Client.

[Where the option of disapplying the Manager's policy exists: The Client reserves the right to rescind, upon [X days] advance written notice, the Manager's authority to make voting decisions for specific companies, issues, or time periods. The Manager shall use best endeavours to facilitate such Client voting decisions to be implemented].

Clause 18: Conflicts

The Manager shall have in place appropriate written policies to manage any conflicts of interest in relation to voting matters, details of which shall be shared with the Client.

Client reporting: Establishing how the asset manager will report to the client on how it has exercised the voting rights (where authority rests with the manager).

Clause 19: Report content

The Manager shall report [insert agreed frequency] to the Client on how they have voted on the Client's behalf in the previous reporting period, including:

- information on the number or percentage of general meetings at which the Manager voted;
- an analysis of votes cast for and against;
- details of any controversial votes at significant holdings;
- details of any resolutions on which they voted contrary to the Client's (or the Manager's own) voting policy and the reasons why; and
- details of all votes involving companies where the Manager or an affiliate have a contractual relationship or other material financial interest.

SDI-RELATED EXAMPLE CLAUSES

Voting rights and oversight

Example 1: Proxy voting

In carrying out its duties, the Manager shall disclose to the Client how the SDGs inform its proxy voting guidelines [or the way it has applied the Client's voting policy]. The Manager shall also disclose at least [insert agreed frequency] [examples of] actual cases where proxy votes have been cast in a manner to support the SDGs.

Example 2: Resolutions outside voting policies

In the event of a resolution raising material SDG concerns that are not explicitly covered in the [Client's/ Manager's] voting policy, the Manager shall consult the Client before exercising the voting rights.

5.3: ASSET MANAGER OVERSIGHT OF THIRD PARTIES

Many asset managers will themselves have contracts with third parties to assist in the delivery of the mandate. In some cases, this will be purely to obtain research or advice, but in others it may involve delegating stewardship activities (for example, vote execution or engagement overlay services).

Sub-delegating activities does not reduce the contractual and/or fiduciary responsibility of the asset manager for ensuring that the terms of the agreement between them and their client are being met and must not adversely impact the asset owner's ability to meet its fiduciary duties.

The delegation and sub-delegation of investment or management tasks should not reduce the flow of material information to the asset manager's clients or compromise the standards of service to which they are entitled.

The IMA should make it clear that the asset manager remains accountable for all activities that have been delegated, that such activities are being carried out in a manner consistent with agreed investment approach and policies, and should be able to explain what assurance will be provided to the client that the manager is undertaking the necessary oversight of such activities.

Asset owners should also seek information about the extent to which the asset manager delegates functions to third parties and how it monitors the performance of those functions as part of the selection process.

- **Appendix A** contains more details on the information asset owners should obtain on the use of third parties.

GENERAL DRAFT CONTRACT CLAUSES

Disclosure: Ensuring that the asset manager discloses which third-party services it employs and that the provision of these services is in alignment with the client's investment and stewardship interests.

Clause 20: Responsibility

The Manager remains responsible to the Client for any activities delegated to third parties.

Where the Manager delegates any of the activities specified in this Agreement to third parties it shall establish relevant guidelines to ensure that they are conducted in a manner consistent with the Client's [or Manager's] Responsible Investment Policy [and/or Voting Policy] set in [Schedule A and/or D].

The Manager shall ensure that the third parties adhere to these guidelines, and report [at least annually] to the Client on which third parties have been engaged and how its guidelines have been implemented.

Policy Alignment: Ensuring that, where the asset manager uses the voting policy of a proxy advisory firm or other third party, this policy is aligned with the client's interests.

Clause 21: Consistency

Where the Manager intends to apply the voting policy of a proxy advisory firm or other third party, it shall satisfy itself that such policy is consistent with the Client's [or Manager's] Responsible Investment Policy [and/or voting policy] and explain to the Client why it considers that to be the case.

5.4: SECURITIES LENDING

Securities lending (also known as stock lending) is the practice of lending clients' shares subject to a buyback right. Often this activity is under the client's control, but on occasion the stock lending programme is in the hands of the asset manager. This is particularly the case in pooled funds.

Whichever approach applies, it will be important to ensure that both parties have access to relevant information, which should include details of current positions and transparency on fees earned.

Particularly to deliver stewardship responsibilities, both parties should agree policies or criteria that will be used to determine which stocks are subject to lending at given times. Some asset owners may prefer not to engage in stock lending at all, while others prefer to set criteria limiting its use – for example, that stocks with voting rights attached cannot be lent during voting periods.

Where stock lending is permitted the asset owner and manager may need to agree the basis on which one or either party can trigger a recall of lent stock, either so that it is not potentially in the hands of a party whose interests diverge from those of the client or so that the parties can exercise stewardship rights in full (for example, so that they can exercise the voting rights attached to the stock).

The **ICGN Guidance on Securities Lending** sets out the responsibilities of the different parties involved in lending transactions and good practices for primary lenders, lending agents and borrowers.

GENERAL DRAFT CONTRACT CLAUSES

Scope and responsibilities: Specifying the extent to which stock lending is permitted; clarifying which of the parties will have visibility of the level of stock lending and any lent positions at a given time; which will have responsibility for those positions; and which will have the authority to recall lent securities for stewardship and voting purposes.

Where lending is not permitted

Clause 22: Limitations

Unless otherwise agreed in writing, the Manager shall not undertake any stock lending, stock borrowing, repurchase or reverse repurchase arrangements in relation to assets in the Portfolio.

Where lending is permitted

Clause 23: Policies

Alternative 1 [where lending is to be done by the Manager]:

The Manager shall disclose to the Client its policy on stock lending. This policy shall align with any specific policy adopted by the Client [and/or with the ICGN Guidance on Securities Lending] and state that stocks shall not be lent with the exclusive or primary intent to exercise a vote regarding a investee company.

Save as agreed from time to time between the Manager and the Client, the Manager may enter into arrangements to lend to a third-party investments and other assets or documents of title or certificates evidencing title to investments and other assets held in the Portfolio. The Manager agrees to make available to the Client a list of Portfolio investments out on loan at any given time, on the basis laid out in Schedule E.

[Schedule E - Format for Manager reporting to Client, or Client reporting to Manager, of relevant stock out on loan]

The Manager agrees that the Client or its agent may from time to time provide a list of those investments or assets which shall not be lent or shall promptly be recalled if out on loan. No new loans will be made of these listed investments or assets, and recalls will be triggered as soon as notice is given.

The Manager shall consider whether it should recommend to the Client that any individual investment or asset, or class of investments or assets, should be excluded from lending activities from time to time to protect the value of the Portfolio, minimise systemic risks or exposure to other risks.

The Manager shall report at least [insert agreed period] on (a) holdings which were recalled for proxy voting, specifying how such votes were cast, and (b) holdings which were on loan and not voted by the Manager on matters involving *[specify key Client voting issues, such as shareholder proposal(s) filed by the Client or voting relating to priority topics]*.

Alternative 2 [where lending is to be done by the Client or its agent]:

The Manager shall not arrange for any Portfolio investments or documents of title or certificates evidencing title to such investments to be lent to any third person.

The Client agrees to make available to the Manager a list of Portfolio investments out on loan at any given time, on the basis laid out in Schedule E.

The Client undertakes to consider any recommendation from the Manager that any individual investment or asset, or class of investments or assets, should be excluded from lending activities from time to time to protect the value of the Portfolio.

SDI-RELATED EXAMPLE CLAUSES

Securities lending

Example 1: Recall agreement

Stocks held in Sustainable Development Investments [and/or investments identified as raising concerns relating to specified SDGs] shall not be lent under any circumstances **[or without the explicit agreement of the Client – where the Manager does the lending]** or shall always be recalled for the purposes of exercising the voting rights.

ICGN Global Stewardship Principles (2020)



Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients (Principle 1)

Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties (Principle 7)

- **Appendix B** contains guidance on information that asset owners can request to monitor the asset manager's culture and capabilities for the duration of the mandate.

6.1: CULTURE AND CAPABILITIES

An asset manager's structure, resources, governance, and control systems can influence their capacity, ability, and willingness to promote their clients' investment objective and represent their interests effectively. Asset owners are advised to seek reassurance about a manager's culture and capabilities as part of the due diligence process before making an appointment.

Many asset owners may seek reassurance about, for example:

- the size and nature of the resources dedicated to stewardship;
- the effectiveness of its board and other governance structures;
- policies such as diversity and inclusion, and how these are reflected in the composition of its senior team and workforce;
- the effectiveness of its risk management and internal control systems;
- its commitment to professional standards; and
- its remuneration policies and structures.
- **Appendix A** contains guidance on how asset owners can assess an asset manager's culture and capabilities as part of the due diligence process.
- **Section 4.4** contains a draft clause on the alignment of the asset managers' remuneration policies and the asset owner's investment objectives.

Asset owners may also consider that ongoing monitoring throughout the duration of the mandate would be appropriate. While clients decide to hire asset managers based on the circumstances at the time of appointment, there can subsequently be certain significant changes – for example, of personnel, ownership, investment approach or financial position – which may affect the owners' assessment of whether the manager continues an appropriate choice. Ensuring proper alignment of interests requires that clients be informed promptly of any such changes.

GENERAL DRAFT CONTRACT CLAUSES

Professional Standards: Requiring the asset manager to adhere to professional standards and other relevant best practices.

Clause 24: Best practice

The Manager shall, in discharging its obligations under the Agreement, have regard to relevant industry best practice [specifically the standards identified in Schedule B].

The Manager shall meet the disclosure requirements of [the CFA Institute's Asset Manager Code of Professional Conduct or equivalent professional standard].

Disclosure: Requiring prompt and full disclosure if there are changes to the asset manager's structure, investment approach or governance.

Clause 25: Timely information

Within [insert agreed period] of being aware of a relevant event, the Manager shall inform the Client of:

- any regulatory investigation or legal proceedings against the Manager, any of its key staff, staff assigned under the contract, or the Fund;
- significant changes in the business structure or ownership of the Manager;
- changes to key staff or to the board structure or membership of any fund structure through which the Client invests;
- material changes to the advisers or service providers to the Manager/Fund, including the auditor, administrator or any custodian or prime broker;
- if at any time the Client's investment become more than [X%] of the Fund;
- material changes in investment approach, including but not limited to the responsible investment approach, or risk appetite over the life of the investment.

Viability: Obtaining evidence of the asset manager's ongoing viability.

Clause 26: Management accounts

Alternative 1 [where the Manager is a public company]:

The Manager shall provide the Client with its management accounts immediately after they are published.

Alternative 2 [where the Manager is a private company]:

The Manager shall provide the Client with its management accounts on an annual basis.

SDI-RELATED EXAMPLE CLAUSES

Culture and capabilities

Example 1: Oversight

The Manager shall ensure that there is appropriate senior level oversight of SDI and that it has sufficient in-house sustainability-related expertise and experience to ensure a capacity to challenge and provide insights into SDGs and SDIs and shall disclose details of the oversight arrangements and relevant expertise to the Client.

Example 2: Human resources

The Manager shall raise awareness and develop expertise in-house in SDIs and the underlying SDGs. Lead staff shall have appropriate skills and experience for undertaking such duties and have access to sufficient resources for establishing relationships with lead organizations and participating in events focused on SDIs, SDGs and related topics.

The Manager shall ensure that dedicated staff have access to key investment personnel across asset classes as well as senior executives and, as appropriate, the board of directors.

GENERAL DRAFT CONTRACT CLAUSES

Risk management: Providing assurance regarding the effectiveness of the asset manager's risk management and internal control framework.

Clause 27: Management representation

The Manager acknowledges that the Client is relying on the Manager's representations regarding its risk management capabilities as a material inducement to enter into this contract. The Manager shall ensure that the risk management practices described in Schedule F, including those relating to sustainability and systemic concerns, are incorporated into and made a part of the Manager's ongoing obligations under this Contract.

Schedule F – Description of the Manager's risk management practices

Clause 28: Assurance

The Manager will facilitate access by the Client to its staff and systems such that the Client can gain assurance on an ongoing basis that the Manager has appropriate risk management frameworks and processes in place to address, impartially, the full range of risks which may affect the value of the Portfolio and the interests of the Client.

6.2: RISK MANAGEMENT

In the context of this guidance, 'risk management' refers to how the asset manager manages risks across the full range of its activities, rather than the individual risk assessments made in the management of investment portfolios.

No asset manager that fails to manage the risks inherent in its investment approach will perform effectively for its clients over the long term. Asset owners should seek assurance as to the breadth of the risks managed and the effectiveness of their management.

An assessment of the asset manager's risk management capabilities and practices should therefore be part of the due diligence process before appointing a manager. Any written representations from the manager that are presented during the due diligence process should then be incorporated into or attached to the IMA.

In addition, asset owners may wish to ensure they have a continuing right to assess the ongoing risk controls to ensure that the quality of risk management observed during the due diligence process is maintained and enhanced.

- **Appendix A** contains guidance on assessing an asset managers' risk management capabilities.

6.3: CONFLICTS OF INTEREST

Conflicts of interest may undermine the ability or willingness of asset managers to act clearly in their clients' interests. Asset owners should be confident that managers have appropriate processes to identify, consider and manage any such conflicts of interest.

Examples might include:

- The asset management firm overall has an apparent client-relationship conflict – for example, the asset manager provides significant products or services to a company in which they also have an equity or bond holding;
- Senior staff at the asset management firm hold roles at a company in which the asset management firm has equity or bond holdings;
- The asset management firm's stewardship staff have a personal relationship with relevant individuals at a company in which the firm has an equity or bond holding;
- Situations where the interests of different clients diverge – for example, during a takeover where one set of clients is exposed to the target and another set is exposed to the acquirer; and
- There are differences between the stewardship policies of asset managers and their client.

The IMA should provide clients insight into the framework that the asset manager uses to identify and manage conflicts and ensure transparent reporting of how any relevant conflicts have effectively been managed over the prior period.

- **Section 6.5 and Appendix B** contains guidance on reporting by asset managers.

GENERAL DRAFT CONTRACT CLAUSES

Conflicts: Ensuring asset managers have in place an effective conflicts of interest policy and promptly report to clients when it is materially changed or waived.

Clause 29: Conflicts

The Manager shall establish and maintain a conflicts of interest policy. The current version of this policy is appended in Schedule G. The Manager shall inform the Client of material amendments to, and waivers of, this policy from time to time, within [insert agreed period] of such an event.

Schedule G – the Manager’s conflicts of interest policy

Clause 30: Identification and management

The Manager shall ensure that it adheres to this policy such that it effectively identifies and manages conflicts with the Manager’s duty to the Client or otherwise entailing a material risk of damage to the interests of the Client. Where the Manager does not consider that the arrangements under its conflicts of interest policy are sufficient to manage a particular conflict, it shall inform the Client of the nature of the conflict so that the parties can agree how to proceed.

Clause 31: Review

The Manager shall ensure that any potential conflicts of interests with other mandates managed by the same individual or group of individuals are reviewed and monitored by internal risk and compliance teams.

6.4: COMMISSIONS AND COUNTERPARTIES

One of the major frictional costs which clients of asset managers face is commission. Given the prevalence of practices like soft commission and other possible benefits to asset managers from this practice, transparency is needed so that clients can have full confidence that the costs they are bearing generate commensurate value for them.

Many asset owners wish to understand whether the research which some commission pays for is focused on issues which will help the asset manager to meet their investment objectives and, crucially, will not actively undermine them – for example, research that primarily focuses on short-term factors which can contribute to churn in portfolios or generation of long-term risk exposure.

Asset owners may want mandates to address the allocation of commission payments in a balanced manner that includes development of research aligned with the interests of long-term investors with stewardship obligations and exposure to systemic risks, and/or pursuing a sustainable development investment approach.

Asset owners may wish to ensure that contract terms require that commission payments and structures paid for, directly or indirectly, from client funds are made solely in the interests of those clients, reflect an appropriate balance between short- and long-term client interests, and are transparently disclosed to the asset owner on request so that they can make their own assessment of whether this is the case.

Significant value can be lost from portfolios where counterparty risks are not monitored and managed effectively. Asset owners may wish to understand that this risk is being managed effectively and some may also wish to have clarity of counterparty exposures so that they can aggregate and assess such risks across all portfolios.

GENERAL DRAFT CONTRACT CLAUSES

Transparency: Requiring that commission payments and structures paid for from client funds are made solely in client interests and are transparently disclosed.

Clause 32: Due diligence

The Manager shall act in good faith and with due diligence and care in the selection and use of all dealers and brokers appointed pursuant to this Agreement and agreeing relevant terms on behalf of the Client. The Manager shall actively consider whether any payments made are appropriately in the Client’s interests and shall disclose details of any payment to the Client if requested to do so.

Clause 33: Transparency

The Manager’s policy regarding its dealing arrangements and choice of brokers is disclosed as Schedule H. In effecting transactions for the Portfolio, the Manager shall at all times comply with this policy and comply with any applicable obligations regarding best execution under [relevant regulator’s] rules. The Manager shall also comply with applicable requirements regarding soft commission under [relevant regulator’s] rules.

[Schedule H – The Manager’s policy on choice of counterparties]

Commission: Requiring that commission payments towards research reflect an appropriate balance between short- and long-term client interests.

Clause 34: Allocation

The Manager acknowledges that it is in the Client's interest to allocate commission payments towards research on long-term, sustainability and systemic investment or risk issues relevant to management of the Portfolio under the Client's investment policy set forth in Schedule A.

Counterparties: Requiring that counterparty risks be managed effectively and are transparent to the client.

Clause 35: Due diligence

The Manager shall act in good faith and with reasonable skill and care in its choice and use of counterparties in accordance with procedures previously disclosed to the Client. The Manager shall monitor its counterparties on an ongoing basis and manage the Portfolio's overall exposure to any one counterparty such that risks of default or failure are appropriately controlled.

Clause 36: Exposure

The Manager shall disclose to the Client on a [insert agreed period] basis the range of counterparties used during the [period], the maximum and average exposures to each counterparty and the existing exposures at the end of the [period]. Such disclosures shall not in any way constitute a waiver of or consent to the Manager's exercise of its obligations.

SDI-RELATED EXAMPLE CLAUSES

Commissions

The Manager shall ensure that at least [X]% of Portfolio commissions allocated to research are paid to acquire quality research that reflects an enhanced analytics evaluation of [long-term sustainability and systemic risk issues – or *specified SDGs*]. The Manager shall report at least [insert agreed frequency] on research expenditures.

6.5: ASSET MANAGER REPORTING TO CLIENTS

Asset owners have a fiduciary duty to be accountable to their clients and beneficiaries for how their investments have been managed, including those investments that are managed on their behalf by asset managers. Asset owners should report to their clients and beneficiaries regularly, and some owners are subject to detailed regulatory requirements to do so.

As well as obtaining from their asset managers the information that they in turn will report to their clients or beneficiaries, asset owners and their advisors should also aim to obtain information that will enable them to assess the performance of the manager. As well as information on the financial performance of the assets, asset owners may want to obtain assurance that the agreed investment management and stewardship policies and guidelines are being applied and on the impact that has been achieved.

It is therefore important that the information the asset manager will provide to the client is agreed at the beginning of the mandate. As there is a strong possibility that the information being sought may change during the duration of the mandate it is likely to be easier if this is set out in a schedule appended to the IMA or in a side letter rather than in the IMA itself. That is the approach taken in the draft clauses below.

- **Appendix B** identifies global and regional reporting frameworks that might provide an appropriate basis for client reporting. In some jurisdictions, guidance and recommended templates for reporting from asset managers to clients are available. Further links are available on the ICGN website.

The asset manager and client should also agree the frequency and format in which the information is provided, which again should be specified in the schedule or side letter. For much of this information annual reporting is likely to be adequate but there may be some specific items of information for which quarterly or half-yearly reporting is more appropriate, for example, voting records.

Many asset owners may also seek additional information that it relevant to their investment objectives and stewardship expectations and which will help them to comply with their own reporting requirements. The exact nature of this information will depend on factors such as the agreed performance measures, the asset owner's responsible investment policy, recognised third party standards and their own reporting obligations.

Additional information that is neither covered by the draft clauses in this guidance nor contained in the asset manager's standard periodic reports to clients should either be specified in the IMA or where that is not possible – for example, because the mandate is for a pooled fund – in an appendix or side letter agreed with the manager.

- **Appendix B** contains illustrative examples of the different types of information that asset owners might wish to receive on a regular basis from managers.

GENERAL DRAFT CONTRACT CLAUSES

Disclosure and reporting: Establishing the asset manager's commitment to comply with relevant disclosure standards and reporting frameworks.

Clause 37: Compliance

When describing the investment product and reporting to the Client, the Manager will state whether it has complied with the standards contained in the **CFA Institute's Global ESG Disclosure Standards for Investment Products**.

The Manager shall also report to the Client in accordance with [either list specific reporting standards, for example, TCFD *and/or* other relevant reporting standards and metrics as specified in Schedule B].

Information access: Ensuring that the asset manager provides information to enable the client to meet its own reporting obligations.

Clause 38: Reasonable requests

The Manager agrees to make commercially reasonable efforts to provide the Client with such information as the Client may reasonably request from time to time to assist the Client in satisfying its obligations under the [insert name of legislation and/or Stewardship Code] [and/ or as a signatory of the Principles of Responsible Investing]

Information scope: Setting out the specific information which the client will expect to receive from the asset manager.

Clause 39: Format, frequency, and content

The Manager and Client shall agree the format, frequency, and contents of the Manager's reports to the Client. This reporting must address and include all investment and stewardship objectives and guidelines referred to in this Agreement and its Annexes and Schedules, and all activities delegated or transferred to the Manager by this Agreement. The format of such reports can be found at Schedule J.

[Schedule J – Content of the Manager's reports to the client]

SDI-RELATED EXAMPLE CLAUSES

Asset manager reporting to clients

In addition to reporting requirements set forth elsewhere, the Manager shall prepare no later than [x] business days after the end of the relevant [agreed reporting period] reports including:

- i. a description of how the Manager has incorporated sustainability factors and outcomes [or specified SDGs] into its research and decision-making processes, including any changes since the last reporting period;
- ii. details of any SDG related engagements with investee companies during the reporting period, and the outcome of such engagement;
- iii. details of any significant SDG related votes at investee companies including details of how the Manager voted and the outcome of the vote; and

relevant measurable performance metrics relating to [all or specified SDGs] in line with [specified reporting framework]

SUMMARY OF INFORMATION

The following is a summary of the information that asset owners would expect to receive if all the general draft clauses in this document were to be incorporated in the IMA. Asset owners may wish to include these in the list of required information specified in the schedule or side-letter or may be content to rely on the clauses in the contract itself.

Information to be provided by the asset manager in accordance with the draft clauses in Parts 4 to 6 of this guidance

Note: The items listed below are based on those highlighted earlier in the guidance. Examples of other information that asset owners might potentially wish to receive can be found in Appendix B.

- How the Manager has applied the agreed investment policies and standards (Section 4.1);
- Portfolio turnover, with an explanation if turnover exceeds the agreed range (Section 4.2);
- How the Manager has advocated for appropriate and fit-for-purpose market regulation and infrastructure needed to manage and mitigate systemic risks (Section 4.3);
- Information on the Manager's fee structure, including details of the specific services that the Manager will provide for these fees, any services or circumstances which would incur additional fees, any costs and expenses for which the Client will be liable, and the criteria to be met by the Manager in order for any performance fees to be paid (Section 4.4);
- How the Manager has ensured that the pay and incentive policies and structures for its staff align their interests appropriately with those of the Client and the investment time horizon of the portfolio (Section 4.4);
- How the Manager has implemented the agreed stewardship objectives, including evidence of the effectiveness of the Manager's activities (Section 5.1);
- How the Manager has voted on the Client's behalf, including:
 - information on the number or percentage of general meetings at which the Manager voted;
 - an analysis of votes cast for and against;
 - details of any controversial votes at significant holdings;
 - details of any resolutions on which they voted contrary to the Client's (or the Manager's own) voting policy and the reasons why; and
 - details of all votes involving companies where the Manager or an affiliate have a contractual relationship or other material financial interest (Section 5.2);
- The Manager's guidelines for oversight of activities to third parties and details of any third parties that have been engaged and how the guidelines have been applied (Section 5.3);
- If the Manager has applied the voting policy of a proxy advisory firm or other third party, an explanation of why it considers that to be appropriate (Section 5.3);
- If stock lending is permitted, the revenue from stocks lent and details of (a) holdings which were recalled for proxy voting, specifying how such votes were cast, and (b) holdings which were on loan and not voted by the Manager on matters involving specified subjects (Section 5.4);
- Details of:
 - any regulatory investigation or legal proceedings against the Manager, any of its key staff, staff assigned under the contract, or the Fund;
 - significant changes in the business structure or ownership of the Manager;
 - changes to key staff or to the board structure or membership of any fund structure through which the Client invests;
 - material changes to the advisers or service providers to the Manager/Fund, including the auditor, administrator or any custodian or prime broker;
 - if at any time the Client's investment becomes more than [X%] of the Fund;
 - material changes in investment approach, including but not limited to the responsible investment approach, or risk appetite over the life of the investment. (Section 6.1);
- A copy of the Manager's management accounts (Section 6.1);
- Evidence of the effectiveness of the Manager's risk management systems (Section 6.2);
- Information on any material amendments to, and waivers of, the Manager's conflicts of interest policy (section 6.3);
- Payments made by the Manager under the commission policy, highlighting any deviations from the policy (section 6.4); and
- The range of counterparties used by the Manager during the agreed period, the maximum and average exposures to each counterparty and the existing exposures at the end of the period (Section 6.4.)

This Appendix consists of two parts. The first identifies information that asset owners should consider including in their Requests for Proposals (RFPs) to enable potential

asset managers to understand the type of mandate being sought and the specific expectations as regards sustainability and stewardship. The second identifies information that asset owners might request from managers to assess their suitability.

These are not a comprehensive list of all information that should be provided and sought during the asset manager selection process. It specifically addresses information that relates to sustainability and stewardship, and not all the topics that will typically be covered by an RFP or due diligence questions. Not all items on these lists will be relevant to all mandates.

Links to the principles and standards referred to in this Appendix and other useful resources can be found on the **ICGN website**.

PART 1: INFORMATION PROVIDED BY ASSET OWNERS

This information should be included in or appended to the RFP, where relevant, so that asset managers have a clear understanding of the asset owner's needs before preparing their proposals. Depending on the nature of the mandate and the asset class or classes involved, the mandate might include:

Mandate specification

- Expected rate/ range of return over a specified time period.
- Liquidity and cash generation requirements.
- Portfolio design – for example, maximum percentage of portfolio in single investment or in specific market(s), asset class mix (for multi-asset class mandates).
- Portfolio turnover – minimum and maximum turnover rates.
- Any general restrictions or exclusions – for example, linked to liabilities or regulatory requirements.
- Any asset class specific considerations – for example, duration for fixed income.
- Benchmarks and performance measures.
- Fee structure – for example, a statement that at least some elements of the fee structure should be linked to long-term performance.
- Policy on the use of counterparties.
- Reporting expectations – what information does the owner expect to receive and at what frequency?

Sustainability

In the RFP itself:

- The nature of the mandate – for example, is it an SDI or impact mandate?
- Any expectations on asset allocation – for example, SDG themes/priorities, or the minimum percentage to be allocated to SDI.
- Approach to materiality.
- Any sustainability specific benchmarks and performance measures.
- Reference to relevant principles and standards (examples below).
- Sustainability reporting expectations – see **Appendix B**.

To be appended to the RFP:

- The asset owner's investment guidelines and/or responsible investment policy or policies
- Exclusion list or screening criteria (if applicable)

Principles and standards

Examples of recognised principles and standards that might be referred to include:

- ICGN Global Stewardship Principles
- UN Sustainable Development Goals (SDGs)
- Principles of Responsible Investing (PRI)
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- UN Declaration on the Rights of Indigenous Peoples
- PAII Net Zero Asset Owner Commitment
- OECD Guidelines for Multinational Corporations
- International Capital Markets Association (ICMA): Green Bond Principles

For examples of reporting frameworks and metrics see **Appendix B**

Stewardship

The investment/responsible investment policy may set out the asset owner's policies on delegation of some stewardship functions to asset managers and oversight of those functions. If not, consider adding requirements in the RFP in relation to:

In the RFP itself:

- Priorities for monitoring and engagement – this might include the impact themes or priorities in the responsible investment policy, but might also include specific governance topics such as executive compensation or board composition.
- Any public policy and advocacy priorities and expectations.
- Voting – state whether it will be delegated to the asset manager, and if so, whether they will be expected to vote in accordance with the owner's voting policy. Specify the circumstances in which the owner would expect to be consulted on a voting decision if delegated.
- Relevant international national or industry principles and standards (examples below)
- The owner's policy on stock lending
- Stewardship reporting expectations – see **Appendix B**

To be appended to the RFP:

- Voting policy or guidelines (if applicable)

Principles and standards

Examples of recognised principles and standards that might referred to include:

- ICGN Global Stewardship Principles
- ICGN Global Governance Principles
- ICGN Securities Lending Code of Best Practice (2016)
- Relevant national Stewardship Codes
- Relevant national industry guidance (for example, the PLSA Stewardship Guidance and Voting Guidelines in the UK)
- CFA Institute: Global ESG Disclosure Standards for Investment Products
- Institutional Limited Partners Association (ILPA): Principles 3.0 (for private equity)
- Standards Board for Alternative Investments (SBAI): Alternative Investment Standards

PART 2: INFORMATION SOUGHT FROM ASSET MANAGERS

This information should be requested from all potential asset managers, where relevant, so that the asset owner can assess the manager's suitability for the mandate. This is not a comprehensive list of all information that should be sought when selecting an asset manager, and addresses only potential information relating to sustainability, stewardship and the manager's own governance.

In addition to the information listed below, asset owners should request a copy of the asset manager's standard contract terms for this type of mandate, so that they can compare them with the Model Mandate and assess the level of compatibility between the two. Asset managers should also be asked what scope there is to vary these standard terms and/or to append additional requirements to the standard terms if requested.

PRI has published a series of more detailed **ESG Due Diligence Questionnaires** covering a range of asset classes and stewardship topics. Links to these and other useful sources of guidance can be found on the **ICGN website**.

Sustainability

Questions to be asked:

- What are the manager's investment principles as regards sustainability?
- What criteria and processes does the manager use to integrate sustainability and other long-term factors into asset allocation and individual investment decisions? What metrics or ratings does the manager use when assessing potential investments?
- How does the manager identify material long-term risks, including those relating to sustainability? How do they identify potential sustainability related opportunities?
- Is the manager willing to apply client specific guidelines (for example, exclusion lists and/or customized indices)?
- Does the manager take sustainability considerations into account in derivatives, insurance instruments (such as CDS) and other synthetic exposures or positions?
- Post-investment, how does the manager monitor whether the sustainability objectives of the investment are being met?
- How often are the manager's responsible investment policies (or equivalent) reviewed?
- How does the manager measure and report on the social and environmental impacts of the investments in the fund? Please provide examples.
- Is the manager an ICGN member? Do they publicly endorse the ICGN Global Stewardship Principles via the ICGN website?

- Is the manager a PRI signatory? Have they committed to other relevant international or industry standards, guidelines or reporting frameworks?
- Is the manager an active participant in investor initiatives that aim to promote one or more of the SDGs?

Documents to be requested:

- The manager's responsible investment policy/policies or equivalent.
- Any other documents that explain how the manager addresses sustainability across its investments and/or for different asset classes – for example, templates for assessing investment cases.
- Case studies showing how sustainability factors impacted investment decisions. The owner may wish to specify the SDGs or outcomes on which examples are sought.
- The manager's most recent annual responsible investment report or equivalent and/or a summary of recent engagement and outcomes (to provide evidence of how their policies have been implemented in practice).
- The most recent PRI Assessment Report (if the manager is a PRI signatory).

Stewardship

Questions to be asked:

- Are stewardship services such as monitoring, engagement and voting covered by the basic fee or do they need to be paid for separately? If so, what are the fees?
- Where does responsibility for stewardship sit within the manager's organisational structure? If it is carried out by a separate team, how does the manager ensure integration with the teams that are directly responsible for managing investments?
- What is the level of resource dedicated to stewardship? How is it divided between funds, asset classes and markets?
- What criteria does the manager use to decide when it is necessary to engage with or intervene in an investment? What is the process for escalating this engagement if necessary?
- What framework does the manager use to identify and manage conflicts in relation to engagement and voting?
- Does the manager engage in dialogue with issuers specifically on sustainability issues? What systems does the manager have in place to ensure engagement objectives are pursued systematically and to measure progress against them?
- Does the manager delegate or contract out any stewardship activities to third parties (for example, engagement or voting advice and execution)? If so, what oversight does it undertake?
- For asset classes other than equities, what form does their stewardship activity take?

- Does the manager adhere to the CFA Institute's Global ESG Disclosure Standards for Investment Products?
- Where relevant: Does the manager adhere to the ILPA Principles (private equity) and/or the SBAI standards (for alternative investments)?
- Where relevant: Is the manager a signatory to the national stewardship code?

Documents to be requested:

- The manager's approach to monitoring, engagement, and other stewardship functions, if not covered in the responsible investment policy. Managers that are signatories to one or more national stewardship codes may disclose this information in a statement of how they apply the code(s).
- The most recent data on the manager's engagement activity. This might include, for example, data on the number of engagements undertaken divided by region, subject matter, and type of engagement and/or case studies describing particular engagements and their outcomes.
- The manager's voting guidelines.
- The most recent data on the manager's voting activity. This might include, for example, data on the percentage of meetings at which the manager voted, the percentage of votes against divided by region and subject matter, and examples of high profile votes with an explanation of why the manager voted in the way that they did.
- The manager's policy on selection and monitoring of proxy advisors and engagement overlay services (if applicable).
- The manager's policy on stock lending.
- The manager's conflicts of interest policy.
-

The asset manager's culture and capabilities

Questions to be asked:

- Which functions in the manager's organisation are responsible for oversight and implementation of sustainability and stewardship activities?
- What is the compensation structure for the team that will manage the investment? How is sustainability and stewardship performance reflected? What incentives and KPIs are used?
- Does the manager provide training or support to its workforce to help them understand and identify the relevance and importance of sustainability and stewardship factors?
- Does the manager adhere to the CFA Institute's Asset Manager Code of Professional Conduct or equivalent professional standards?
- How often does the manager review general risk oversight policies and procedures? Does the risk oversight function operate independently from those taking investment decisions?

- How does the manager monitor counterparty risks and measure their exposure to such risks?
- Has the manager been involved in any litigation or other legal or regulatory investigations or disciplinary actions relating to their investment activities in the past [x] years?

Documents to be requested:

- A summary of the manager's internal organisation, including the reporting lines for the team that would be responsible for the mandate.
- Details of the staff directly responsible for the mandate and those with relevant cross-cutting responsibilities for sustainability and stewardship.
- The manager's diversity, equity, and inclusion policies and data on the diversity of the workforce and senior decision-makers.
- Details of the structure and organization of the manager's research capability, including research on macroeconomic issues.
- A summary of the manager's risk management practices.
- Relevant compliance policies – for example, anti-money laundering.
- The manager's policy on selection and monitoring of counterparties.
- Examples of the manager's periodic (quarterly and annual) reports to clients.

This Appendix contains an illustrative list of information that might be provided by the asset manager to the client. The content and frequency of these reports should be agreed between the client and manager and specified in the investment management agreement. Reporting will typically be on a either an annual, half-yearly or quarterly basis depending on the information requested.

The Appendix does not cover any information that the asset manager should provide outside the normal reporting cycle if a particular situation arises (for example, if the manager has concerns about an investment or there is a conflict of interest); reporting of this sort should be separately specified in the investment management agreement.

The Appendix addresses only information relating to sustainability and stewardship. Not all items on this list will be relevant to all mandates.

The Appendix identifies existing global and regional reporting frameworks that might be appropriate. This list is not comprehensive, and in some jurisdictions, guidance, and recommended templates for reporting from asset managers to clients are available.

ESG Disclosure Standards

The **CFA Institute's Global ESG Disclosure Standards for Investment Products** provide a high-level framework by which asset managers can communicate to their clients information about an investment product's consideration of ESG issues in its objectives, investment process, and stewardship activities.

Sustainability

Reporting should be provided using the agreed reporting framework and sector and/or product specific SDI metrics as well as any targets or metrics related to the client's investment objectives that are specified in the investment management agreement or other documents.

Reporting frameworks

Examples of recognised reporting frameworks that might be referred to include:

- Task Force on Climate-Related Financial Disclosures (TCFD)
- Taskforce for Nature-Related Financial Disclosure
- International Sustainability Standards Board (ISSB)
- The Value Reporting Foundation, which includes the Integrated Reporting Framework and the sector-specific SASB standards
- Climate Disclosure Standards Board ("CDSB")
- Global Reporting Initiative Sustainability Reporting Standards ("GRI")
- EU: Sustainable Finance Disclosure Regulation

- EU: Taxonomy for sustainable activities National reporting requirements (where applicable)
- Carbon Disclosure Project
- Net Zero Asset Manager Initiative
- Net Zero Asset Owner Alliance
- Institutional Limited Partners Association (ILPA): Principles 3.0 (for private equity)

SDI metrics

Examples of metrics that might be reported on include:

- GISS Alliance Sector-Specific SDG-related Metrics for Corporate Reporting
- SDI Asset Owner Platform
- SASB standards

Stewardship

- Reports on the manager's engagement activity with investee companies in the previous reporting period. This might include, for example, data on the number of engagements undertaken divided by region, asset class, subject matter and the type of engagement.
- Case studies describing particular engagements and their outcomes.
- Summaries of any collective engagement or industry initiatives in which the manager is a participant and any activities undertaken in the previous reporting period.
- If voting has been delegated to the manager, information on how they have voted on the client's behalf in the previous reporting period. This should include information on:
 - the number or percentage of general meetings at which the manager voted;
 - an analysis of votes cast for and against;
 - details of any resolutions on which the manager voted contrary to the client's (or the manager's own) voting policy and the reasons why; and
 - Complete voting records, if requested.
- Reports on stock lending, including details of all holdings which were recalled for voting, and holdings which were on loan and not voted by the manager (covering at least the priority issues identified in the mandate).

Reporting frameworks

Examples of recognised reporting frameworks that might be referred to include:

- EU: Shareholder Rights Directive
- Some national Stewardship Codes contain specific reporting requirements

The asset manager's culture and capabilities

- Reports on any significant changes to the manager's governance structure – including changes in key personnel – and/or policies.
- Reports on any conflict of interest in relation to the client's investments during the previous reporting period, and how they were managed.
- Reports on research expenditure during the previous reporting period.
- Reports on the range of counterparties used during the previous reporting period, the maximum and average exposures to each counterparty and the existing exposures at the end of the period.

Asset Manager: Firms that manage assets on behalf of individuals and institutions and are entrusted to make investment decisions on behalf of their clients.

Asset Owner: The institution that owns the underlying assets the management of which is entrusted to an asset manager (for example, pension funds, insurance companies, official institutions, banks, foundations, endowments, and family offices).

Collaborative Engagement: When a group of investors come together to engage in dialogue with companies, often on environmental, social, and governance issues, with the aim of achieving a more informed and constructive dialogue from which investors can benefit.

Double Materiality: The concept that materiality should be judged from two different perspectives: the impact on the company's development, performance and position; and the environmental and social impact of the company's activities on a broad range of stakeholders. The concept also implies the need to assess the interconnectivity of the two types of materiality. This interconnectivity between single and double materiality is sometimes referred to as 'dynamic materiality'.

Exclusion List: A list that details the various financial instruments and legal entities that the asset manager may not invest in on behalf of the asset owner and which may be modified at the asset owner's discretion. The list may be used to exclude investment in categories such as certain industries, products, or services as well as in named instruments or entities.

Investee Company: A business entity which the asset manager chooses to invest in on behalf of the client.

Investment Management Agreement ('IMA'): Contractually binding terms in the relationship between an asset owner and an asset manager.

Investment Product: A vehicle managed by an asset manager that uses investors' capital to buy, sell, and hold investments for the benefit of the investor, including but not limited to the following:

- An investment company, corporation, trust, or other vehicle that allows investors the ability to pool their capital and invest it collectively ('pooled fund').
- A contract between an investor and an asset manager—such as certain insurance-based investment products and pension products.
- A limited partnership in which investors are limited partners and the investment manager is the general partner—such as certain hedge funds, real estate funds, and private equity funds.
- An investment strategy by which individually owned accounts are managed.

A vehicle offered by an asset manager that is wholly or partially sub-advised is considered an investment product of that manager, provided that the manager has discretion over the selection of the sub-advisor.

Management Fee: A fee paid to an asset manager for managing investments on a client's behalf.

Meaningful Dialogue: A regular discussion between senior representatives of each institution during which the asset owner

and asset manager will inform each other proactively about any development in the portfolio.

Performance Fees: A payment made to an asset manager for achieving specified outcomes, for example, based on the return to the client or on the achievement of any targets or benchmarks specified in the investment management agreement.

Pooled Funds: Externally managed investment portfolios that aggregate assets from individual investors for the purposes of investment.

Portfolio: A collection of financial investments such as stocks, bonds, commodities, cash, and cash equivalents.

Portfolio Turnover: The measure of how quickly securities in a fund are either bought or sold by the asset manager, over a given period.

Request for Proposal ('RFP'): The document that outlines the asset owner's intent to purchase asset management services for a pool of assets which is used to invite proposals from asset managers. The RFP will typically describe the nature of the assets to be managed, the proposed terms and duration of the service, and the asset owner's investment objectives. The RFP may be accompanied by a separate Due Diligence Questionnaire requesting information about the asset manager's capabilities and policies.

Responsible Investment Policy: A document that captures an organisation's strategy to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership. An organisation's responsible investment policy can take many shapes. It may involve embedding responsible investment considerations into the organisation's main investment policy. It could also consist of a standalone responsible investment policy.

Risk Management: The processes an organisation uses to identify, assess, and manage risks. In the context of Draft Clauses 27 and 28, it refers to how the asset manager manages risks across the full range of its activities, rather than the individual risk assessments made in the management of investment portfolios.

Screening: The application of filters to lists of potential securities, issuers, investments or sectors to rule investments in or out based on an investor's preferences, such as ethics and values, and/or investment metrics, such as risk assessments. Exclusion lists are an example of 'negative screening'.

Securities Lending (also known as 'stock lending'): The transfer of securities to a third-party who will provide the lender with collateral in the form of shares, bonds or cash. The borrower pays the lender a fee for the loan and is contractually obliged to return the securities on demand, or at the end of the agreed loan period.

Segregated Mandate: Externally managed investment portfolios run exclusively on the investor's behalf and in accordance with the investment mandate set by the investor.

Side Letter: A document that is ancillary to the investment management agreement, either clarifying, supplementing or varying the original contract.

Stewardship Activities: Individual or collaborative activities undertaken by an investor to protect and enhance the value

of the assets they own or manage and attain the investment objectives, and to optimise the long-term value of common economic, social, governance and environmental assets, on which returns and clients' or beneficiaries' interests depend. Examples include, but are not limited to, engagement with current and potential investee companies; voting at shareholder meetings; filing of shareholder resolutions; engagement with policymakers and standard setters; and, where necessary, litigation.

Stewardship Code: A code addressed to institutional investors (asset owners and asset managers) that sets out principles for exercising stewardship and, in some cases, requires institutional investors to disclose publicly information about their investment processes and stewardship policies and practices. There are currently codes in over twenty markets. Copies of all codes can be found on the **Global Stewardship Codes Network** page of the ICGN website.

Sustainable Development Goal(s) ('SDG'): The 17 sustainability-focused goals issued by the United Nations.

Sustainable Development Investing ('SDI'): Utilizing and allocating capital in a way that effects positive contribution to sustainable development, using SDGs as a standard of measurement. The contribution can be made through products, services, and/or operations or through projects financed across asset classes and in multiple sectors or themes. The positive contribution of an investment should not be outweighed by negative impacts from the same investment over the life of this investment.

Systemic Risks: Risks that, if they were to materialise, would lead to the breakdown of an entire system rather than simply the failure of individual parts. In an economic context, the term refers to risk of collapse of an entire financial system (or a major part of it) due to macroeconomic, environmental, or social factors, resulting in the likelihood of real and immediate damage to the economy.

Voting Policy: The policies and/or guidelines that define the framework by which the asset manager will exercise voting rights on behalf of the asset owner. Depending on the terms agreed, it may be either the asset manager's or the asset owner's policy or guidelines. In the latter case, it may be integrated in the owner's Responsible Investment Policy.



ICGN

International Corporate Governance Network
Inspiring good governance & stewardship

GISD Global Investors for Sustainable Development
Alliance 

