

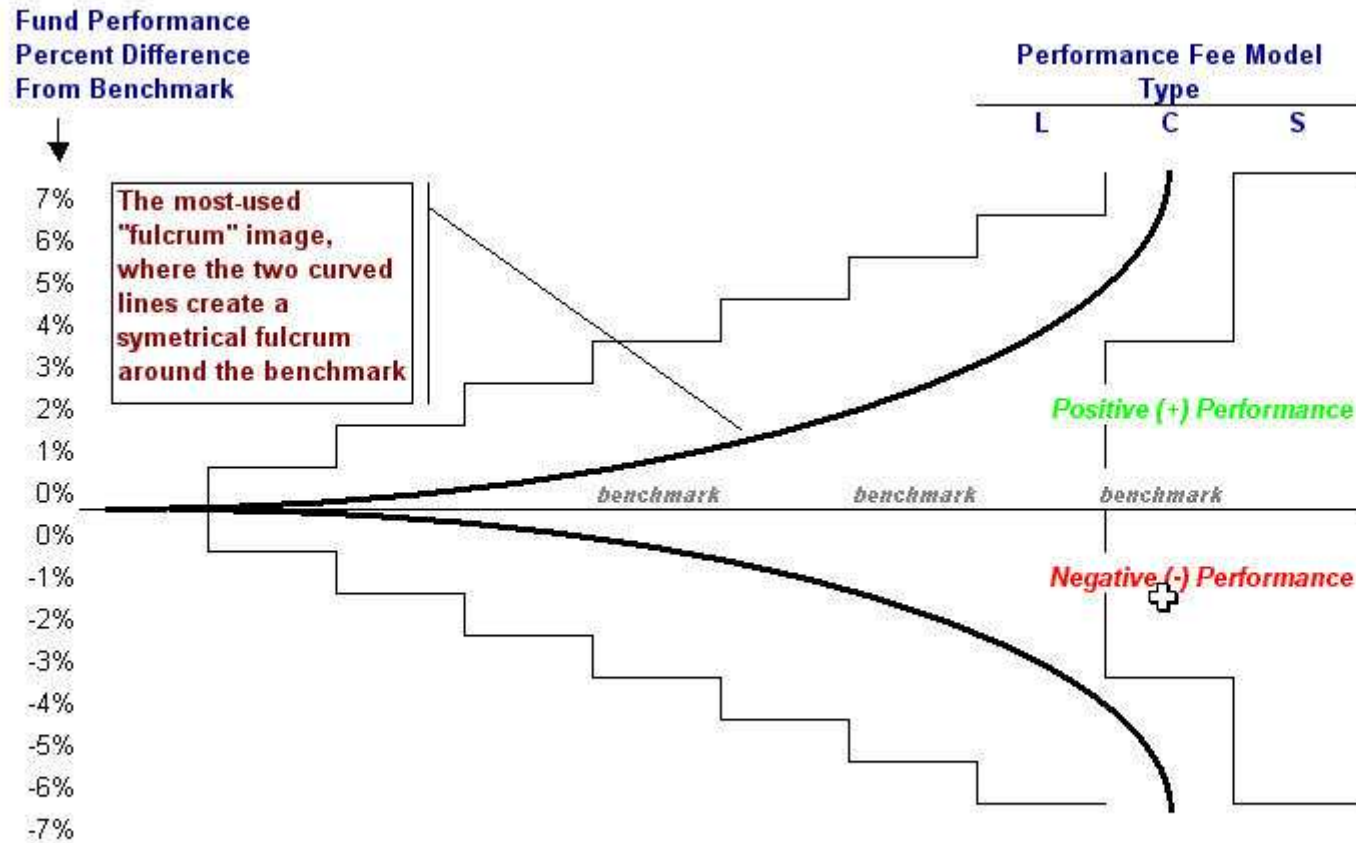
Common Performance Fee Structures

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Performance Fee Rules

- The S.E.C. rules for performance fees:
 1. The fund must be compared to a suitable benchmark like the S&P 500
 2. There is no limitation on how the performance fee model is structured, as long as it is based on a “fulcrum”, which is the S.E.C.’s way of saying that the fee calculations must mirror each other equally for positive and negative performance. (The shareholder must have the same rebate from a loss as the advisor would have for a gain.)
 3. The performance fee rate is to be calculated over a set period of time. Most funds use a 1,2 or 3 year period. Most fees are assessed monthly based on the previous “rolling” 12, 24 or 36 months performance.
 4. Whatever “fee rate” is used, it must be applied against the average assets for the performance period used. For example, if you have a 36 month performance fee it must be assessed against the prior 36 months average assets.

The “Fulcrum”



Performance Fee Calculations Are Based on Difference Between Fund Performance and Benchmark
 Fund Performance can be gauged as a continuous function (C), by laddered percentage points (L), or a by steps (S)

Fulcrum Examples

Type L (Laddered):

Accessor Funds
Eaton Vance (VT Health Sciences)
Stratton

Type C (Curved or Continuous Function):

Burnham
Brandywine
Fidelity
Kensington
Pioneer
SBL
Vanguard Turner

Type S (Stepped):

Aquinas
Atalanta Sosnoff
AXP (complications)
Gartmore (complications)
Hirtle
Saturna (complications)
USAA (complications)

Before Adopting PF Decide

- Benchmark
- Time period (1,2,3 years...longer?)
 - Annualized or rolling?
- Fulcrum type for fee, laddered, continuous or stepped
- Performance fee “rate”
 - Rate cap?

OPTIONAL

- “Null” zone, or “hurdle” return?
- Married to asset-size breakpoints?
- Prime with performance “base” fee?
- Waive performance fee when market is down?
- Make adjustments for asset-bias?
- Set portfolio manager min/max risk parameters?