

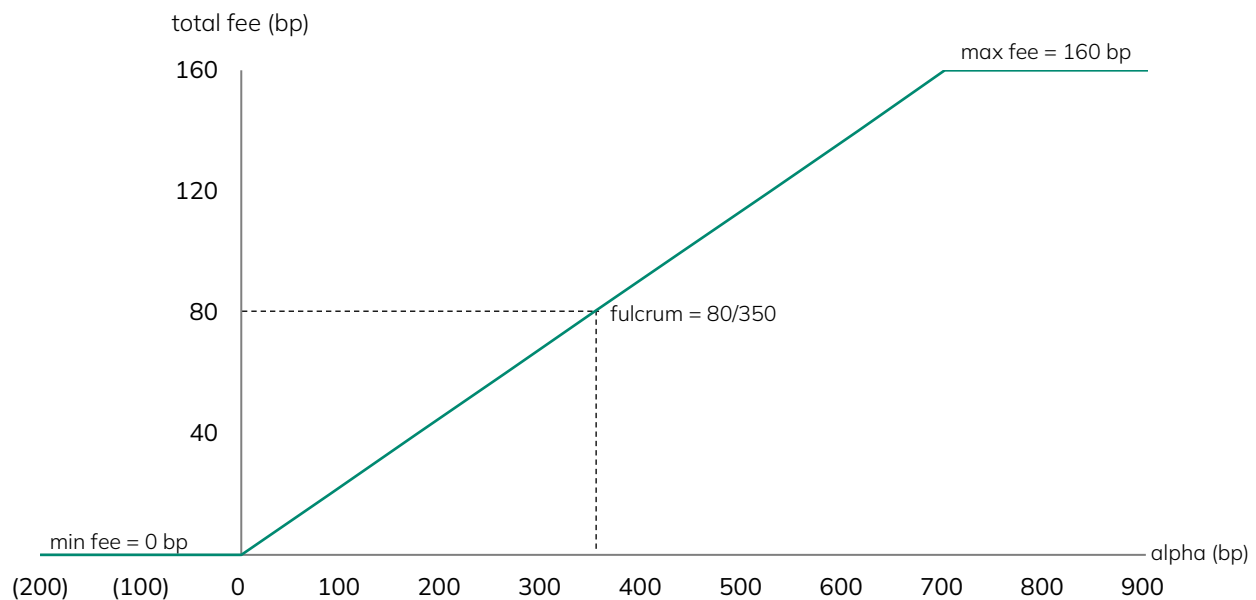


## PERFORMANCE-BASED FEES

AJO Vista Emerging Markets Small Cap

Illustration: \$100 million/zero base

(Bottom line: fee is 23% of alpha, bounded by 0.0% and 1.6%)



While this example highlights our EM small-cap strategy, the formula works with all AJO Vista strategies. In general, we trade a lower minimum or base fee for a higher maximum fee. The tradeoff is usually symmetrical. For instance, if a client desires a base fee of, say, zero, the maximum fee is capped at twice our normal fee. With a minimum and maximum range established, it's easy to sketch a linear profit-sharing arrangement that runs through the fulcrum (our standard fee and targeted excess return).

- ◆ **Total Fee** – The manager's annual fee is calculated quarterly and is a combination of a base fee plus a performance fee, calculated as shown below, times the average market value of the portfolio.
- ◆ **Performance-Fee Formula and example** – For annualized excess performance ranging from zero to 700 basis points, where excess performance is defined as the gross, time-weighted total return of the portfolio less the return of the benchmark index for an agreed-on interval, the performance-based fee shall be calculated as follows:

$PF = [(NF - BF) \div RER] * [PR - BR]$ , where:

PF = performance fee

NF = normal fee (80 bp on \$100 million)

BF = base fee

RER = required annualized excess return to earn NF (350 bp)

PR = portfolio return, gross of fees

BR = benchmark return (MSCI Emerging Markets Small Cap)

Alpha (bp)	Fee (bp)
0	0 (min)
200	46
350	80 (fulcrum)
500	115
700	160 (max)

- ◆ **Minimum and Maximum Percentage Fees**

Minimum Fee = X% of NF

Maximum Fee = (200 - X)% of NF