Investment Leaders Group

Applying the long view to investment funds

Introducing the Long-term Disclosure Framework

UNIVERSITY OF CAMBRIDGE
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Publication details

Disclaimer

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About the partners

University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership (CISL) is a globally influential Institute offering solutions for a sustainable economy. Our *Rewiring the Economy* plan shows how the economy can be 'rewired' through collaboration between business, government and finance institutions to deliver positive outcomes for people and the environment in pursuit of the UN Sustainable Development Goals (SDGs).

For over three decades we have built individual and organisational leadership capacity and capabilities. Our industry-leading collaborations catalyse change and accelerate the path to a sustainable economy. Our *Rewiring Leadership* framework sets out a model for the leadership needed to achieve this. Our interdisciplinary research engagement builds the evidence base for practical action, through a focus on six cross-cutting themes critical to the delivery of the SDGs: sustainable finance, economic innovation, inclusive development, natural capital, future cities and leadership.

Investment Leaders Group

The Investment Leaders Group (ILG) is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment. It is a voluntary initiative, driven by its members, facilitated by the University of Cambridge Institute for Sustainability Leadership (CISL), and supported by academics in the University of Cambridge.

The ILG´s vision is an investment chain in which economic, social and environmental sustainability are delivered as an outcome of the investment process as investors go about generating robust, long-term returns.

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Introduction: about this report

Short-termism in financial markets has been widely identified as a cause of underinvestment, economic inefficiency and poor decision-making by corporations, which undermines long-term value creation. Investor short-termism is also regularly cited as a barrier to companies making more progress towards sustainable business practices.[1]

Empowering clients to choose funds with a long-term orientation can create an incentive for investment managers to take a more long-term approach in their investment processes and/or to offer more long-term oriented investment products. Such long-term approaches would typically lead investors to incorporate long-term trends and would cover financial as well as sustainability considerations. In order for clients to select long-term funds they rely on investment managers to disclose the right information, and to disclose this information in a format that facilitates client decision-making. As indicated in Box 1, current disclosure requirements for investment funds appear to pay relatively little attention to long-term factors.

In practice, most investors – the exceptions are the largest institutions – have relatively little direct contact with their asset managers. They, and their advisors, tend to rely on the materials published by the investment manager in order to decide whether to not to invest in a particular fund. Therefore, improving the content and format of the disclosures provided by investment managers is key to enabling greater investments in funds oriented towards the longer term.

This new report addresses this question and offers a new framework for disclosing the long-term orientation of a fund.

Box 1: Disclosure requirements for retail funds

There are a variety of disclosure requirements that apply to the providers of retail funds. The general aims are to ensure that retail investors can properly assess the investment risks associated with a particular financial product and to ensure that firms providing investment advice are doing so on products which are more consistent with the retail investor's investment capabilities and experience. While the details vary between countries, the disclosure requirements are marked more by their commonalities rather than their differences. In general, fund providers are expected to disclose information on past performance, on risks, and on costs, charges and fees.[2] This information is usually expected to be updated at least annually and to be calculated and presented in a standardised manner, thereby enabling direct comparison between funds. To date, there are no formal disclosure requirements relating to sustainability (or environmental, social and governance issues).[3]

The Investment Leaders Group's work on long-term investment

The mission of the Investment Leaders Group (ILG) is "to help shift the investment chain towards responsible, long-term value creation, such that economic, social and environmental sustainability are delivered as an outcome of the investment management process as investors go about generating robust, long-term returns".

In 2016, ILG issued its report *Taking the long view: A toolkit for long-term, sustainable investment mandates*[4] (see further Box 2) which provided a toolkit for investors who wish to design investment strategies that can make a particularly strong contribution to the mission of the ILG, or to assess the extent to which existing strategies contribute to it.

The report was also intended as a tool to enable asset owners to design investment mandates and to assess, select and monitor the long-term orientation of current and potential future investment managers.

Box 2: ILG's previous work on long-term investment mandates

ILG's 2016 report *Taking the long view: A toolkit for long-term, sustainable investment mandates* identified how the design of investment strategies and actively managed listed equity mandates can be adjusted to encourage long-term, sustainable investment management.

After the publication of the report, ILG's members initiated a project to review the lessons they had learned from their experience of implementing long-term, sustainable investment strategies and mandates. This project focused on: (a) the key elements or levers needed to make investment strategies/mandates long term, (b) the key barriers to adopting long-term strategies/mandates, and (c) examples of best practice amongst ILG members. The results of this research were presented to ILG members in April 2017.

In 2018, ILG's members decided to extend this work by developing a tool – the Long-term Disclosure Framework – that could be used by institutional and retail investors, and by their advisors, to assess the long-term orientation of the investment funds that they are being offered (see Box 1 for a general overview of the disclosure requirements that apply to retail funds). The intention is that the Long-term Disclosure Framework could also be used by asset managers when constructing long-term funds and when reporting on these funds' characteristics.

In this report, we first provide a short overview of the reasons why it is important for investors to take a longer-term approach to their investments. We then explain how we went through the process of developing and testing the Long-term Disclosure Framework. Finally, the report highlights the results and insights from applying the framework to a number of self-identified 'long-term funds', including an assessment of how the disclosures currently provided by these funds compare to the framework.

Why are time horizons of concern?

Benefits of long-term investment for corporates

ILG's 2016 report *Taking the long view: A toolkit for long-term, sustainable investment mandates* provided a brief summary of research on the prevalence, effects and causes of short-termism.

Investor tendency to focus on short-term rather than longer-term returns, and the resulting pressure on companies to deliver returns that meet these expectations, is widely identified as a source of underinvestment, economic inefficiency and poor decision-making at the company level that, in turn, undermines long-term value creation by these companies.[5] An emphasis on short-term financial performance means that companies tend to prioritise investments that:

- offer immediate returns over those where there is a significant time between capital being invested and returns being delivered (even if these investments provide a greater net present value)
- provide tangible financial benefits over those that provide non-financial benefits (eg improved brand or reputation)
- relate to their core business areas, rather than areas where the primary drivers are sustainability-related risks or opportunities.[6]

A study from McKinsey Global Institute, *Measuring the Economic Impact of Short-Termism*, has also demonstrated that companies that operate with a long-term outlook have consistently outperformed their industry peers since 2001 across a wide range of financial and non-financial measures, including revenue, earnings and even job creation.[7] Yet, several studies and surveys confirm that at times companies will forego decisions to create long-term financial value due to the pressure of meeting short-term financial objectives.[8]

Even those companies with well-established sustainability strategies and programmes acknowledge that the effect of these pressures is to reduce their total investments in sustainability-related activities, including those that are seen as critical to the longer-term success of the company. The reality is that, while environmental, social and governance (ESG) risks and opportunities can affect short-term financial performance, they typically manifest themselves over a longer-term horizon.

A further important characteristic of sustainability issues is that they are systemic in nature. For example, CISL's 2014 report *The value of responsible investment*[9] analysed the importance of 'sustainability megatrends' such as climate change, inequality and resource scarcity. The report demonstrated that these megatrends can act as a drag on economic prosperity as the costs of basic inputs such as water, energy and land escalate in response to scarcity, exacerbating health and income inequalities both within and between nations. Without explicit commitment to long-term returns, there is an incentive to save on the effort to properly understand these long-term trends and thus create a blind spot in the investment process. This phenomenon was described by Mark Carney (Governor of the Bank of England) as the "tragedy of horizons".[10]

These consequences are clearly of importance to investors: factors that undermine economic prosperity will also tend to have a negative effect on investment performance. The general argument for investors to take a long-term approach to their investments follows from this analysis of the consequences of short-termism on companies and on economic wellbeing more generally. By taking a longer-term approach, investors can encourage companies to strengthen their focus on activities that support long-term value creation. Investors can then benefit from a general increase in economic output and efficiency across companies as a whole, achieve higher returns from individual companies within their portfolios, and have the opportunity to enhance value creation through engagement and dialogue.[11]

Finally, the *Taking the long view* report noted that, for equity funds, recent academic research suggests that low portfolio turnover is a significant determinant of outperformance by active managers, when it is combined with a high active share (the proportion of stocks in a portfolio that differ from those in the benchmark). Building on the insights from the academic literature and the experience of ILG members, the report outlined a framework for developing and implementing a long-term, responsible investment strategy.

Regulatory context: fostering long-term investment in Europe

In Europe, regulators have started to pay much greater attention to the relationship between investors and companies, and to the question of whether investor behaviour (specifically, the emphasis on short-term investment returns) is undermining long-term economic success. In December 2015 the European Commission launched a public consultation on long-term and sustainable investment. The objective of the public consultation was to gather information on how institutional investors, asset managers and other service providers in the investment chain factor ESG information and performance of companies or assets into investment decisions, and what are the possible obstacles to long-term, sustainable investment. This led to the establishment of the EU High-Level Expert Group on Sustainable Finance (HLEG), which was invited by the European Commission to help develop an overarching and comprehensive EU roadmap on sustainable finance, including the provision of advice on how to “steer the flow of capital towards sustainable investments”[12] and the identification of steps that financial institutions and supervisors should take to protect the financial system from sustainability risks.

The final HLEG report, published in early 2018, offered a series of recommendations, many of which related to investment products and their disclosures. It noted: “…retail investors are not given the means to understand the real sustainable impact of financial products offered to them.”[13] It went on to recommend that: “The Commission should request all funds, destined for the retail market to disclose clear and understandable information on their sustainability impact, as well as information on the exercise of voting rights. The objective is to help retail investors to understand the impact of their savings through a small range of metrics that should remain simple and understandable.” The European Commission has started to take this recommendation forward through exploring the development of standards and labels for sustainable financial products.[14]

On 7 March 2019, the European Parliament reached a preliminary agreement on a proposal introducing transparency obligations on how financial companies integrate ESG factors into their investment decisions. The aim of this proposal is to introduce mandatory disclosure in order to reduce the asymmetry of information between financial entities and end-investors. The new rules will improve the level of disclosure of information by manufacturers of financial products and financial advisors towards end-investors.

Developing the framework

In order to assess and compare companies on a consistent, comparable basis, and to ensure a level of continuity with the ILG's previous work on long-term investment mandates, we used the *Taking the long view: A toolkit for long-term, sustainable investment mandates* report as the basis for our work. The report identified ten building blocks of long-term, responsible and sustainable investment (see Table 1).

Table 1: Building blocks of long-term, responsible and sustainable investment

• Investment beliefs • Benchmarks • Risk, tracking error and active share • Turnover and holding periods[15] • Portfolio size	• Stewardship • Investment process and organisational culture • Performance monitoring and reporting • Commercial models and fund manager incentives • Relationships between asset owners and investment managers

Using these building blocks to provide the overarching structure, we turned the more detailed guidance in the report into a series of assessable (yes/no) questions about the disclosures that should be provided by investment funds in order to enable their customers to assess the long-term orientation of the fund.

We made two changes to these. Firstly, we did not include questions about the relationship between the investment manager and clients, as it is usually not part of fund disclosure. Furthermore, as it is so organisation- and individual-specific, it is very difficult to define or measure in an objective way. Ultimately the quality of their relationship with their investment manager is something for investors to assess for themselves.

Secondly, we changed the questions about benchmarks to questions about investment objectives. The *Taking the long view* report was focused on equity funds, where investment objectives are often expressed relative to a benchmark and where benchmarking has an important influence on investment decision-making and on timeframes. Benchmarks are clearly important to the present discussion but long-term funds are not only equity products but may also be fixed income, multi-asset or absolute return products. These products may define their investment objectives in different ways, eg by reference to a benchmark, by reference to inflation, by reference to an interest rate benchmark, by reference to the specific investment goals set by the organisation for itself.

We then tested these questions on nine investment funds. These were funds that self-presented as long term (ie they had 'long term' in the fund title). They were identified through a word search on the Morningstar[16] and Hargreaves Lansdown[17] fund websites as well as a review of the funds offered by ILG members. To ensure that we obtained a broad picture of current practice, we restricted our choice to one fund per investment manager.[18] The nine funds reviewed are listed in Appendix 1.

We piloted the framework on two funds in September 2018, and used this pilot to review and make amendments to the framework; the final version is presented below. We then applied the framework to all nine funds in September–November 2018. In piloting the framework, we relied on the fund website and fund fact sheets as key information sources for investors. We also assumed that, in order to be considered available or accessible, information needed to be reasonably easy to find and to be clearly signposted from the fund website and/or key documents.

We stress that this is a disclosure framework, ie it sets out the information that should be provided by a fund to enable users to determine the extent to which a fund has a long-term orientation.

The framework is designed to apply to a variety of long-term strategies. These may, amongst others, include asset classes other than equities, and may include passive funds which, despite having a large number of holdings, may be considered as long-term funds because of their commitment to active ownership.

Figure 1: Long-term Disclosure Framework

	Objectively assessable (yes/no) questions related to long-term disclosure
Investment beliefs	Does the fund state its investment beliefs on long-term investment?
	Does the fund explain how sustainability or ESG issues create long-term investment value?
	Does the fund define what it means by 'long term'?
Investment objectives	Does the fund specify its investment objectives, eg by highlighting the benchmarks it uses to track and assess performance?
	Does the fund specify the timeframes over which it assesses performance?
Risk, tracking error and active share	Does the fund specify its tracking error and/or active share and/or other measure?
Turnover and holding periods	Does the fund specify its target or expected portfolio turnover rate?
	Does the fund specify its target or expected holding period?
	Does the fund report on its turnover or holding periods?
Portfolio size	Does the fund specify the target or expected number of stocks held in the portfolio?
	Does the fund specify the actual number of stocks held in the portfolio?
	Does the fund list its holdings?
Stewardship	Does the fund describe its approach to stewardship/active ownership?
	Does the fund state how many companies it has engaged with in the reporting period?
	Does the fund describe how it has engaged with these companies?
	Does the fund describe the issues that it engaged with these companies on?
	Does the fund comment on the outcomes (ie changes in company practice) that resulted from its engagement?
	Does the fund specify the shareholder meetings at which it voted its shares?

	Does the fund report on the proportion of votes in support of and against management, and the proportion abstained?
	Does the fund comment on the reasons for abstentions and votes against management?
	Does the fund comment on the outcomes (ie changes in company practice) that resulted from its engagement?
	Does the fund describe its approach to stock lending?
Investment process	Does the fund describe how ESG issues are integrated into its investment process?[19]
	Does the fund explain how the integration of ESG issues into its investment process creates long-term value?
Performance monitoring and reporting	Does the fund report on investment performance over at least three years?
	Does the fund emphasise long-term returns over short-term performance?
	Does the fund report on its sustainability-related characteristics?
	Does the fund report on the outcomes from its stewardship (engagement and voting) activities?
	Does the fund comment on/explain how its approach to long-term investment has affected portfolio performance?
Commercial model and fund manager incentives	Does the fund describe how its investment managers are rewarded and incentivised?
	Does the fund explain how rewards and incentives align with the fund's investment beliefs and performance objectives?
	Does the fund explain how the ESG and sustainability characteristics of the fund are included in rewards and incentives?

Findings

Overall findings

The overall findings are presented in Table 2. It is clear that, at present, the disclosures being provided even by those funds that self-identify as long term fall far short of the disclosures required to enable investors to effectively assess the long-term orientation of these funds. The areas of strength are those where there are explicit regulatory requirements for funds to disclose information (eg on benchmarks, on holdings, on performance). We discuss the specific findings in more detail below.

Table 2: Overall results

	Objectively assessable (yes/no) questions related to long-term disclosure	Number of funds meeting this criterion
Investment beliefs	Does the fund state its investment beliefs on long-term investment?	2
	Does the fund explain how sustainability or ESG issues create long-term investment value?	1
	Does the fund define what it means by 'long term'?	1
Investment objectives	Does the fund specify its investment objectives, eg by highlighting the benchmarks it uses to track and assess performance?	8
	Does the fund specify the timeframes over which it assesses performance?	2
Risk, tracking error and active share	Does the fund specify its tracking error and/or active share and/or other measure?	5
Turnover and holding periods	Does the fund specify its target or expected portfolio turnover rate?	0
	Does the fund specify its target or expected holding period?	1
	Does the fund report on its turnover or holding periods?	1
Portfolio size	Does the fund specify the target or expected number of stocks held in the portfolio?	4
	Does the fund specify the actual number of stocks held in the portfolio?	3
	Does the fund list its holdings?	7 (Note A)
Stewardship	Does the fund describe its approach to stewardship/active ownership?	1
	Does the fund state how many companies it has engaged with in the reporting period?	0
	Does the fund describe how it has engaged with these companies?	1
	Does the fund describe the issues that it engaged with these companies on?	0
	Does the fund comment on the outcomes (ie changes in company practice) that resulted from its engagement?	0
	Does the fund specify the shareholder meetings at which it voted its shares?	1
	Does the fund report on the proportion of votes in support of and against management, and the proportion abstained?	0
	Does the fund comment on the reasons for abstentions and votes against management?	0
	Does the fund comment on the outcomes (ie changes in company practice) that resulted from its engagement?	0
	Does the fund describe its approach to stock lending?	0

Investment process	Does the fund describe how ESG issues are integrated into its investment process?	0
	Does the fund explain how the integration of ESG issues into its investment process creates long-term value?	0
Performance monitoring and reporting	Does the fund report on investment performance over at least three years?	9 (Note B)
	Does the fund emphasise long-term returns over short-term performance?	0
	Does the fund report on its sustainability-related characteristics?	0
	Does the fund report on the outcomes from its stewardship (engagement and voting) activities?	0
	Does the fund comment on/explain how its approach to long-term investment has affected portfolio performance?	0
Commercial model and fund manager incentives	Does the fund describe how its investment managers are rewarded and incentivised?	0
	Does the fund explain how rewards and incentives align with the fund's investment beliefs and performance objectives?	0
	Does the fund explain how the ESG and sustainability characteristics of the fund are included in rewards and incentives?	0

Notes:

A The other two funds only publish their top five and top ten holdings respectively.

B Some of the funds reviewed had been established for less than three years at the time of this review. For these funds, we assessed them on whether they had reported performance data since inception.

Investment beliefs

Investment beliefs are "assertions about investments and the way the investment world works which, when developed and shared, help with investment decision making."[20] Well-articulated investment beliefs that the board and management of asset owners and investment management understand and truly believe in are recognised as a cornerstone of good governance and long-term investment.

The successful implementation of long-term responsible and sustainable investment will be underpinned by beliefs such as: that long-termism is conducive to value creation by companies and in the economy; that ESG issues are sources of long-term (as well as shorter-term) risk and opportunity; that market risk premia can only be generated over the cycle; that stewardship adds value by improving returns and company sustainability practices; that the asset owner has the capability and resources to pursue long-term approaches that integrate ESG and sustainability. Integrating these investment beliefs into the investment process is critical.

Of the nine funds surveyed, only two set out their beliefs on long-term investment. One stated that its approach was long term because "…we believe that investing in companies with the scope to grow to multiples of their current size over the next decade has the potential to transform the returns achieved for investors over time." The other stated that "The Fund takes a traditional, long-only 'buy and hold' approach to global equity management. The aim is to take advantage of the attractive annual returns equities have historically exhibited."

It is striking that only one fund defined what it meant by long term (a period of five years). Others talked about the timeframes that investors should use when deciding to invest in the fund (some suggested two to three years, others five years).[21]

Investment objectives

Investment objectives are statements of the financial objectives for the fund. They are intended to allow investors to determine whether a fund has delivered on its financial objectives. These can be defined in a variety of ways, depending on the asset class and the characteristics of the investments being made. For example, the investment manager may refer to a benchmark that provides a measure of how a typical group of companies performs in a particular time period. Alternatively, the investment manager may aim to achieve a certain performance relative to inflation (eg to deliver returns that exceed inflation by a particular amount) or relative to an interest rate benchmark.

Seven of the eight equity funds surveyed specify benchmarks against which they assess their performance. Interestingly, all are market-cap weighted benchmarks (ie benchmarks where a company's or an issuer's weighting in the index that is used as the benchmark is determined by its market capitalisation). Such benchmarks have the advantage of being widely used and familiar to investors. However, as noted in the *Taking the long view* report, they do not take full account of companies' likely performance in the face of long-term sustainability trends. None of the funds use absolute return or sustainability-oriented (eg low carbon) benchmarks. It is relevant to note that the cost of using tailored benchmarks is, almost invariably, significantly more expensive than using standard (or 'plain vanilla') benchmarks, and this is an important barrier to their wider adoption. Another point to note is that perceptions and language are important; the use of a sustainability-oriented benchmark may lead to the fund being marketed as a 'niche' rather than a mainstream investment product.

It is interesting to note that only two of the funds specify the timeframes over which they wish their performance to be assessed; in both cases they specify five years.

Risk, tracking error and active share

The *Taking the long view* report argued that actively managed funds can enable a stronger focus on the long term and on sustainability if they have high tracking error and high active share, and are benchmark agnostic or have unconstrained approaches to portfolio construction and stock selection. These factors enable managers to conduct deep research and to allocate larger amounts of capital to individual companies. This, in turn, sends clear signals to companies that investors value the long term and sustainability.

Five of the nine funds publish information on tracking error (or similar measures), although none explain how this feeds through into their investment research or decision-making. It is not clear whether these data are a consequence of their investment approach, or whether higher tracking error and active share are enabling them to take a longer-term approach. An absence of such information means that investors cannot properly understand the investment strategy, nor the extent to which investment managers are simply following indices.

Turnover and holding periods

The *Taking the long view* report argued that a portfolio that takes a long-term view on company performance is likely to have a lower turnover and longer holding periods than one with a shorter-term view. The reason is that returns derived from company fundamentals, including those linked to sustainability factors, are more likely to be achieved over longer periods that represent one or more full market cycles.

Of the nine funds surveyed, just one publishes its target holding period. This could be roughly inferred by investors as asset managers may publish their full holding lists on a regular basis. However, we may wonder whether it would be reasonable to expect retail investors to do such quantitative analysis, trawling back through years' of data. None of the funds report portfolio turnover rates.

Portfolio size

The *Taking the long view* report argued that, while there is no 'correct' size for a portfolio that is focused on long-term fundamental value creation and sustainability, deep fundamental research by investors provides the strongest incentive to companies to take a long-term view and to adopt more sustainable business practices (particularly when this is combined with committed stewardship).[22] The report also argued that the larger the number of stocks in a portfolio, the more difficult it is for a manager to conduct thorough fundamental research without incurring prohibitive costs.

The wider argument for transparency about portfolio size and portfolio holdings is that it allows investors in a fund to understand what companies they are investing in and to decide if these holdings align with their personal values.

This is a particular strength across the nine funds reviewed. Top five or top ten holdings are clearly and visibly displayed on their websites and in fact sheets. Seven of the nine publish their full holdings lists on a regular (quarterly, six-monthly or annual) basis, although these disclosures tend to be confined to annual reports and similar publications (and so rely on the investor knowing where to look for this information).

Four funds report explicitly on the number of stocks/holdings/positions in their portfolios, and three have explicit targets for the number of stocks in their portfolios.

All of the fund managers provide commentary on how their holdings have influenced performance, although such reporting tends to focus on those factors which have influenced short-term (usually three-month) performance. There is limited discussion of how holdings/positions have affected longer-term performance (eg how much of the fund's under- or over-performance can be attributed to specific stocks, how much performance can be attributed to the investment approach, etc).

Stewardship

Committed stewardship (engagement and voting) activity is an integral part of being a long-term, responsible investor. It is a critical channel for communicating to companies that investors expect and value a focus on a company's long-term performance and on sustainability. It is also a way in for long-term investors to enhance their investment performance.[23] Long-term investors are particularly well placed to develop close, ongoing relationships with companies that enable them to generate insights that can be incorporated into investment decisions and to exercise influence for improved management of long-term value creation factors, including those relating to sustainability.

Given the importance of stewardship to long-term value creation, the disclosures provided by the nine funds are strikingly weak. Only one describes its approach to active ownership and only one details how it has voted its holdings. While it could be argued that some of the discussions between investors and companies should remain confidential (eg when engagement is ongoing), this does not appear to be a particular barrier to disclosure. Many of the organisations reviewed in this report, or their parent companies, provide comprehensive disclosures on their approaches to active ownership elsewhere on their websites and in their responses to the annual Principles for Responsible Investment (PRI) signatory survey. The issue is that fund websites do not appear to reference this information, or explain how the organisation's general approach to active ownership is applied within the specific fund in question.

Exercising voting rights is a fundamental shareholder responsibility and is central to good stewardship. While there are reasons for investors to lend their stock to others (eg this lending can improve market liquidity, reduce the risk of failed trades, add to investors' returns), it may also undermine shareholders' ability to exercise good stewardship (eg if stock is on loan and unavailable for voting when particularly important matters arise). None of the eight equity funds reviewed provide any information on stock lending, or even a statement on whether they do or do not stock lend.

Investment process

There is a notable lack of information from the funds on their investment processes. None of the nine funds provide information on the data and information (ESG and other) used in the research process, on how new or emerging issues or themes are identified and included in the investment process, on how the sustainability performance of different companies compares to others in or not in the portfolio, on how the investment team functions, or on how the investment process and the commitment to long-term investment is supported by the organisation as a whole.

Performance monitoring

The *Taking the long view* report stated that performance should be monitored and reported in a way that encourages managers to focus on long-term financial performance and the sustainability characteristics of the portfolio. This reporting should demonstrate how sustainability is embedded within the investment process, explain stewardship activities, and illustrate the outcomes from the stewardship activities undertaken by the fund.

We have covered some aspects of reporting above, so we focus here on some of the performance-related aspects. In that context, investment performance reporting is well developed. All nine funds provide detailed fund investment performance data, from one or three months through to three or five years (depending on when the fund was launched).

In almost all cases, however, there is no emphasis on longer-term performance in terms of how data are presented. Shorter-term data tend to be presented first in tables. That is, performance data tables tend to present one-month performance data on the left, and then present performance data for three and six months, one, three and five years, and since inception. The consequence is that the reader will tend to pay most attention to the most recent data, seeing its positioning as a signal as to its relative importance.

None of the nine funds report on the sustainability characteristics of the fund.

Commercial models

Taking the long view argues that fee structures should aim to align interests between clients and investment managers, ie each should 'win' or 'lose' in parallel. Where performance fees are used, they should be simple, transparent and clearly incentivise long-termism. Portfolio managers' bonuses should be weighted predominantly towards long-term performance (which the *Taking the long view* report has suggested should be five years or more[24]).

Despite the importance of incentives and commercial models, it is notable that none of the funds report on how their portfolio managers are rewarded or incentivised. None of the funds explain how rewards and incentives align with the fund's investment beliefs and performance objectives or with the fund's ESG/sustainability characteristics.

Conclusion

This report provides a framework for asset managers to use when disclosing the long-term orientation of their funds. To test the framework, it was applied to a list of nine funds that identify themselves as ‘long term’. The analysis found that that disclosures being provided by those funds are insufficient to enable their current or potential clients to assess whether they are actually operating in a long-term fashion.

At present it is not possible to assess whether and how the aspiration of funds that present themselves as ‘long term’ feeds through to investment beliefs, and from there into objectives (financial and sustainability-related), investment processes, stewardship practices, performance monitoring and reporting. This is a long-standing issue that was clearly highlighted in a 2010 report from Mercer and IRRC which analysed the investment horizon of active long-only equity managers across different geographies and styles between June 2006 and June 2009.[25]

Further, it can often be difficult to find specific pieces of information, and there appears to be an assumption that investors will know that certain information exists and where this information might be found. One example is that full lists of holdings are often only provided in organisational annual reports, and these lists are usually not clearly signposted from the fund webpage or documents. Furthermore, these documents are not necessarily designed for the retail or non-specialist investor.

In many cases, parent organisations have long-standing commitments to responsible investment, and provide many of the disclosures in other locations, eg in responsible investment reports and/or as part of the PRI reporting requirements. Yet, these disclosures are not referred to when describing or marketing these long-term funds; in fact, none of the funds reviewed provided a link through to the responsible investment section of their website.

Next steps

In summary, asset managers who wish to identify themselves as ‘long term’ could use this report as a guide on how to best disclose their approach, particularly for retail clients. Retail clients tend to rely on publicly available information and may not benefit from additional insights directly from their investment managers. Therefore, investment managers should consider incorporating the recommended disclosures in their reporting to clients. Institutional clients could also ensure that such information is available when engaging with asset managers.

Wider reflections

This report is based on the written materials produced by investment managers. Given that many of the investment organisations covered by this report are recognised for their approaches to responsible investment, active ownership and long-termism, it is striking how little of this is reflected in the information they are providing about their funds.

This raises some important questions:

- Is the information provided complete, or is there other information that could usefully be provided to current and potential clients?
- Does the information provided present the best picture of the investment manager and the organisation's approach to long-term investment?
- Are there other materials – beyond fund fact sheets and annual reports – that could be provided?
- Are there other ways of communicating and sharing information (eg videos, infographics, webinars) that should be deployed alongside fund fact sheets?

In asking these questions and in presenting this framework, we acknowledge that investment managers need to strike a balance between clarity and completeness, and we acknowledge that reporting practice is strongly influenced by regulation and guidance. However, we are also clear that the information that is being provided is falling short of that which is needed by investors wishing to understand their investment managers' approach to long-term investment. In many cases, this disclosure gap can be addressed through better use of existing disclosures, through specific publications or articles, through videos, and better signposting of where information can be found.

Appendix 1: List of funds reviewed

- Baillie Gifford Long Term Global Growth Equity Fund, https://www.bailliegifford.com/en/usa/institutional-investor/funds/long-term-global-growth-equity-fund

- BG (Boussard & Gavaudan) Long Term Value, https://www.boussard-gavaudan.com/en/funds.php?isin=FR0010137646

- BNY Mellon Long-term Global Equity Fund, https://www.bnymellonim.com/uk/en/intermediary/fund/bny-mellon-long-term-global-equity-fund-euro-a-inc-IE00BP8RRQ23/#

- Davy Long-Term Growth Fund, http://www.davyselect.ie/investment-choices/gps-funds.html

- Legg Mason Martin Currie Global Long-Term Unconstrained Fund, http://www.leggmason.co.uk/product/detail.aspx?mktcd=DUBLMMCGLTU&type=overview&role=fa

- Parvest Bond Euro Long Term (Classic), https://www.bnpparibas-am.lu/intermediary-fund-selector/fundsheet/fixed-income/parvest-bond-euro-long-term-classic-c-lu0823381875/

- Strategic Investment Advisors Group Long Term Investment Fund Classic, http://s-i-a.ch/great-britain-uk/ltif-classic-uk/

- TKPI Long Term Investment Fund, https://tkpinvestments.com/downloads/tkpi-mm-long-term-investment-fund/?lang=en&sf_action=get_data&sf_data=all&_sft_cmdm_category=equities

- UBS Equity Long Term Themes, https://www.ubs.com/ch/en/asset-management/private-investors/long-term-themes.html

Note: Seven of the nine funds above are listed equity funds. The exceptions are the funds offered by Parvest (fixed income) and TKPI (multimanager).

[1] University of Cambridge Institute for Sustainability Leadership (CISL). (2016, May). *Taking the long view: A toolkit for long-term, sustainable investment mandates*. Cambridge, UK: University of Cambridge Institute for Sustainability Leadership. Retrieved from https://www.cisl.cam.ac.uk/resources/publication-pdfs/taking-the-long-view-ilg-mandates-report.pdf

[2] See, for example: European Commission. (2010). Commission Regulation (EU) No 583/2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website. Retrieved from https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32010R0583; European Commission. (2017). Commission Delegated Regulation (EU) 2017/653 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1516899203728&uri=CELEX:02017R0653-20170412

[3] It is relevant to note that the EU High-Level Expert Group on Sustainable Finance recommended: "The Commission should request all funds, destined for the retail market to disclose clear and understandable information on their sustainability impact, as well as information on the exercise of voting rights." EU High-Level Expert Group on Sustainable Finance. (2018). *Financing a Sustainable European Economy*. Brussels: European Commission. The European Commission is currently consulting on this recommendation.

[4] University of Cambridge Institute for Sustainability Leadership (CISL). (2016, May). *Taking the long view: A toolkit for long-term, sustainable investment mandates*. Cambridge, UK: University of Cambridge Institute for Sustainability Leadership. Retrieved from https://www.cisl.cam.ac.uk/resources/publication-pdfs/taking-the-long-view-ilg-mandates-report.pdf

[5] See, for example: CISL (2016) (Note 4), pp. 8–9 and 29–30 and references therein. For a view on the benefits of having a greater proportion of long-term investors on the share register, see: Cleary, S., & Wang, J. (2017). Institutional Investors, Monitoring and Corporate Finance Policies. *International Journal of Managerial Finance*, 13(2), 186–212. Retrieved from https://doi.org/10.1108/IJMF-07-2016-0138

[6] See for example: Aspen Institute. (2009, September 9). *Overcoming Short-Termism: A Call for a More Responsible Approach to Investment and Business Management*. New York, NY: Aspen Institute. Retrieved from http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/overcome_short_state0909_0.pdf; Dallas, L. (2011). Short-Termism, the Financial Crisis, and Corporate Governance. *The Journal of Corporation Law*, 37(2). Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2006556; Kay, J. (2012, July). *The Kay Review of UK Equity Markets and Long-term Decision Making*. *Final Report.* London, UK: Department for Business, Innovation and Skills. Retrieved from http://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf

[7] McKinsey Global Institute. (2017, February). *Measuring the Economic Impact of Short-Termism*. McKinsey Global Institute. Retrieved from http://www.fcltglobal.org/docs/default-source/default-document-library/20170206_mgi-shorttermism_vfinal_public.pdf?sfvrsn=8d88258c_0

[8] Examples include: Graham, J., Harvey, C., & Rajgopal, S. (2005). The Economic Implications of Corporate Financial Reporting. *Journal of Accounting and Economics*, 40(1). Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=491627; Graham, J., Harvey, C., & Rajgopal, S. (2006). Value Destruction and Financial Reporting Decisions. *Financial Analysts Journal*, 62. Retrieved from http://ssrn.com/abstract=871215; FCLT Global. (2016). *Rising to the Challenge of Short-termism* (FCLT). Retrieved from https://www.fcltglobal.org/docs/default-source/default-document-library/fclt-global-rising-to-the-challenge.pdf

[9] University of Cambridge Institute for Sustainability Leadership (CISL). (2014). *The value of responsible investment: The moral, financial and economic case for action*. Cambridge, UK: Investment Leaders Group, University of Cambridge Institute for Sustainability Leadership. Retrieved from https://www.cisl.cam.ac.uk/resources/publication-pdfs/ilg-the-value-of-responsible-investment.pdf

[10] Carney, M. (2015, September 29). *Breaking the tragedy of the horizon – climate change and financial stability* [Speech]. Retrieved from https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability

[11] For a useful summary of the literature on how long-term investment strategies can deliver long-term financial benefits ("a sizeable premium"), see: Willis Towers Watson Thinking Ahead Institute. (2017). *The Search for a Long-term Premium*. London, UK: Willis Towers Watson. Retrieved from https:/www.thinkingaheadinstitute.org/-/media/Pdf/TAI/Research-Ideas/The-search-for-a-long-term-premium.pdf. For a wider societal perspective see: Barton, D. (2017). Refocusing Capitalism on the Long Term: Ownership and Trust Across the Investment Value Chain. *Oxford Review of Economic Policy*, 33(2), 188–200. Retrieved from https://doi.org/10.1093/oxrep/grx025

[12] EU High-Level Expert Group on Sustainable Finance (2018) (Note 3), p. 5.
[13] EU High-Level Expert Group on Sustainable Finance (2018) (Note 3), p. 27.
[14] European Commission. (2018). *Action Plan: Financing Sustainable Growth COM(2018) 97 final*. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097
[15] The *Taking the long view* report does not offer a formal definition of portfolio turnover – a common definition is that it is a measure of how frequently assets within a fund are bought and sold by the manager – nor does it define a level at which portfolio turnover might be considered low or high. The report does note that "Holding periods in LTRSI strategies are likely to be at least five years and may be up to 10 years or beyond." (CISL (2016) (Note 4), p. 19).
[16] Morningstar website. Available at: http://www.morningstar.co.uk/uk/
[17] Hargreaves Lansdown website. Available at: https://www.hl.co.uk/
[18] We identified 32 funds from six fund managers on the Morningstar platform, and four funds from three fund managers on the Hargreaves Lansdown website.
[19] This could include discussion of the models used to analyse ESG issues and description of the data sources and other inputs to investment decision-making.
[20] CISL (2016) (Note 4), p. 10.
[21] This mirrors the general lack of clarity amongst investors about what long term means in quantitative terms. See, for example: PRI. (2013). *Long-term Mandates: A Discussion Paper*. PRI. Retrieved from https://www.top1000funds.com/wp-content/uploads/2014/08/Long-term-mandates-PRI.pdf
[22] CISL (2016) (Note 4), p. 20.
[23] See, for example: Dimson, E., Karakaş, O., & Li, X. (2015). Active Ownership. *Review of Financial Studies (RFS),* 28(12), 3,225–3,268.
[24] CISL (2016) (Note 4), p. 24.
[25] Mercer and IRRC. (2010). *Investment Horizons: Do Managers Do What they Say?* New York, NY: Mercer and IRRC Institute. Retrieved from https://www.weinberg.udel.edu/IIRCiResearchDocuments/2015/09/IRRCMercerInvestmentHorizonsReport_Feb20101.pdf