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## PRESS RELEASE

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## New toolkit helps investors address the problem of short-termism in financial markets

CAMBRIDGE, UK (16 May 2016)

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

The report, *"Taking the long view: A toolkit for long-term, responsible and sustainable investment mandates,"* launched by the Investment Leaders Group, convened by the University of Cambridge Institute for Sustainability Leadership, addresses the problem of short-termism in financial markets. It provides a toolkit of 10 design features to develop active equity mandates with varying 'strengths' by adjusting the various characteristics to suit their needs, circumstances, and belief in the investment significance of sustainability issues. Such issues range from investment time horizons to organisational culture, and from fund managers' incentives to the portfolio's contribution to society and the environment.

Investors will be able to use the toolkit to design investment strategies that can make a particularly strong contribution to responsible, long-term value creation – improving long-term returns for savers and clients, at the same time as contributing to the environment and society in which they operate.

Speaking of the importance of this approach, Torben Möger Pedersen, CEO and founder of PensionDanmark said, "Asset owners should clearly communicate their investment beliefs on long-termism and sustainability. Mandates are a key vehicle for implementing those beliefs. Working with fund managers that have a long-term approach requires a high degree of understanding and trust between the parties, and entails both a little patience and strong internal capabilities within asset owners' organisations in order to reap those benefits."

Long-termism has the advantage of a general increase in economic output and efficiency across companies as a whole; higher returns from individual companies within a portfolio as a result of holding periods that allow the investor to capture longer term value; and the opportunity to enhance value creation through engagement built on strong relationships with companies. For instance, the Kay Review of Equity Markets and Long Term Decision Making, commissioned by the UK government in 2012, found that short-termism caused *'a tendency to under-investment'* as a result of an excess of trading activity based on expectations of likely short-term share price

movements, rather than investment based on an understanding of fundamental value. Similarly, a 2013 survey by the Canada Pension Plan Investment Board and McKinsey calculated that *‘the elimination of short-termism would ... result in a level of output around 20% higher than would otherwise be the case’*.

The Global Head of Responsible Investment of First State Investments, Will Oulton says, "Short-termism in the world's capital markets has not served the end saver well and has encouraged behaviours which undermine the principles of good stewardship from both investors and corporate executives. First State Investments welcome this report which provides valuable guidance to investors on the processes, practices and tools which can be adopted to implement a long-term investment approach which aligns with an investor's specific culture, beliefs and philosophy."

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## About the report

***“Mandates for Long-term, Sustainable Investment: Guidance on the design of investment mandates”*** – Mandates are the vehicle through which client interest is communicated and secured along the investment chain, and are thus one of the most strategically important levers a responsible investor can pull. The report identifies the characteristics of such agreements that encourage long-term, sustainable investment management to take place. By encoding such characteristics into mandates, investors strengthen their ability to make capital work for the benefit of society.

- Read the full [report](#)

## About the Investment Leaders Group

The Investment Leaders Group (ILG) is a global network of 11 leading investment firms convened by the University of Cambridge Institute for Sustainability Leadership. ILG members are: Allianz Global Investors, First State Investments, Loomis Sayles, Natixis, Nordea, Old Mutual, PensionDanmark, Standard Life Investments, TIAA Asset Management and Zurich Insurance Group. The ILG's mission is to shift the investment chain towards responsible and long-term value creation, so 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.

## About the Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership (CISL) brings together business, government and academia to find solutions to critical sustainability challenges.

# Investment Leaders Group



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