News Release

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Long-term Investment Faces Increasing Constraints

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Kai Bucher, Associate Director, Media, Tel.: +1 212 703 2377, E-mail: Kai.Bucher@weforum.org

- New report: Increasing constraints to long-term investing will limit the availability of long-term capital in the global economy
- Long-term capital is more necessary than ever to fund important needs (e.g. infrastructure, innovation and the transition to a low-carbon economy); it acts as a counter-cyclical force in financial markets and can impact the time horizon of corporate managers
- Insurance and pension fund regulation may have unintended adverse consequences on economic growth
- Long-term investors should work to better address principal-agent misalignment in their investment process
- More information on the report can be found here: http://www.weforum.org/issues/future-long-term-investing

New York, USA – The ability to make long-term investments is diminishing at a time when the need for long-term capital is significantly increasing, contends *The Future of Long-term Investing*, a report prepared by the World Economic Forum in collaboration with Oliver Wyman. In 2009, long-term institutional asset owners held slightly under half of the world's professionally managed assets – approximately US$ 27 trillion out of US$ 65 trillion. The report finds that long-term investors as a whole have been able to allocate only 25% of their capital to long-term investments, and this figure is likely to fall as a result of the economic crisis and increasing regulation.

The report finds that there are considerable internal challenges that must be overcome when making long-term investments. Many institutions have material short-term financial obligations that must be funded with short-term investments. Furthermore, investors must overcome organizational conservatism and principal-agency considerations to make long-term decisions. These additional internal constraints make funding difficult to find for projects with short-term losses but potentially significant long-term gains.

"This report highlights the significant barriers that must be overcome in order to execute an effective long-term investing strategy and the broader economic implications of those constraints," said **Tony Tan Keng-Yam**, Deputy Chairman and Executive Director, Government of Singapore Investment Corporation, Singapore, and chair of the steering committee for the World Economic Forum's *Long-term Investing* project.

In addition to internal challenges, there are significant regulatory pressures that also impact the ability to make long-term investments. For instance, mark-to market accounting and strict capital requirements can limit the ability to make long-term investments and promoting pro-cyclical behaviour on the part of the long-term investors.

According to **Angelien Kemna**, Chief Investment Officer, APG All Pensions Group, Netherlands: "Having to account for mark-to-market price changes for assets that we do not intend to sell for many decades makes it harder for us to hold these assets through a market downturn."

Increasing constraints can prove challenging for the broader economic recovery, as there are significant societal benefits that can arise from long-term investing, especially in a post-crisis environment.

"The world is looking to long-term investors to help fund projects such as infrastructure that have historically been funded by governments. However, these investors are increasingly unable to meet these needs," noted **Max**

von Bismarck, Director and Head of Investors Industries at the World Economic Forum.

In addition to long-term projects, corporations with long-term shareholders are more likely to make significant investments in R&D and other long-term initiatives, investments that enable economic growth.

Policy-makers therefore face a dilemma when regulating long-term investors. As **Julia Hobart**, Partner at Oliver Wyman and senior adviser to the project, highlighted: " Policy-makers must integrate their dual goals of ensuring solvency and stability of individual institutions with promoting broader global economic growth. When these issues are considered separately, significant unintended effects can arise. "

The report concludes with six recommendations for long-term investors, regulators and policy-makers that are intended to ease the constraints on long-term investing and increase the benefits that flow from it:

1. Policy-makers should consider the unintended impact of regulatory decisions on investor ability to make long-term investments
2. Policy-makers should mitigate the impact of capital protectionism on long-term investors
3. Long-term investors should develop performance measurement systems that balance fostering a long-term perspective with short-term accountability
4. Long-term investors should implement compensation systems that better align stakeholders with the long-term mandate
5. Long-term investors should promote among stakeholders a better understanding of the implications of a long-term investing strategy
6. More engaged ownership of public companies by shareholders should be encouraged by policy-makers and long-term investors

The findings and recommendations of the report were discussed by leading investors, corporate executives, policy-makers, regulators and academics at the World Economic Forum Annual Meeting 2011 last January in Davos-Klosters, Switzerland.

The report was developed by the World Economic Forum in collaboration with Oliver Wyman. Guidance was provided by a steering committee of 19 leading industry practitioners.

The Steering Committee included:
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WORLD ECONOMIC FORUM
World Economic Forum, 91-93 route de la Capite, CH-1223 Cologny/Geneva
Tel. +41 (0)22 869 1212, Fax +41 (0)22 786 2744, http://www.weforum.org