News Release

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Report: Long-term Investing Can Be Severely Distorted by Inaccurate, Short-term Focus

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- New report finds that inaccurate measurement of investment values and returns can drive long-term investors to adopt short-term orientation
- Without effective governance, inaccurate measurement schemes can distort decision-making for investment
- The lack of long-term capital can lead to less investment in infrastructure and increased shortfalls in pensions
- More information on the report can be found at: http://www.weforum.org/issues/long-term-investing

New York, USA, 29 March 2012 – Inaccurate measurement of investment values, returns, risks and liabilities can create substantial distortions to long-term investment strategies and drive long-term investors to adopt a short-term orientation, according to the Measurement, Governance and Long-term Investing report, released today by the World Economic Forum.

Since long-term capital can play an important role in helping to drive economic growth, stabilize financial markets, and provide financial returns to fund pensions, education and other social goods, the report focuses on the often overlooked, yet increasing number of measurement-related challenges that can hinder long-term investing. Among such challenges:

- Mark-to-market rules require long-term illiquid portfolios to be evaluated relative to a public market benchmark, however, short-term variations in the value of assets held for the long term can lead to shifts in investment policy or execution that hinder success in long-term investing.
- Poor risk measurements or an inadequate understanding of risk can lead institutions to hold riskier (or less risky) assets than they should otherwise.
- Staff evaluation and compensation schemes may create a framework that rewards staff for acting against the stated long-term interests of the institution.

The report argues that without effective governance, measurement schemes can distort decisions regarding the choice of investments and the time frame over which they are held. And the lack of meaningful, intuitive measurements for performance and risk over long-time horizons adds more complexity to long-term investing and the governance of such efforts.

" Long-term patient capital is vital to promote sustainable growth, create jobs and solve problems plaguing the global economy today. Yet, as this important paper highlights, a short-term orientation in terms of performance measurement, leadership, media focus and regulatory constraints threatens to obstruct long-term investment and deprive society of the critical benefits it can provide, " stated **Scott Kalb**, Chief Investment Officer, Korea Investment Corporation (KIC), and Chair of the World Economic Forum ' s Global Agenda Council on Long-term Investing.

The central conclusion and recommendation of this study is that governing bodies and other external stakeholders need to act on the understanding that the performance of long-term investments unfolds over time periods longer than the quarter or the year, even when short-term measurements are used. Such metrics should be placed in context, lest long-term strategies be abruptly and unfortunately revised.

" In this report, we consider the impact of different types of measurements and how, combined with thoughtful governance approaches, institutions can think more carefully about measuring and supporting their long-term

strategies, " observed **Josh Lerner**, Jacob H. Schiff Professor of Investment Banking, Harvard Business School, and the lead researcher for the report.

" Having a long horizon accentuates the importance of governance models, and long-term investors can play a critical role in fostering leading governance practices, both within their own institutions and for the companies that they invest in, " remarked **Mark Wiseman**, Executive Vice-President, Investments, Canada Pension Plan Investment Board. " For long-term investors, good governance that includes a qualified board with a solid long-term orientation and commitment is integral to ensuring that they are able to stay the course through economic and investment cycles. This report makes the case that without appropriate board oversight on risk assessment, valuation metrics or compensation structures, investors can easily lose sight of long-term gains and focus instead on short-term metrics. "

" Although there are numerous metrics for the short-term assessment of long-term investments, none are without limitations. Good governance therefore is critical to ensure sound decision-making around which investments are chosen and for how long they are held, " said **Michael Drexler**, Senior Director, Head of Investors Industries, World Economic Forum USA.

The report was developed by the World Economic Forum in collaboration with a research team led by Josh Lerner of Harvard Business School. Guidance was provided by the World Economic Forum ' s Global Agenda Council on Long-term Investing.

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