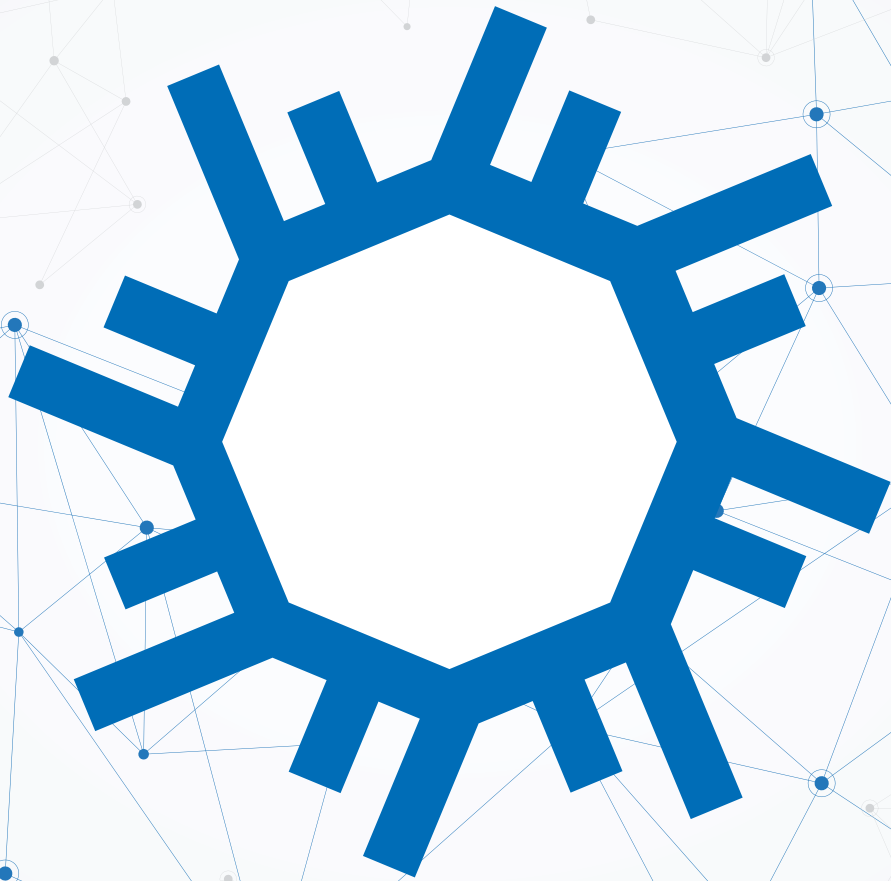




**FCLTGLOBAL**  
FOCUSING CAPITAL  
ON THE LONG TERM



MAKING THE CASE FOR THE LONG TERM

FCLTGlobal's mission is to rebalance capital markets to support a long-term, sustainable economy. We are a non-profit organization supported by leading companies and investors worldwide that develops research and practical tools to drive long-term value creation for companies, savers, and communities.

## Members



## Leveraging the Capital Markets to Build Long-term Value for Companies and Communities, People and Planet

### Board of Directors

**Carmine Di Sibio**, *Global Chairman and CEO, EY*

**Adena Friedman**, *CEO and President, Nasdaq*

**Peter Harrison**, *Group Chief Executive, Schroders*

**Alan Jope**, *Chief Executive Officer, Unilever*

**Kewsong Lee**, *Co-Chief Executive Officer, The Carlyle Group*

**Chow Kiat Lim**, *CEO, GIC*

**Geraldine Matchett**, *Co-CEO and Member of the Managing Board, DSM*

**David Neal**, *Chief Executive, IFM Investors*

**Kevin Sneader**, *Global Managing Partner, McKinsey & Company*

**Howard Ungerleider**, *President and CFO, Dow*

**Theresa J. Whitmarsh**, *Executive Director, Washington State Investment Board*

**Mark Wiedman**, *Senior Managing Director, BlackRock*

**Sarah Keohane Williamson**, *CEO, FCLTGlobal (ex-officio)*

**Ronald Wuijster**, *CEO, APG Asset Management*

**Lei Zhang**, *Founder and CEO, Hillhouse Capital Group*

### Strategic Advisors

**Else Bos**, *Executive Director and Chair of Prudential Supervision, De Nederlandsche Bank*

**Natarajan Chandrasekaran**, *Chairman, Tata Sons*

**Larry Fink**, *Chairman and CEO, BlackRock*

**Lady Lynn Forester de Rothschild**, *Founder and Chief Executive, Coalition for Inclusive Capitalism*

**Martin Lipton**, *Founding Partner, Wachtell, Lipton, Rosen & Katz*

**Andrew N. Liveris**, *Former Chairman and CEO, Dow*

**Nitin Nohria**, *10th Dean, Harvard Business School*

**Paul Polman**, *Former CEO, Unilever*

**Mark A. Weinberger**, *Former Global Chairman and CEO, EY*

### Co-Founders Emeritus

**Dominic Barton**, *Ambassador of Canada to the People's Republic of China*

**Mark D. Wiseman**, *Board Chair, AIMCo*

## Leveraging the Capital Markets to Build Long-term Value for Companies and Communities, People and Planet

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### Why Markets Matter

The 2008 global financial crisis showed us that the actions of capital markets participants have an enormous impact on the real economy and on people’s livelihoods and lives. Jobs were lost, houses foreclosed on, and families uprooted because of the misalignment between the workings of the capital markets and the goal of a long-term, sustainable economy.

While the global financial crisis showed us the downside of capital markets, they also have huge potential to improve lives. People around the world are saving money to meet important goals, such as paying for an education, funding a comfortable retirement, or buying a home. Effective capital markets allocate these long-term savings to fuel innovation and fund business growth, which, in turn, results in job creation and savings growth.

### A Multi-Stakeholder Approach to Capitalism

The role of markets is being questioned today along with important discussions about the impact of the shareholder and other stakeholders. Markets are very efficient at setting prices and directing economic activity. We know that the “invisible hand” of markets allocates resources to fuel innovation and growth and build wealth for savers. However, markets today are much more complex than in the days of Adam Smith, with a long chain between the saver and the ultimate user of that saver’s capital. Typically, a saver entrusts a pension plan or sovereign fund (an “asset owner”) to make decisions on their behalf. The asset owner typically delegates

### Our History

In the wake of the global financial crisis, business leaders knew something had to change in order to safeguard the interests of individual savers and communities. In 2011, Dominic Barton, then global managing partner of McKinsey & Company, wrote [\*Capitalism for the Long Term\*](#), a call to action for business leaders to reform the system. In 2014, Dominic Barton and Mark Wiseman, then CEO of CPP Investments, wrote [\*Focusing Capital on the Long Term\*](#). This piece was met with agreement from many other observers, and as a result, the Focusing Capital on the Long Term (FCLT) initiative was founded by CPP Investments and McKinsey & Company.

FCLT produced a number of seminal reports in the ensuing years. The initiative’s message made it clear that those who participate in the capital markets could improve the system. In July 2016, CPP Investments and McKinsey teamed with BlackRock, Dow, and Tata Sons to found FCLTGlobal.

## Leveraging the Capital Markets to Build Long-term Value for Companies and Communities, People and Planet

much of the decision-making to asset managers who make investment decisions in specific companies. The companies then make capital allocation decisions to fund new projects or enter new markets.



Along this chain, structural or behavioral issues occur that lead to a suboptimal allocation of resources often due to a misalignment of incentives between individual market participants and the system as a whole, and between short-term targets and long-term goals.

Given the complexity and rate of change of capital markets, market participants are critical to ensuring their integrity and sustainability. Today, society demands that businesses address market-related issues through a multi-stakeholder lens in pursuing their long-term growth prospects. The conversations around “stakeholder capitalism” or “ESG” (environmental, social, governance) issues are a response to widespread recognition of these misallocations of resources, their risk to long-term prosperity, and their impact on the climate and critical societal issues. It is critical for business and investors to address these issues to drive long-term, sustainable growth.

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### The Challenges of Short-term Pressures and The Benefits of Long-term Decision Making

Even the best business leaders have long struggled to weigh immediate financial needs against future objectives and often feel pressure to make the expedient choice. Decision-makers often emphasize short-term results at the expense of long-term prosperity.

- Despite the widespread and proven benefits of pursuing a long-term–orientation, the evidence of short-term behavior is overwhelming with, for example, **55 percent** of CFOs saying they would delay projects with a positive net present value to hit quarterly earnings targets.<sup>1</sup>

Short-term pressures have made it difficult for executives to codify their long-term plans and articulate critical elements of their long-term strategy.<sup>2</sup> Yet 86 percent of executives agree that longer time horizons for business decisions would improve performance,<sup>3</sup> and for good reason.

- **Companies that make long-term decisions outperform their peers.** From 2001 to 2014, the revenue of long-term firms cumulatively grew, on average, 47 percent more than the revenue of other firms, and with less volatility.<sup>4</sup> Although long-term firms took bigger hits to their market capitalization than other firms during the 2008–2009 global financial crisis, their share prices recovered more quickly after the crisis.<sup>5</sup>
- **The benefits of looking toward the long term also extend to the world of investment.** Just like companies, investors that make long-term decisions can better capture systemic mispricing relative to their peers. Investors earn a net long-term premium relative to a market cap–weighted index of up to 1.5 percent annually, depending on size and governance arrangements.<sup>6</sup> The illiquidity risk premium available to long-term investors is worth 0.5 percent to 2.0 percent annually. Finally, long-horizon investors can capture significant savings in transaction costs by avoiding unnecessary turnover.

<sup>1</sup> *Rising to the Challenge of Short-termism*. 2016. FCLTGlobal and McKinsey & Company; McKinsey analysis.

<sup>2</sup> *Rising to the Challenge of Short-termism*. 2016. FCLTGlobal and McKinsey & Company; McKinsey analysis.

<sup>3</sup> *Rising to the Challenge of Short-termism*. 2016. FCLTGlobal and McKinsey & Company; McKinsey analysis.

<sup>4</sup> *Measuring the Economic Impact of Short-termism*. February 2017. McKinsey Global Institute.

<sup>5</sup> *Measuring the Economic Impact of Short-termism*. February 2017. McKinsey Global Institute.

<sup>6</sup> Willis Towers Watson. *The Search for a Long-term Premium*. 2017. Thinking Ahead Institute.

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- **Organizations that make long-term decisions benefit the global economy.** Long-term investors engage on long-term issues, a practice that benefits all stakeholders, including the investors themselves. In the year following engagement with investee companies, long-term investors can average an excess return of 2.3 percent—in some cases as high as 7.1 percent.<sup>7</sup> Those returns can be persistent. Over the five years following an engagement, targeted companies produced cumulative average excess returns of 12.3 percent above the benchmark.<sup>8</sup> Furthermore, long-term firms add significantly more jobs on average than other firms.<sup>9</sup>

The numbers show that long term–oriented investors deliver superior performance, and long term–oriented companies outperform others in terms of revenue, earnings, and job creation. And long-term companies and investors have the opportunity to drive real change that benefits their various stakeholders – their shareholders, employees, customers – and the planet.

In fact, being long-term and being sustainable are fully intertwined – neither is achievable without the other.

### The Way Forward

FCLTGlobal brings together a range of market participants to address today’s issues at the intersection of financial markets, sustainability, and society. Our membership is comprised of companies, asset owners, and asset managers globally that are well-positioned to improve the system and to play a leading role in conducting research, implementing long-term behaviors, and driving this important conversation.

Creating long-term value in a multi-stakeholder context requires building for the future. Building for the future by investing in innovation, diverse talent, responses to climate change, new markets, and growth opportunities will fuel prosperity for people and planet. Whether we call this ESG, sustainability or being future-oriented, the first step is shifting towards a longer-term mindset, rather than emphasizing a short-term payoff.

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<sup>7</sup> Willis Towers Watson. *The Search for a Long-term Premium*. 2017. Thinking Ahead Institute.

<sup>8</sup> Willis Towers Watson. *The Search for a Long-term Premium*. 2017. Thinking Ahead Institute.

<sup>9</sup> Rising to the Challenge of Short-termism. 2016. FCLTGlobal and McKinsey & Company; McKinsey analysis.



# Leveraging the Capital Markets to Build Long-term Value for Companies and Communities, People and Planet

## Our Ongoing Research Areas

FCLTGlobal approaches our mission through practical, evidenced-based research. We have identified the key levers that drive long-term, sustainable performance. Global capital flows can lay the foundation for long-term value creation, and our work is focused on practical actions that investors and companies can take against these levers as well as measurements for market participants to assess and convey progress. Our research provides insights and tools in each of these key areas:

### **Governance provides the foundation for long-term value creation**

- [\*Long-term Habits of Highly Effective Boards\*](#)
- [\*Moving Beyond Quarterly Guidance: A Relic of the Past\*](#)
- [\*The Dangers of Buybacks: Mitigating Common Pitfalls\*](#)
- [\*Power Play: The Long-term Impact of Multi-Class Shares\*](#)
- [\*Model Stewardship Code for Long-Term Behavior\*](#)

### **Incentive alignment across the value chain and over time is critical**

- [\*Institutional Investment Mandates: Anchors for Long-term Performance\*](#)
- [\*The Risk of Rewards: Tailoring Executive Pay for Long-term Success\*](#)

### **Engagement between investors and companies provides staying power to pursue long-term goals**

- [\*Driving the Conversation: Long-term Roadmaps for Long-term Success\*](#)
- [\*Making the Call: The Role of Institutional Investors in Activism\*](#)
- [\*Straight Talk for the Long Term\*](#)
- [\*Evolving Rights and Responsibilities of Investors\*](#) (forthcoming)

### **Strategies for innovation, talent, climate responses, capital allocation and risk management drive long-term performance**

- [\*Funding the Future: Investing in Long-Horizon Innovation\*](#)
- [\*Balancing Act: Managing Risk across Multiple Time Horizons\*](#)
- [\*Building Long-term Value: A Blueprint for CFOs\*](#)
- [\*Investing for the Future: A Long-term Portfolio Guide\*](#)
- [\*A Roadmap for Focusing Capital on the Long Term\*](#)



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### Public policy can provide the backdrop for sustainable growth

- [\*Public Markets for the Long Term: How Successful Listed Companies Thrive\*](#)
- Multiple letters applying our research to comments on proposed regulations

### Measurement is critical to assessing performance against these goals

- [\*FCLTCompass\*](#)
- [\*Predicting Long-Term Success for Corporations and Investors Worldwide\*](#)
- [\*Measuring What Matters\*](#)

### Our Current Themes

Today, we are focusing on three key themes of major importance to the global capital markets.

- 1. Meeting the Challenge of Emerging Risks & Opportunities**  
Long-term oriented organizations look to the future and adapt to changing conditions and expectations
- 2. Multi-stakeholder Capitalism in Practice**  
Many organizations recognize the importance of the range of stakeholders to long-term value creation but have yet to implement supporting practices
- 3. Capital Markets 2030: Transition to a Sustainable Future**  
Deploying resources towards climate solutions requires long-term investments and decision-making alongside near-term goals and tools

In summary, the intersection of investors and companies through both public and private capital markets has never been more important to shaping the future. FCLTGlobal is working to use our deep capital markets expertise in conjunction with the practical experience of our members across the investment chain globally to support a long-term, sustainable economy.

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To learn more, visit [www.fcltglobal.org](http://www.fcltglobal.org)

## Leveraging the Capital Markets to Build Long-term Value for Companies and Communities, People and Planet

### Our Team

**Sarah Keohane Williamson**  
Chief Executive Officer

**Kate O'Donnell**  
Events Manager

**Kersten Lanes**  
Chief Operating Officer

**Ross Parker**  
Communications Manager

**Peggy Adams**  
Managing Director

**Anna Maria Recupero**  
Executive Assistant to the CEO

**Ariel Babcock**  
Managing Director and Head of Research

**Prem Samtani**  
Senior Fellow

**Steve Boxer**  
Managing Director

**Sara Simonds**  
Director

**Brett Perryman**  
Managing Director

**Sam Sterling**  
Member Engagement Manager

**Natasha Braginsky Mounier**  
Senior Fellow

**Luke Stidham**  
Fellow

**Bryn Costello**  
External Relations Associate

**Victoria Tellez**  
Senior Research Associate

**Allen He**  
Associate Research Director

**Devin Weiss**  
Research Associate

**Matthew Leatherman**  
Research Director

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