FCLTGLOBAL
FOCUSING CAPITAL
ON THE LONG TERM

FCLTSUMMIT 2024

New York | 28 February 2024

Millions of people around the world are saving money to meet personal goals—funding a comfortable retirement, saving for someone's education, or buying a home, to name a few.

The funds to support these goals are safeguarded by institutional investors—pension funds, sovereign wealth funds, insurers, and asset managers—who invest in companies for the prospect of growth and security. These savers, their communities, and the institutions that support them make up the global investment value chain, and each benefit from long-term decisions in different ways.

Data shows that long-term-oriented investors deliver superior performance, and long-term- oriented companies outperform in terms of revenue, earnings, and job creation. But despite overwhelming evidence of the superiority of long-term investments, short-term pressures are hard to avoid. A majority of corporate executives agree that longer time horizons for business decisions would improve performance, and yet half say they would delay value-creating projects if it would mean missing quarterly earnings targets.

Today, the balance remains skewed toward short-term financial targets at the expense of long-term value creation.

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

Members

AIA, AIMCo, AON, apg, Baillie Gifford, BainCapital, Bank of America

Barclays, BlackRock, Blackstone, Bloomberg, bp, Bridgewater, Brookfield

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Federated Hermes, Fidelity Investments, futurefund, GIC, Goldman Sachs, Hillhouse, Hines

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Kering, KPMG, Liberty Mutual Investments, Macquarie, mastercard, McKinsey & Company, MFS

MSCI, Nasdaq, Norges Bank Investment Management, nuveen A TIAA Company, ONEX, Ontario Teachers' Pension Plan

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TPG, Unilever, Vista, Votorantim, Wachtell Lipton Rosen & Katz, Walmart, Washington State Investment Board

FCLTSUMMIT 2024

28 February 2024

Thank you to our members, guests, and friends who joined us for the annual FCLT Summit on Wednesday, 28 February 2024. Once again, our discussions underscored the critical nature of focusing capital on the long term to support a sustainable and prosperous economy. Our sincere thanks to Bloomberg for hosting us for a third consecutive Summit and to all our member organizations that make this work possible.

Today's disruptions – deglobalization, deleveraging, demographic shifts, decarbonization, digitization, and more – are rippling across financial markets. We must acknowledge that the landscape we operate in today is vastly different from what it was a decade ago. The pace of change, coupled with these new complexities, demands that we reassess and adapt our strategies and our mindset.

Building the right board to navigate these disruptions effectively was a pivotal conversation, including the importance of both the opportunities and risks of disruption and effective board processes and incentives to lead in the face of change.

The topic of funding innovation, particularly amid rising capital costs, was another critical area of our dialogue, underscoring the need for a "leap-of-faith" approach to drive breakthroughs despite the inherent uncertainties.

Our exploration of the new trade landscape offered a nuanced understanding of the complexities facing global investments today. The discussions highlighted the necessity of incorporating national security considerations into decision-making to navigate this evolving environment effectively, and the fact that the term "geopolitics" has gradually become a byword for the U.S.-China relationship.

Your contributions throughout these discussions contribute meaningfully to our research agenda. As we move forward, I encourage you to reflect on these topics and consider how the insights shared can be integrated into your work.

We welcome your feedback on this year's program and look forward to continuing to build our problem-solving community between now and the next FCLT Summit on 26 February 2025. Thank you once again for your commitment and support. I am excited about the opportunities that lie ahead for us to continue making a significant impact together.

With all best wishes,

Sarah K. Williamson

Sarah Keohane Williamson
Chief Executive Officer, FCLTGlobal

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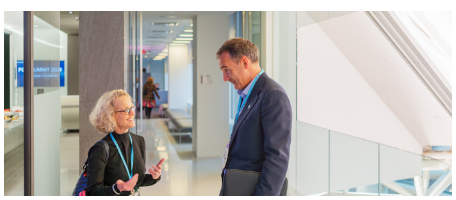
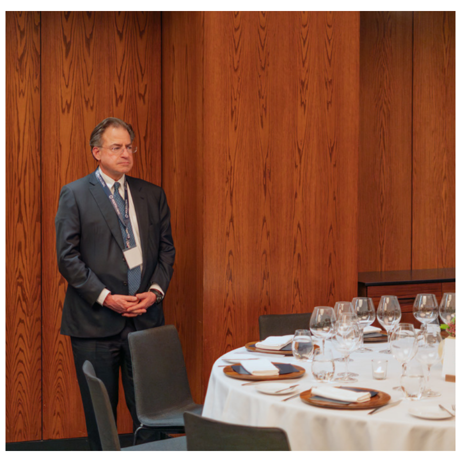




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The 2024 FCLT Summit convened on the morning of 28 February with a word of welcome by **Peter Grauer**, Chairman of Bloomberg. Grauer, who has hosted the summit on its last 3 occasions, emphasized the importance of practical action and the role of each participant in driving change – the ethos of the FCLT Summit and of the FCLTGlobal community more broadly. Grauer highlighted Bloomberg's commitment to long-term thinking, attributing it as a key factor to its sustained growth over 40+ years, and encouraged the application of the summit's insights in real-world contexts.

Theresa Whitmarsh, Chair of FCLTGlobal's Board of Directors since 2021 and a member of the board since the organization was founded, formally initiated the day's program by reflecting on the organization's evolution, growth, and continued pursuit of its mission since our last summit in 2022, and since FCLTGlobal began in 2016. Whitmarsh highlighted FCLTGlobal's recent initiatives to the group, including:

- Our latest piece of research examines a topic that is one of the most critical levers of short-term or long-term decision-making – compensation. ***The CEO Shareholder: Straightforward Rewards for Long-term Performance*** focuses on long-term shareholdings by CEOs, with practical tools to help boards design long-term executive pay structures and effectively communicate these policies to shareholders.
- This year also brought the 4th iteration of **FCLTCompass**, our flagship product that tracks long-term investments on a global scale, measuring the investment horizons of global savers, asset classes, and companies. We know from this work that corporate investment horizons shortened by 6% while institutional investors' investment horizons lengthened by 3%, emphasizing the critical influence that investors have on company investments in the real economy.

Whitmarsh also introduced the new edition of the **FCLTGlobal Blue Book**, a compilation of case studies showcasing members' efforts to invest with a long-term perspective. Each story serves as a guide for companies and investors towards practices that not only yield immediate benefits but also secure a prosperous future for key stakeholders.

To focus the group on the topics ahead, CEO Sarah Williamson led an exercise to assess the long-term "fundamentals" of the organizations represented in the room, a preview of a forthcoming project that will define the qualities of long-term-oriented companies and institutional investors in practical terms, based on FCLTGlobal's library of work, third-party research, and proven long-term practices. Participants provided direct input on this work, which will be released later in 2024.

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Managing a Board through Long-term Disruption

Today, companies are confronted by a potent cocktail of long-term disruptions: demographic shifts, digitization, deleveraging due to rising rates, deglobalization, and decarbonization. Inevitably these disruptions will force companies to question their next-generation strategic direction. This task has become increasingly challenging given the building societal pressures encircling corporate boards, ranging from heightened political partisanship to social media scrutiny. How can CEOs work with their boards to steer the organization effectively through these prolonged disruptions?

To kick off the conversation, John Graham emphasized how fundamental good governance is for long-term success, He stressed that management, shareholders, and boards typically concur on the primacy of long-term value creation, yet disruptions can provoke divergences due to varying incentives, risk appetites, views and other considerations. To address the challenge of balancing disruptions with long-term value creation, he shared insights on the need for early communication with the board, but exercising patience before charting a different strategic course.

The role of the board is to drive near-term performance on the path to long-term outperformance

Boards both support management through disruption and must challenge management to generate value and manage risk. In this sense, high-performing companies tend to find a good balance between “defense” and “offense”. But nearly every board struggles to achieve this equilibrium, and it’s the CEO’s and chair’s job to constantly seek it. The view in the room was that managements tend to be bolder than boards are, so having boards ratify management’s strategic decisions – rather than making the original decisions themselves – enables companies to take decisive action to adapt to disruptive trends.

Selecting the right board

The group expressed shared challenges in finding the right candidates to serve on corporate boards. One challenge is finding directors that will take the risks needed to grow, including withstanding the stress and pressure that comes with it. “Select board members who are not going to run for the hills,” said one member. Another challenge is striking a balance between skills and “wisdom” with board composition. Lean too far toward the former and there is too much focus on the day-to-day; too far toward the latter and the lack of subject matter expertise undermines decision quality and makes the board more prone to panic in times of uncertainty.

Bringing together these attributes can significantly improve decision-making amid disruption. Suggestions to find the right composition to strike this balance included increasing generational diversity (“younger directors have more edge, older directors are easier to please”) as well as global or gender diversity and looking beyond industry veterans to serve as directors, who tend to be more

Firestarter:

John Graham
President & CEO of CPP Investments

Table Leaders:

John Connaughton

Suzanne Donohoe

Henry Fernandez

Carol Geremia

Ronald O’Hanley

Dilhan Pillay Sandrasegara

Carine Smith Ihenacho

homogenous. Selecting board members with the skills for tomorrow's needs can also help counsel company leadership's forays into promising new areas.

Focus on leaps, not steps

A board's response to foreseeable disruptions should be to clarify strategy, guardrails, and the direction of business. This does not mean rapid reaction, and it does not mean being immovable. One CEO said his board approaches disruption with a "soft cement lens." Sand gets blown away, hard cement doesn't give you flexibility – you should be able to pivot, but it shouldn't be too easy to do so.

Methods for achieving success include scenario exercises for understanding the consequences of possible disruptions, laying out "break glass" plans defined in advance, or forming sub-committees on certain issues to build expertise (a concept echoed in [State Street's entry in the 2024 FCLTGlobal Blue Book]). In each case, building effective board support requires consistent, thorough communication with the whole board by the CEO and the Chair, Lead Independent Director or subcommittee head.

KEY TAKEAWAYS

Boards can:

- Increase the diversity of thought around the board table by including a wider range of ages, genders, and worldviews among directors.
- Invite shareholders to speak at board meetings.
- Refer to long-term strategy even in short-term communications about disruptive events.
- Dedicate board meeting time to understanding, simulating and preparing to adapt to disruptions.
- Overcommunicate in acute disruptions within and outside the board by leveraging board chairs and lead independent directors.
- Schedule board meetings after earnings announcements to avoid short-term distractions.

Investors can:

- Participate in company board meetings.
- Share external perspectives, or even actively engage, on disruption priorities, strategy, and planning rather than simply asking questions of companies.

FCLTGlobal can:

- Research governance models from around the world to identify actionable levers that can improve long-term focus.
- Compare and contrast governance models in publicly listed, privately held and other ownership structures.
- Provide tools to help executives and board leadership construct their boards for better long-term decision-making.

Funding Innovation with a Higher Cost of Capital

Innovation takes time and capital – as the cost of capital is on the rise, companies can feel pressure to cut these long-term investments. Managing the dynamic between companies and their shareholders on the balance between near-term payout and long-term value creation will have a significant impact on funding decisions for critical technologies and other breakthroughs. How are companies or investors adapting their strategies to continue driving innovation?

The session began with a fireside chat with Noubar Afeyan, head of Flagship Pioneering and co-founder of Moderna. In the interview, Afeyan discussed the interplay between innovation and entrepreneurship in the life sciences. He highlighted the unique challenges of building companies from scratch while navigating the risk and uncertainty inherent in both science and new ventures generally. Afeyan emphasized the importance of differentiating between risks, which have known probabilities, and uncertainties, which do not, advocating for a "leap of faith" approach over incremental or "adjacent" advancements to achieve breakthrough innovations. Citing Moderna's inception as an example, Afeyan underlined the necessity of a mindset, culture, and reward system that encourages radical ideas. He also stressed the significance of having a compelling vision, measurable progress, and strategic partnerships to attract and sustain investment in high-uncertainty ventures. This is particularly true in biotech where the potential for life-saving impacts provides a powerful incentive for risk-taking, supported by the emerging role of AI.

It's normal for capital to come with a cost

The last decade of extremely low rates is an anomaly, and rising rates are instilling discipline on innovation funding. Indeed, participants expressed a lack of concern regarding the current rate environment as this discipline may make companies and investors more selective in the innovations they fund and more focused on the quality of those innovations. Some observe that a higher cost of capital can discourage adjacent innovation while retaining the case for jump innovation as a higher interest rate does little to degrade a portfolio of "moonshots." That said, the cost of capital presents a greater challenge for younger and smaller companies that cannot fund themselves for extended periods of time, and they're especially important in the innovation ecosystem.

Funding innovation is imperative

Funding innovation is not discretionary for long-term companies because the alternative is stagnation. "With so many businesses being impacted by disruption, we consider innovation critical to helping our portfolio companies stay resilient in a rapidly changing world," Ontario Teachers Pension Plan wrote in the 2024 FCLTGlobal Blue Book. "Those that don't adapt will be left behind."

A helpful method of making the case for more ambitious innovation is showing the realities of stagnation by projecting the erosion of revenues and margins over time as existing products become obsolete or commoditized.

Firestarter:

Noubar Afeyan
Founder & CEO of Flagship Pioneering

Table Leaders:

Murray Auchincloss

Rhianon DeLeeuw

Stuart Dunbar

Eric Johnson

David Neal

Carsten Stendevad

Vadim Zlotnikov

Focus on leaps, not steps (redux)

“Adjacent” innovations – steps to relatively measurable outcomes – fit into risk calculations more easily, while funding “leaps” in innovation requires getting comfortable with uncertainty. Investing in one does not exclude the other. The critical discomfort for investing in leaps is not the high level of risk but rather the unknown level of risk , said one participant, “but if you want long-term growth, go with leaps.”

Appetite for adjacencies vs. leaps varies based on geography, strategy, type of organization, and many other factors; for example, the preference towards moonshot breakthroughs is more apparent in the U.S. where failure is quickly forgotten. Where a long-term investor has the investment horizon to support R&D over longer periods of time, shorter-term investors will be looking for return at every step of the process. In either case, companies need to build moonshots to generate long-term growth but also to provide viable options for the future.

KEY TAKEAWAYS

Companies can:

- Create an ecosystem of innovation throughout the organization rather than isolating it under a Head of Innovation.
- Maintain launch discipline by aggressively collecting and piloting creative ideas while only funding commercialization for the best of them.
- Build credibility with shareholders by demonstrating success with adjacencies, applying discipline around clear milestones, and being clear about what is known and unknown for leaps.
- Create the ability to fund, rather than ground, true moonshots with transformative potential.

Investors can:

- Construct a portfolio of moonshots and evaluate them with a deep out-of-the-money options mindset.
- Probe portfolio company innovation strategy by assessing the balance of adjacencies and leaps and clarifying what is risky but known from what is uncertain and unknown.
- Engage in partnerships with other investors to diversify moonshot risk.

FCLTGlobal can:

- Provide practical tools that companies and investors can use to navigate the uncertainty inherent in funding moonshot innovations.

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Investing for a New Trade Landscape

As global trade patterns realign in response to geopolitical tensions, companies are facing critical long-term decisions about both the nature and geography of investments in businesses, facilities, and supply chains. Meanwhile, investors are trying to understand the impact of shifting trade patterns on their individual investments and their portfolios. Both need to make long-term decisions that consider their bilateral expected returns across borders, the strategic importance of the jurisdiction in question, and the trajectory of the trade patterns. At the same time, retreating to one's home market is unlikely to be the recipe for success.

U.S. Secretary of Commerce Gina Raimondo began the discussion, exploring the emergence and impending growth of "friendshoring" by emphasizing the strategic need to diversify supply chains away from excessive reliance on individual companies, especially those heavily exposed to geopolitical and other singular risks. She made it clear that national security interests and business interests are mutually dependent. The secretary outlined efforts to enhance the US economic presence in the Asia-Pacific region and Latin America, acknowledging the early stages of these initiatives and the importance of reciprocal engagement. Absent engagement, a vacuum may emerge that can open up opportunity for competing interests. Furthermore, she highlighted the promise of the Indo-Pacific Economic Framework that aims to forge more resilient supply chains and a crisis response network among 13 countries, including Australia, Japan, and Vietnam.

Priorities at home come first

National security pressures struck many investors as a surprising and, at times, unwelcome addition to investment mandates. "We have to reconsider our portfolio through a national security lens, forcing us to invest in fewer countries," a participant said. Some companies were concerned about the looming need to rebuild or rewire their global networks and alliances.

When asked what responsibility investors have to invest in companies or industries that are strategically important to their home country, answers ranged from "none whatsoever" to the acknowledgment of a new dual mandate that accounts for global trade concerns. However, in this age of global footprints, "home" might not be as easy to determine as it seems. A firm may truly consider itself global. Or a subsidiary and its parent may be located in different countries with opposing views on an issue or on their stances towards a foreign government.

For investors, adding national security to mandates creates clear tradeoffs in portfolios. For the past 25 to 30 years, companies pursued lower costs abroad irrespective of the national or economic security implications – this is no longer tenable. "That game is over," said a participant.

Firestarter:

Gina M. Raimondo
U.S. Secretary of Commerce

Table Leaders:

Vlad Barbalat

Nik Deogun

Carmine Di Sibio

Adam Emmerich

Bernard Looney

Mark Machin

Matilde Segarra

Allyson Tucker

Theresa Whitmarsh

Valuing cross border risk

In years past, investors and companies have tended to follow the global policy and business zeitgeist when making investment decisions. Now, it's hardly one size fits all: decisions must be made based on the specific circumstances of each investment organization. Corporate participants noted the challenge of maintaining global networks as geopolitics creates fragmentation. This reshaping limits the cost benefits of previous economies of scale, hinders competitiveness, and requires rewiring relationships – all inflationary.

While investing beyond borders can bring political and reputational risk, there are real economic dependencies until companies can build alternative supply chains. Chinese technology and EV components are a current example, as natural resources have been historically.

The risks of specific foreign investments have risen for pensions and other public funds as relationships between some countries deteriorate. As the possibility of stranded assets – both physical and intangible – grows, the investible universe is shrinking. Political allies are quickly becoming economic ones, and opportunities are emerging as a result of these relationships.

Asset owners sponsored by nations or states are unavoidably linked to the policies of their home governments. Asset owners have emerged as significant players with whom companies, asset managers, and even countries can work to find common ground . As CDPQ laid out in the 2024 FCLTGlobal Blue Book, "a growing number of engaged stakeholders have emerged – with governments viewing pension funds as potential partners in building critical infrastructure and keeping their economies competitive."

KEY TAKEAWAYS

Companies can:

- Plan proactively for supply chain disruptions instead of reacting after they occur.
- Continue offering customers non-sensitive goods and services while limiting or forgoing strategic investments that may become stranded later.
- Engage with your home government to advance joint business and government interests.

Investors can:

- Be aware of the inflationary consequences of a shrinking investment universe for corporations and adjust asset allocation accordingly.
- Have country-specific plans instead of painting all countries with the same brush.
- Engage with your home government to advance joint business and government interests.

FCLTGlobal can:

- Conduct new research on how business leaders and investors can proactively confront geopolitical events and uncertainties while developing resilient strategies for long-term investment.

Participants

Noubar Afeyan
Founder & CEO, Flagship Pioneering

Chris Ailman
Chief Investment Officer, CalSTRS

Murray Auchincloss
Chief Executive Officer, BP

Vlad Barbalat
President and Chief Investment Officer, Liberty Mutual Investments

Greg Bromberger
Vice President, Treasury, Cisco

John Connaughton
Co-Managing Partner, Bain Capital Inc

Rhianon DeLeeuw
SVP, Enterprise Strategy & Innovation, Walmart

Nik Deogun
CEO of The Americas, U.S. Senior Partner, Brunswick Group

Carmine Di Sibio
Chairman and CEO, EY

Suzanne Donohoe
Chief Commercial Officer and Global Head, EQT Partners

Stuart Dunbar
Partner, Baillie Gifford

Maarten Edixhoven
CEO, Van Lanschot Kempen

Adam Emmerich
Partner, Corporate, Wachtell, Lipton, Rosen & Katz

Charles Emond
CEO, Caisse de dépôt et placement du Québec

Henry Fernandez
Chairman & CEO, MSCI Inc.

Larry Fink
Founder, Chairman and Chief Executive Officer, BlackRock

Lynn Forester de Rothschild
Chair, E.L. Rothschild

Adena Friedman
President & CEO, Nasdaq

George Gatch
CEO Asset Management, JPMorgan Asset Management

Carol Geremia
President, MFS Investment Management

John Goldstein
Managing Director, The Goldman Sachs Group, Inc.

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Glenn Mincey
Global & U.S. Head of Private Equity, KPMG

David Neal
CEO, IFM Investors

Thomas Nides
Vice Chairman, Blackstone Group Inc.

Sabastian Niles
President and Chief Legal Officer, Salesforce

Ronald O'Hanley
Chairman and CEO, State Street Corporation

Gina Raimondo
Secretary of Commerce, US Department of Commerce

Don Raymond
Chief Investment Strategist, Qatar Investment Authority

Dilhan Pillay Sandrasegara
CEO, Temasek

João Schmidt
CEO, Votorantim S.A.

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Robert Sharps
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