FOCUSING CAPITAL ON THE LONG TERM

SUMMIT 2018
FOCUSING CAPITAL ON THE LONG TERM

NEW YORK | 28 FEBRUARY 2018

FCLTGLOBAL

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FCLTGlobal is dedicated to rebalancing investment and business decision-making towards the long-term objectives of funding economic growth and creating future savings.

FCLTGlobal is a not-for-profit organization that works to encourage a longer-term focus in business and investment decision-making by developing practical tools and approaches to support long-term behaviors across the investment value chain. We take an active approach to achieving our goals by:

- Conducting research and developing practical ideas based on solid evidence
- Engaging the world's top asset owners, asset managers, and corporations to problem-solve and test capital allocation approaches that create long-term value
- Developing educational resources and actionable approaches that are available and applicable globally
- Generating measurable change in capital markets behavior among savers, investors, corporations and other stakeholders

Focusing Capital on the Long Term began in 2013 as an initiative of the Canada Pension Plan Investment Board and McKinsey & Company, which together with BlackRock, The Dow Chemical Company, and Tata Sons founded FCLTGlobal in July 2016. In addition to our Founders, our Member organizations from across the investment value chain, including asset owners, asset managers and corporations, are committed to accomplish long-term tangible actions to lengthen the timeframe of capital allocation decisions.

FOUNDERS

BlackRock
CPP Investment Board
Dow
McKinsey&Company
TATA

MEMBERS

apg
atp=
AT&T
Bloomberg
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CDPQ
Cisco
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Edelman
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futurefund
GIC
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Glencore
Hillhouse Capital
HSBC
Kempen
Khazanah Nasional
kotak
KPMG
Natixis Investment Managers
NZ Super Fund
Ontario Teachers' Pension Plan
PGGM
Piramal
Russell Reynolds Associates
Schroders
State Street Global Advisors
Sullivan & Cromwell LLP
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Unilever
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Washington State Investment Board
Wellington Management
Winton
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Members as of May 2018

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SUMMIT 2018
FOCUSING CAPITAL
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On 28 February, the 2018 Focusing Capital on the Long Term Summit convened more than 150 members and select business leaders in a closed-door event to address the problem of short-term behaviors in capital markets.

We very much appreciate the time and energy of all those who made this a highly productive day devoted to discussing practical actions to encourage long-term business and investment decisions. We were encouraged that leaders from five continents gathered to engage in this important work. And we are particularly grateful to our 42 Founder and Member organizations who made this important event a success.

While it is impossible to capture all the energy and commentary of the day, this report provides high level summaries of both the plenary and breakout sessions under the Chatham House Rule. Our next task is to, based on what we heard throughout the day, prioritize our research efforts and develop further practical solutions to the problems of short-term behavior.

We would welcome further ideas and feedback on the Summit or on our efforts more broadly. Should you have any questions, comments, or ideas for our next Summit, please feel free to contact our team. Thank you for your interest and commitment to promoting long-term value across the global business community and investment value chain.

With all best wishes,

Mark Wiseman
Board Chair, FCLTGlobal

Sarah Keohane Williamson
Chief Executive Officer, FCLTGlobal
sarah.williamson@fcltglobal.org


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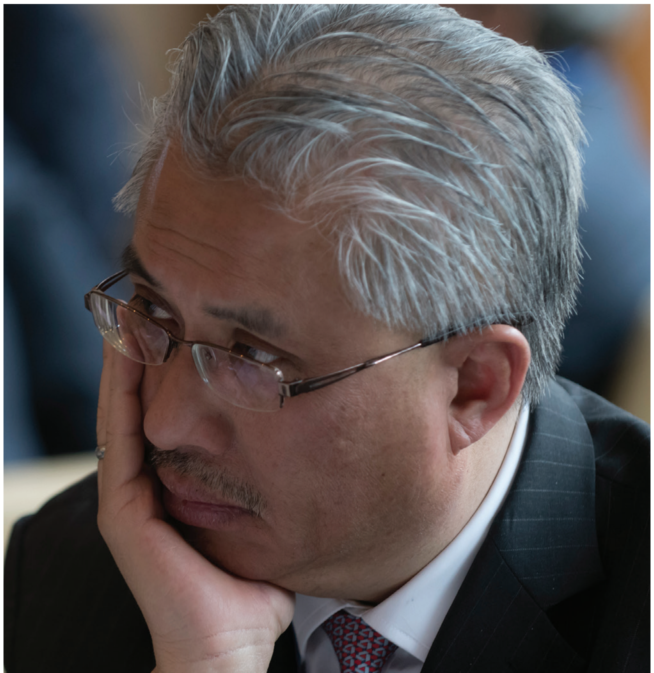
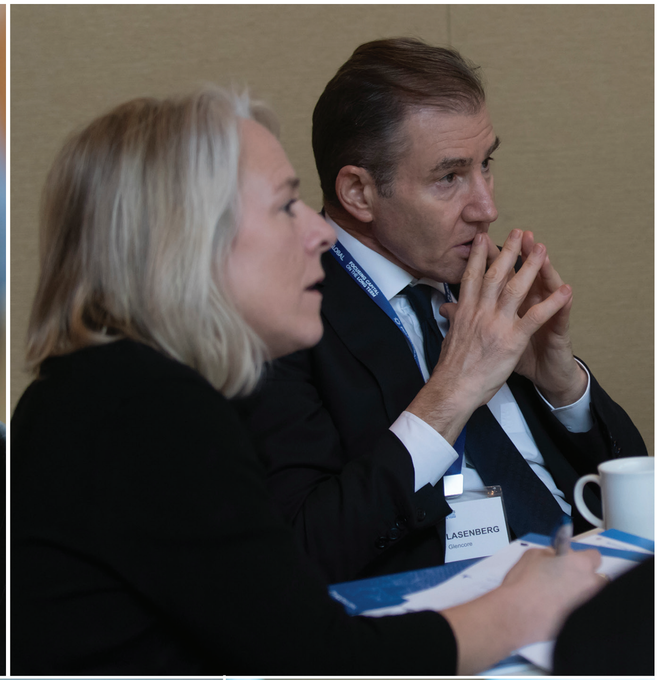
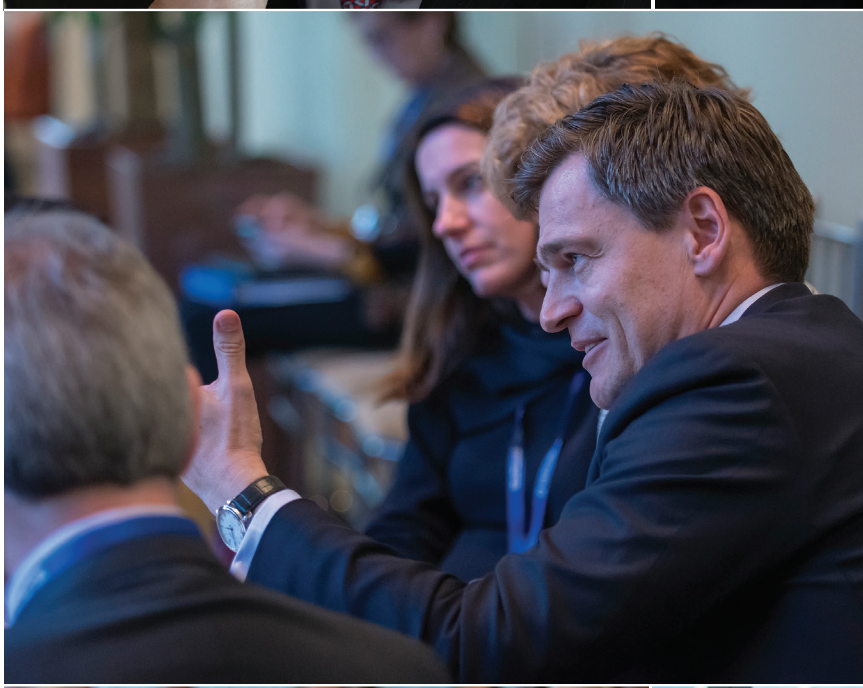
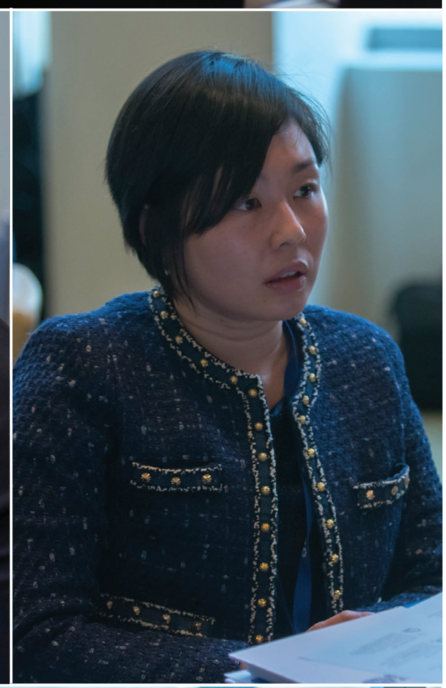
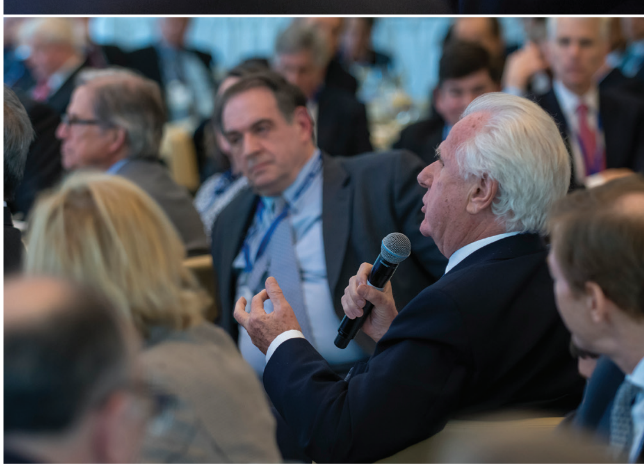
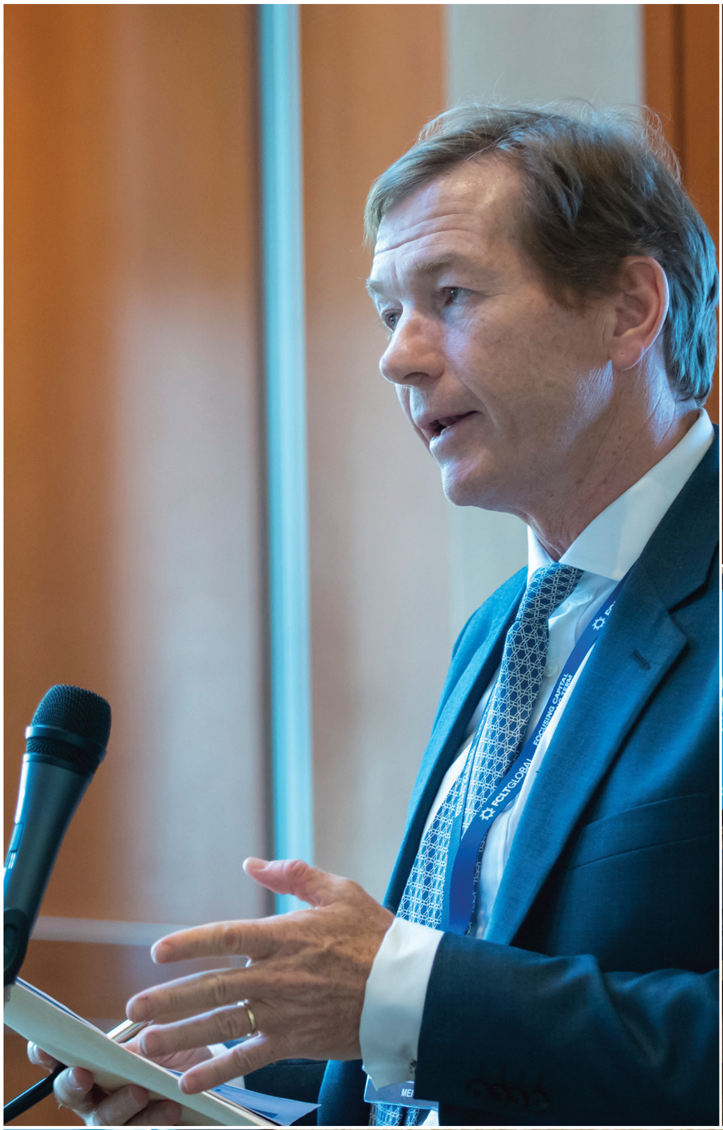


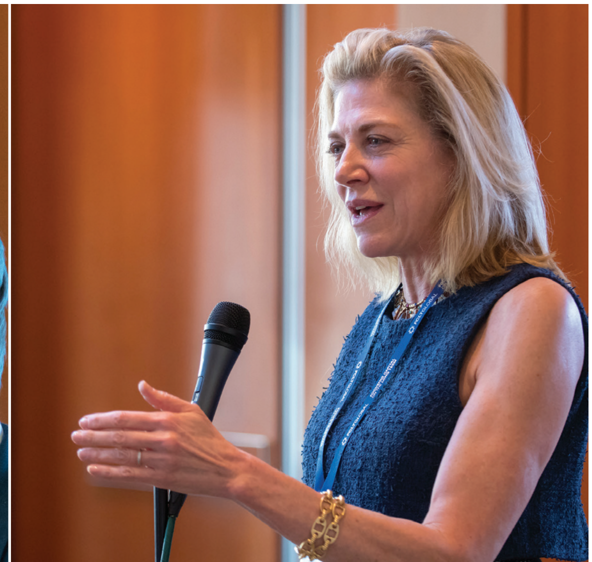

LASENBERG
Glencore

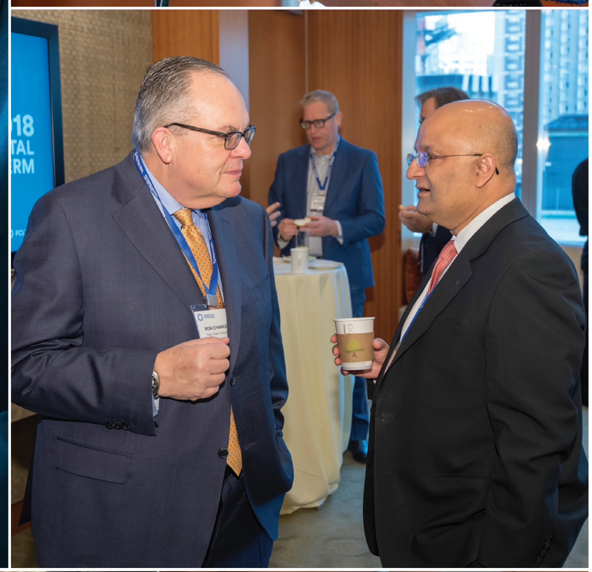


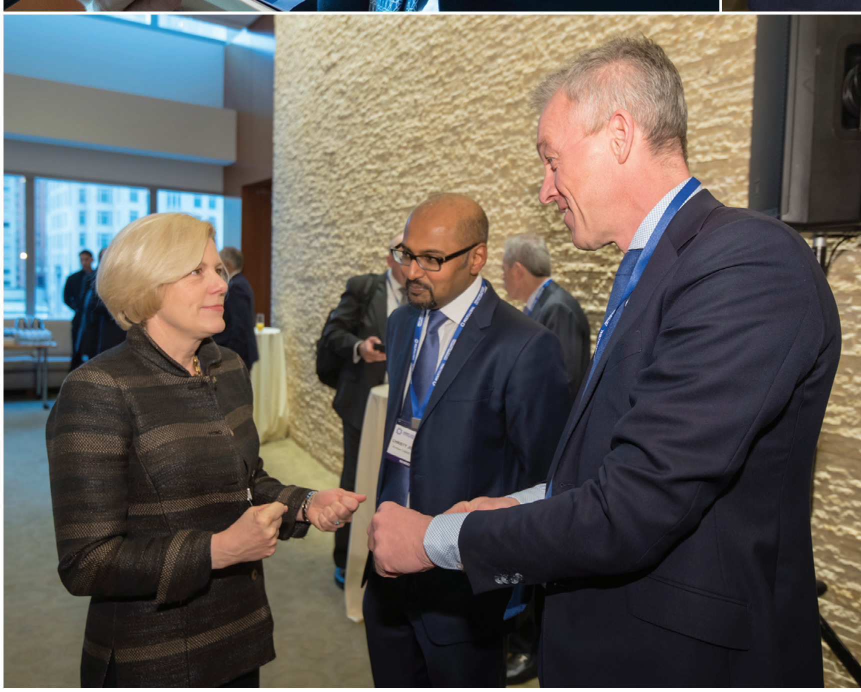


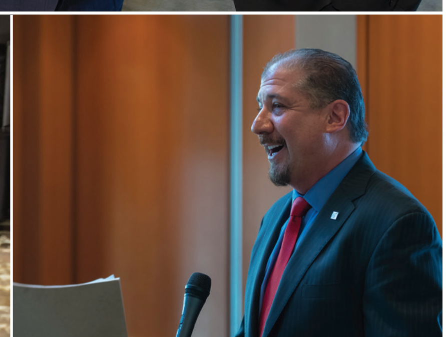


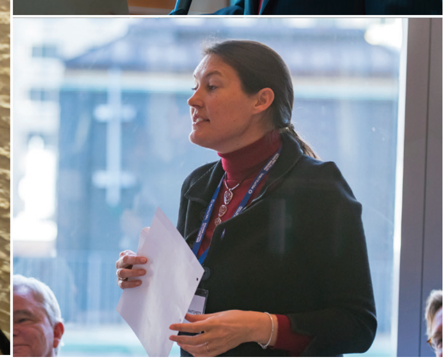












Long-term Beliefs: What We Really Know

Nitin Nohria, Dean, Harvard Business School

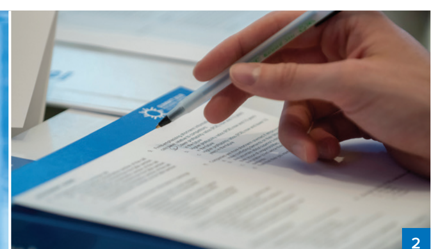
George Serafeim, Professor, Harvard Business School

Let's start with the facts: it is critical to be clear about what we know and what we do not. Harvard Business School Dean Nitin Nohria and Harvard Business School Professor George Serafeim started the morning by administering a quiz on many facets of long-termism to dispel misconceptions and provide participants with foundational knowledge to apply for the rest of the day.

Many participants were surprised to learn that most capital is long-term, that the management sections of earnings calls are more short-term-oriented than the Q&A, and that the average duration of CEO compensation is 1.4 years. There is naturally a connection between the long-term-orientation of firms and executive compensation vesting period. The quiz—and the discussion around it at the tables—helped participants identify gaps in their knowledge and hone their priorities.

KEY TAKEAWAYS: Long-term Beliefs: What We Really Know

Dean Nohria and Professor Serafeim urged corporations to embrace the abundant supply of patient capital and communicate their long-term goals to investors. More broadly, they inspired participants to recognize strong evidence showing that management teams have the ability to confront short-term pressures and can shape, rather than accept, their environments.



1 Dean Nitin Nohria and Prof. George Serafeim (HBS) poll the audience.
2 The audience answers a questionnaire on their long-term beliefs.
3 Attendees eagerly awaiting the answers to the polling questions.

QUESTIONS REGARDING LONG-TERM BEHAVIORS

WHO IS THE INVESTOR?

1. The percentage of equity shares (market capitalization weighted average across US listed companies) held by index funds is:
   a. 3-5%
   b. 7-8%
   c. 18-20%
   d. 40-45%

2. The average percentage of equity shares (market capitalization-weighted average across US listed companies) held by index and quasi-index (i.e. minimizing tracking error with slight over or underweight in few stocks) funds is:
   a. 25-30%
   b. 40-45%
   c. 65-70%
   d. 85-90%

INVESTOR HOLDING PERIODS

3. The length of time actively managed funds held a stock in the past 25 years has on average has:
   a. Decreased from 3 years to less than 1 year
   b. Stayed stable between 1 and 2 years
   c. Decreased from 5 years to 1 year
   d. Stayed stable between 3 and 6 months

INVESTOR TYPE

4. Among actively managed funds:
   a. Funds with more patient capital (i.e. higher portfolio duration and lower frequency trading) perform better
   b. Funds with less patient capital (i.e. lower portfolio duration and higher frequency trading) perform better
   c. There is no performance difference between funds with more or less patient capital

5. Firms are less likely to reduce R&D to meet analyst forecasts if more of the shares are held by:
   a. Management
   b. Institutional investors with high portfolio turnover
   c. Institutional investors with low portfolio turnover
   d. Retail investors

6. Compared to private firms of very similar characteristics, public firms:
   a. Invest more in industries in which stock prices are more sensitive to earnings news
   b. Invest less in industries in which stock prices are more sensitive to earnings news

STOCK PRICES AND FUNDAMENTALS

7. Companies' stock returns and earnings converge over a period of:
   a. 1 year   b. 2 years   c. 5 years   d. 10 years

All source material can be found at www.fcltglobal.org/summit.

QUESTIONS REGARDING LONG-TERM BEHAVIORS

MANAGEMENT LEVERS

8. More frequently, in an earnings call:
   a. The management presentation section of the call is more long-term oriented than the Q&A section
   b. The management presentation section of the call is more short-term oriented than the Q&A section
   c. The management presentation section of the call is equally long-term oriented as the Q&A section

9. Firms emphasizing short-term information in earnings calls have, relative to competitors:
   a. Lower profitability ratios (ROE) now and 1-3 years in the future
   b. Higher profitability ratios (ROE) now and 1-3 years in the future
   c. Higher profitability ratios (ROE) now and lower 1-3 years in the future

10. Firms emphasizing short-term information in earnings calls:
    a. Are more likely to report a small positive earnings surprise and increasing R&D expenditures
    b. Are more likely to report a small negative earnings surprise and increasing R&D expenditures
    c. Are more likely to report a small positive earnings surprise and decreasing R&D expenditures

11. Companies are more short-term oriented if employees:
    a. Have conflicting demands on their time
    b. Are uncertain about superior's expectations and their scope of responsibilities
    c. Are unable to influence their line manager's demands
    d. Feel that their job interferes with their family life

12. Companies that report strong anticorruption systems and operate in high corruption geographies have:
    a. Higher 3-year sales and profit growth relative to competitors
    b. Lower 3-year sales and profit growth relative to competitors
    c. Lower 3-year sales growth and higher 3-year profit growth relative to competitors

EXECUTIVE COMPENSATION

13. Companies are more long-term oriented if executive compensation is:
    a. Higher than industry-average
    b. Lower than industry-average
    c. A greater variable component tied to performance
    d. Vesting over a longer period therefore having higher duration

14. Average duration of CEO executive compensation is:
    a. 8-10 years
    b. 5-6 years
    c. 3-4 years
    d. 1-2 years

DISRUPTION IN THE COMPETITVE LANDSCAPE

15. The annual turnover of S&P 500 companies in the past 50 years (1966-2016) has:
    a. Increased significantly
    b. Decreased significantly
    c. Not significantly changed over time

16. The annual turnover of S&P 500 companies in the past 50 years (1966-2016) has been:
    a. 1-2%
    b. 4-5%
    c. 7-8%
    d. 10-11%

Answers on page 31

Institutional Investment Mandates: Anchors for Long-term Performance

Session Chair:

Mark Machin,
President & CEO, Canada Pension Plan Investment Board

Table Leads:

Lars Dijkstra, CIO, Kempen Capital Management

Bryan Lewis, CIO, Pennsylvania State Employees' Retirement System

Nicole Musicco, Senior Managing Director, Ontario Teachers' Pension Plan

Jaap van Dam, Principal Director, PGGM

Investment mandate terms can set a long-term mindset between asset owners and asset managers. Summit participants dissected the investment management mandate as a lynchpin for long-termism and explored how to broaden the use of long-term investment mandate provisions, such as those described in the FCLTGlobal publication "Institutional Investment Mandates: Anchors for Long-Term Performance."

Session chair Mark Machin, President and CEO of Canada Pension Plan Investment Board, and the table leads moderated conversations on how the terms of investment mandates can drive a long-term mindset.

Discussants focused on the mechanisms they have introduced or implemented to promote long-term investing at their organizations. Actionable solutions proposed include:

- A letter of intent that outlines expectations between an asset owner and asset manager on performance, style drift, and capacity limits
- Two-to-five year contracts
- Longevity discounts and deferred performance fees

Roadblocks to implementing and publicizing long-term contract provisions include board knowledge, investment consultant agency issues, staff turnover, and requirements to rebid management contracts periodically.

KEY TAKEAWAYS: Institutional Investment Mandates: Anchors for Long-term Performance

Asset owners

- Implement and publicize long-term contract provisions for public equity mandates
- Consider contracting with asset managers in accordance with the long-term model for other asset classes

Asset Managers

- Engage with asset owners developing long-term mandates
- Restructure fund terms in accordance with long-term model

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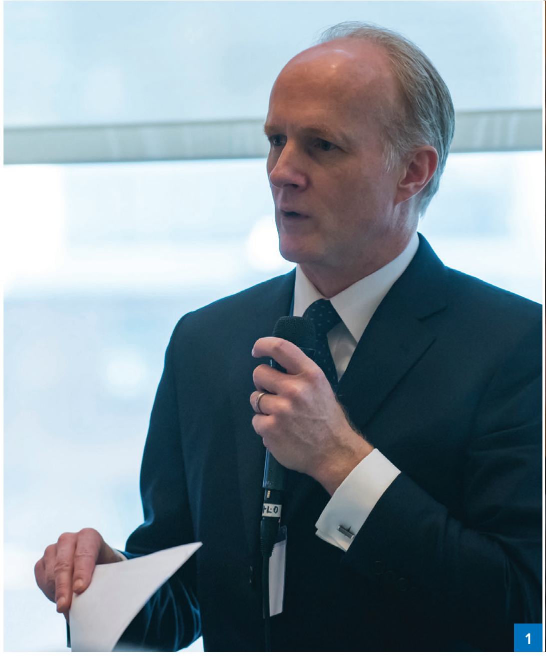
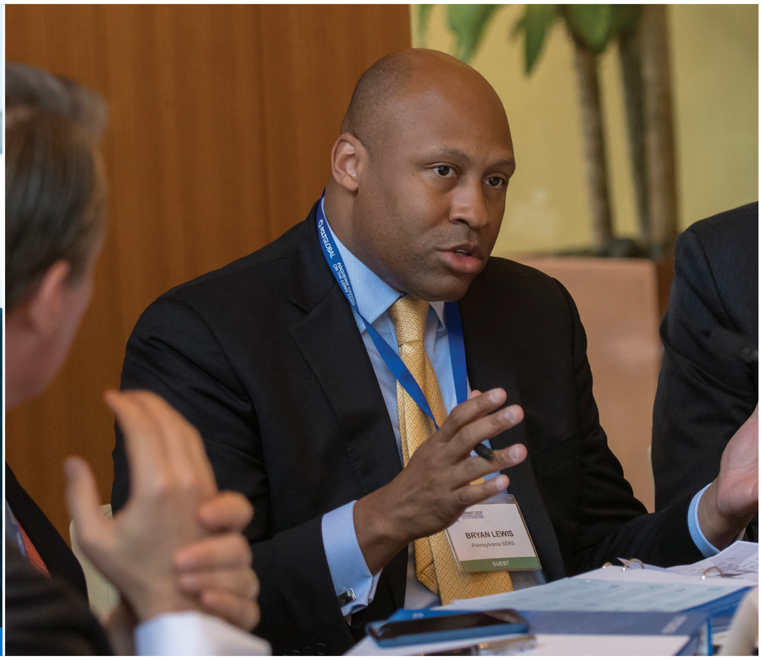
- Disseminate long-term mandate terms
- Provide implementation assistance to members as appropriate





1 Mark Machin (CPPIB) kicks off the discussion on mandates.

Top Ten List For Long-term Mandates

The terms and conditions that asset managers and asset owners use can drive long-term or short-term behavior. Based on a series of working groups with leading asset owners and asset managers from around the world, we offer this list of questions to anchor investment mandate negotiations in a long-term direction:

1 FEES

Do the fees and fee structures reward a long-term focus? Discounts that increase to reward longevity may strengthen owners' commitment and give managers more flexibility to make long-term investments.

2 BENCHMARK

To what extent does benchmark-relative return capture a specific strategy's performance? Are any other metrics as important, such as absolute return or engagements with portfolio companies?

3 TERM

Does the contract encourage long-term commitment and protect against overreacting to short-term events? For instance, a three-to five-year contract term may set longer-term expectations than an at-will contract and still give the owner discretion to terminate, if necessary.

4 REDEMPTIONS

Is the asset manager able to commit to the long-term strategy while maintaining the liquidity needed to meet permissible redemptions? Would allowing in-kind redemptions help to strike this balance?

5 CAPACITY

Does the investment strategy have asset capacity limits? Noting capacity limits in the contract may instill discipline and mitigate the common buy-high, sell-low pattern of asset gathering following strong performance.

6 PERFORMANCE REPORT

How will the tables and commentary address long-term priorities and future prospects? Reporting could note long-term returns first and primarily comment on annual or longer performance.

7 DISCLOSURES

Does the manager conduct business in a way that is consistent with long-term investing? Disclosing personnel or process changes may offer better leading indicators of future performance than past returns do.

8 ACTIVE OWNERSHIP

Is part of this strategy to add value through activities beyond portfolio-specific decisions? These activities may include maintaining dialogue with portfolio companies and casting proxy votes strategically.

9 EVALUATION

Does the contract establish a plan for how the owner will evaluate the manager? For instance, scheduling regular evaluations may enable more open communication than watch-listing during periods of underperformance.

10 INTEGRATION

Are the contract terms complementary and supportive of long-term investing? In particular, does the owner's commitment to the manager enable the manager to commit capital according to the strategy?

Rethinking Capital Allocation

Session Chair:

Randall Stephenson,
Chairman & CEO, AT&T

Table Leads:

Janet Cowell, CEO, Girls Who Invest

Robert Dudley, Group Chief Executive, BP

Ivan Glasenberg, CEO Glencore

Sabastian Niles, Partner, Wachtell, Lipton, Rosen & Katz

Ronald O'Hanley, President and COO, State Street

Graeme Pitkethly, CFO, Unilever

Short-term pressures and long-term value creation objectives frequently conflict during the capital allocation process. Many firms feel constrained by their shareholders' short-term needs to put capital to work or to extract capital. Despite near-record profitability, capital expenditures relative to revenues are at a 20-year low, having dropped almost 20% between 1995 and 2015. Over the same period, payouts to shareholders (dividends and share buybacks) relative to revenue rose more than 60%.

Session chair Randall Stephenson, Chairman and CEO of AT&T, and table leads presided over multiple concurrent conversations about changes to the corporate capital allocation process that could lead to more effective investment in long-term value creating projects.

Participants considered the tensions among competing uses for resources such as capital expenditures, acquisitions, R&D, and the return of cash to shareholders. A number of participants noted the trend of large companies purchasing small, innovative companies in pharma, fintech or food as a different way of deploying long-term capital to fund innovation. They also explored the root causes behind the apparent lack of corporate long-term investment, such as high corporate discount rates for long-term projects and investors' difficulty valuing long-term investments as well as the importance of intangibles to company valuations. One participant noted that resources go far beyond capital, and we should really be rethinking long-term resource allocation, rather than simply capital allocation.

Actionable solutions include:

- Corporations more clearly communicating long-term capital allocation plans and results of prior plans to investors
- Corporations using different discount rates for incremental vs. "moon shot" projects
- Corporations clarifying the value of intangibles such as brand, talent or intellectual property in discussions

Participants also discussed roadblocks, such as equities being used as income-oriented products in the current low-rate environment and investor skepticism about the ability of some companies to generate strong returns on long-term investments if they have not earned that trust.

Investors

- Discuss future capital allocation plans and past capital allocation decisions with portfolio companies
- Evaluate range of potential outcomes of long-term investments and consider their option value
- Clarify preferences on reinvestment versus return of cash

Corporations

- Centralize and vocalize resource allocation decisions as a portfolio of investments, including acquisitions, capital projects, R&D, human capital development and return of capital
- Clarify impact of past capital allocation decisions on revenues and profitability, as well as on talent, culture and innovation

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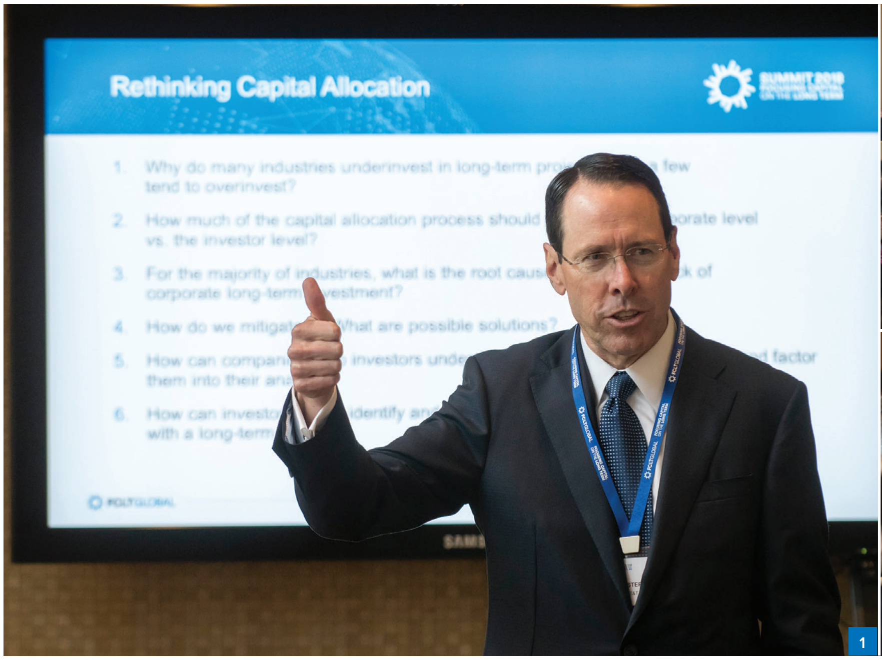
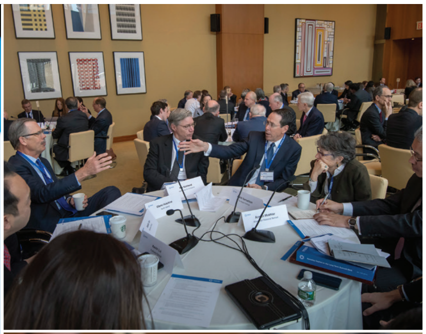
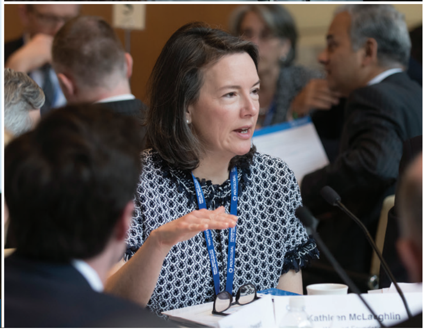
- Develop framework for corporations to communicate long-term capital allocation decisions
- Develop framework for investors to evaluate effectiveness of long-term capital allocation decisions
- Incorporate strategic engagement on long-term capital allocation decisions into engagement work







1 Randall Stephenson (AT&T) frames the session.

Acting Like an Owner Under Activist Pressure

Moderator:

Dominic Barton, Global Managing Partner, McKinsey & Company

Table Leads:

Larry Fink, CEO, BlackRock

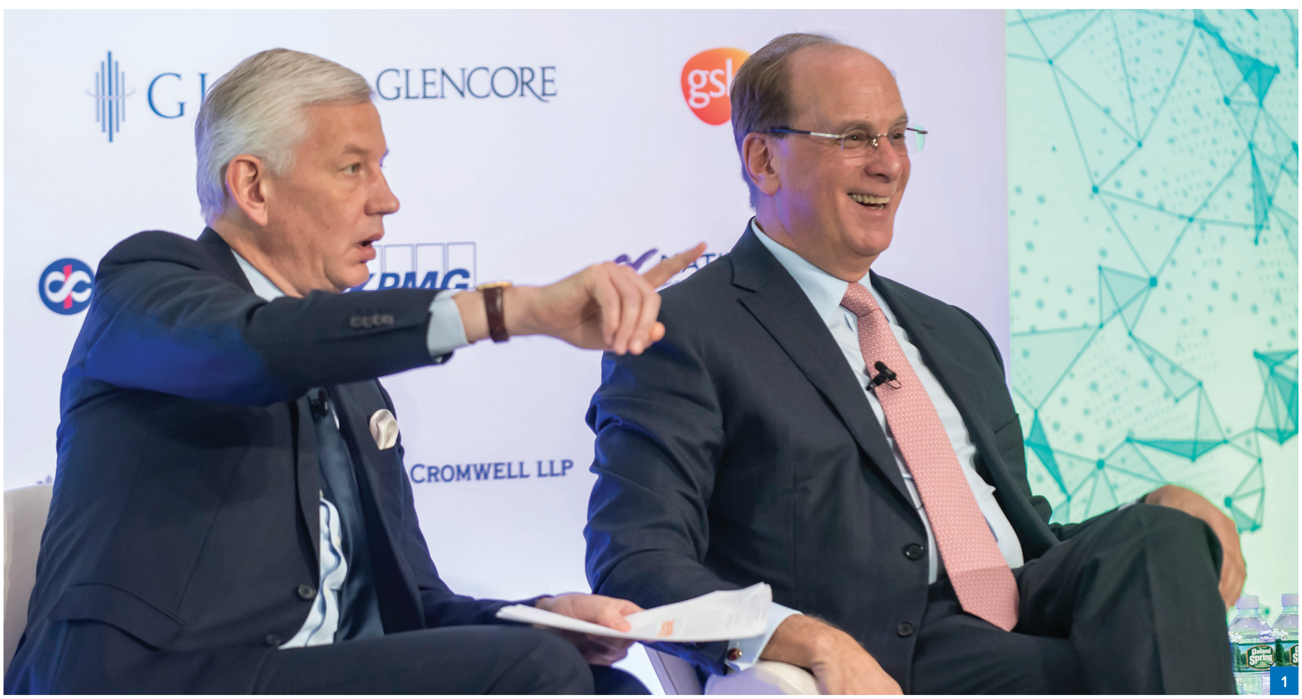
Andrew Liveris, Chairman and CEO, The Dow Chemical Company and Executive Chairman, DowDuPont

Paul Polman, CEO, Unilever

Michael Sabia, President and CEO, Caisse de dépôt et placement du Québec

Dominic Barton of McKinsey moderated a two-part conversation about shareholder activism over lunch with Larry Fink of BlackRock, Andrew Liveris of DowDuPont, Paul Polman of Unilever and Michael Sabia of Caisse de dépôt et placement du Québec.

The CEO panel clarified a fundamental shift in how engagement is occurring for companies and investors. Engagement has become mainstream, as increasing numbers of asset managers and asset owners are practicing active ownership as part of their fiduciary responsibility. Activism is also a reality for public companies today: 2016 McKinsey & Company research identified 550 active activists globally with an aggregate $180 billion in assets under management—up from $51 billion in 2011. Activists generally have a higher discount rate than long-term investors and therefore apply short-term pressure, making it challenging for CEOs to meet diverse investor return expectations. At the same time, activists as a group are not monolithic: they have a wide range of time horizons, attitudes, and approaches.



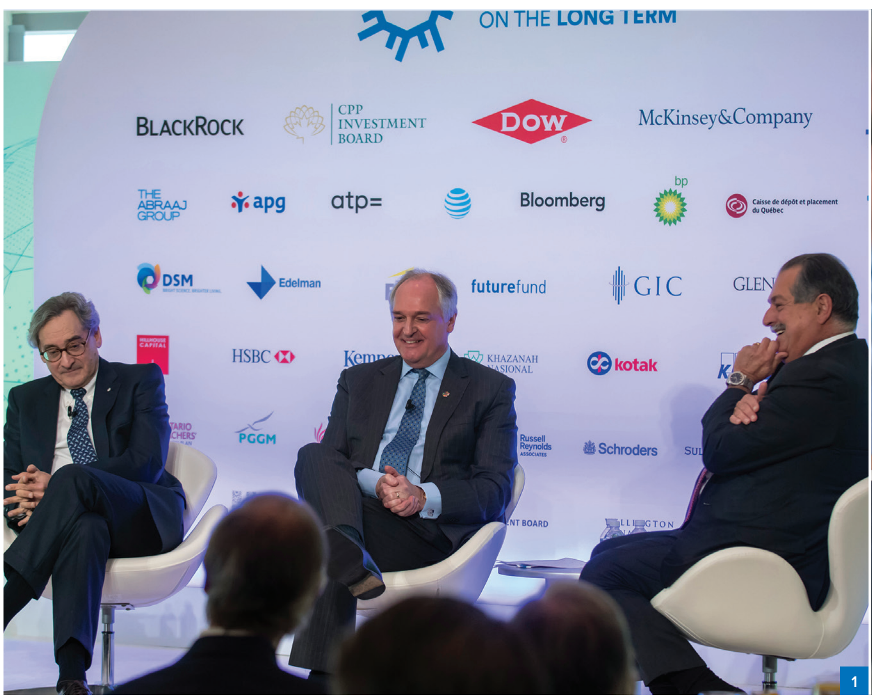
1 Dominic Barton (McKinsey) and Larry Fink (BlackRock) take questions from the floor.

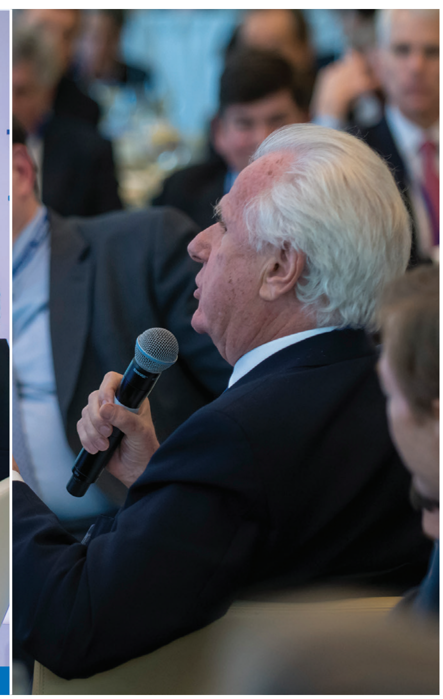
The discussants, who drew from their experiences navigating high-profile shareholder engagements and activist campaigns, generated a number of actionable solutions for corporations:

- Define and clearly communicate the purpose of the company
- Explicitly communicate strategic roadmap for long-term value creation that follows from that purpose prior to being targeted by an activist
- Consider long-term opportunities that are consistent with that purpose such as those presented by the United Nations Sustainable Development Goals (SDGs)
- Ensure board members have industry knowledge, diverse expertise, and a proclivity for thinking independently in both “peace time and war”

And for investors:

- Clarify conditions for supporting or opposing activist proposals
- Share long-term strategic views with the board as well as management
- Consider mechanisms for communication with other long-term shareholders
- Take large stakes in companies and build a long-term relationship with management
- Consider whether investing with a short-term activist, either by an independent asset owner or through a company’s pension fund, is consistent with long-term value creation across the larger portfolio





1 Michael Sabia (CPDQ), Paul Polman (Unilever), and Andrew Liveris (DowDuPont) discuss their views.

Moving Beyond Short-term Guidance to a Strategic Dialogue

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Session Chair:

Chow Kiat Lim, CEO, GIC

Table Leads:

Gert Dijkstra, Senior Managing Director, APG Asset Management

Steve Klar, Managing Partner and Co-Head of Investment Boutiques, Wellington Management

Scott Miller, Partner, Sullivan & Cromwell

Azman Mokhtar, CEO and Managing Director, Khazanah Nasional Berhad

Barbara Novick, Vice Chairman, BlackRock

Jean Raby, CEO, Natixis

Michael Stewart, Global Vice Chairman, Edelman

Strategic engagement between investors and corporations is critical. Fostering a long-term dialogue between corporate management and shareholders around a strategic roadmap, rather than around quarterly guidance, can lead to both a reduced focus on short-term metrics and to attracting and building a long-term investor base.

This session explored how companies and investors can encourage and participate in this conversation to restructure the investor-corporate dialogue for long-term success. Session chair GIC CEO Chow Kiat Lim and the table leads presided over a discussion about how companies can use their own long-term strategic roadmaps as a tool to facilitate a shift in the investment conversation. By using key performance indicators (KPIs), management can clarify long-term goals that lead to opportunity and value creation for investors. Conversely, quarterly guidance tends to attract and encourage transient shareholder interest and behavior. Participants also made it clear that investors play a critical role in encouraging long-term discussions. The best companies focus and steer such conversations; the best investors engage in real dialogue.

Actionable solutions include:

- Eliminating the use of forward quarterly guidance
- Providing investors with clearer disclosure of the fundamental economic drivers of the business
- Combining stewardship and strategy discussions between investors and corporations
- Integrating ESG professionals more closely into investment teams at asset managers
- Convening investors and corporations in a separate forum to address long-term strategy
- Rethinking the goals and tactics of investor days and conference calls

KEY TAKEAWAYS: Moving Beyond Short-term Guidance to a Strategic Dialogue

Corporations

- Eliminate/reinvent the use of short-term earnings guidance in investor communications
- Implement long-term strategic roadmap, such as that detailed in FCLTGlobal publication "Moving Beyond Quarterly Guidance: A Relic of the Past" to communicate with investors

Asset Managers

- Engage with companies on strategic roadmaps
- Encourage companies to focus on longer term metrics rather than quarterly guidance
- Reevaluate research compensation process to reward long-term research

Asset Owners

- Encourage asset managers to emphasize long-term strategic engagement with companies
- Ensure research compensation process rewards long-term research and performance

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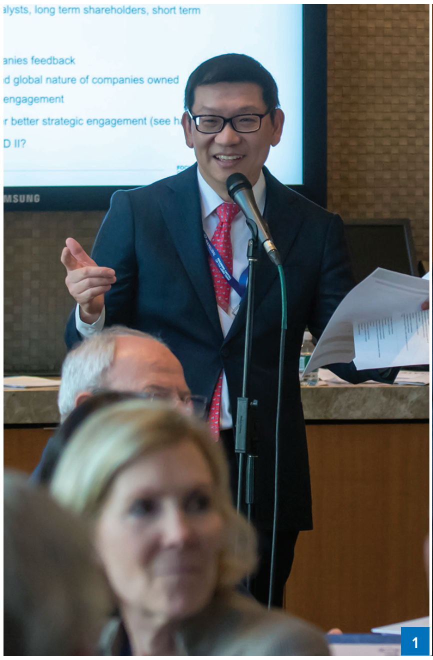
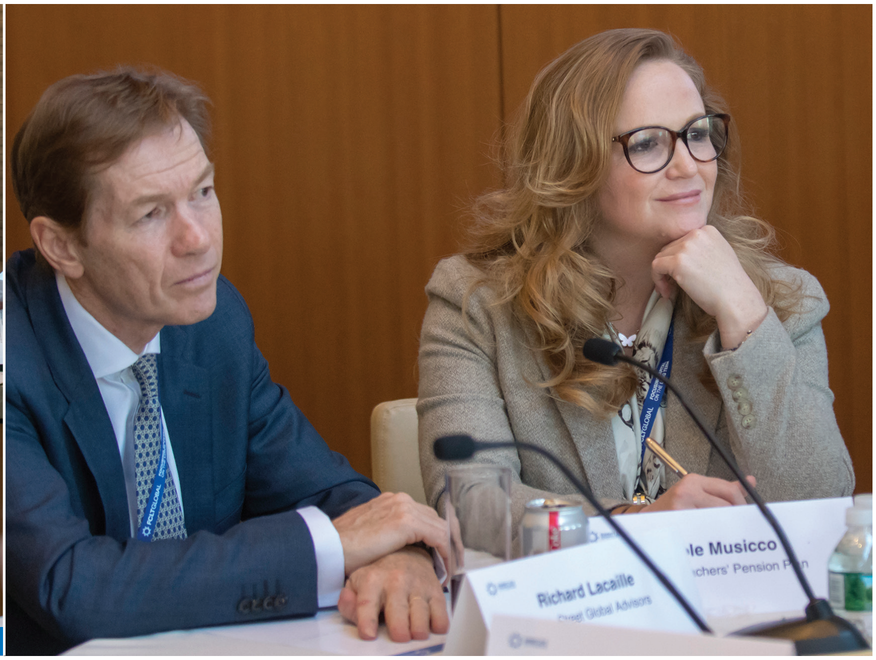
- Implement outreach plan on quarterly guidance
- Develop tips for enhancing strategic engagement





1 Chow Kiat Lim (GIC) opens the session.

Long-Term Capital Risks and Opportunities

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Session Chair:

Matt Whineray, Chief Investment Officer, NZ Super Fund

Table Leads:

Wendy Cromwell, Vice Chair and Director of Global Multi-Asset Strategies, Wellington Management

Joel Posters, Head of ESG, Future Fund

Geoffrey Rubin, Senior Managing Director and Chief Investment Strategist, CPPIB

Carsten Stendevad, Senior Fellow, Bridgewater Associates

The overarching question for trustees and directors is how to achieve superior long-term performance with reasonable performance in the interim. The premise of this session was that the risks and opportunities for long-term capital differ from those for short-term capital, and there is often a gap between oversight and risk professionals on these long-term risks. Session chair New Zealand Super Fund Chief Investment Officer Matt Whineray and the table leaders presided over multiple conversations about how to better integrate long-term risks and opportunities into their investment processes.

Table discussions confirmed that risks and opportunities for long-term capital differ fundamentally from those for short-term capital. Metrics also differ: short-term metrics tend to be more accessible and reliable, but they often do not capture disruptive changes in economies or markets. These long-term disruptive changes include climate change, cybersecurity, demographics, and many other factors. While measuring these risks and opportunities remains difficult, participants identified the following actionable solutions for asset owners and asset managers:

- Build resiliency against short-term volatility and peer comparisons by agreeing on goals and values with stakeholders and articulating investment beliefs
- Integrate long-term factors into the investment process and discussions with risk professionals, even if the data does not capture these risks
- Have oversight committees discuss and identify long-term risks and set risk tolerance standards

KEY TAKEAWAYS: Long-Term Capital Risks and Opportunities

Asset Managers

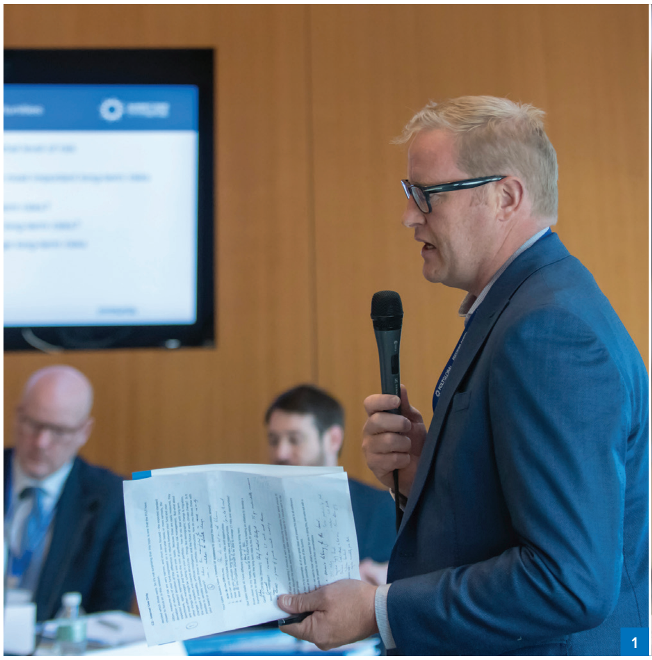
- Consider risk limits, horizon, and nature relative to clients' objectives

Asset Owners

- Test elements of a Risk Conversation Guide
- Incorporate significant long-term risks based on severity and frequency (e.g., climate change, demographic trends) into models

FCLTGlobal

- Develop and publish a Risk Conversation Guide
- Accumulate and provide examples of Risk Dashboards



1 Matt Whineray (NZ SuperFund) starts the discussion.

Public Markets in the 21st Century: Tools for Long-Term Corporations and Investors

Session Chair:

Theresa Whitmarsh, Executive Director, Washington State Investment Board

Table Leads:

Lady Lynn Forester de Rothschild, CEO, E.L. Rothschild, LLC

Christian Hyldahl, CEO, ATP

Richard Lacaille, Global CIO, State Street Global Advisors

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

Geraldine Matchett, CFO, DSM

Mark Weinberger, Global Chairman and CEO, EY

Healthy public markets are essential to the global economy, but during the 21st century, listings in public markets have fallen dramatically in many developed countries. According to the World Bank, the number of US publicly traded companies declined by nearly 50% between 1996 and 2016, and the number of public companies in the Eurozone declined by 22% between 2001 and 2016.

There are several commonly-recognized drivers of this trend, such as the short-term market pressures, additional requirements and operating costs of being a public company. Company management teams have talked openly about ways in which public markets force them to abandon their long-term strategic focus to address the demands of short-term shareholders.

Session chair Washington State Investment Board Executive Director Theresa Whitmarsh and the table leads presided over a discussion that posited that the recent preference for private markets could also be due to technology, a secular rotation, and the abundance of private capital making public market access less necessary.

Market participants have experimented with several tools to help alleviate the short-term pressures on public companies and enable long-term companies to thrive in public markets. Participants discussed many of these tools to help ease short-term pressures for those companies that are publicly listed but reached little agreement on their overall attractiveness. Solutions discussed include:

- Offering differentiated voting rights/dual class shares with more votes for founders, often with sunset provisions
- Ensuring tenured voting rights accrue with holding period
- Offering loyalty dividends or warrants that provide monetary value to long-term holders
- Imposing higher transaction costs for short-term trading
- Reducing capital gains tax for long holding periods
- Locking-up shares that provide preferential return in exchange for stability of capital

The above solutions face multiple high hurdles—some prohibitively high—including the negative perception that institutional investors generally have of control enhancing mechanisms, the primacy of one-share-one-vote in many corporate governance circles, and in the case of one participant who tried to implement loyalty dividends, shareholder and regulatory friction.

Investors

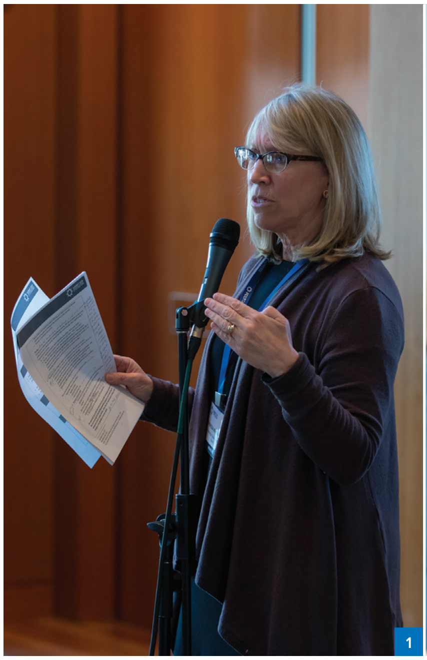
- Advocate to be compensated for being a long-term shareholder
- Determine relationship of long-term measurements and disclosures to performance
- Incorporate measures of long-term value creation into valuation analysis and company dialogue

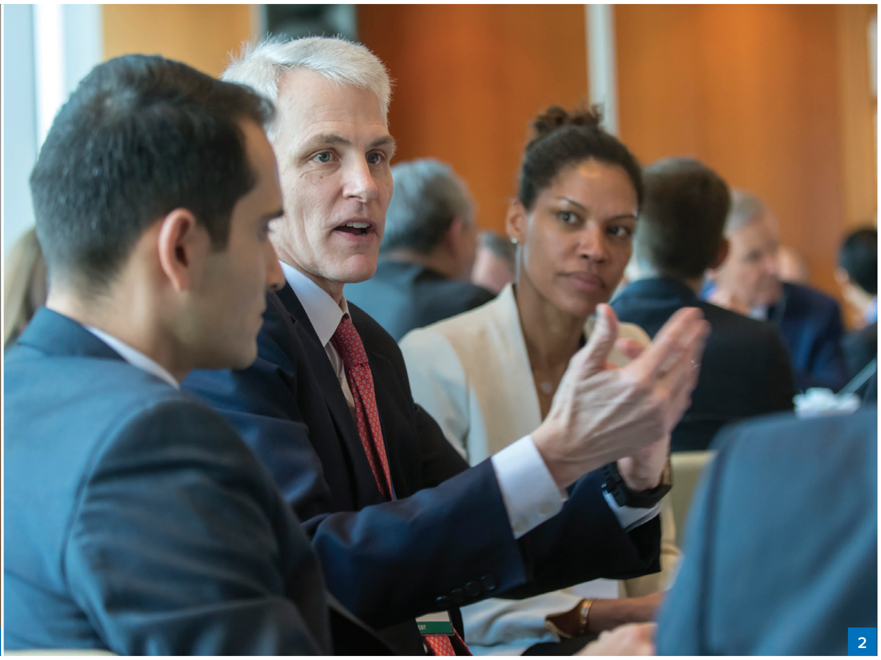
Corporations

- Consider tools to reward long-term shareholders
- Consider the development of long-term measurements and disclosures to articulate a long-term narrative

FCLTGlobal

- Develop pros and cons of various structures for publicly listed long-term companies
- Revisit long-term value creation indexes and similar mechanisms





1 *Theresa Whitmarsh (WSIB) leads the breakout session.*
2 *Discussants sharing their thoughts on the issues.*

The Long-Term Corporate Board

Session Chair:

Peter Grauer, Chairman, Bloomberg

Table Leads:

Shawn Cooper, Managing Director and Regional Leader, Latin America and Canada, Russell Reynolds

Iain Mackay, Group Finance Director, HSBC

Melissa Sawyer, Partner, Sullivan & Cromwell

William Thomas, Global Chairman, KPMG

A corporation's board can set a long- or short-term tone for the entire organization, yet the board is often seen as a source of pressure to generate short-term financial performance. Session chair Bloomberg Chairman Peter Grauer and the table leads presided over simultaneous discussions to examine the sources of short-termism on boards and identify solutions that boards can use to drive long-term value creation within their organizations.

Participants cited sources of short-termism in corporate boardrooms, including the demands of regulatory and compliance requirements, the sheer volume of work involved with a corporate board, and the lack of board diversity.

Discussants noted that on average, private company boards tended to be more long-term-oriented and engaged than corporate boards. One factor may be the greater economic interest in the long-term value of the firm that private company boards tend to have. Discussants also noted that boards in Europe have separate supervisory and executive structures and often have anchor shareholders.

Actionable solutions that might spur longer-term board behaviors and policies include:

- Dedicating more time during board discussions to strategic long-term value creation, starting with the company's purpose and strategic roadmap
- Adopting, at minimum, three-to-five-year time horizon and providing board members with scorecards or key performance indicators to track progress
- Including board members in corporate investor days
- Recruiting board members with industry knowledge and the right mix of backgrounds
- Adequately training new board members and providing them with board mentors
- Ensuring board members have a clear understanding of long-term shareholder objectives

Investors

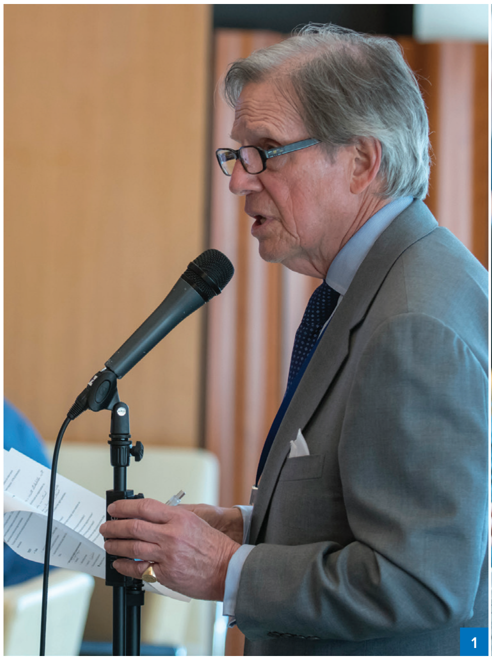
- Focus on practices of corporate boards of invested companies that encourage long-term behavior, as well as good governance

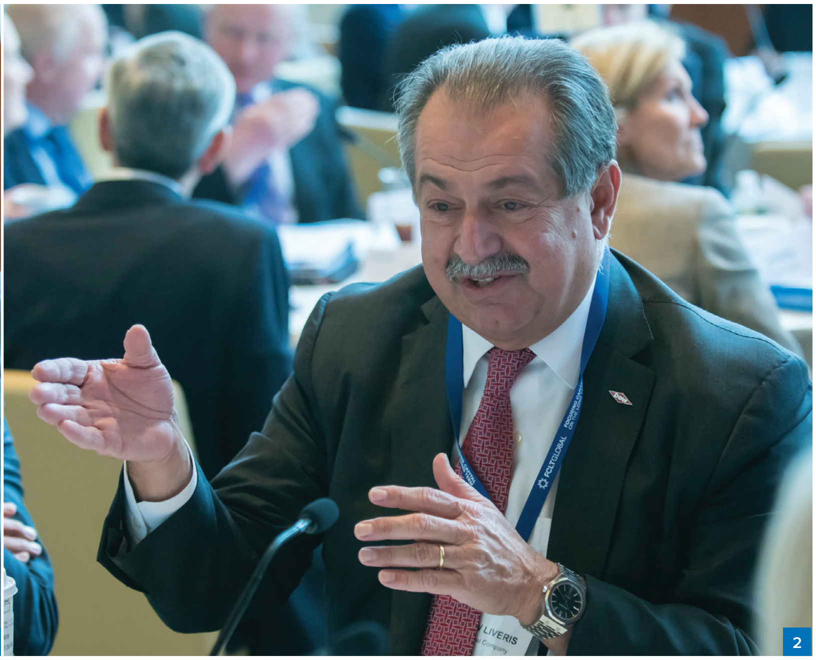
Corporations

- Evaluate practical ideas that surfaced in the discussion today that could promote long-term board actions and decisions
- Prioritize discussions about long-term strategic value-creation during board meetings

FCLTGlobal

- Compile and assess menu of long-term corporate boards' mechanisms
- Develop board self-assessment tool on mechanisms to promote long-term behavior





1 *Peter Grauer (Bloomberg) begins the final working group.*
2 *Andrew Liveris (DowDuPont) joins his table in discussion.*

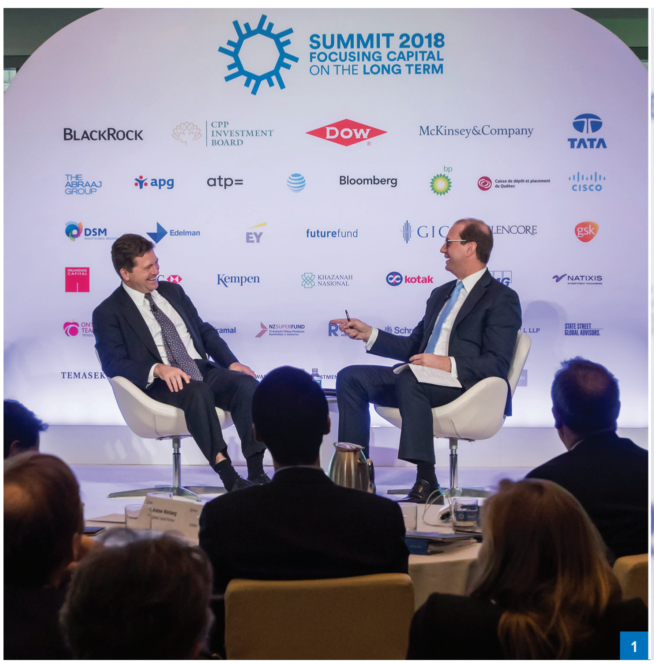
Fireside Chat: Regulatory Perspective on Long-term Investing w/ Jay Clayton

Jay Clayton, Chairman, U.S. Securities and Exchange Commission

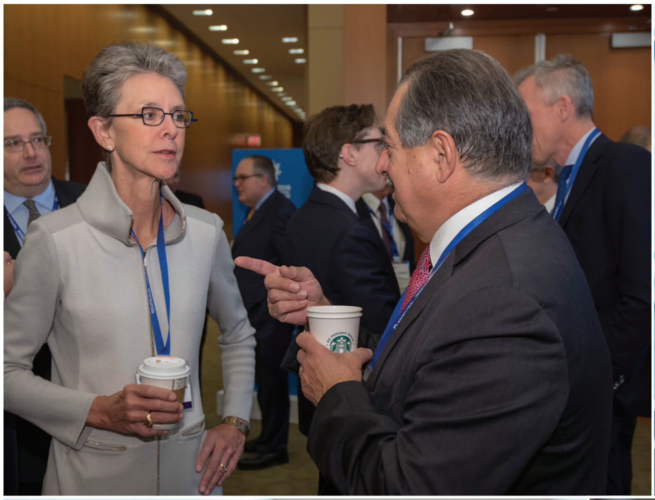
with

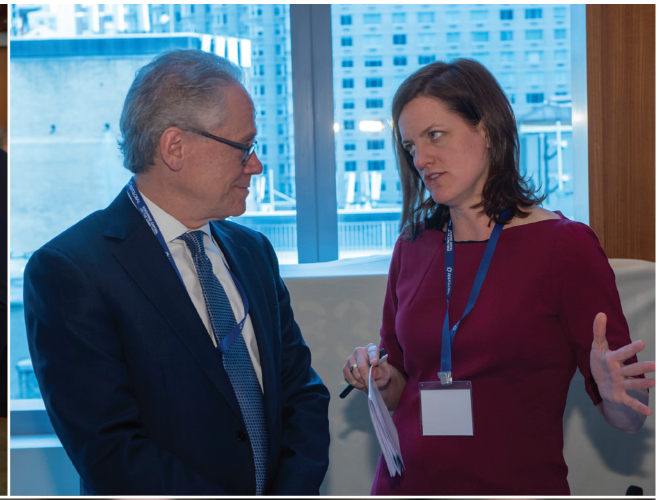
Mark Wiseman, FCLTGlobal Board Chair

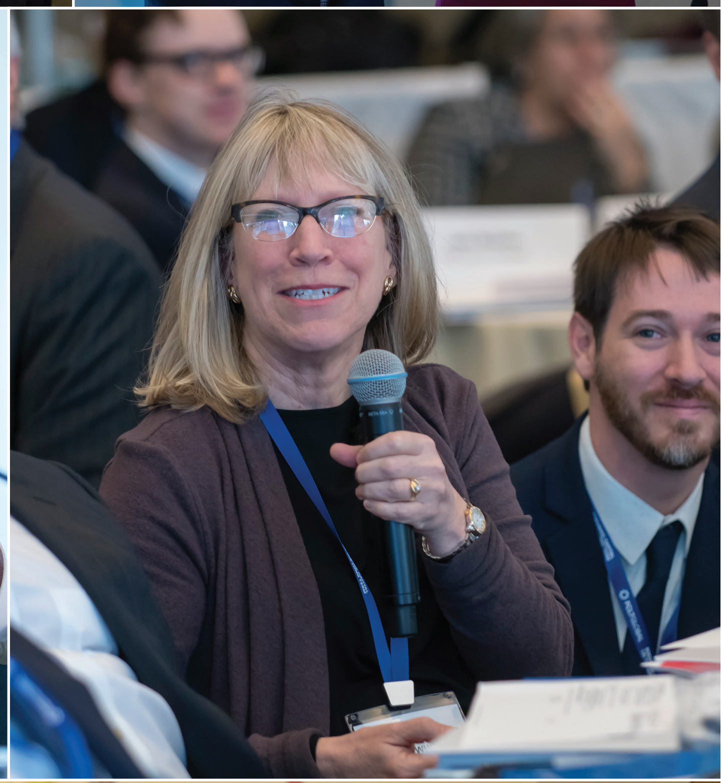
In our final session before the wrap-up discussion, FCLTGlobal's Board Chair Mark Wiseman facilitated a conversation with Jay Clayton, Chairman of the US Securities and Exchange Commission, about the capital markets system and the current regulatory environment.

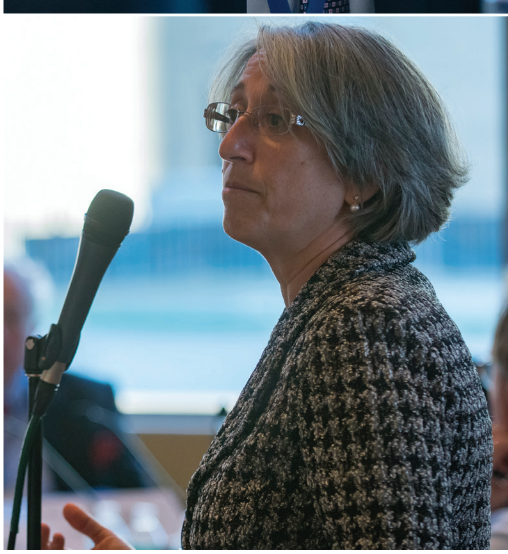


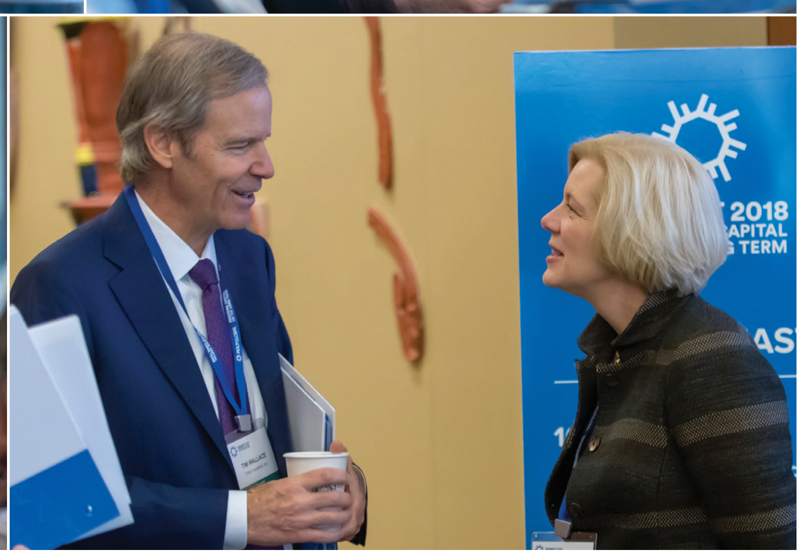
1 SEC Chairman Jay Clayton and Mark Wiseman (BlackRock) discuss the future of long-term investment.
2 Chairman Clayton answers questions from the audience.










2018

Attendees

Muhammad Syauqi Ab Samad, Assistant Vice President, Khazanah Nasional Berhad

Wally Adeyemo, Managing Director, BlackRock

Christopher Ailman, CIO, CalSTRS

Henrique Alvares, CEO, NEO Investments

Ron Auer, Executive Director, CORPaTH

Jonathan Bailey, Managing Director and Head of ESG Investing, Neuberger Berman

Dominic Barton, Global Managing Partner, McKinsey & Company

Tamara Belinfanti, Professor, Business and Financial Law New York Law School

Katherine Bell, Editor-in-Chief, Barron's

Chinta Bhagat, Executive Director, Investments, Khazanah Nasional Berhad

Roger Biscay, SVP of Global Risk Management & Treasurer, Cisco

Charlotte Blommestijn, Senior Manager, BTeam

Aaron Brenner, Senior Analyst, UFCW

Daryl Brewster, CEO, CECP

Beth Brooke-Marciniak, Global Vice Chair, Public Policy, EY

Eric Cantor, Vice Chairman and Managing Director, Moelis & Company

Clara Chan, CIO, Hong Kong Monetary Authority

Tim Christen, Chairman, Baker Tilly

Jay Clayton, Chairman, SEC

Mary Cline, Senior Policy Advisor, EY

Ben Colton, Active Ownership, Norges Bank Investment Management

Shawn Cooper, Managing Director & Regional Leader, Latin America and Canada, Russell Reynolds Associates

Janet Cowell, CEO, Girls Who Invest

Wendy Cromwell, Vice Chair and Director of Global Multi-Asset Strategies, Wellington Management Company

Herman Daems, Chairman of Board of Directors, BNP Paribas Fortis

Farrell Denby, VP, Corporate Communications, BlackRock

Gert Dijkstra, Senior Managing Director, APG Asset Management

Lars Dijkstra, CIO, Kempen Capital Management

Robert Dudley, Group Chief Executive, BP

Robert Eccles, Visiting Professor of Management Practice, Saïd Business School

Christian Egan, Executive Director, Itau Unibanco

Ted Eliopoulos, CIO, CalPERS

Scott Evans, CIO, New York City Retirement Systems

Henry Fernandez, Chairman and Chief Executive Officer, MSCI

Larry Fink, Chairman and CEO, BlackRock

Lady Lynn Forester De Rothschild, CEO, E.L. Rothschild, LLC

Simon Fraser, Chairman, The Investor Forum

Paul Fribourg, CEO and Chairman, Continental Grain Company

Allen Garson, General Counsel & Corporate Secretary, IMCO

Ivan Glasenberg, CEO, Glencore

Loree Gourley, Director of Regulatory and Public Policy (UK), EY

Peter Grauer, Chairman, Bloomberg L.P.

Jean-LucGravel, Executive Vice-President, Equity Markets, Caisse de dépôt et placement du Québec

Ben Harris, Visiting Associate Professor, Kellogg School of Management

Laurie Hays, EVP, Financial Communications & Capital Markets, Edelman

Bev Hendry, Chief Executive - Americas, Aberdeen Standard Investments

Hans-Christoph Hirt, Head of Hermes EOS, Hermes Investment Management

Tim Hodgson, Head of the Thinking Ahead Group, Willis Towers Watson

Glenn Hutchins, Co-Founder, North Island

Christian Hyldahl, CEO, ATP

Christy Jesudasan, Director, Kempen Capital Management

Hilary Johnson, Vice President and Manager, Strategic Relationships, Wellington Management Company

Gijo Joseph, CEO of Kotak Group's US Operations, Kotak Mahindra Bank

Scott Kalb, CEO & Founder, KLTI Advisors, LLC

David Kamenetzky, Chief Strategy & External Affairs Officer, Anheuser-Busch InBev

Garima Kapoor, Associate, BlackRock

Brad Katsuyama, CEO and Co-Founder, IEX Group Inc.

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Conor Kehoe, Senior Partner Emeritus - Senior Advisor, McKinsey & Company

Jim Keohane, CEO and President, Healthcare of Ontario Pension Plan

Esther Kim, Chief of Staff, BlackRock

Rik Kirkland, Partner, Global Publishing, McKinsey & Company

Steve Klar, Managing Partner, Wellington Management Company

Timothy Koller, Partner, McKinsey & Company

Adrian Kwok, Associate, McKinsey & Company

Richard Lacaille, Global Chief Investment Officer, State Street Global Advisors

Bob Laux, Head of North America, Integrated Reporting

Thomas Lee, Executive Director & CIO, New York State Teachers' Retirement System

Bryan Lewis, CIO, Pennsylvania State Employees' Retirement System

Chow-Kiat Lim, CEO, GIC Private Limited

Eloy Lindeijer, Chief Investment Management, member Executive Committee, PGGM

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

Andrew Liveris, Chairman and CEO, Dow Chemical Company

Kevin Lu, Partner and Chairman of Asia, Partners Group

Winston Ma, Managing Director, CIC

Mark Machin, President and CEO, Canada Pension Plan Investment Board

Iain Mackay, Group Finance Director, HSBC

Geraldine Matchett, CFO, DSM

Marc Mayer, Head of Distribution, Schroders

Jack McGinn, Analyst, McKinsey & Company

Kathleen McLaughlin, Chief Sustainability Officer and President, Walmart Foundation

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Nicole Musicco, Senior Managing Director, Ontario Teachers' Pension Plan

Lord Paul Myners, Chairman, Cevian Capital LLP

Sabastian Niles, Partner - Activism/ M&A/ Governance, Wachtell, Lipton, Rosen & Katz

Nitin Nohria, Dean, Harvard Business School

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Paul Polman, CEO, Unilever

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Robert Pozen, Senior Lecturer, MIT

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Jean Raby, CEO, Natixis Investment Managers

Sudhir Rajkumar, CIO, United Nations Joint Staff Pension Fund

Gavin Ralston, Head of Official Institutions, Schroders

Helen Rattee, VP, Business Manager to the CEO, OMERS

Russell Read, CIO, Alaska Permanent Fund

Adam Robbins, Practice Lead, Long-Term Investing Initiatives, World Economic Forum

Phil Rotner, Chief Investment Officer, Boston Children's Hospital

Geoffrey Rubin, Senior Managing Director and Chief Investment Strategist, Canada Pension Plan Investment Board

Michael Sabia, President and CEO, Caisse de dépôt et placement du Québec

Judith Samuelson, VP and Executive Director, The Aspen Institute

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Gerald Schwartz, Chairman and CEO, Onex Corporation

George Serafeim, Professor of Business Administration, Harvard Business School

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Peter Shapiro, Portfolio Manager & Analyst, Comgest

James Shapiro, Resident Director-North America, Tata Sons Limited

Neal Sheorey, Vice President, Investor Relations, Dow Chemical Company

Sandra Sidey, Sr. Executive Communications Manager, Dow Chemical Company

Bruce Simpson, Senior Partner, McKinsey & Company

Paul Smith, President and CEO, CFA Institute

Paul Smith, Head of Strategy, Glencore

Jeffrey Sonnenfeld, Professor & Senior Associate Dean for Leadership Studies, Yale School of Management

Carsten Stendevad, Senior Fellow, Bridgewater Associates

Randall Stephenson, Chairman and CEO, AT&T

Michael Stewart, Global Vice Chairman, Edelman

Lynn Stout, Distinguished Professor of Corporate and Business Law, Cornell Law School

Darla Stuckey, President and CEO, Society for Corporate Governance

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Kip Tindell, Chairman, The Container Store

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Tiger Tyagarajan, CEO and President, Genpact

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Jaap van Dam, Principal Director, PGGM

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Woomi Yun, Senior Account Supervisor, Edelman

Leah Zennario, Executive Editor, McKinsey & Company

Joshua Zoffer, Yale Law School

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Quiz Answer Key: 1 c, 2 c, 3 b, 4 a, 5 c, 6 b, 7 d, 8 b, 9 a, 10 c, 11 b, 12 c, 13 d, 14 d, 15 c, 16 b

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