

LYDENBERG, S., 2007. *Long-term investing: a proposal for how to define and implement long-term investing.*

UKSIF summary, 2009.

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I. Key points

- Some of the consequences of short-termism are misallocation of assets by corporate managers, volatility into financial markets and diversion of productive resources to repairing ESG damage.
- Some of the remedies for short-termism are reforming the quarterly reporting and compensation incentives, broadening fiduciary duties, including ESG issues into stock analysis, increasing ESG disclosure, creating guidelines for pension funds and education on long-term.
- Investors and corporate managers see that short-termism is detrimental, but they see no alternative for long-term investing.
- The definition of long-term investing comprises the advantages to hold stocks for longer, the inclusion of ESG criteria into investing and the willingness to add value to investment (instead of price).
- While index investing assumes that it is not possible to beat the market, value investing assumes that it is possible, aiming at selecting stocks that the market has not correctly priced. Value investors sell when they think stocks are overpriced and buy when they believe they are undervalued.
- Long-term value investors will always be in disadvantage as long as their performance is measured against stock price.
- ESG factors that are directly related to a company's stock price are referred to as financially material. When the factor is non-financially material, it is an externality.
- Engagement and standard-setting practices: one-on-one dialogues with management, participation in coalitions of investors addressing social or environmental issues, alliances with stockowners concerned about corporate governance, advocacy for the adoption of standards for social and environmental behaviour, exclusion of companies from investment consideration and participation in public policy discussion.

- The assessment of how companies add value to society in the long-term must be measured in other ways than price so that long-term becomes a reality.
- Progress in the discussion on long-termism for equities will lead to progress in all other asset classes.

II. Key quotes

- Short-Term Measurement Dilemma: “When the market is valued according to a short-term measurement – that is, stock prices – and when managers’ performance is measured against these prices, then long-term investing becomes impossible.” (Lydenberg 2007, p. 1)
- “Jeremy Siegel reports that the best performing US stock of the past 75 years has been Philip Morris (now Altria).” (Lydenberg 2007, p. 6)
- “Universal investors can be defined as pension funds or other institutional investors so large they are invested across all asset classes. Universal investors essentially ‘own the economy’”. (Lydenberg 2007, p. 7)
- “Socially responsible investors with a long-term view seek to better the management of firms in part to improve their financial performance, but also to create models of best practice that can be replicated and bring broad societal benefit” (Lydenberg 2007, p. 8)
- “Social investors’ efforts take place within the context of broader movements for change. They are not aiming to create long-term value on their own, but in conjunction with other players in society” (Lydenberg 2007, p. 10).
- As Keynes wisely observed in *The General Theory of Employment Interest and Money*, it matters greatly whether the long term or the short term predominates in our financial markets. This observation is no less true today than it was 70 years ago. If short-term risks posed by corporations will go unmanaged. Given the size and power of our financial markets, and their increasing influence over the social and environmental quality of our lives, it is crucial that long-term strategies ultimately prevail” (Lydenberg 2007, p. 11)

III. Best practices

- Domini Social Investments joined with other investors and non-profit organizations to introduce a line of fair-trade coffee, which resulted in the launch of P&G Millstone line.
- Responsible investors with the support of the Carbon Disclosure Project urged the largest corporations to disclose their emissions
- Responsible investors with the support of EITI urged corporations to disclose payments to governments.

Lydenberg, S. *Long term investing: a proposal*

- In the UK, F&C Asset Management. Through the reo (responsible engagement overlay) product, engages corporate managers on sustainability issues whether or not it manages the client's funds.