

Day 2: Shaping the Future

SEEKING PROTECTION IN AN INSECURE WORLD

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3 August 2017

For presentation at EPF 2017 International Social Security Conference. This presentation is intended for information purposes only.

Focusing Capital on the Long Term

- Since the 2008 Global Financial Crisis, there's a growing appreciation and understanding of the benefits of a **true long-term mindset**.
- However, persistence exists towards “**short-termism**”
 - Companies are *less* able to invest and build value for the long term;
 - Undermining broad economic growth and lowering returns on investments for savers.

The Intensifying Pressure for Short-Term Results

63%

of respondents said its pressure to generate strong short-term results had increased over the last 5 years.

79%

felt especially pressured to demonstrate strong financial performance over a period of just 2 years or less.

44%

said they use a time horizon of less than 3 years in setting strategy.

73%

said they **should** use a time horizon of more than 3 years.

86%

declared that using a **longer horizon** to make business decisions would **positively affect corporate performance** in a number of ways, including financial returns and increasing innovation.

Source: McKinsey Quarterly Survey 2013 and McKinsey & Co. "Investing for the long term", December 2014.

Practical Changes for Asset Owners

1.

Invest the portfolio after defining long term objectives and risk appetite

- “GIC invests with a 20-year time horizon for value creation”

2.

Unlock value through engagement and active ownership

3.

Demand long-term metrics from companies to change the investor-management conversation

4.

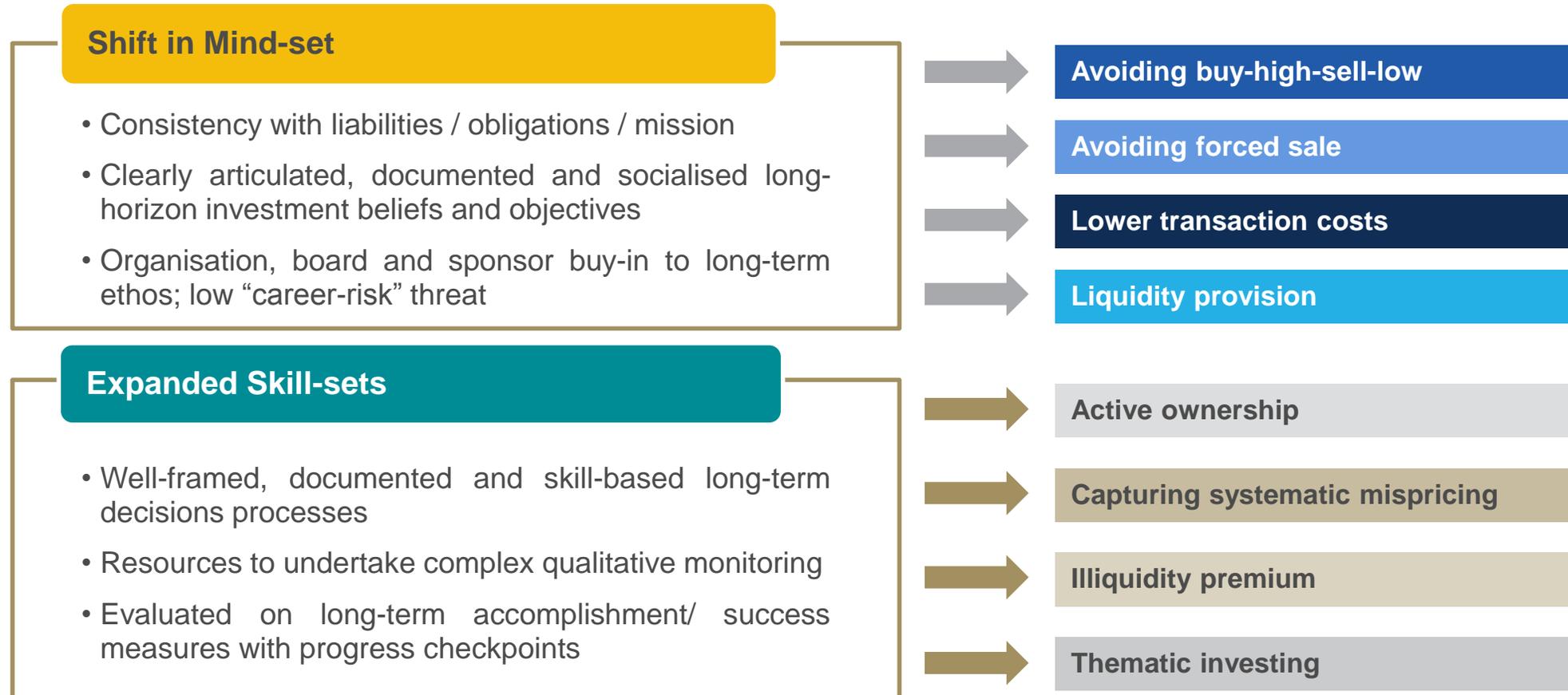
Structure institutional governance to support a long-term approach

- “Practising Good Governance: NBIM’s policies helped it gain a 34% return on equity investments in 2009”

Source: McKinsey Quarterly Survey 2013 and McKinsey & Co. “Investing for the long term”, December 2014.

The Cost of Building a Long-Horizon Approach

- To capture the benefits of long-horizon investing, a **major mindset shift** and **significantly expanded skill-sets** are required from asset owners and asset managers.



Source: Willis Towers Watson, "The search for long-term premium", 2016.

Putting Long-Horizon Investing into Practice

- Identifying building blocks for long-term premium

Active ownership

- Average excess return of **2.3%** was generated over one year after engagements with investee companies

Liquidity provision

- Long-horizon investors have the potential to earn additional returns of **1% p.a.** by providing liquidity when it is most needed

Capturing systematic mispricing

- Exploiting various mispricing effects in smart betas added more than **1.5% p.a.** relative to cap-weighted index in the past decades

Illiquidity premium

- Illiquidity risk premium is worth **0.5 – 2% p.a.**;
- Additional returns might be available to long-horizon investors

Thematic investing

- 93% of 2016 TAI New York roundtable attendees believe that it is possible to create value through investing thematically

Avoiding buy-high-sell-low

- Chasing past performance cost U.S pension funds 1% (over three years post manager change)

Avoiding forced sale

- Liquidity-driven trading in response to redemption reduced returns of open-end mutual funds by **1.5% p.a.**

Lower transaction costs

- **26bps** could be saved in transactions costs if U.K medium-sized pension funds reduce their active strategies turnover to 60%

Leading the Way Forward

Today, a strong desire exists to move beyond quality capitalism

Short-term mind-sets still prevail throughout the investment value chain

Large asset owners can be a powerful force for instituting balanced, long-term capitalism that ultimately benefits everyone

Thank You

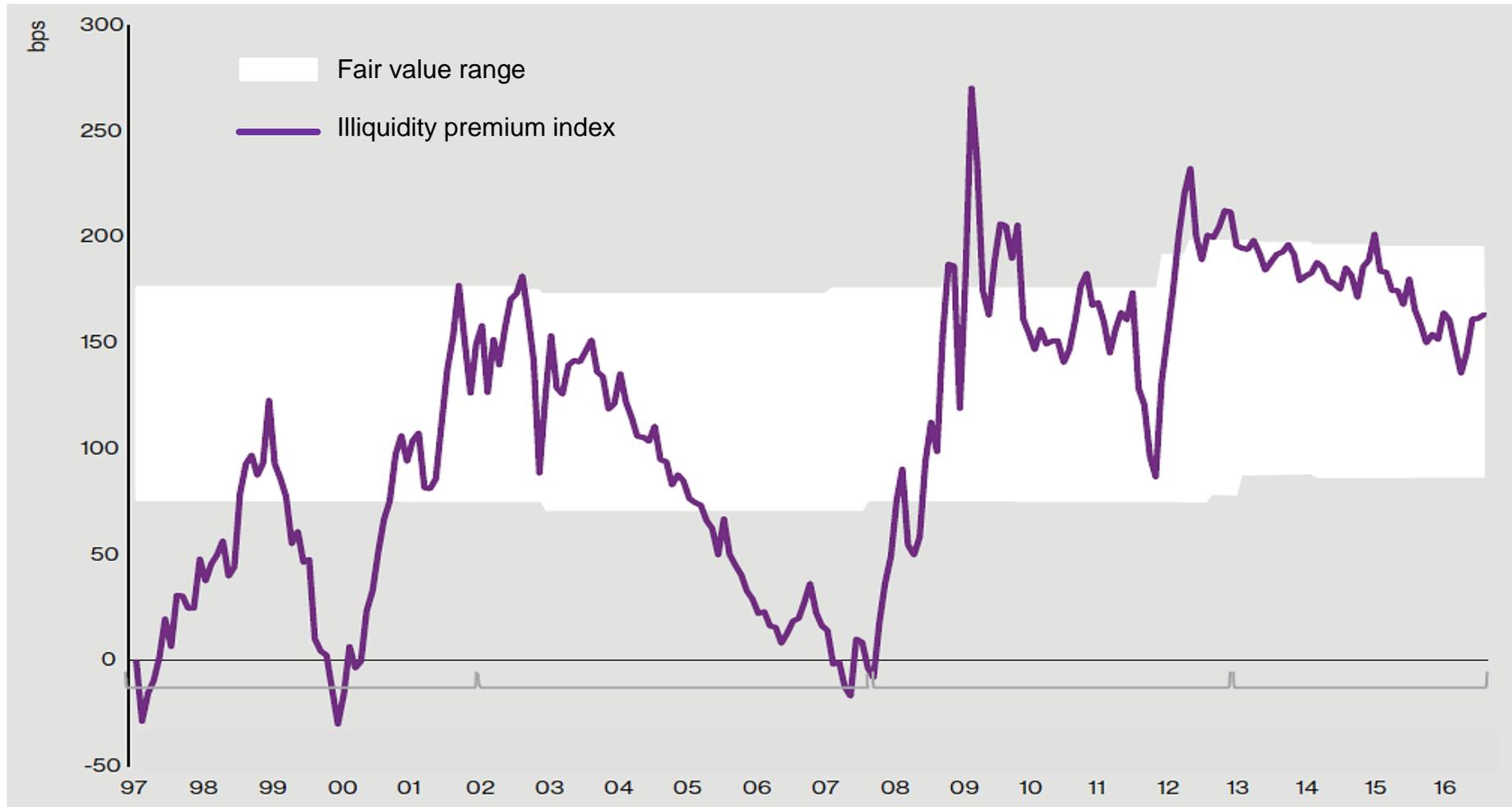


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Is Illiquidity Risk Worth Taking?

Chart 1 – Willis Towers Watson illiquidity premium index



Source: Willis Towers Watson, 2016.

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Approval code: AP2613-25-07-2017 (3M)