I. Key points

- The Chartered Financial Analysts (CFA) is demanding a renunciation of quarterly thinking.
- Pension funds can invest in the long term as the savings of the beneficiaries are available for investments over decades.
- Research question of the survey: To what extent pension funds can contribute to more long-term and more sustainable investments?
  - Interviews with 10 European pension funds (ABP, PGGM, Ethos, ERAFP, FRR, AP1, AP4, USS, Hermes, MetallRente)

- Survey results:
  - The majority of players in the capital markets frequently act in a too short-term manner.
  - There are several reasons leading to short-termism (e.g. psychological tendency, short-term incentive structures, short-term research etc), but no one in particular.
  - The respondents agree that pension funds are long-term investors and that investment decisions should be based on research with long-term orientation.
  - The quality of the information provided by companies themselves or research suppliers has to date only been assessed as satisfactory to sufficient.
  - The surveyed pension funds believe that sustainability research integrated in mainstream research is more likely to lead to outperformance.
  - Interviewees agree that the concept of sustainable investments has not been clearly defined for long-term comparisons of return.
  - The average possible investment term, according to the interviewees, is 23 years, while the actual holding duration of the asset investments is 6 years.
  - Longer-term contracts for external asset managers (with the basic assumption of continuity), co-investments by asset managers and
incentive structures in companies are considered the most suitable incentive structures for contributing to longer-term investments.

- The following forms of engagement are considered suitable to contribute to long-term sustainable risk adjusted performance:
  - Engagement with shares
  - Engagement for long-term incentive structures in companies
  - Engagement for sustainability criteria in target and remuneration systems of the companies
  - Disclosure initiatives
  - Cooperative engagement
  - To improve the range of sustainability research
  - Cooperation and training
  - To promote long-term sustainable investment

- The interviewees consider that it is very important to generate high pension return and high risk-adjusted pension performance in the long-term.

- Only a few pension funds have surveyed their beneficiaries on sustainability criteria.

- Interviewees agree that pension funds should define clear goals for a long-term investment horizon and define that materially important sustainability criteria be taken into account in their goals.

- Aiming at longer-term investment horizon, cash, hedge funds and bonds should be reduced and equities, private equity, real estate, infrastructure and commodities should be increased.

II. Key quotes

- “The longer the investment horizon of an investor is, the most advantageous it is for him or her to integrate this long-term value-driver “sustainability” in his or her investment strategies” (Hesse 2008, p. 4)

- “As a basic principle, pension funds can invest for the long term, as the savings for the pensions of the beneficiaries are available for investments over decades. And the beneficiaries have a strong interest in being able to live out their retirement in an intact environment and in a peaceful world” (Hesse 2008, p. 4).

- “As a basic principle, a comparison of the investment successes should be done over ten or more years” (Hesse 2008, p. 4).

- “For pension funds, a success benchmark should be an absolute return (e.g. four per cent above the rate of inflation).” (Hesse 2008, p. 4)

- “The possible investment horizon of the pension funds interviewed that is available as an investment term is 23 years on average. In actual fact, however, the investments made are kept significantly shorter, six years as a rough average” (Hesse 2008, p. 5)

- “Today, the players in the capital markets frequently act with a too short-term timeframe. In turn, this perspective is transferred to the companies of real economy. There are frequent calls for this trend to be reversed and in some places it has already started” (Hesse 2008, p. 7)
• “Additional remuneration for managers for shareholder value generated in the long term and the inclusion of sustainability criteria such as SD-KPIs in the remuneration systems of the companies” (Hesse 2008, p. 27)
• “The education of the population in financial issues also tends to be too low in general. The state needed here to contribute to a (sustainable) financial education” (Hesse 2008, p. 42).
• “Overall, the bottom-up process could be considerably intensified with training and surveys of the beneficiaries” (Hesse 2008, p. 42).

III. Best practice

• Norwegian Government Pension Fund: active in sustainable investment and sovereign state funds