Do Investors Understand the Long-Term?

Crystallizing what it means to be a long-term investor

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About 1in1000

1in1000 is a research program by 2° Investing Initiative that brings together new & existing research projects on long-termism, climate change, and (inter-)connected future risks for financial markets, the economy, and society. Its objective is to develop evidence, design tools, and build capacity to help financial institutions and supervisors mitigate and adapt to future risks and challenges. The programme focuses on climate change (inter-) connected risks and challenges, notably risks stemming from ecosystem services and biodiversity loss, as well as risks from social cohesion and resilience. To achieve this objective, 1in1000 operates within three main areas: i) Long-term metrics; (ii) Risk (management) tools and frameworks; and (iii) Policies & incentives.

About 2° Investing Initiative

The 2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals. Working globally with offices in Paris, New York, Berlin, and London, we coordinate the world's largest research projects on climate metrics in financial markets. In order to ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities, and NGOs.

About the funders

This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag. This report reflects the authors' views only, and the funders are not responsible for any use that may be made of the information it contains. This report also received funding from EIT Climate-KIC.

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Executive Summary

The concept "long-term investor" is one of the most ubiquitous phrases in finance.

The term appears over 7,000 times on the websites of the top 20 largest asset managers in the world. It is used as names for funds, asset managers, and research companies. Over 37,000 Google News articles reference the term.

The term and related priorities are also on the policy agenda. Long-term financial stability and long-term financing strategies are at the heart of the EU Renewed Sustainable Finance Strategy (Financial Stability, Financial Services and Capital Markets Union, 2018). Long-term assets enjoy differential tax treatment in the United Kingdom in the context of bank levies (Office for Budget Responsibility, 2020). And long-termism forms a core part of fiduciary duty principles (PRI and UNEP FI, 2020).

This report seeks to answer a seemingly simple question: How does the market define a "long-term investor"?

We conducted 60 in-depth interviews with asset managers and asset owners to explore the question as to what it means to be a long-term investor. The interviews and linked survey sought to identify how financial institutions define the term "long-term investor", the extent to which they see value in long-termism for financial and sustainability performance, and the mechanisms to move towards more long-term financial markets.

Based on the interviews, we identified three key premises:

- **Premise 1: Everyone thinks that being a long-term investor is a good thing.**
- **Premise 2: Asset managers and asset owners think they are long-term investors, but they don't agree with each other on what that means.**
- **Premise 3: Investors are not long-term investors according to their own definitions.**

While there appears to be a societal consensus around the benefits of being a long-term investor, there is no consensus on what it means in practice.

As a result, we do not have a clear definition of being a long-term investor. Nevertheless, there is robust evidence that most financial institutions that classify themselves as long-term do not in practice satisfy the 'common sense' criteria associated with that label. This is not the least driven by the fact that they do not classify their criteria and definitions provided in the survey. As a result, a lack of definitions and criteria means there is no accountability around being a long-term investor.

The confusion on what a long-term investor is, means that one of the most popular labels and marketing terms in finance operates effectively without regulation or control as to the criteria that need to be met to qualify as a 'long-term investor'.

As a result, this report suggests several steps necessary to improve financial sector long-termism in a way that services both financial and societal returns.

- **A common definition and criteria a financial institution must meet to qualify as a long-term investor.**
- **A regulatory standard around the term to protect it and set incentives to drive long-termism forward.**
- **Development of incentives linked to long-term criteria that relate to driving financial and societal outcomes.**

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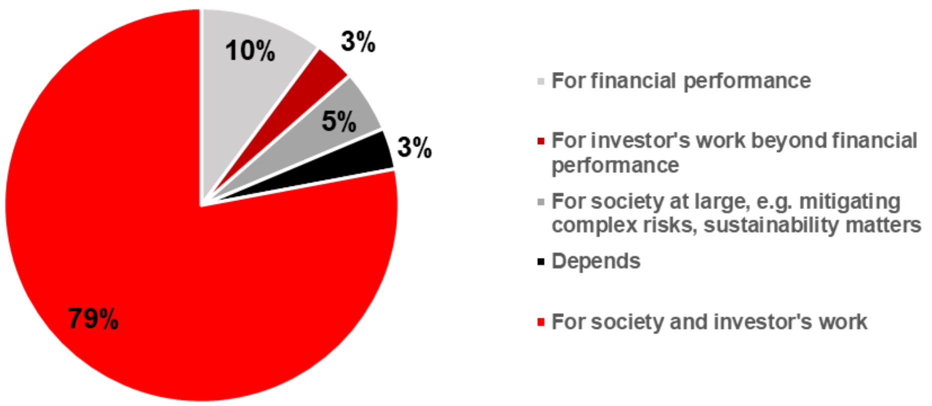
Crystallizing the term "long-term investor"

Premise 1: Everyone thinks being a long-term investor is a good thing.

Nearly 80% of the asset managers and owners surveyed believe that long-term investors are good for society and financial performance. In terms of society, a key reason for the respondents was that a longer time horizon allows for the management of societal long-term challenges such as climate risks. In terms of financial performance, many respondents cited the transaction costs associated with short-term investing as a disadvantage.

Figure 1: Results of the responses to the question "Do you see benefits arising from long-termism"?



A look at asset managers' advertisements confirms our finding that asset managers like promoting themselves and their services as long-term. The review shows that the 20 largest asset managers alone use the term over 7,000 times on their respective websites.

Figure 2: Frequency of references to "long-term investor" and "long-term investment" across 20 large asset managers (Source: own representation).

Not only do investors believe that being a long-term investor is a good thing, but it is also crucial for civil society and policymakers. Civil society and policymakers see the long term as the necessary condition for financial markets to become aware of and prepare for these complex risks, equating the term 'investing for the long term' with 'being prepared for the future' (see e.g., Kim and Asuncion 2019, HLEG 2018).

Premise 2: Asset managers and asset owners think they are long-term investors, but they don't agree with each other on what that means.

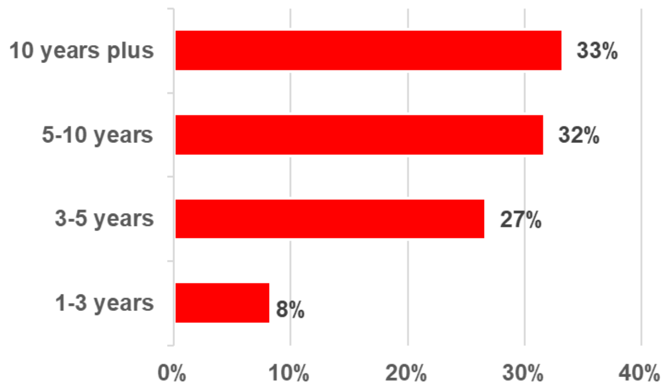
As the responses to our surveys show, asset managers and owners not only believe that being a long-term investor is a good thing, but they also claim to be long-term investors. 92% of all respondents said they would classify their company as a "long-term investor", 5% don't and 3% did not know how to answer the question. Respondents mainly gave three reasons why they believe they are long-term investors:

- **Investment timeframe:** More than half of the asset managers and owners referred to the period of their investment activity when classifying themselves as long-term investors, although the periods they mentioned varied widely (ranging from 3-50 years).
- **Investment strategies:** Other respondents focused on the qualitative characteristics of their investment strategies such as *"sustainable returns in the long-term"*, *"their intentions with the investment rather than a specific time horizon"*, or that their investment *"tries to contribute to long-term solutions and seeks to address long-term systemic change in the areas we operate"*.
- **Type of organisation.** Some respondents also made their definition dependent on the nature of their organisation, especially in the case of pension funds. As they have long-term liabilities, many pension funds indicated that they invest according to the long-term mandate to pay their liabilities to their members, which can be 30-50 years. This type of definition appeared to be based on the idea that institutions were *by default* long-term.

5% of all interviewees that said they wouldn't classify themselves as long-term investors pointed to their focus on generating returns in the short-term compared to other asset managers and owners.

Even though the majority of our interviewees say they are long-term investors, there was little agreement as to the investment horizon that would classify them as 'long-term'. 33% of all interviewees said that a long-term investor has an investment horizon of 10 years or more. 32% said 5-10 years, 27% 3-5 years and 8% even said 1-3 years. The reasons for these responses were the length of the market and economic cycles, the limits of reliability of forward-looking models, the length of their liabilities and the type of investments they focus on, such as infrastructure, which have longer time horizons for returns.

Figure 3: Results of 60 responses to the questions "what is the timeframe or investment horizon of a long-term investor in your view?"



Premise 3: Investors are not long-term investors according to their definitions

Of the 55 investors described above that classify themselves as long-term investors, however, only 66% had a time horizon that exceeded the time horizon they themselves defined as 'long-term'. We asked survey respondents to tell us what the minimum time horizon is to classify as a long-term investor as part of the questionnaire. About two-thirds of investors who classified their organization as a 'long-term investor' provided an investment horizon equal or longer to the one they considered necessary to qualify for the label. In other words, around 33% of investors consider themselves long-term investors despite an investment horizon *shorter* than what is necessary to be long-term in their estimation. Crucially, this assessment here did not define for the investor or for the study what a minimum time horizon for a long-term investor is, nor evaluated the actual time horizon of the investors surveyed.

Only 52% of investors claiming to be long-term have an investment horizon of 5 years or more. While we do not define the minimum investment horizon in this report, this finding suggests that almost half of investors who classify themselves as long-term have an investment horizon of 5 years or less, again, based on a self-assessment. This is also relevant since around 70% of investors consider 5 years or more the minimum investment horizon to be considered a long-term investor.

The actual percent of investors with an investment horizon of 5 years or less is likely to be significantly higher. While not an explicit focus here in this report, previous research (see e.g., 2DII, 2017) suggests that a significantly higher share of investors than those surveyed here have a time horizon of fewer than 5 years and in many cases, the actual time horizon of most investors is 1 to 3 years.

Figure 4: The cascade effect of survey respondents to actual investment horizon

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Consequences

Based on the analysis outlined above, we can derive the following overall conclusions:

1. *There appears to be a societal consensus around the benefits of being a long-term investor, but no consensus on what it means in practice.*

This conclusion creates a major challenge for driving sustainability change. There is the idea that being long-term is a “good thing”, associated with positive impacts on both financial performance and society at large. However, there is no agreement on what specific criteria you have to fulfil to qualify as a long-term investor and by extension, capture these benefits. Indeed, we cannot even track whether the premise is correct that there are positive externalities if we don’t know these specific conditions required to qualify.

A lack of criteria also makes it difficult to drive behavioural change. There is no “race to the top” when it comes to satisfying criteria related to long-termism, given the lack of benchmarks. Lack of consensus and transparency across some of the criteria referenced in the interviews also means we don’t know which criteria correlate with positive financial and societal impacts and which criteria may be related to ‘long-termism’, but do not necessarily drive the positive broader change.

2. *While there is not a consensus on what it means to be a long-term investor, there is robust evidence that the majority of financial institutions that classify themselves as long-term do not in practice satisfy the ‘common sense’ criteria associated with that label.*

This conclusion is contingent on their definition of a long-term investor. Some of the survey respondents consider that a long-term investment horizon is 1-3 years. By that measure, most investors probably classify as long-term. However, a broader perspective suggests that the majority of surveyed investors and the market more broadly do not satisfy the minimum criteria to be considered a long-term investor. As outlined above, 50% of investors described their investment horizon as shorter than 5 years and a third of investors had a time horizon shorter than their definition of a long-term investment horizon, despite classifying themselves as long-term investors. Again, it is worth highlighting that this is based on their responses and definitions.

These findings are complemented by the broader research around long-termism, notably those of the *Tragedy of the Horizons* program of 2DII and the work of Aviva and Focus Capital on the Long-Term (FCLT) (2DII, 2016-2022). Specifically, this research finds the typical time horizon of portfolio turnover, equity and credit research, and disclosures to be less than 3 years.

3. *Lack of definitions and criteria means there is no accountability around being a long-term investor.*

The word ‘long-term investor’ is used in marketing documents to both retail and institutional clients in such a way that the term has arguably lost its meaning. The fact that a set of investors consider investment horizons necessary to qualify as being long-term to range from 1 year to 10+ years demonstrates the lack of clarity on what the word means. This, in turn, creates a dynamic where there is no accountability on the necessary steps to qualify as a long-term investor. From the perspective of investors that strive to be long-term, it also prevents them from identifying criteria that can drive better financial and societal performance.

As a result, this report suggests several steps necessary to improve financial sector long-termism in a way that benefits both financial and societal returns.

- **A common definition and criteria a financial institution has to meet to qualify as a long-term investor.**

We currently lack a common definition and criteria for being a long-term investor, rendering the term largely meaningless and preventing financial institutions from fully capitalizing on the potential opportunities that come with that term. Based on the survey conducted with financial institutions, these criteria should focus in particular on the following aspects:

- The use of long-term benchmarks beyond market-capitalization-weighted benchmarks to track long-term financial performance and sustainability outcomes;
- The integration of long-term criteria and incentives in the mandate design, including the benchmarks linked to the mandate, remuneration issues, duration of mandate, and description of targets;
- The integration of long-term risk metrics in the investment decision-making process and the tracking of financial risk;
- The use of tools in governance and investment decision-making, including horizon scanning, scenario analysis, etc.

Criteria and definitions may be asset class-specific but should be designed in a way that allows financial institutions to classify themselves as long-term. One aspect worth noting is that portfolio turnover was not a focus of survey respondents as consideration for long-term investing, despite its prominence in the literature on short-termism in financial markets.

- **A regulatory standard around the term to protect it and set incentives to drive long-termism forward**

The use of the term 'long-term investor' or variations thereof in marketing materials is effectively non-regulated marketing, given the lack of criteria and standards. Without such a standard, it is difficult to frame such marketing as 'misleading'. We recommend the implementation of a regulatory standard that protects the term 'long-term' and its use in marketing material for both institutional and retail clients. This standard should orient itself around the criteria developed above, but also consider more specifically the risk of misleading marketing in the context of retail investors.

- **Development of incentives linked to long-term criteria that relate to driving financial and societal outcomes**

Further research is needed to better understand the correlation between long-term investing and financial performance and contributions to long-term policy and societal goals. However, based on this paper, we would recommend the implementation of specific incentives for long-term assets. Role models for these types of policy interventions already exist. For example, bank levies are tailored based on the maturity of instruments in the United Kingdom (Office for Budget Responsibility, 2020). The EU High-Level Expert Group also recommended a set of reviews to identify and incentivize long-term behaviour (EU High-Level Expert Group on Sustainable Finance, 2018). Incentives can also consider changes to the Benchmark Regulation to drive the adoption of more long-term oriented benchmarks (EU High-Level Expert Group on Sustainable Finance, 2018).

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Appendix 1: Background and Interview Methodology

This research aims to formulate a definition of a 'Long-term Investor' and a regulatory standard to protect it and incentives to drive it forward. To start, it is important to establish what industry practitioners understand by the term and whether they use and identify themselves with it. For this purpose, we interviewed Asset Managers (AMs) (68%) and Asset Owners (AOs) (32%).

Identification of the interviewees

As a first step, the 1in1000 team hired an investor relations manager to provide expertise on the topic and contact possible interviewees. To create a list of potential interviewees, our first step was researching and identifying AMs and AOs by the level of AUM (Asset under Management) across Europe, North America, the UK and Australia. As a secondary consideration, we checked whether there were any sustainability funds or 'green funds' at these firms. Subsequently, we identified the relevant Portfolio Manager/s of those funds.

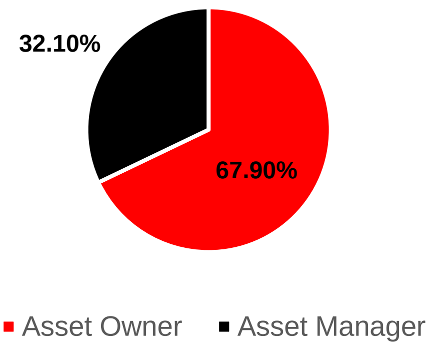
With a targeted shortlist we contacted the relevant person by phone or email, depending on the available reference information and accessibility. We followed up on this to secure 60 interviews. The identification process began in May 2021 and continued through the course of the project until December 2021.

Conducting the interviews

We interviewed the relevant people at the AMs and AOs by phone or via Google Meet in English. With a questionnaire on Google Forms, we tracked the answers per the responses. Where interviewees gave consent, we recorded the interviews to cross-check answers post-interview. Five interviewees preferred to respond to the questionnaire directly in their own time rather than speak by phone or Google Meet at a designated time and date. The interview period ran from July-Dec 2021.

Overview of the interviewees

During the process of this research, we conducted a total of 60 interviews. Almost two-thirds of the interviewees were Asset Managers while the rest were Asset Owners. The target set for this research was 60 interviews to incorporate a wide variety of perspectives from different types of Asset Managers and Owners across geographies.

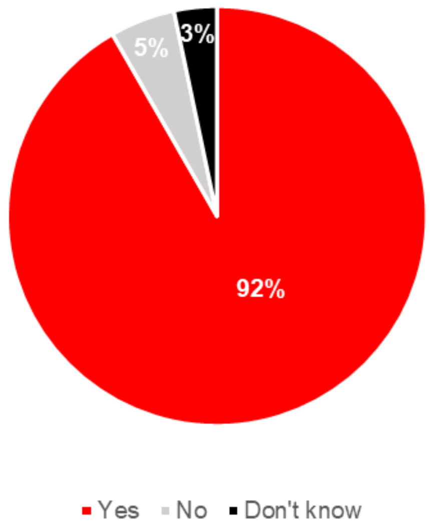


The exact titles of the interviewees were diverse, e.g., 'Investment Manager', 'Portfolio Manager', 'Responsible Investments Manager', 'ESG Director', 'Head of Asset Management'.

Appendix 2: Overview of Interview Responses

Q1. Would you classify your own organization as a "long-term investor"?

The first question of the questionnaire was if the interviewees classified their organization as a "long-term investor". The majority of the interviewees (91.7%) said yes. Only 3 interviewees said no and a remaining couple of investors said they didn't know if they could be classified as "long-term investors".



Q1a. If yes, how would you define a long-term investor?

Q1b. If no, why not?

Q1c. If you don't know, why do you have difficulties to say?

We then asked the interviewees an open-ended question to elaborate on how they define a "long-term investor". There were varying answers, but some common threads could be identified.

Many interviewees defined a 'long-term investor' according to timeframes of investing activities. However, there were significant variations in the timeframes mentioned such as: "below 3 years", "over 10 years", "3-5 years", "5+ years".

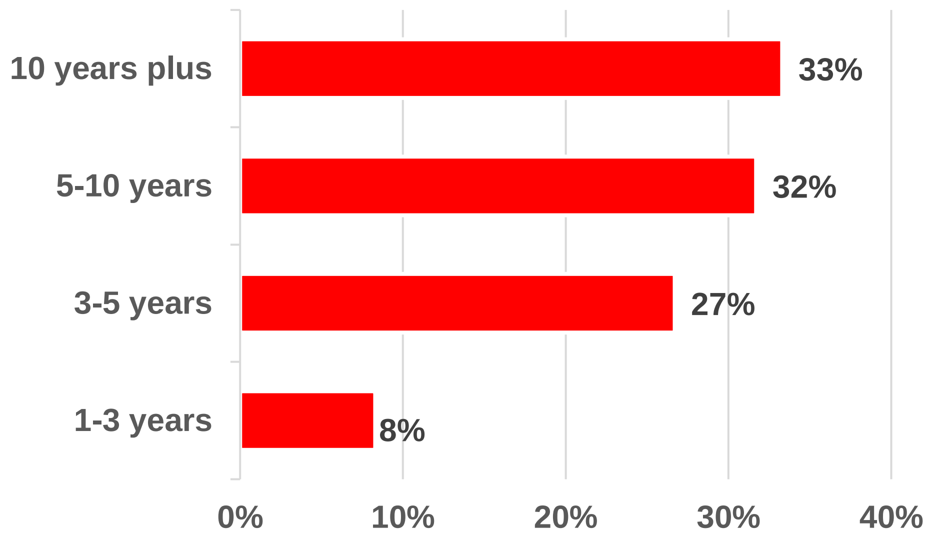
Other interviewees focused on the qualitative characteristics of the investment analysis, for example "picks investments based on the quality and growth prospects on a medium to LT outlook of a business" or "sustainable returns in the LT" or "their intentions with the investment rather than a specific time horizon or "tries to contribute to long-term solutions, and seeks to address long-term systemic change in the areas we operate", etc.

Some interviewees also based their definition on their type of organization, especially in the case of pensions funds. As they have long-term liabilities, many pension funds stated they invest according to the long-term mandate of paying their liabilities to their members, which can be over 30+ years.

Interviewees, who clearly said that they are not long-term investors, pointed to their focus on generating returns in the short-term compared to other Asset Managers and Owners.

Q2. What is the timeframe or investment horizon of a long-term investor in your view?

We asked the interviewees to share their views on what is the timeframe or investment horizon of a "long-term investor" and choose between 4 options. Responses were concentrated around and almost evenly split across 3 of the options with 10+ years getting the highest number of votes (33.3%), followed by 5-10 years (31.7%) and 3-5 years (26.7%). The least cited was 1-3 years (8.3%).



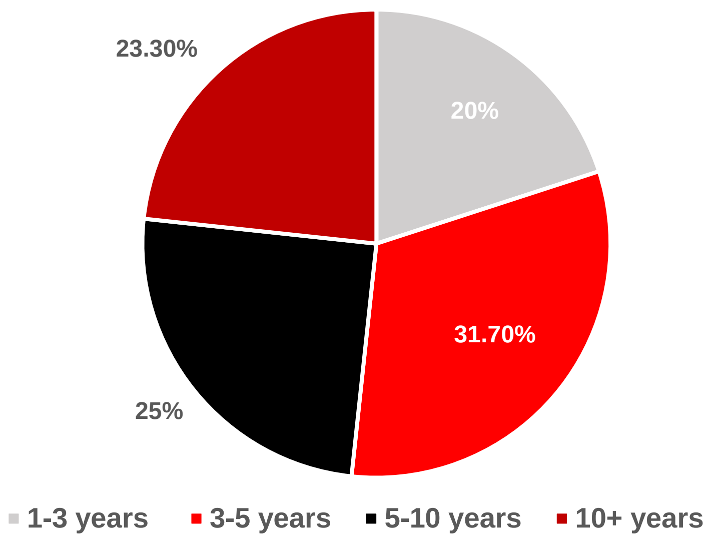
Q2a. Why did you choose this number?

We asked interviewees why they chose those particular timeframes or investment horizons for a long-term investor. Interviewees highlighted multiple factors which influenced their choice such as the length of market & economic cycles, limitations of how far forward-looking models can be relied on, the length of their liabilities and types of investments they focus on such as infrastructure which can have longer time horizons for projected returns.

Many interviewees highlighted that when the time-horizon of investments is below a certain number of years, an investor cannot be classified as 'long-term'.

Q3. What would you say is the current time horizon of your investment process?

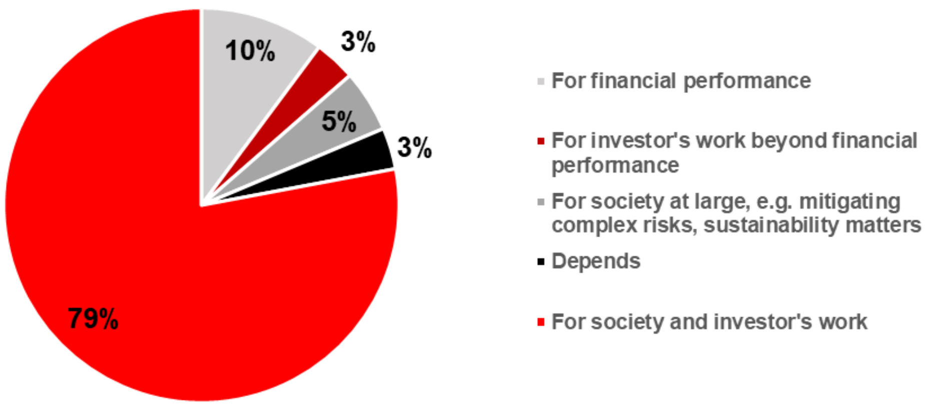
We asked the interviewees to share their current time-horizon for their investment process, the responses showed an even split across the timeframes proposed with no clear majority. The highest responses were for 3-5 years (31.7%) followed by 5-10 years (25%), 10+ years (23.3%) and 1-3 years (20%).



It is worth noting that these questions were asked consecutively, so investors had responded to their assessment of what constitutes a long-term investment horizon before describing their investment horizon. There are a couple of factors however to consider. First, it may be that investors do not think the investment horizon is material to whether an institution can be classified as a long-term investor (linked to the definition above where some consider themselves a long-term investor ‘by default’). Second, some investors identified the disconnect in the interview themselves. Finally, the concept of “‘one”’ investment horizon has obvious limitations given the differences in investment practice across different asset classes in the investment process from strategic asset allocation to active stock-picking. Despite these caveats, the internal inconsistency between describing a long-term investment horizon and the self-definition of these horizons is striking.

Q4. Do you see benefits arising from a longer time horizon? For example: (multiple choices possible)

Considering the benefits arising from a longer time horizon, an overwhelming majority of interviews highlighted that ‘both financial performance and society at large’ (79.3%) benefit from a longer time horizon. There was a low preference for the other options presented with only ‘for work due to financial performance’ receiving a substantial response (10.3%).



Please note that the original answers in the questionnaire were grouped:

- The questionnaire contained the answer “for your work due to financial performance” (10.3%), and is in the above called “for financial performance”;
- It also contained the responses “for your work by way of financial performance” (3.4%) - in the above “for investor’s work beyond financial performance”;
- Another answer was “for society at large (3.4%)” which was grouped with the answer “society yes, but not necessary for financial outcomes” (1.7%) – grouped to the above “for society at large, e.g. mitigating complex risks, sustainability matters”;
- Other answers were “depends” (1.7%), “all these outcomes are possible” (1.7%) – grouped above to the category “depends”.
- for both financial performance and society (79.3%),

Q4a. If yes, why do you see those benefits?

Q4b. If not, why don't you see any benefits?

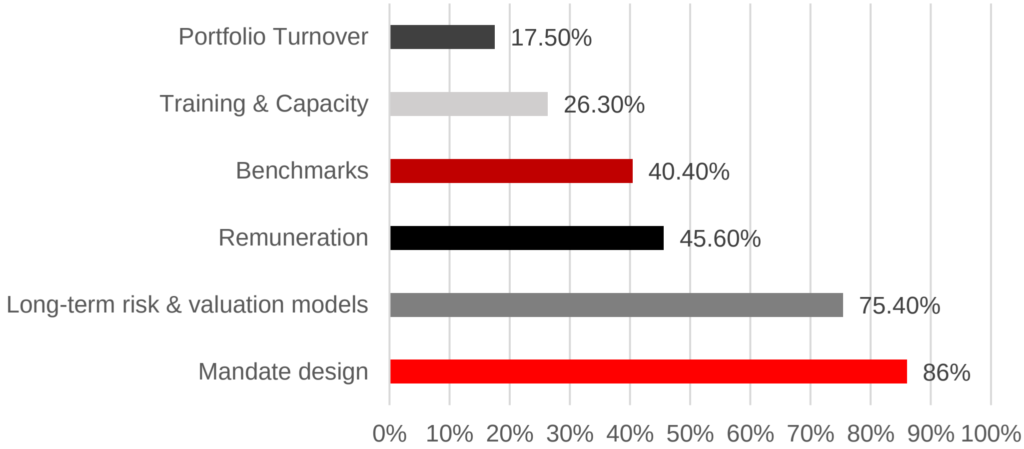
Responding to the question on why the interviewees see these benefits to long-term investing, they cited the impact long-term investing has versus a short-term approach. A longer time horizon allows investors to identify and engage with companies to create better strategies and ensure better returns. It also allows the consideration of climate, environmental and societal costs in risk as they rarely manifest in the short-term.

Regarding financial performance, many interviewees cited the transaction costs associated with a short-term approach as negatively impacting returns. With a longer time horizon, Asset Managers and Owners can reduce these costs and ensure greater predictability and lower volatility in the markets, which enables them to meet their liabilities and generate better returns.

Some interviewees also highlighted that a long-term approach helps them to visualize to try and have what impact they want to have. They can consider what sort of world would people, who are entrusting their money to them, want to live in.

Q5. We have prepared these conversations on the basis of previous interviews with experts who have identified a number of themes and metrics that they consider relevant. Which of these areas do you think is the primary driver of long-term behaviour?

When asked to consider which are the primary drivers of long-term behaviour, the interviewees choose diverse options. Mandate design was considered the primary driver of long-term behaviour by 86% of the interviewees followed by long-term risk & valuation models by 75.4%. Other drivers prominently highlighted through the interviews were remuneration (45.6%) and benchmarks (40.4%). Lower on the scale for interviewees were drivers such as training & capacity (26.3%) and portfolio turnover (17.5%).



Q5a. Of the options presented which are the three key drivers of long-term behaviour in your opinion?

Q5b. Why do you consider the others to be less important?

We asked interviewees to explain why they chose certain drivers of long-term behaviour. They highlighted mandate design as crucial, since it guides and restricts the investments which can be made. Seeking to address customer demand, mandates designed for long-term behaviour will reflect that in the investment strategies. Many interviewees also mentioned that remuneration is tied to mandate design and incentivises the fund managers to take the desired approach.

Long-term risk & valuation models play a crucial role as fund managers need to incorporate these risk factors into their investment strategies. When climate change and other long-term risks are considered, there is a major shift towards long-term behaviour.

The choice of benchmarks always guides the interviewees as their performance is assessed on that basis. Training and capacity have become crucial as ESG has entered mainstream finance and analysts and investment managers need to upgrade their knowledge and skills to align with the market.

On the flip side, we asked interviewees why they didn't choose certain options as drivers of long-term behaviours. They pointed to portfolio turnover as an outcome of external and internal factors rather than it being a driver of behaviour. According to the interviewees, training and capacity is less important than the other drivers and more a personal choice of analysts and managers. Some interviewees view benchmarks as driving short-term behaviours and also more applicable to public markets rather than private markets.

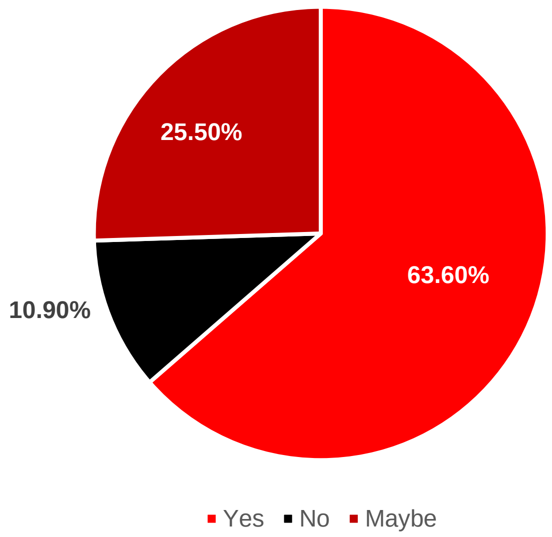
Q6. With regard to benchmarks what needs to happen in your opinion to go beyond market-capitalisation weighted benchmarks?

Interviewees provided various perspectives on what needs to happen to go beyond market-capitalisation weighted benchmarks. Many of them emphasized the importance of incorporating ESG focused benchmarks which would better reflect the impact on environment and society. At the same time, they highlighted the shortcomings of ESG ratings and benchmarks and difficulty in rating small or medium sized companies and lower rankings for countries from emerging markets.

A solution proposed to overcome this is gathering and using better metrics and ensuring the collection of reliable data. This requires Asset Managers, Asset Owners and Index Providers to interact and coordinate efforts with companies, data providers, rating agencies and other stakeholders. Many interviewees emphasized the fundamental role stronger regulation could play in bringing the stakeholders to table and kicking off these initiatives.

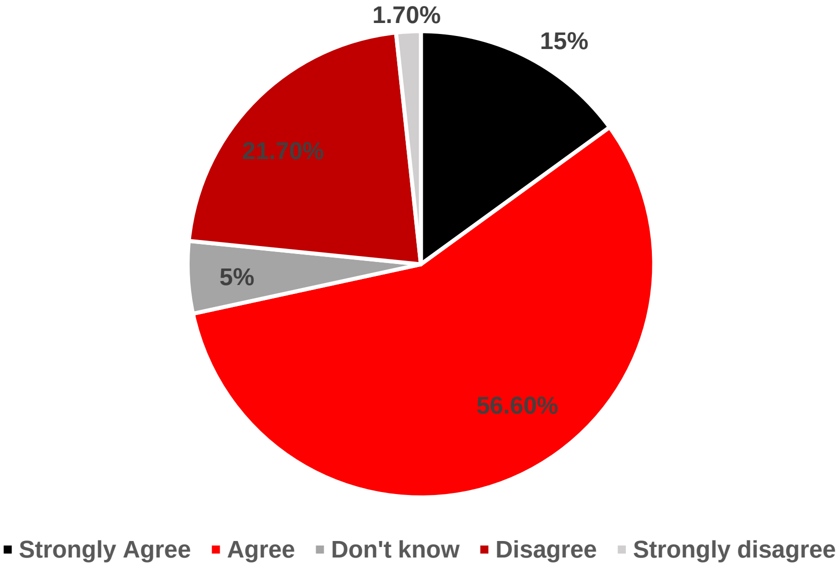
Q7. Would you be interested in developing metrics to determine what it means to be long term?

A majority of the interviewees (63.6%) shared they would be keen to be involved in developing metrics to define what it means to be a 'long-term investor'. Around a quarter of the interviewees were unsure and said maybe, while the rest (10.9%) said they were not interested.



Q8. Do you think your organization sufficiently considers "future risks" (i.e. risks likely to materialize beyond 5 years e.g. climate change, ecosystem service shock)?

Regarding "future risks" (i.e. risks likely to materialize beyond 5 years e.g. climate change, ecosystem service shock), 68.3% of the interviewees said they agree or strongly agree that their organization takes these risks into consideration. At the same time, 20% of respondents disagreed.



Q8a. If (strongly) agreed, what are the steps your organization has taken to lead you to that conclusion?

Q8b. If (strongly) disagreed, what is the primary 'bottleneck' or barrier to progressing on this?

Q8c. If don't know, why do you have difficulties to answer the question?

To expand on what steps their organization has taken to consider future risks, the most often stated step was the incorporation of ESG into analysis and risk models. Many are beginning to use climate change models and scenarios and joining initiatives like TCFD or Net Zero alliances. There are also active efforts in the investment processes and decisions to either exclude or screen companies, which do not align with the sustainability focus of the Asset Owners and Managers.

From the interviewees, who disagreed that their organisations have sufficiently considered future risks, came the opinion that the lack of reliable and accurate data is a key barrier in this regard. They require more capacity in the organisation to consider these risks and a better understanding of the issue of how the risks affect financial performance.

Q9. What kind of metrics or indicators are used for quantifying future risks such as climate change, biodiversity losses or social conflicts or others that you would classify as long-term risks?

We inquired for details on what kind of metrics or indicators are being used for quantifying future risks such as climate change, biodiversity losses or social conflicts or others that are classified as long-term risks. The majority of interviewees mentioned carbon accounting, climate risk (physical and transition risk) models, emissions intensity, industry reports and scores. Biodiversity and social conflicts receive lower attention due to the lack of reliable data, metrics and indicators.

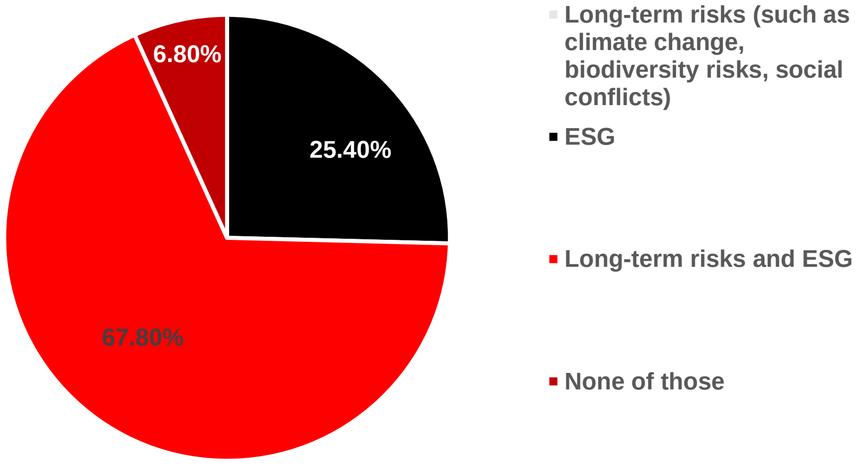
Some integrated models are being increasingly used such as scenario analysis and stress testing, both developed by industry and internally as well. The organisations are focusing on upskilling their workforces or building teams that can monitor and evaluate these risks.

Q10. What do you think are the biggest barriers that prevent your organization from being more long-term oriented, beyond what we have already discussed?

On the question of what are the current barriers that prevent the organization from being more long-term oriented, several interviewees highlighted short-term human biases. These biases influence the investment behaviour and expectations, both internally and externally in organisations, which lead to short-termism in investment horizons. Lack of reliable and consistent data and shortcomings of current risk models also obstruct the shift to a longer-term orientation. Interviewees mentioned clearer policy signals from the governments are needed as well to encourage long-term behaviour.

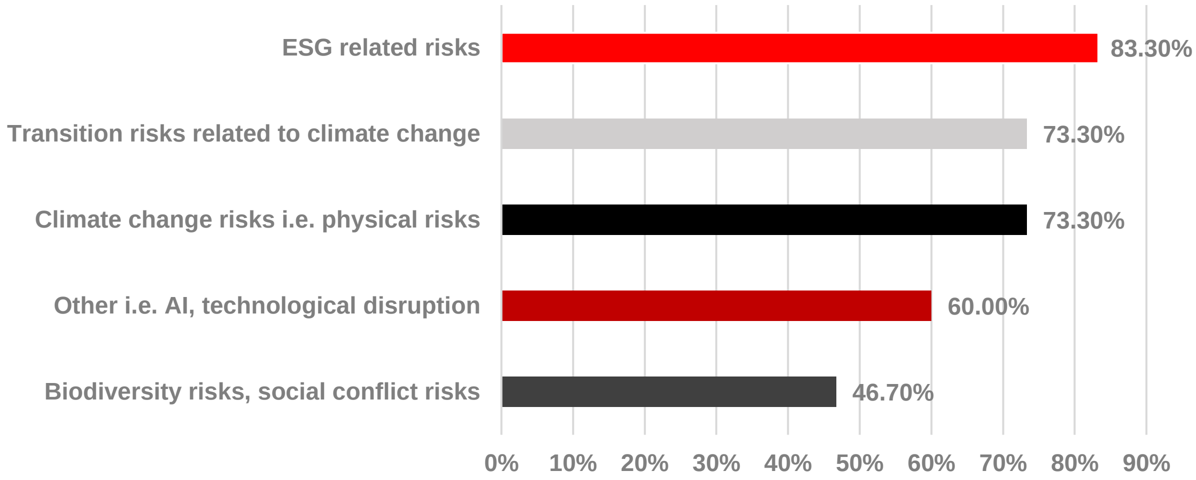
Q11. Is there board-level responsibility to address:

Over 66% of the interviewees said there is a board level responsibility to address long-term risks and ESG, while a quarter said this responsibility is only for ESG. A small share of the interviewees (6.8%) said this responsibility does not exist for either at their board level.



Q12. Which risks amongst the following do you think of when you refer to 'future risks'?

In a question answered by only half of the interviewees, the responses for what risks come to mind when thinking of the term ‘future risks’ were spread out. Over 80% selected ESG related risks, while almost 75% of the responses chose physical risk and transition risk related to climate change. 60% of the responses considered others such as AI, technological risk, etc. as examples of future risk while a bit lower than half of the responses focused on biodiversity and social conflict risks.



Q13. What steps can be taken within mandate design to incorporate the long-term and future risks such as climate change, biodiversity or social conflict risks?

The interviewees provided various suggestions on steps that can be taken within mandate design to incorporate the long-term and future risks and some of the common ones were:

- Pressure from clients to incorporate these risks and at the same time, educate clients about these risks
- Clearer regulation from regulators and policymakers and governments
- Integration of ESG considerations and long-term risks into investment behaviour
- Setting of KPIs for climate, environmental, societal and other targets

Q14. What do you think would be the greatest motivation for a) yourself b) your organization to incorporate future, long-term risks into your investment decision making?

Finally, we requested interviewees to share their thoughts on what would be the greatest motivation for them and their organization to incorporate future, long-term risks into their investment decision making.

On a personal basis, some interviewees stated that the incentives and remuneration linked to these long-term risks would motivate them to change their behaviour. However, others are already motivated to consider these risks, in the sense of the impact they are hoping to have on the planet and society.

The interviewees mentioned multiple times that for both the organization and for themselves, there is a need to achieve a better understanding of what future long-term risks entail.

The link between better financial performance and reduced risks through incorporation of these future and long-term considerations would be a strong incentive.