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PERCEPTIONS OF LONG-TERM INVESTING

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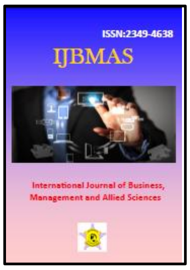

ABSTRACT
"Maximization of portfolio financial performance" (F) was notably absent from the objectives associated with long-term investing. Less than half of the funds (43.8%) indicated they agree/strongly agree that this was an attribute of long-term investors. In fact, this characteristic was ranked lower than "managing and investing foreign exchange reserves" (A) and "pursue investments that facilitate domestic economic development" (I). Each of these factors had respondents, respectively, 50.0% agree and 46.7% agree/strongly agree that these were qualities of long-term investors. The low position of portfolio financial performance maximization as an investment objective was even more striking given the self-report of the funds about their own goals. It was, in fact, the only element that produced an agree/strongly agree consensus (66.6%) regarding the funds' own investment objectives. It received, moreover, the greatest number of "strongly agree" responses than any other item on the entire survey.
Keywords: portfolio, response, foreign exchange and survey

INTRODUCTION

Based on the literature on long-term investing and the qualities of funds traditionally associated with this asset management strategy, ten different objectives were identified. Respondents attributed three objectives (C, D, and E) to long-term investors. Over three-quarters of the funds (87.5% and 81.3%, respectively) indicated that they agree/strongly agree that long-term investor objectives include: "storing wealth for future generations of fund's host country" (D) and "increasing wealth for future generations of a fund's host country"(E). None of the respondents selected disagree or strongly disagree for either of these objectives.

These two items also had one of the highest number of funds indicate that they strongly-agree with each statement (31.3%). Thus, a quality that can be an important element facilitating the provision of global public goods was identified as a core attribute of long-term investors.

DISCUSSION

Table 1 : Characteristics of Long-Term Investor Objectives

Item	*Objective*
A.	Managing and investing foreign exchange reserves
B.	Stabilizing the government budget during economic cycles
C.	Managing future national pension liabilities
D.	Storing wealth for future generations of a fund's host country

E. Increasing wealth for future generations of a fund's host country
F. Maximization of portfolio financial performance
G. Hedge exposure to price of imports
H. Hedge exposure to commodity price volatility of exports
I. Pursue investments that facilitate domestic economic development
J. Pursue Socially Responsible Investment strategies

Table 2: Long-Term Investor Objectives:
Perceived Characteristics as a Group
(Numbers in percentages)

Item No.	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	6.3	18.8	25.0	50.0	-
B	6.3	31.3	37.5	25.0	-
C	6.3	6.3	18.8	50.0	18.8
D	-	-	12.5	56.3	31.3
E	-	-	18.8	50.0	31.3
F	6.3	18.8	31.3	37.5	6.3
G	12.5	31.3	43.8	12.5	-
H	12.5	31.3	50.0	6.3	-
I	6.7	13.3	33.3	40.0	6.67
J	20.0	20.0	26.7	33.3	-

The association of increasing and storing intergenerational wealth with long-term investing was reinforced by the investment objectives of survey respondents 16 this attribute did not emerge from all the funds identifying this as one of their investment goals. In fact, less than a quarter (21.4% strongly agree) indicated that their own funds were oriented toward "storing wealth for future generations of a fund's host country." The association with "increasing wealth" was only a little stronger with less than a third (30.1%) selecting agree/strongly agree.

The disjuncture between the survey respondents' own objectives and the qualities attributed to long-term investors as a group, suggests that intergenerational welfare in the form of wealth is perceived to be a general quality of long-term investing. It is not, in other words, derivative of funds simply extending their own objectives to the goals of this investor class.

Table 3 : Long-Term Investor Objectives
Characteristics of Respondent's Own Fund (numbers in percentages)

Item No.	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	64.3	-	21.4	14.3	-
B	60.0	6.67	20.0	13.3	-
C	26.7	13.3	20.0	6.7	33.3
D	35.7	7.1	35.7	-	21.4
E	38.5	7.7	23.1	7.7	23.1
F	6.7	13.3	13.3	13.3	53.3
G	33.3	26.7	26.7	6.7	6.7
H	35.7	28.6	35.7	-	-
I	28.6	21.4	21.4	14.3	14.3
J	21.4	14.3	21.4	35.7	7.1

Besides the storing and increasing of intergenerational wealth, there was a strong association between national pension fund objectives and long-term investing. Over-two thirds (68.8%) of survey respondents indicated they agree/strongly agree that “managing future national pension liabilities” (C) was an objective of long-term investors.

The general association of national pension funds with long-term investing was further bolstered by the funds’ self-reports about their own objectives.

This did not manifest, however, with the survey respondents identifying17 managing pension liabilities as one of their goals. Rather, less than half of the funds selected “managing future national pension liabilities” (40.0% agree/strongly agree) as one of their own objectives. Once again the attribution of this quality to long-term investors was more than a simple extension from survey participants own objectives.

Table 4 : Ranking of Characteristics of Long-Term Investor Objectives
(Based on Agree/Strongly Agree)

Rank	*Objective*
1	Storing wealth for future generations of a fund’s host country
2	Increasing wealth for future generations of a fund’s host country
3	Managing future national pension liabilities
4	Managing and investing foreign exchange reserves
5	Pursue investments that facilitate domestic economic development
6	Maximization of portfolio financial performance
7	Pursue Socially Responsible Investment strategies
8	Stabilizing the government budget during economic cycles
9	Hedge exposure to price of imports
10	Hedge exposure to commodity price volatility of exports

The lack of overlap between the funds’ own objectives and those they attributed to long-term investors as a group was interesting. Even though the survey targeted funds specifically associated with long-term investing, a small percentage of the funds aligned with the objectives attributed to this investor class. In fact only 6.3% of the funds had their objectives map onto the top three items attributed to long-term investors by all survey respondents (managing national pension fund liabilities and storing/increasing intergenerational wealth). If the threshold is lowered to funds that had any two of the top objectives as their own goals, then the percentage increases to 12.5%. The funds falling under the two-quality criteria were SWFs who selected storing and increasing wealth for future generations. If we expand the criteria to funds identifying their own objectives as overlapping with at least one of the top three items attributed to long-term investors as a group, then the percentage increases to 62.5%. With the one-quality threshold, all of the pension funds and two-thirds (66.7%) of the SWFs are included (the remaining survey respondents in this group did not self-identify their fund type). While the funds surveyed were targeted based on their association with long-term investing, clearly not all respondents possessed the qualities attributed to this investor class.

CONCLUSIONS

In an era of globalized governance, long-term investment funds emerge as one of several institutions and actors who can assist with the reduction of banking, climate, energy, and development crises. Facilitating the ability of investors to contribute to the provision of global public goods is premised upon a better understanding of two issues. First, since domestic action is insufficient, cross-border investment will be critical. A better understanding of the relative importance of the factors decreasing the likelihood that such investment occurs is thus important.

A second element is whether investors associate long-term investment with objectives that facilitate the provision of global public goods. The survey was an effort to begin addressing both of these important issues. While limited in generalizability, the survey provides an initial set of direct industry perceptions.

Foreign policy issues, whether through formal regulations or informal suasion, are the factors most frequently identified by survey respondents as reducing the likelihood of cross-border investment. Regulations are clearly important for markets, as demonstrated by the 2008 financial crisis, but they need to be structured to facilitate the long-term investment central for the provision of global public goods. The other issues that respondents noted as constraining their investments were organizational factors. Even though they were not as significant as foreign policy factors, all six issues included in the survey were identified by at least half of the survey respondents as decreasing the possibility of cross-border investment. One possible solution to organizational barriers is for funds strengthen their inter-fund relations. While increased interaction is one possible solution, another might be an investment platform that facilitates funds identifying co-investors with similar objectives.

Besides providing indications of the relative significance of the different types of constraints, the research project also examined what strategies funds deployed to address each issue. The survey revealed that after the category of “no strategy,” respondents tended to deploy, in descending order of importance, external managers, increasing transparency, co-investing, and other strategies. While these were the overall rankings, there were variations by factor classification.

Respondents identified fewer mechanisms for addressing foreign policy and investment climate factors than organizational factors. The investment funds participating in the survey were not, however, necessarily satisfied with the available strategies. External managers were seen as excessively focused on short-term performance and as incurring high fees. Co-investing was, on the other hand, complicated by the difficulty in finding partners with compatible strategic objectives.

Finally, the survey results on perceptions of long-term investors suggest that this investment class is identified with doing more than holding assets for an extended or indefinite period of time. Their objectives are associated with storing and increasing national wealth of future generations, as well as managing national pension fund liabilities. These qualities did not represent, moreover, a mere projection of the survey respondents own objectives onto long-term investors as a group. Quite the opposite occurred. A very small percentage of the survey participants own objectives overlapped with the top three objectives associated with long-term asset allocation. Much like the survey results, there is a gap between the funds traditionally associated with long-term investing and those who are able, or willing, to realize such an investment strategy.

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