Focusing Capital on the Long Term

AN ADDRESS BY

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TO

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CPP INVESTMENT BOARD

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MARK WISEMAN

Thank you, Shauneen, and good afternoon, everyone.

Thank you to the Institute of Corporate Directors for putting together a superb program today. From JP Morgan to Tim Horton's to Hess Corporation, the debate about corporate governance and what best drives long-term value creation is at the top of the agenda for corporate directors.

Dominic and I firmly believe the pervasiveness of short-termism stretches well beyond public markets into our investment world, our businesses, and into society as a whole.

Personally I came to this realization in recent years as an increasing number of public company CEOs came to speak to me about going private. They wanted to do this, in almost every circumstance, not to make a quick buck, but because they were increasingly frustrated, in the public market context, about not being able to make the "right" long term decisions for their companies.

Today we are going to jointly present our approach to focusing capital on long-term value creation.

If I had to boil our hypothesis today down to three words, they would be this: **patience promotes prosperity**.

This is not a new idea.

In the Theory of Moral Sentiments in 1759, Adam Smith argued that there are two qualities most useful to ourselves:

- First, **superior reasons** and **understanding** to determine the remote consequences of our actions
- And second, **self-command** to forgo present pleasure, or endure present pain, to obtain greater pleasure in the future.

A truly Scottish sentiment, but one that should apply to modern business in our view.

Today:

- We'll first touch on evidence indicating how a short-term focus damages corporate value.
- Second, we'll look at the potential value we can create by refocusing our businesses on the long-term.
- And third, we'll discuss suggestions for the sorts of actions we can take to do so.

We can all agree that shifting the focus of the capitalist system is no small undertaking. That is one reason why CPPIB is pleased we're partnering with McKinsey in this endeavour – after all McKinsey is all about strategic thinking and generating long-term value for its clients, and Dominic is a recognized thought leader on this issue.

Thankfully we have also been close friends for more than 10 years, which is always a good foundation for a collaborative effort. Perhaps most importantly, we share a disposition for action on what we believe is a defining issue of our time.

DOMINIC BARTON

I too would like to thank the ICD and particularly our conference co-chairs Eileen Mercier and Thomas O'Neill for putting a spotlight on this issue.

As Mark said, re-focusing businesses and capital markets on the long-term may be one of the greatest challenges of our time. This is a problem that is particularly acute in North America and Europe.

During my time working in Asia, I was constantly struck by how decisions were being made by corporates and governments with a five or ten year horizon. I remember meeting with President Lee Myung-bak of South Korea just after he was elected in 2008. He asked us to help him come up with a 60-year vision for his country! We settled for producing a study called *National Vision 2020*.

A ten or twenty year horizon is needed to embrace the five forces that are reshaping the global economy:

- Rise of Africa and Asia
- Aging populations
- Technology which is changing three times as fast as management techniques
- Resource productivity challenges
- Increasing strains on governments

Remember that it took between seven and eleven years for companies like P&G, WalMart and Coca-Cola to become profitable when they entered China. This is an example of the sort of long-term thinking we need to see organisations embrace more often.

Fortunately there are examples of organizations which are doing just that, particularly here in Canada.

I am delighted to be here alongside my old friend Mark, whose leadership and passion for action has shaped one of the rare long-term investors in a short-term world.

CPPIB, along with many pension funds and insurance companies, has obligations to contributors and beneficiaries that stretch over decades. They are caretakers of future generations.

This responsibility alone should compel institutional investors to take a longer-term perspective. But in reality, despite increases in life expectancy[i], and the corresponding need for a very long investment horizon to meet the needs of individuals for years to come, many institutional investors take a short-term perspective:

- They issue performance results every three months.[ii]
- They increasingly use short-term investment strategies and short-term incentives for asset managers.[iii]
- And they typically evaluate manager performance using short-term measures.

What is more worrying is that investing for the short-term destroys value.

Let me illustrate this by putting a few facts on the table:

- Active equity asset managers who held their stocks on average for **more than 6 months** saw considerably higher returns net of fees over the last twenty two years according to Strategic Insights.

- Companies with long-term cultures and a focus on sustainability outperformed matched companies in terms of Total Shareholder Returns by 4.8% per year **for a total of 18 years** according to a HBS study.[iv]

- Companies like Adidas, Henkel, and Volkswagen have outperformed the index by up to 10% over the last five years. This is in large part because they combine the committed long-term perspective of family-ownership with the transparency and access to capital that some exposure to public markets brings.[v]

- A Bank of England study by Andrew Haldane and Richard Davies (now at the Economist) may explain part of the reason for this. It found that stock prices of UK and US listed companies over-discounted the value of future cash flows **by 5-10%.**[vi] That means that investors have been pressuring CEOs and boards against making long-term investments.

- The result has been to drive companies off public markets just as Mark said earlier. Over **300 companies** have delisted from the NYSE group since 1998 despite a decade and a half of economic growth. In the same period the number of companies listed on the NASDAQ group has **dropped by a half to 2,577**.[vii]

- Some of the fault for increasingly short-term investing horizons lies with savers themselves. Individual savers are increasingly dependent on their own investments for retirement income and yet, they tend to use short-term metrics to assess these investments. The average American saver with a 401(k) defined contribution plans is switching funds every four years based on only one or two year's underperformance.[viii]

- This is driving some active equity mutual fund managers to become 'closet indexers' trading in and out of the same stocks frequently to show activity, but overall just following the index to avoid any years of significant underperformance[ix]. They can't afford to invest for the long term. Their clients will abandon them. The average US active equity mutual fund now turns-over more than three-quarters of their investments every year**.**[x]

- When combined with the rise of quantitative momentum strategies the result has been a significant decline in stock holding periods. Between 1975 and 2010, the average period for holding stocks on the New York Stock Exchange declined from six <u>years</u> to close to six <u>months</u>. And, this is not just about high frequency trading. Even excluding these trades, the trend to short term holds is staggering.

- From thousands of meetings with CEOs, it is clear to me that executives are under increasing pressure from shareholders, analysts, the media and Boards to deliver short-term gains and explain short-term losses. Which is not helped when CEOs are increasingly given less time to demonstrate the impact of their decisions. [xi]

- To understand this issue in more detail CPPIB and McKinsey, through the McKinsey Quarterly, carried out a global survey of public and private directors and senior executives, we received more than 1,000 responses from around the world.[xii]

- 63% of those business leaders told us that the amount of pressure on their senior executives to demonstrate strong short-term financial performance has increased in the past five years.

- Executives and directors told us that if their senior executives took a longer-term view in assessing business decisions the top two benefits to their company would be: 1) increased innovation and 2) stronger financial returns[xiii].

When short-termism dominates the markets, all participants, including employees, the environment and society face the consequences and forgo such long-term benefits.

From the Financial Crisis and ensuing Great Recession… to record youth unemployment… to decreasing social mobility and the growing gap between rich and poor in some of our most advanced economies… the case against short-termism and the need for a long-term approach has become clear.

MARK WISEMAN

Unfortunately this vital need for long-term action is too easily overlooked.

The world's markets have emerged from the financial crisis. The Dow is at an all-time high, corporate cash piles are bigger than ever and bank deleveraging, at least in North America, is largely complete.

Investors and individuals face a choice about the kind of future we want to build.

In our view, **this is a time for investing in growth**.

But in a short-term minded world, 55% of CFOs have indicated they would forgo an attractive capital investment project today if the investment led them to even **marginally** miss their quarterly earnings target[xiv].

That is despite research showing that companies that **marginally beat** their quarterly earnings target **under**perform those that marginally miss it after just a couple of years.

With such evidence of short-termism at play, it's little wonder public satisfaction with major corporations has been in decline for more than a decade[xv].

- In 2007, almost half of Canadians trusted business to do the right thing.
- Today that number has dropped to about a third.[xvi]

This is not just a Canadian story.

- In 1966 just over half of American's trusted big business.
- By 1975 it had dropped to 34%.
- And by 2012 to **less than 1-in-4 Americans**.[xvii]

We can, of course, choose to ignore this.

We could probably ride it out until the next global market meltdown. We can continue hoping that social unrest remains below the boiling point and that, like the miracle of spring in Canada, the public's trust in business will return.

Or we can tackle this issue. We can work to make real change in the way that business operates, from the Investor, to the boardroom, to the executive suite, to day-to-day business operating decisions.

We believe that we must and **<u>can</u>** act to reverse the short-term perspective that pervades modern business and market behaviour.

Today CPPIB and McKinsey are launching a joint **initiative** - we're calling it "**Focusing Capital on the Long Term**" - to move from discussion to <u>action</u>.

Over the next 12 months we will examine cases where long-term thinking has enhanced value creation. We will identify the specific changes that need to happen to make such long-term thinking wide-spread. And we will develop a clear set of actionable recommendations to make that change happen.

We recognize the scale of the challenge in changing short-term attitudes and behaviours that have become all too deeply ingrained in business, investment and society.

We are not looking at a short-term fix to the problem of short-termism. This will take time, persistence and commitment from all involved.

This initiative is focused on creating a roadmap for change.

DOMINIC BARTON

We believe this journey begins with institutional investors and corporate directors.

In our survey, almost half (47%) of business leaders identified the board of directors as one of the greatest sources of pressure to demonstrate short-term financial performance.

20% identified institutional investors as a key source of pressure. Yet these two groups can play a pivotal role in fostering long-term thinking and action across our investment and business worlds**.**

- **Institutional investors** have the size and clout to be champions of long-term thinking – like CPPIB. They own 70% of the outstanding stock of the largest 1,000 US public companies, either directly or through external managers.[xviii] Most importantly, they have a vested interest in generating higher economic value for all of their beneficiaries – in essence almost everyone in society.

- For **corporate directors like you**, the rationale for engagement is powerful. You have a fiduciary duty to represent the best interests of the company – a much broader duty (especially in the Canadian context) than simply to short-term shareholders who happen to hold stock today.

But it is always good to start any journey with a clear vision of where you are headed; a clear definition of objectives.

If our objective is to encourage a long-term mindset among the business and investment communities, then the first question to ask is, "What do we mean by long-term?"

We believe long-term thinking goes beyond a product cycle, beyond the average tenure of directors or the CEO, and beyond an investment cycle.

These time frames vary by industry and asset type:

- The average pharmaceutical drug takes 12 years to develop and typically has a product lifespan of about the same duration thereafter.
- A gas turbine takes 5 years to develop but lasts 25 years.
- New DRAM memory chips take 1.6 years to develop but last 3 years.[xix]
- Average asset turnover across industries is about 10.6 years. Even in the fast-paced technology industry it's 4.3 years.[xx]

For a company to thrive they must have a strategy and a business model that can last across product cycles. That means in general taking at least a **five to seven year** view. One could argue for even longer.

But in our global survey 44% of business leaders said their company's management team currently uses a primary time horizon of **less than 3 years** when they conduct a formal review of corporate strategy.

Yet at the same time **73%** said this primary time horizon should be more than 3 years **– 11%** said it should be **more than 10 years.**

Clearly, **leaders are aware that they should be thinking longer-term**.

But the reality we face today is that few seem to be doing so. In this context, five to seven years is a good compromise and a reasonable place to start. So that is our objective – for the business and investment community to adopt **and use a five to seven year mindset**.

MARK WISEMAN

And as we have investigated long-term thinking over the past several months, we have found the value of adopting this long-term mindset is clear and quantifiable.

Let's take a look at how long-term thinking creates value.

I'll start with **private equity firms**. Typically, they are aligned around 5 year performance targets, with incentive structures based on exit valuations. The net result? In the most recent studies, private equity ownership is associated with 3% per year higher returns than comparable public equities with similar risk profiles.[xxi]

Let's take a closer look at what's driving this outperformance:

- **First, their directors are more engaged**. Directors of private equity companies put in more than twice as many days as directors on publicly-listed boards.[xxii]

  And there is often greater transparency and accountability between board and management. Board meetings may be bi-monthly with monthly update calls. Directors have greater access to data and to middle managers, enabling more informed decisions. This accountability drives down through the non-executive ranks.

- **Second, directors of private equity owned companies firmly focus on value creation**[xxiii] and research has shown they are 3 ½ times more responsive to changes in investment opportunities than similarly-sized public firms.[xxiv]

  Stakeholders in private companies are all aligned around a longer horizon. With a perspective that is typically 5 years (not one quarter or even one year) it is easier for them to choose to make an investment with a longer payback, and to fund project start-up costs.

  It's also easier for their boards to remove management teams if they are not delivering against that horizon. Studies show that after an IPO, companies that were previously privately held **cut their investment rates by 2.8 times**.[xxv]

  Many privately held firms also have a **singular focus on cash flow**. That makes it easier to cut unproductive projects, or to write down assets so as to free up cash for projects with higher expected rates of return.

- **And finally incentives are long term.** Owners and management are typically compensated on the same long-term payout horizon. Usually a greater portion is variable compensation. Middle management and non-executives are often included in this structure.

Simply put, private companies are not only focused on long-term value – but have the benefit **to steadfastly retain this focus** and **make the hard decisions** required to generate long-term value – decisions which are tough to do in the public eye.

In his ground-breaking 1989 Harvard Business Review article '*The Eclipse of the Public Corporation*', economist Michael Jensen described:

> "the widespread waste and inefficiency of the public corporation and its inability to adapt to changing economic circumstances".

In response to this, Jensen predicted the rise of the active investor.

These investors would manage organizations, "*not* to maximize earnings per share, but rather to **maximize value**, with a strong emphasis on cash flow."

In our estimation, twenty-five years later, such investors are still a rare breed.

Indeed, institutional investors are increasing the proportion of their assets that they invest passively. According to CEM, the top 55 Canadian funds had **24%** of their equity allocation **in passive holdings** in 2011 **compared to 20% in 2007**. This shift is problematic as it means long-term investors are increasingly unengaged with companies.

However, there are noteworthy models we can look to and learn from:

First is so-called '**relationship investing**', in which investors buy a significant minority stake in a public company and actively engage with management. This approach has found success in shifting investors and companies towards long-term strategies. In effect, this strategy allows many institutional investors – including CPPIB, The Ontario Teachers Pension Plan and AimCo – to create and reap benefits of private equity relationships within public markets. Albeit this is still on a limited scale.

There is also informal collaboration. Large investors coming together to tangibly and powerfully wield their collective influence, instead of simply voting their proxies or selling their shares.

Now, I want to acknowledge such models are not instantly scalable or easily replicated. While not avoiding proposals that are difficult or challenging, our ultimate recommendations will suggest what's feasible and truly *implementable*.

Institutional investors and corporate directors **can play** a pivotal role in fostering long-term thinking and action.

With their widespread reach in the vast and complex capitalist ecosystem, if we can get directors and institutional investors to **think** and **act** for the long term, **they can influence widespread change**.

So with this audience representing one of these groups in full-force, we're going to take the opportunity to share some of the prospective solutions we are examining… we have six to share with you today.

I'll start with those relating to Institutional Investors:

…the first involves fostering collaboration amongst this group.

We believe collaboration amongst institutional investors is crucial for any system-wide change. Long-term asset owners **must be accountable** for the assets they own.

But engaging with investments comes with a cost, and there is a clear issue of scale. We are well aware moving this large, diverse group to action will be difficult – so we are viewing collaboration and engagement on a spectrum.

On the most 'active' end, we are examining how asset owners might collaborate widely through an **asset-owner led** engagement platform. This platform would be a non-commercial entity with costsharing and no management fees. Its sole purpose: to engage on governance, social and environmental factors as a proxy to instill long-term thinking.

We believe people and personal interactions are crucial for effective engagement. This entity would require sophisticated staff, financial resources and the active support of senior leaders from the parties it represents. The platform would be technology enabled, presenting virtual meeting places to optimize work and information flows, and to solicit the support of interested parties.

It would work from a small set of clear common principles agreed on by all parties including an agreement to first pursue low-hanging fruit and establish a track record of success to drive future consensus.

At the other end of the scale, we're examining how to 'activate' passive holdings. One model we're exploring is to leverage the expertise and resources of long-term oriented activist managers like ValueAct to help them selectively partner with Institutional Investors and leverage their passively held shares.

Or we could go further. Imagine if every institutional investor had a clear set of principles under which they would use their proxy votes. This would turn them into a **long-term oriented** activist hedge fund, like the Hermes UK Focus Fund. Incidentally independent studies show that Hermes's approach of reorienting a company's strategy towards the long-term has performed well for them and the companies they invest in.[xxvi]

With their capabilities and economic influence, institutional investors can advocate for change. Yet unless these investors are principal owners, the board of directors is crucial to making change happen.

Only the board, with their intimate internal knowledge and access, can directly engage and steward long-term thinking throughout their companies.

DOMINIC BARTON

Before I share some of our thoughts around focusing boards on the long-term, let me emphasize that we are not trying to redefine governance. Organizations such as the ICD have made remarkable progress advancing the governance structures we have today.

Rather, what we hope to do is to expand the thinking of boards beyond their more traditional focus on risk and compliance. To focus more on **long-term, sustainable growth** and act as true stewards for the best interests of the company.

There is an open debate around the balance of responsibilities between the Board and management for strategy. Our view is that the Board should take a long term view on strategy and performance; however, management must own and execute the strategy.

As Mark said, we've heard from directors and executives that they actually consider boards as one of the greatest sources of short-term pressure. Through our work we're looking for ways Boards can create more space for management to take a long-term perspective.

I'll briefly walk through three ideas we're exploring and cite a few examples of where these ideas are in action today.

- **First,** is developing a Board committee dedicated to ensuring the company's most material long term issues are being addressed. Today less than 10% of S&P 500 companies have standing board committees dedicated to long-term issues.

  For example, in 2011 **WalMart** took a focused approach to doing this by creating a Technology and eCommerce Board Committee. The committee provides advice on eCommerce and innovation strategy, reviews and supports the technology planning process and reviews the company's innovation development. Since 2011, WalMart has poured millions into this effort and its online division has grown to the 4th largest e-retailer in the United States.[xxvii] In 2012 they appointed Yahoo CEO Marissa Meyer to the Board and to this committee.

  Another example is **Antamina**, a Peruvian open pit copper and zinc mine jointly owned by Xstrata, BHP, Teck and Mitsubishi. It has a Strategic Business Planning Committee which advises the Board on the long-term health of the mine and its relationship with the community. The committee has helped extend the mine's life by 6 years and supported generation-long investments in infrastructure.

- **Second,** is matching compensation horizons to a company's product and risk cycle. For example, since the financial crisis, numerous **large financial institutions** have shifted director compensation to a longer-term horizon. At **Morgan Stanley**, 50% of each equity award granted to the independent directors does not become payable until the director retires from the Board.

  As we change the structure of director compensation, we also need to look carefully at the total amount directors are paid. **You need to be paid more.** If we expect directors to work more days and be more engaged with their companies, we need to increase compensation levels to reflect the increased workload.

- **And third** is moving away from quarterly earnings guidance and replacing it with narratives that combine long-term strategy narratives, health metrics and integrated reporting. Such narratives should provide the basis for an entirely different form of discussion with shareholders.

- Between 2003 and 2009, the percentage of U.S. companies providing earnings guidance decreased from 77% to 60%. Examples of companies that have announced their intentions to stop include **Coca-Cola, Alcoa, AT&T, Clear Channel, Mattel, PepsiCo and Sun Microsystems**. Others like **Google** never provided EPS guidance in the first place.[xxviii]

  A good example of a company embracing the approach we are recommending is **Natura**, the Brazilian cosmetics company, which publishes integrated reporting and links it into its Board and management decision making process. It provides investors with a range of health metrics like talent, innovation and customer service. For example a key challenge to its growth is building a high quality salesforce, so it releases the average hours training per employee. It also relies on word-of-mouth marketing, so it publishes the percentage of consumers that intend to recommend Natura.

MARK WISEMAN

As Dominic said earlier, in our survey, business leaders identified the board of directors and institutional shareholders as two of the greatest sources of pressure to demonstrate short-term financial performance.

To us this was a surprising response, and we will dig into this behavior over the coming months. There are many questions to answer. Is a loss aversion bias by directors influencing management to deliver in the short-term, at the expense of the long-term? If so, how can boards shift their focus to **act as enablers** to management to take a long-term view? How can institutional investors – who should clearly be investing for the long term – stop furthering short term pressures in the market?

We need your insights as we strive to answer these questions and develop recommendations to focus capital on the long term.

Shortly following our remarks today, an e-mail will be sent to you by the ICD. We invite you to complete the short survey on your mobile device and tell us what you think.

Today we are asking you to begin to consider the negative impacts of short-termism on your respective organizations, and what needs to be done to shift the focus of your companies and management teams to the long-term. You can use your considerable influence as directors and leaders, your personal and professional networks, to raise the profile of this issue… to get the boardroom conversation going.

DOMINIC BARTON

We are not the first people to put short-termism on the agenda.

You only have to read the headlines to see the latest attention grabbing crisis - from the 2010 'Flash Crash' which triggered **a trillion dollar** fall in the Dow Jones Industrial Average, to the Fake AP tweet just a month ago that wiped $130 billion off the S&P500. Yet in both cases markets quickly recovered, the headlines faded and the damage was temporary.

What is far more concerning is **the damage being done day-in, day-out** by short-term mindsets across the investment value chain – these are the actions that unfortunately don’t grab media headlines. Companies are missing out on profitable investments for fear of missing quarterly earnings guidance. Savers are missing out on potential returns because stock markets are penalizing companies that make long-term investments. And the aggregate effect is that society is missing out on long-term growth and innovation because of underinvestment.

In short, **short-termism is a problem**.

But we have ideas for how to change this. Change has to start with Board members and Institutional Investors. Together you and they have the ability to create space for executives to run companies for the long-term.

The six ideas we laid out today are a starting point for action.

For Institutional Investors that requires:

1) An asset owner-led collaboration and engagement platform
2) 'Activated' passive holdings
3) And a set of agreed upon engagement principles

And for Corporate Boards that means:

1) Long-term value committees
2) New compensation models that reflect the workload Directors have, and reward them over at least a product or risk cycle
3) Narrative integrated reporting rather than quarterly earnings

As leaders and holders of influence in this system, the answer, ladies and gentlemen, is in our hands. On behalf of McKinsey and CPPIB, we look forward to your input and feedback and thank you very much for your time and attention.

[END]

SOURCES AND FURTHER INFORMATION

[i] Life expectancy for women at 65 has been growing at 1% per annum in OECD countries for the last fifty years (OECD)

[ii] In most cases due to regulatory requirements, specifically in the United States under Title I of the 1974 Employee Retirement Income Security Act (ERISA)

[iii] Only 23% of total assets under management by Institutional Investors are in intrinsic investment strategies (low turnover, concentrated holdings, pursuit of long-term value creation – as compared to momentum or mechanical index strategies) (Thompson Reuters)

[iv] Eccles, Ioannoue, Serafeim, 'The Impact of a culture of sustainability on corporate behavior and performance' (HBS, November 2011)

[v] Credit Suisse Research Institute, 'Family businesses: Sustaining performance' (September, 2012)

[vi] Haldane, A., Davies, R., 'The Short Long' (Bank of England, May 2011)

[vii] World Federation of Exchanges – note that Canada has not seen this trend, the TMX had 1,433 companies publicly-listed in 1998 compared to 3,970 in 2012

[viii] ICI, Cerulli, PSCA

[ix] Analysis by Martijn Cremers of the University of Notre Dame suggests that 56% of Canadian domestic equity mutual funds by assets were 'closet indexers' in 2010. He finds that in every year in the last decade except 2008 they have underperformed truly active strategies. Cremers, Ferreira, Matos, Starks, 'The Mutual Fund Industry Worldwide: Explicit and Closet Indexing, Fees, and Performance' (Notre Dame, February, 2013).

[x] McKinsey analysis using Strategic Insight dataset of US active equity mutual funds ($4.19tr out of $4.28tr market, and a wider capital pool in equities of $13tr in 2012)

[xi] 'CEO Succession Practices: 2013 Edition' for S&P 500 companies.

[xii] McKinsey and CPPIB conducted a global survey of board members and executives using the McKinsey Quarterly survey panel. 1,038 people completed the survey: 71% were responding as a C-level executive, 29% as an independent Board member; 64% either work as executives, at or serve as board members for, privately held companies, 29% from publicly-listed companies; 34% are located in Europe and 30% are located in North America; 54% of respondents were from companies with revenues above $100m. All data quoted is for respondents from companies with revenues above $100m.

[xiii] 20% of respondents indicated increase innovation as the top benefit; 19% indicated strong financial returns (single response question)

[xiv] Graham, Harvey and Rajgopal. 2011. Value Destruction and Financial Reporting Decisions. Page 8.

[xv] Gallup: http://www.gallup.com/poll/159875/americans-similarly-dissatisfied-corporations-gov.aspx

[xvi] Edelman Trust Barometer 2007 (45%) & 2013 (35%)

[xvii] Gallup

[xviii] Eccles & Serafeim, 'Top 1000 companies wield power reserved for nations' (Bloomberg, September 2012)

[xix] McKinsey experts, Charles H. Fine: "Clock Speed – winning industry control in the age of temporary advantage"

[xx] Booz & Co.; McKinsey Analysis; Asset turnover by industry (# of years) = net fixed assets/annual depreciation (calculated by taking the average of the Top 10 companies by market cap in each sector from 2007-2001). In 2011.

[xxi] Kaplan, 'Private equity fund performance: What do we know?' (Chicago Booth, February, 2012)

[xxii] ibid

[xxiii] McKinsey Quarterly survey, June 2011; Interviews with ~20 UK-based directors who serve on boards of both private and public companies (most with EV >£500m)

[xxiv] Asker, Farre-Mensa, Ljungqvist (2012). Comparing the Investment Behavior of Public and Private Firms – Private firms are 3.5x more responsive to changes in investment opportunities than are public firms

[xxv] ibid

[xxvi] Becht, Franks, Mayer, Rossi, 'Returns to Shareholder Activism – Evidence from a clinical study of Hermes UK Focus Fund' (ECGI Working Paper, April 2008)

[xxvii] Other examples of companies that have created long term committees include: Yahoo (Transactions Committee); Altamina (Strategic Business Planning Committee) and Shell (CSR Committee)

[xxviii] National Investor Relations Institute: 2003 data point: http://www.niri.org/Other-Content/alerts/ea050330cfm.aspx; 2009 data point: http://www.niri.org/media/News-Releases/News-Releases-Archive/NIRI-Releases-2009-Forward-Looking-Guidance-Practices-Survey-Results-2009May18.aspx