How can you invest for the long-term?

With the increasing focus on short-term results in our industry, it's easy to forget that pension schemes are fundamentally long-term investors. We think that an overly short-term outlook is potentially counterproductive, and for the best results pension schemes should look to the long-term, where their liabilities lie. Our principles and checklist will help you see through the noise and focus on the long term.

Principles of long-term investing

Have an awareness of your **ultimate target and investment beliefs**, including those relating to longer-term risks and rewards. Keep these in mind whenever considering new investments and monitoring existing investments and managers.

Consider the **time horizon** of different components of your assets and the balance between short and long term investments. For those you intend to hold for many years, think about whether you are adopting a long-term approach as much as possible (eg exploiting illiquidity premium or tolerating a volatile, but high growth, approach).

Have visibility of your short- to medium-term **cashflow requirements and de-risking plans**, so you can better assess how much you can afford to "lock up".

Consider the importance of the **entry point** to a long term investment. Have a process in place to identify a better entry point if not immediate. Keep flexibility to move exit point so that this is not badly timed.

Select **managers with strong expertise and credentials** in taking account of long-term risks and opportunities, including those relating to environmental, social and governance (ESG) issues.

Ensure your managers exercise your **ownership rights**, such as shareholder voting rights, in a way that promotes the long-term success of investee companies.

Have a strong **governance structure** in place, which will make all of the above more easily manageable.

Turn over the page for our checklist

Check list

Checklist to help sense-check your long-term approach		
1	We have considered and documented our investment beliefs, including those relating to long-term versus short-term returns, illiquidity premia, ESG and stewardship (active ownership practices such as voting and engagement)	☐
2	We have discussed the time horizon of our investment and funding objectives, and selected assets and managers whose prospects are aligned with our time horizon	☐
3	When monitoring investment performance, we place more weight on longer term returns (three to five years) than short term returns (less than one year)	☐
5	When considering a new investment, we consider	
	• Time horizon of the investment relative to the costs to enter and exit	☐
	• How much of our assets can be locked away in illiquid or long-term growth investments	☐
	• Whether now is the right time to enter the investment and if not, what a better entry point would look like	☐
	• If a long term investment, whether we believe the manager will be around for the long term	☐
4	We are familiar and satisfied with our equity managers' approach to ESG and stewardship. We receive sufficient updates on their activities in these areas	☐
6	We regularly discuss ESG and stewardship matters at our trustee (or investment committee) meetings	☐
7	Our Statement of Investment Principles includes considered statements about our approach to balancing short-term and long-term factors, exercising stewardship and including ESG factors in the investment process	☐
8	We apply the above principles to DC investments as well as DB, where relevant	☐

MORE INFORMATION

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