

CORPORATE GOVERNANCE AND THE ROLE OF SHORT-TERM INVESTORS IN LONG-TERM INVESTMENTS

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Stock markets short-termism is inconclusive and ... board room insulation exacerbates short-term bias



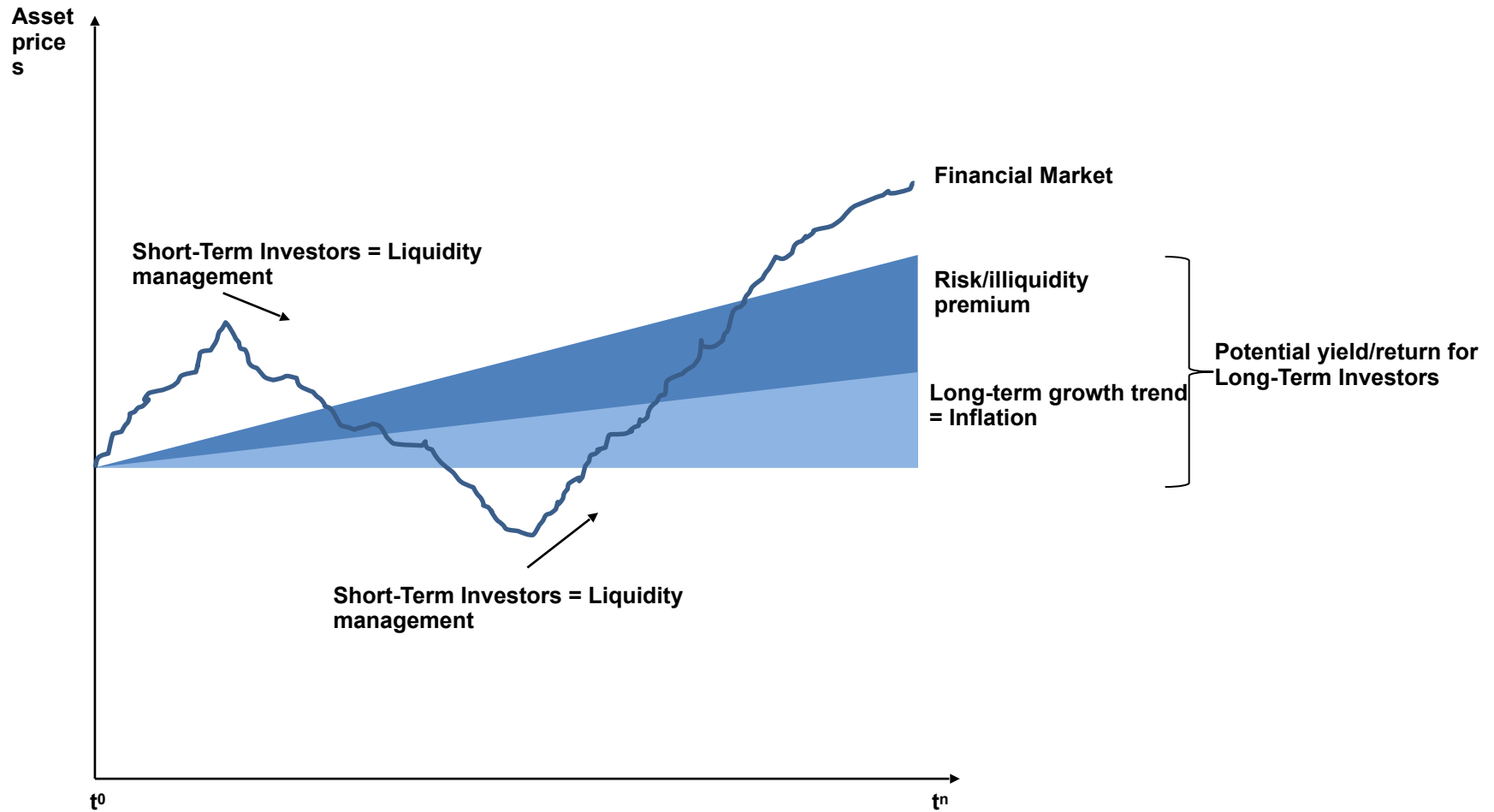
- ❑ First, if the financial markets were, net, short-term oriented, one must evaluate the economy from a system-wide perspective. As long as venture capital markets, private equity markets, and other conduits mitigate, or reverse, much of any short-term tendencies in public markets, then a potential short-term problem is largely local but not systemic.
- ❑ Second, the evidence that the stock market is, net, short-termist is inconclusive, with considerable evidence that stock market sectors often overvalue the long term.
- ❑ Third, managerial mechanisms inside the corporation, including compensation packages with a duration that is shorter than typical institutional stock market holdings, and managerial labor markets across firms, including managerial efforts to get good results on their watch, are important sources of short-term distortions; insulating boards from markets further would exacerbate these managerial short-term-favoring mechanisms.
- ❑ Fourth, the widely held view that short-term trading has increased dramatically in recent decades over-interpret, the data; the duration for holdings of many of US major stockholders, such as mutual funds run by Fidelity and Vanguard, and major pension funds, does not seem to have shortened. Rather, a high-velocity trading fringe has emerged, and its rise affects average holding periods, but not the holding period for the ongoing major stockholding institutions.



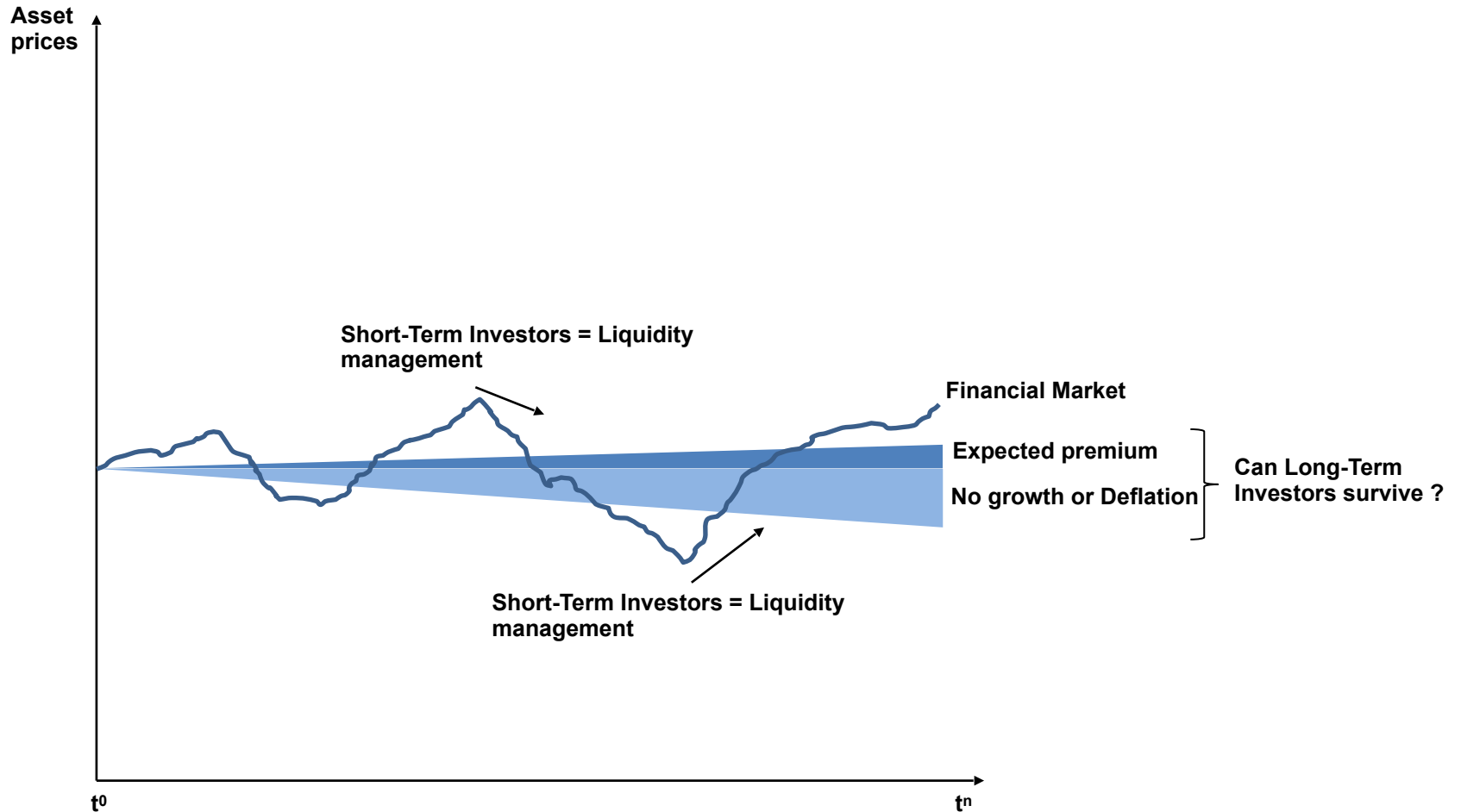
Focus on corporate governance and compensation

- ❑ Arguing that employees, customers, and other stakeholders are due more consideration in corporate governance point to pernicious short-termism to support their view further.
- ❑ These stakeholder considerations can be long-term and they can be short-term. As such, the best view of the evidence is similarly that the pro-stakeholder view must stand or fall on its own.
- ❑ It gains no further evidence-based, conceptual support from a fear of excessive short-termism in financial markets.
- ❑ Overall, system-wide short-termism in public firms is something to watch for carefully, but not something that today should affect corporate, in general, lawmaking, but rather single internal corporate governance system and compensation.

Role of Short-Term Investors in a Growth Environment



Short-Term Investors in a No-Growth or Deflationary Environment



Can't Live With or Without.....Short-Term Investors (1)



- ❑ In extremely harsh financial environment, it seems as Short-Term Investors, although potentially streamlined, can outlive Long-Term Investors

- ❑ It is almost impossible to imagine Long-Term Investors to exist without Short-Term Investors that substantially contribute to
 - Manage liquidity in the financial system
 - Smooth peaks as well as bottoms towards the real long-term economic and financial path

- ❑ Short-termism is become almost the catch-all term to embody negative behaviors in financial market activities
 - We ought not to conflate corporate bad behavior with short-termism
 - Bad behavior could be long-term or short-term

- ❑ Markets undershoot and overshoot, as one should expect. There is considerable evidence with the likelihood that a major source of short-term focus originates inside the corporation and not outside in financial markets

Can't Live With or Without.....Short-Term Investors (2)



- ❑ No stigmatise Short-Term Investors *a priori*
 - Against speculative, inefficient and distorsive short-sighted investment activities
 - Pro an efficient and dynamic investment approach

- ❑ An exclusive buy and hold investment strategy could prove not only «boring» but above all inefficient and unproductive

- ❑ If Long-Term Investors can be appropriately thought of strategic and patient investors, Short-Term Investors can be definitely regarded as efficient and dynamic investors

- ❑ Hence, for Long-Term Investors could be much wiser to cooperate in a productive way with efficient and dynamic Short-Term Investors in order to enhance long-term growth strategies