The AMBACHTSHEER Letter
Sustainable Pension Design • Effective Pension Management

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FOCUSING CAPITAL ON THE LONG TERM:

ARE WE THERE YET?

"Until large asset owners radically change their approach, other key players (such as asset managers, corporate boards, and company executives) will probably remain trapped in value-destroying short-termism. But by accepting the opportunity and responsibility to be leaders who act in the best interests of individual savers, large asset owners can be a powerful force for instituting the kind of balanced, long-term capitalism that ultimately benefits everyone."

Dominic Barton, former Global Managing Director, McKinsey&Co
Mark Wiseman, former CEO, CPP Investments

A Widely-Read *HBR* Article

The quote above comes from a widely-read and cited 2014 *Harvard Business Review* article titled "**Focusing Capital on the Long Term**". In the article, Barton and Wiseman cited research with two important findings from a survey of more than 1,000 corporate board members and C-suite executives:

1. 63% of respondents said pressure to demonstrate short-term financial performance had increased over the previous five years.
2. 86% believed that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways, including increasing innovation and strengthening financial returns.

What could asset owners such as pension and sovereign wealth funds do to lengthen investment time horizons? Barton and Wiseman suggested four "proven, practical steps":

1. Clearly define the investment organization's long-term objectives and risk appetite.
2. Unlock value through engagement and active ownership.
3. Demand long-term metrics to inform decisions.
4. Structure institutional governance to support a long-term approach.

Inspired by the Barton-Wiseman article, I followed up with my own article in the Fall 2014 edition of the *Rotman International Journal of Pension Management* titled "**The Case for Long-Termism**". It supported the Barton-Wiseman message in four important ways.

Supporting the Barton-Wiseman Message

My support for the Barton-Wiseman *HBR* message started with two general observations, followed by placing them in two empirical contexts:

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1. **Modern Society Was Funded by Long-Termism:** without long-term mindsets and actions, there would have been no inventions and capital formation in the last few centuries, and civilization would still be in day-to-day food/shelter survival mode.

2. **Fiduciary Duty Requires 'Best Interests' Mindsets:** however, today's complexities have created an asymmetric information problem, leading to a growing dependence by ordinary people on 'expert agents' for advice and decisions. Fiduciary duty requires that these 'expert agents' use their expertise to serve the 'best interests' of ordinary people. How do we monitor whether this is actually happening in institutional investing today?

3. **The Cases of Keynes and Buffett:** The great economist John Maynard Keynes answered the 'actually happening?' question both conceptually and practically. Conceptually, he noted that most investment professionals were continually engaged in short-term zero-sum 'beauty contest' trading that benefitted them, but not their clients. In contrast, he managed the *Cambridge University Endowment Fund* for 25 years. Research showed he favored long-term investments in relatively few companies which he felt had strong fundamentals and strong managements with dividend-paying cultures. Over the 25yr period, he generated a 16.0% return for the Fund versus 10.4% for the UK stock market. Using an investment philosophy very similar to Keynes, Warren Buffett's Berkshire Hathaway outperformed the American stock market by an outsized 12.5% per year over the 1976 to 2011 period.

4. **The Cases of *MFS* and *Ontario Teachers Pension Plan*:** Moving to larger institutional settings, a research study showed that with a long-term investment philosophy very similar to that of Keynes and Buffett, Boston-based *MFS Global Equity Fund* outperformed the *MSCI World Index* by 2.6% per year over the 1988 to 2014 period. With that same long-term investing philosophy since its inception in 1991, pension fund *OTPP* outperformed an equivalent risk reference portfolio by 2.2% per year over the 1991-2012 period.

My 2014 article asked what were the common threads in these four successful investment stories? One was that Keynes and Buffett both showed that being out of step with the investing mainstream can be an important competitive advantage. Another was that there is a fundamental difference between seriously investing in businesses and trying to win 'beauty contest' stock trading competitions. A third is that steadfast adherence to 'fiduciary duty', good governance, attracting and retaining talented people with long-termism mindsets and clear autonomy to act have been key success drivers for some institutional investors and hence for their clients/beneficiaries.

A Decade Later: What Has Actually Happened?

Looking back from today, how has the 'long-termism' story unfolded since that seminal 2014 *HBR* article by Barton and Wiseman and our *RIJPM* response to it? In addressing this question, three developments are worth a closer look:

1. **The Formation of the *Portfolio Value Creation Group* at *CPP Investments*:** following through on the 'active ownership' recommendations of the 2014 *HBR* article, CEO Mark Wiseman actually formed a *Portfolio Value Creation* (*PVC*) *Group* at *CPP Investments*. Its mission was to "assist with diligence, enhance governance, drive operational change, and facilitate the transfer of 'best practices' across all areas of *CPP Investments*' asset management and value-creating activities". Today, the *PVC Group* encompasses over 40 professionals spread across six strategic locations around the world. See our September 2025 *Letter* titled "**Investing as Owners Rather Than Traders: How Pension Funds Can Transform Capitalism**" for more on this development, including case studies on the work the *Group* has done with *CPP* portfolio companies over the course of the last decade. Unfortunately, we are not aware of any similar 'from the ground up' active ownership Initiatives like that of *CPP Investments* in the institutional investment world over this period.

2. **The Formation of the *Focusing Capital on the Long-Term* (*FCLT*) Organization:** the Barton-Wiseman article sparked the formation of a new organization in 2016, appropriately titled *Focusing Capital on the Long Term*, or *FCLT-Global* for short. Its stated mission is to "mobilize companies and investors to focus capital on the long term to create lasting value". This is to happen "by developing research-backed strategies that enhance value-creation for savers and communities". Out of these aspirations has come a *FCLT-Global* behavioral "Gold Standard" covering governance, incentives, engagement/dialogue, and measurement/metrics. From the viewpoints of broad investment industry participation and strong finances, the organization can reasonably claim success. However, from the viewpoint of having the material investment industry behavioral impact foreseen in the 2014 *HBR* article, in our view, the jury is still out.

3. **The Introduction of *The Pragmatic Theory of the Firm* by Bartley Madden:** why the limited 'long-termism' impact thus far? One reason is that there has not been a 'theory of the firm' until recently that clearly aligns 'long-termism' with sustainable value-creation. As we have been asserting in recent *Letter*s (e.g., the already-cited September 2025 *Letter*), that is no longer the case. Bartley Madden's *Pragmatic Theory of the Firm* logically links long-term organizational value creation to four drivers: 1. Clarity of Vision that Inspires, 2. Innovation Capability and Execution, 3. Win-Win Relationships with Customers, Suppliers, Employees, and Shareholders, and 4. Consideration of the impacts the Organization and its products could have on Future Generations. Madden's theory provides the focus that corporations and investors need to shift from short-term 'beauty contest' mindsets and conversations to longer-term 'value creation' focus. See the November 2025 *Letter* titled "**Value Creation Insights**" for our review of Madden's new book.

In short, the past decade has seen some positive developments on the road to focusing capital on the long-term, but we are clearly not fully in long-term investing land yet.

Where To From Here?

So where do we go from here? Three 2026 actions that would move us firmly in the right direction come to mind:

1. **Wide Adoption of Madden's *Pragmatic Theory of the Firm*:** our September 2025 *Letter* was published as an article in the *Journal of Portfolio Management* titled "**Investing as Owners Rather than Traders: How Pension Funds Can Transform Capitalism**". A companion article by Bartley Madden in the same *JPM* issue is titled "**Institutional Investors as Architects of Change: Towards a New Theory of Value-Creation**". As already noted above, Madden's *Pragmatic Theory of the Firm* offers a solid foundation on which to build a long-term investment program. A future *Letter* will provide an update on initiatives under way to broaden the impact of the *Theory* on corporate and investment behavior.

2. **Wide Adoption of the *CPP Investments' PVC* concept:** this initiative is the missing link in moving good value-creation theory into good practice. To create greater visibility for the *PVC*, it should be subjected to a detailed Case Study.

3. **Transform *FCLT-Global* into a more activist 'change' organization:** a good 'Kick Off' for such a transformation would be to (a) adopt Madden's *Pragmatic Theory of the Firm* as its organizational 'value-creation' driver, and (b) sponsor the detailed case study needed to validate *CPP Investments*' *PVC* concept. If the study validates the value-creation premise of the *PVC* concept, *FCLT* signatories actually applying the *Theory* and the *PVC Model* could be elevated to a higher Gold Standard category.

Why is now the right time to take these three steps? Because what Dominic Barton and Mark Wiseman wrote over a decade ago continues to resonate to this day. So we repeat the quote from their 2014 *HBR* article with which we started this *Letter*:

> *"Until large asset owners radically change their approach, other key players (such as asset managers, corporate boards, and company executives) will probably remain trapped in value-destroying short-termism. But by accepting the opportunity and responsibility to be leaders who act in the best interests of individual savers, large asset owners can be a powerful force for instituting the kind of balanced, long-term capitalism that ultimately benefits everyone."*

With a few notable exceptions, we now know that large asset owners were not ready to 'radically change their approach' to investing in 2014. Are more ready now? That is a key question to be addressed this year.

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