
Save capitalism with “long-termism”: Gore and Blood

By Editor Test Tue, Feb 21, 2012

Generational Investment Management, whose chairman is former vice president Al Gore, says in a white paper that long-term thinking is essential for the sustainability of capitalism.

Generation Investment Management, an Anglo-American company whose chairman is former U.S. vice president Al Gore and whose senior partner is David Blood, have published five recommendations that will expedite a transition to what they call “sustainable capitalism.”

In a new [white paper](#), GIM suggests these actions:

- Identify and incorporate risks from stranded assets
- Mandate integrated reporting
- End the default practice of issuing quarterly earnings guidance
- Align compensation structures with long-term sustainable performance
- Encourage long-term investing with loyalty-driven securities

The paper calls for businesses and investors to incorporate the risks of “stranded assets” – those with a value that would change dramatically under certain scenarios, such as a reasonable price on carbon or water, or improved regulation of labor standards in emerging economies.

It argues that:

- Businesses should integrate both their financial and ESG (Environmental, Social and Governance) performance into one report, and move from issuing quarterly earnings guidance towards only issuing guidance as deemed appropriate by the company.
- Compensation structures in both financial and non-financial businesses should pay out over the period during which results are realized, and be linked to fundamental drivers of long-term value, employing rolling multi-year milestones for performance evaluation, the paper suggests.
- Long-term investing should be encouraged by the issuance of loyalty-driven securities, which offer investors financial rewards for holding a company’s shares for a certain number of years.

Addressing pension funds specifically, Gore said:

“Pension funds have a fiduciary obligation to maximize the long-term performance of their assets to the long-term maturation of their long-term liabilities.

“If pension funds turn to managers of their assets and compensate them with a structure that gives an incentive to maximize performance on an annual basis, they shouldn’t be surprised that that is, in fact, what their managers end up doing. We would like market participants to do what is in their own best interests to do in any case.”

“A large proportion of investors, including pension funds, were allocating capital in a way that was at odds with their real needs and with the needs of a healthy economy, and that the balance between the short term and long term had become skewed.”

Generation Investment Management, based in New York, was established in 2004 and is dedicated to long-term investing and integrated sustainability research.

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