



The role of long-term investment

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John Monks, General Secretary, European Trade Union Confederation

Eric Le Boucher started by asking whether we have lost track of long term perspectives as a result of the financial crisis. Questioning whether we will view things the same way once economies begin to recover, he noted the need for investors to turn their attention to sustainability issues and take a long-term, rather than a speculative, view from now on.

Opening the discussion, **Carolyn Ervin** noted that, according to OECD data, cross border investment fell sharply in 2008 and this fall accelerated in the opening months of 2009. Developing countries were able to continue to attract foreign direct investment in 2008, but by the beginning of this year this was no longer the case.

OECD countries operate open foreign direct investment policies, and this is an important condition of membership. But the threat of investment protectionism was becoming a concern. Given the importance of keeping markets open, the OECD is monitoring the extent to which countries have lived up to their commitments. So far, there have been few signs of serious protectionism. But there are still risks, as national security concerns and public opinion offer excuses to block investment. There is also a concern that investors will concentrate on domestic opportunities at the expense of cross-border projects. Given the importance of investment in stimulating growth and employment, there is therefore a need to remain vigilant and to continue efforts to avoid the emergence of protectionist pressures.

Mr. Le Boucher interjected by asking whether the world really had eliminated the risk of a return to the protectionist attitudes that caused so much economic damage in the 1930s depression.

From the perspective of an infrastructure investment firm, **Baldomero Falcones** emphasized the importance of long-term financing to the infrastructure industry. Noting

the importance of infrastructure as a driver of economic growth, there is a pressing need to reestablish access to long-term funds in the wake of the financial crisis. The interests of investors with a long-term perspective and infrastructure companies should be closely aligned, given the long term nature of infrastructure investment projects. But some of the more obvious sources of long-term finance, such as sovereign wealth funds, face potential obstacles. For example, there are public concerns about sovereign funds investing in infrastructure projects for security reasons, particularly with regard to strategic assets such as ports. We therefore need to establish the framework necessary to restore the flow of long-term capital, to establish rules, rebuild confidence and assuage public opinion.

Augustin de Romanet outlined the role of existing long-term investors, including his own company, which participates in an international syndicate of banks and investors with a long-term investment perspective. According to Mr. de Romanet, sovereign funds and similar vehicles have become incredibly important. Although their assets are small in comparison with those of the pension funds, the fact that they have no liabilities gives them much greater stability and freedom of action, allowing them to adopt a long-term perspective. The mismatch between the terms of the assets and liabilities of many financial firms was a major cause of the financial crisis, with firms that had financed longer term investments with short term funds facing massive problems when liquidity dried up. Many investors need to adopt a longer term view with respect to investment opportunities; at the moment, the average holding period for a stock is only seven months. Although many economies already have good infrastructure, there is still a need for more, particularly to cater for growing urban populations. The world will add 3 billion people to its urban population over the next thirty years.

John Monks argued that the short-term focus of traditional financial firms, which focus heavily on trading activity, represents not only a barrier to long-term investment but to dealing with challenges such as climate change. After all, how do we finance long-term projects if the capital is not there? There may be a need to establish special investment vehicles, as the returns to longer term investments are often not high enough to satisfy financial investors, some of whom, prior to the crisis, were only interested in projects that yielded returns of 20% or more.

Venture capital firms can provide some financing, and are prepared to take risks, but this is not enough. It may be necessary to share some of these longer term risks with investors such as sovereign funds, although there are some types of strategic investment where this will not be acceptable to the public and/or national governments.

In questions from the floor, a forum participant wondered whether the focus of investors would change after the crisis, suggesting that it probably would not, and that as bail outs were likely to continue, the search for high returns was a one way bet. Meanwhile, speculative bubbles are more frequent, with a worse impact on the poorest members of society.

Mr. Falcones agreed that we have an imbalance to resolve, and that we need new investment vehicles to harness plentiful savings in some countries to finance long-term investment in others. Global infrastructure investment requirements are huge, so the task of channelling investment is a large one.

A second delegate argued that many pension funds would be happy with 6-7% annual returns, rather than 20%, adding that these funds also have a long-term perspective due to the nature of their liabilities. So why are they not stepping in? Ms Ervin responded that some are, and that perhaps more will follow suit as confidence is restored.

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