Stockholm Sustainable Finance Centre

Long-Term Perspectives in Investment Analysis

Hanna Setterberg (PhD), Emma Sjöström (PhD), Gregor Vulturius (MSc)
Stockholm Sustainable Finance Centre
In collaboration with Swesif

SWESIF
SVERIGES FORUM FÖR HÅLLBARA INVESTERINGAR

SEI Stockholm Environment Institute

STOCKHOLM SCHOOL OF ECONOMICS

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Executive summary

A general concern over undue short-termism in financial markets has prompted this study. Set in Sweden, it aims to explore the views on long-termism in investment analysis of buy-side analysts, sell-side analysts, and investor relations officers. The study centres on five main questions:

First, what is a long-term perspective according to buy side, sell side, and investor relations? Second, to what extent are long-term questions being addressed in investment analysis: for example, how often do buy-side analysts ask the sell side about long-term issues? Third, what is important for the investment analysis, and how does this relate to long-term issues? Fourth, what are some of the factors that stand in the way for a more long-term perspective: for example, are analysts time constrained or do they lack training? Fifth, and, according to our respondents, who should promote more long-term analyses?

The results show that corporations and buy-side analysts perceive short-termism in sell-side research to be a problem. This is the case for sell-side analysts as well; a total of 51 per cent of buy-side analysts, 50 per cent of IR officers and 38 per cent of sell-side analysts think that sell-side research has a detrimental short-term focus.

What we have here appears to be something of a chicken-and-egg situation: the sell-side is waiting for the buy-side to ask for more long-term analysis, while the buy-side is not necessarily confident that the sell-side will fully deliver upon that request. There is also a discrepancy between and within the different actor groups on what constitutes a long-term perspective: ranging from one-three years, to five years and beyond. The fact there is not a shared view may inflict upon how sell side interpret buy side demand for long-term analysis. Another factor is that analysts do not think that corporations include long-term issues into their story of value creation to the same extent that investor relations think.

The findings are compared with those of a global study on a similar topic, which surveyed sell-side analysts. Our results are similar, particularly with regard to sell-side analysts' views on the following items: whether sell-side research has a detrimental short-term focus (a total of 38 versus 42 per cent in the respective studies); whether sell-side research creates a dialogue that promotes long-term value creation (a total of 63 versus 64 per cent); and whether sell-side research produces too much noise (a total 45 versus 48 per cent). This indicates that our results are not market specific.

Through this work, we have learned that long-term and short-term perspectives can – and must – co-exist. There is value in quarterly reports and short-term evaluation: for corporations, analysts, and investors. There is also some merit in short-term holdings, as it provides liquidity on the market. It is however a problem if the short-term focus takes resources from warranted long-term analysis.

We hope this study can spur a much-needed discussion about long-termism among the different actors that make up the ecosystem around financial analysis.

Preface: Let's ramp up the long-term conversation

The quest for long-termism is more relevant than ever before. Or rather, for politicians, businesses, and investors, the quest for thinking broader and beyond the usual horizons is more significant than ever.

On 1 January 2016, world leaders adopted the 2030 Agenda for Sustainable Development. The window of opportunity to achieving the goals set forth in this agenda is closing. Time is also short to deliver on the Paris agreement. There is some anxiety in the air, and we will see how forceful action from society creates transition risks for some. Others are facing physical risk scenarios beyond anyone's control, such as extreme weather or water stress. The flip side is the opportunities for transformative and innovative solutions and businesses. In a way, the future is already on our doorstep as societies, companies, and investors accelerate their efforts.

Understanding and adapting to a world with large and rapid changes is absolutely key for the financial industry. Mispricing assets can otherwise be the effect: both on the downside and upside. We can better steer businesses and capital in a sustainable direction by approaching risks and opportunities beyond the usual time horizons.

But why do we talk about long-termism rather than ESG? What is long-term, and is short-termism always a bad thing? By stretching the time perspectives, we have also come a long way in the ESG discussion. Not all ESG issues are long-term, however most long-term perspectives contain one or more element of ESG. We can also see ESG as the building blocks underpinning companies' long-term resilience.

The objective of this project has been to pay attention to the need for the buy side, sell side, and the companies to act jointly in order to promote the long-term dimensions in the investment analysis. The idea was initially to target the sell-side analysts. We soon realised, however, this is something that concerns the whole conversation on the market, as well as the real or perceived expectations among the three parties. During our discussions in the project's reference group, it became clear that the barriers for long-termism can take many shapes and colours, which this report also confirms. The next step could be to target these barriers in a more informed way.

I want to thank all the practitioners – analysts, PMs and IR managers - that have contributed to this project with their vast experience and valuable insight. I also strongly believe in a continuous collaboration between the financial market and academia, such as between Swesif and the Stockholm Sustainable Finance Centre. This could also help shape the skills of new generations of students and young professionals in finance.

Let's ramp up the long-term conversation!

Anita Lindberg

Chair of Swesif

Introduction:
The quest for long-termism in capital markets

A recent global study shows that only 12 per cent of mainstream financial analysts' time is spent researching companies' prospects beyond a 12-month horizon.[1] Another study reveals that short-term traders drive the demand for financial analysis and that even long-term investors trade their assets with relatively short time horizon, thus, decreasing the demand for long-term analysis.[2] This does not pair so well with the broader ambitions of a global long-term sustainability agenda.

The 17 Sustainable Development Goals that were launched in 2015 constitute a roadmap for where we, as a society, that includes the private sector, need to go from 2015 to 2030. Several game-changers for the corporate sector can be identified among the global challenges that underlie the goals: climate change, water stress, and the commercial implications of biodiversity loss. A carbon-free zero-waste society where all people have access to education and health, where nobody is poor, and where the water is clean, cannot be achieved through business as usual. Business as usual may not be able to thrive in such a world either. Rather, investing in sustainable development means investing in transition. With the transition comes innovation, and even disruption.

"With the transition comes innovation, and even disruption"

A long-term perspective is arguably necessary in order to fully grasp what the transition entails: what risks and opportunities may arise, which companies and sectors are or are not well positioned for it, which assets may become stranded, and what will be the investment needs in different areas of society. This is true for investors and companies alike.

Meanwhile, a study from Stockholm School of Economics from 2017 shows that only seven out of 87 large cap Swedish corporations publicly communicated sustainability goals beyond two years.[3] Surveys of American C-suite executives reveal that most respondents in companies without a strong long-term culture stated their company would delay a new project to hit quarterly targets even if it meant sacrificing value. Moreover, respondents perceived that the pressure to deliver short-term results had increased in recent years.[4]

Many have said "quarterly capitalism" is the culprit. The concern is that short-term investors do not care about corporate long-term goals and, thus, do not incentivize corporate long-term focus. A key underpinning of this concern is that investors might sell their shares if the company misses its quarterly earnings target. This contributes to many companies prioritising quarterly earnings over long-term goals: such as innovation or human capital investment.[5]

There is also another side of short-termism: the risks it poses. One report focusing on the time horizons of investment analysis purports that some unpredictable financial risks (otherwise known as black

1) **Aviva Investors (2017) Time for a Brave New World?** https://integratedreporting.org/wp-content/uploads/2017/10/research-brave-new-world.pdf (Aviva Investors 2017)

2) **2 Degrees Investing Initiative and Generation Foundation (2017) All Swans are Black in the Dark** https://www.genfound.org/media/1383/all-swans-are-black-in-the-dark.pdf (2°InvestingInitiative 2017)

3) **Stockholm School of Economics (2017) Walking the Talk?** https://www.hhs.se/en/about-us/news/news-from-misum/2017/the-walking-the-talk-report/ (MISUM 2017)

4) **FCLT Global (2016) Rising to the challenge of short-termism** https://www.fcltglobal.org/docs/default-source/default-document-library/fclt-global-rising-to-the-challenge.pdf (FCLTGlobal 2016)

5) **Edmans, A. (2017) The Answer to Short-Termism Isn't Asking Investors to Be Patient** Harvard Business Review. July 2017.

swans) would actually be predictable if financial analysis extended beyond the usual one to five year horizon: What if some black swans are actually white swans hiding in the dark, until we have put our long-term headlights on?[6]

Concern also stems from the 2008 financial crisis. This was a prime example of where short-termism can take investors, corporations, and their stakeholders. This also drew attention to the role of sell-side analysis in the financial ecosystem:

> "One of the most troubling aspects of the sub-prime meltdown is that some sell-side houses knew about the extra-financial risk, used it in their proprietary trading work (i.e. for their own benefit) and did not publish."[7]

In the aftermath of the financial crisis, many calls were made for a more long-term oriented financial market. Concerns about short-termism are still continuously raised. For example, does the UN Global Compact declare the following statement:

> "Short-termism in investment markets is a major obstacle to companies embedding sustainability in their strategic planning and capital investment decisions."[8]

This is not to say that short-termism does not also have a role to play. An ideal market will always include a mix of investors with different investment time horizons and investment strategies. An individual investor also needs to balance their overall portfolio across a mix of short, medium, and long-term strategies.

While there is also a role for short-term analysis and short-term holdings on the financial market, it becomes problematic when analysis unduly overlooks outcomes that occur far into the future. When short-term priorities hinder long-term value creation, or when long-term risk is overlooked due to an excessive focus on short-term horizons, then we have a problem. Short-term and long-term considerations can co-exist; however, short-termism at the expense of fulfilling fiduciary duties creates the concern.

The unease over undue short-termism has spurred a number of initiatives for promoting long-termism, such as the Task Force for Climate-Related Dosclosures (TCFD), and Focusing Capital on the Long-Term (FCLT). Long-termism is also a cornerstone of the European Commission's Action Plan on financing sustainable growth, launched in 2018. The Commission notes that sustainability and long-termism go hand in hand, and that investment into social and environmental objectives require a long-term orientation. Meanwhile, the Commission notes that current market practices often reward short-term returns. Therefore, the action plan sets out to reduce undue pressure for short-term performance in financial and economic decision-making, notably by increasing transparency so investors, whether institutional or retail, can make better informed and more responsible investment decisions.[9]

6) 2 Degrees and Generation Foundation (2017) All Swans are Black in the Dark https://www.genfound.org/media/1383/all-swans-are-black-in-the-dark.pdf

7) IPE (2008) "Mainstreaming responsible investment via sell side research: EAI three years on" https://www.ipe.com/mainstreaming-responsible-investment-via-sell-side-research-eai-three-years-on/27706.article

8) UN Global Compact "Act for the long-term in a short-term world" https://www.unglobalcompact.org/take-action/action/long-term

9) The European Commission's Action Plan on financing sustainable growth https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

Are black swans, in fact, white swans hiding in the dark?

Unexpected risk is sometimes referred to as black swans. A study by the 2° Investing Initiative and The Generation Foundation finds that certain non-cyclical, non-linear, long-term risks are actually predicable 'white swans'. They are left in the dark by the 'low beams' of financial analysis that focus on the next one-five years. The study findings are listed below:

Financial analysts currently calibrate their analysis on a one to three-year time horizon: they value the risks that are likely to impact the cash flows of the issuers within this timeframe.

About 80 per cent of the net present value of a long-term investor's portfolio is based on cash flows expected after five years.

Analysts rely upon past financial data and forecasts for the next three to five years. After this period, the expected future cash flows of issuers are extrapolated. Therefore, analysts only price the risks that had impact upon issuers in the past or are likely to impact them during the forecast period.

The demand for financial analysis is heavily driven by short-term traders, and even long-term investors actually trade their assets with relatively short horizons.

The report concludes that lack of demand from investors will remain a key obstacle. In order to address it, the report identifies both voluntary measures (e.g. long-term alternative ratings and valuation commissioned by a pool of investors or regulators), and public-policy actions (e.g. mandatory long-term risk analysis and disclosure).

Source: 2 Degrees Investing Initiative (2017) All Swans are Black in the Dark

About the study

A general concern over undue short-termism in financial markets generally and financial analysis specifically has prompted this study. A global survey conducted by Aviva Investors in 2017 inspires our study, and we further extend it. The Aviva report sets out to better understand why sell-side research tends to focus on the short term and does not integrate material non-financial issues.

Our study differs in two main ways: First of all, it is set in a Swedish context as per initiated by Swesif. This makes for a smaller sample as well as one that may differ from the sample in the global report: for example, culturally or in other ways. Secondly, our study broadens the Aviva study by also including the perspective of buy-side analysts and the corporate investor relations (IR) perspective. By doing so, we are hoping to better understand the capital market conversation that is ongoing between sell-side analysts and the actors with which they most frequently interact. Buy-side analysts are their clients, and the corporate investor relations' function is a key source of information about the securities they are researching.

We have used a mixed-method research design, where qualitative data was used to inform a survey that formed the core part of our data collection (see Box 1). This study captures participant perceptions, rather than real outcomes (for example, wording in analyst reports, time horizons in excel sheets, and so on). Our implicit assumption, however, is that perception directs behaviour.

We held a workshop with representatives from the sell side, buy side, and investor relations, in order to discuss and explore prior to designing the survey, long-termism versus short-termism in the investment analysis from their perspective. The focus was on identifying potential barriers for long-termism.

The notes from the workshop, as well as a review of previous academic and non-academic literature, served as input to our in-depth interviews. Six interviews were held with seven respondents: with one buy-side analyst, three sell-side analysts (two from the same company were

10) Stockbrokers as a group were not in focus in this study, but as they have an intermediary role between sell-side and buy-side analysts, we deemed it useful to interview a stockbroker prior to designing the survey.

Box 1: Research Process

Workshop → **In-depth Interviews** → **Workshop** → **Survey** → **Workshop**

The study is set in Sweden. Swesif and The Swedish Society of Financial Analysts distributed the survey to 42 buy-side analysts, 10 sell-side analysts, and 101 IR officers, who were asked to pass it along to their colleagues. Therefore, the total population is unknown. A total of 52 buy-side analysts, 22 sell-side analysts, and 21 investor relations officers responded. The survey consisted of 21 questions about long-term investment analysis: how often they raise or receive questions about the long-term and Environmental, Social, and Governance (ESG) issues, as well as what, in their minds, constitutes a long-term perspective in investment analysis. Participants were also asked to rate the quality of sell-side research and its effect on financial markets on a five-point scale, as well as the importance of different factors for developing and analysing an investment case (including long-term and ESG issues), the degree to which different market actors are responsible for promoting long-term thinking, market-based barriers to long-term decision making, and the potential impact of different political measures proposed in the European Commission's Action Plan on financing sustainable growth.

Preliminary results from the survey were presented at a third workshop to a reference group, consisting of sell-side analysts, buy-side analysts, and investor relation officers. Their comments and reflections contributed to the analysis of the results. In addition, the interviews were useful for the interpretation of the survey results.

The data analysis consisted of frequency analysis and test of difference between the responses from sell-side analysts, buy-side analysts and IR officers. The frequency analysis compared the share of survey participants responding to the different response options and average responses. We used Student t-test, to test differences in responses from the three different groups. This calculated whether differences in average responses are statistically significant. We acknowledge that the number of observations is, indeed, on the lower side. This restricts a statistical analysis of our data.

interviewed together), two investor relations officers of large Swedish publicly listed corporations, and one stockbroker[10].

Insights from the in-depth interviews were discussed with a reference group in a second workshop. The interviews and the reflections from the workshop, along with a review of the literature, formed the basis of a comprehensive survey, which was sent to buy-side analysts, sell-side analysts, and investor relation officers in Sweden. Each group received their own customized version.

Findings from the study

The results of this study are structured around five questions: First, what is a long-term perspective according to buy side, sell side, and investor relations? Second, to what extent are long-term questions being addressed in investment analysis: for example, how often do buy-side analysts ask the sell side about long-term issues? Third, what is important for the investment analysis, and how does this relate to long-term issues? Fourth, what are some of the factors that stand in the way for a more long-term perspective: for example, are analysts time constrained or do they lack training? Fifth, and according to our respondents, who should promote more long-term analyses? Lastly, we also relate our findings to a global study on a similar topic.

1. What is a long-term perspective?

As a starting point, we wanted to explore how participants define a long-term investment horizon and see whether they have a shared view about this.

The vast majority of the respondents states that a long-term perspective is when the investments analysis adopts a perspective of either three to five years, or five years and beyond. **We note, however, that 15-20 per cent of the respondents (across all groups) believe a long-term horizon to be one to three years.**

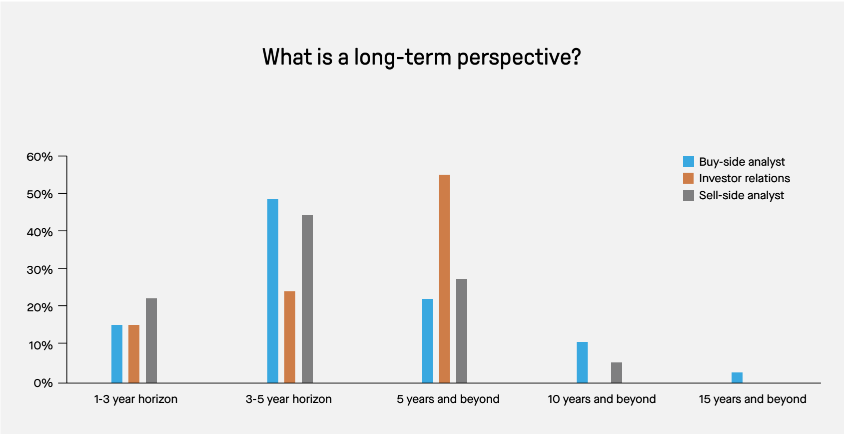


Figure 1: In your opinion, what constitutes a long-term perspective in investment analysis?

Looking at the three different roles separately, it is particularly buy-side and sell-side analysts that believe a long-term perspective commences at three years. For investor relations, however, a majority states that a long-term perspective means an analysis of five years and beyond.

BUY-SIDE ANALYST: Buy-side analysts work in-house for an asset owner or asset management company, producing analysis that they or their colleagues within the organization will use. Buy-side analysts will typically purchase sell-side analysis from several different providers which, in turn, they use as input in - or reference to - their own analysis.

SELL-SIDE ANALYST: Sell-side analysts conduct proprietary research on company securities, which they will sell to clients. Sell-side analysts not only produce a research report; they also seek to estimate the stock's future performance and make a buy, hold, or sell recommendation based upon that.

INVESTOR RELATIONS OFFICER: Investor relations officers are tasked with providing investors with accurate information about the company´s performance and strategy, often via buy-side and sell-side analysts. Investor relations officers are also often charged with organizing shareholder meetings, quarterly earnings calls, and publishing financial data.

Looking at individual responses, there is large variation within all groups, indicating that **there is no consensus of what long-term means.** We can only speculate on why this is the case, but we do think that "long-term" is contextual, as well as relative: If, for one analyst, most of the work centres on a 6-12 month horizon, then a two or three year perspective may be perceived as long-term relative to that. If, instead, respondents are interested in the Sustainable Development Goals for 2030, then it would be natural to consider anything shorter than three or maybe even five years as short-term. Differences in opinions about long-termism maybe also be due to the industry focus of sell-side analysis, and investment mandates of buy-side companies. A consequence of this diversity in perception may be that, while one party of a conversation believes long-term issues are being discussed, another party does not think so - even if they are talking about the same thing.

2. To what extent are long-term questions being addressed?

The dialogue about long-term issues that are important for the investment analysis can take place in many different arenas; however, there are limitations regarding the extent to which a survey can capture the dialogue. We address respondent's **perceptions** about the frequency to which long-term issues are talked about, as well as their perceptions about sell-side research.

Capital market conversation

Since there seems to be a general perception that the stock market conversation is too short-term in nature, we wanted to probe this issue in the questionnaire. We asked all three respondent groups about the frequency with which they ask and receive questions about long-term issues from the two other parties.[11]

11) Differently from the aforementioned Aviva study we did not want to focus merely on sell-side analysts, but rather on the dialogue between the three parties and how they ask and receive questions about long-term value drivers. An exception being that investor relations were not asked about how often they ask questions to analysts, but only how often they receive questions.

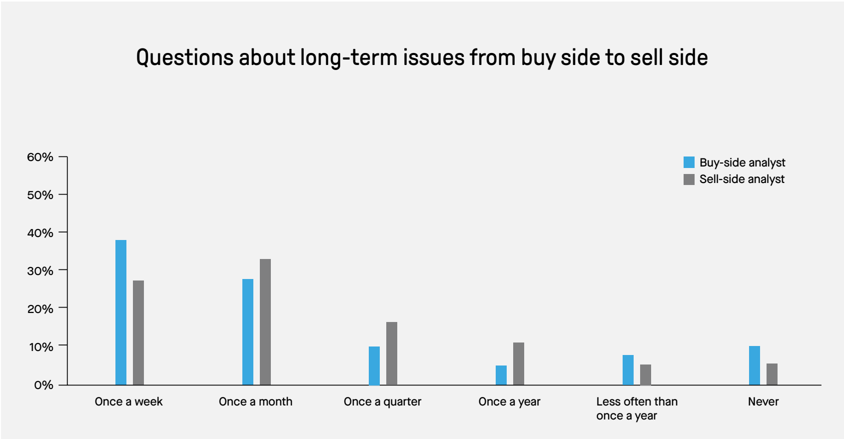


Figure 2: On average, how often do you ask questions to the sell side/ get questions from the buy side about long-term issues?

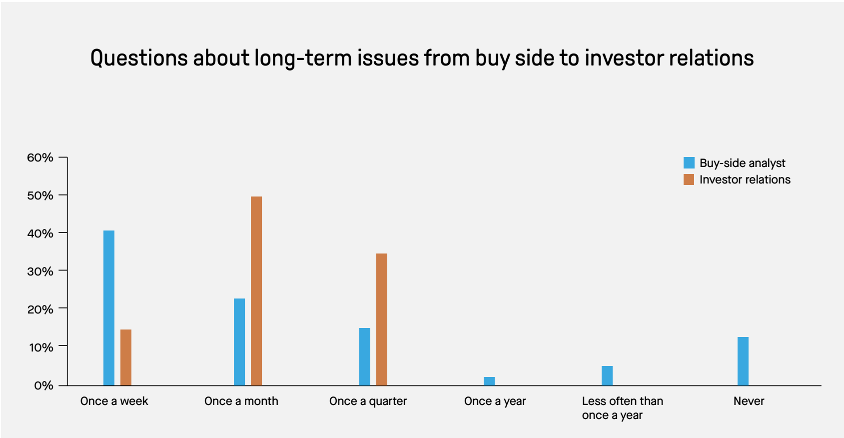


Figure 3: On average, how often do you ask individual companies questions/get questions from the buy side about long-term issues?

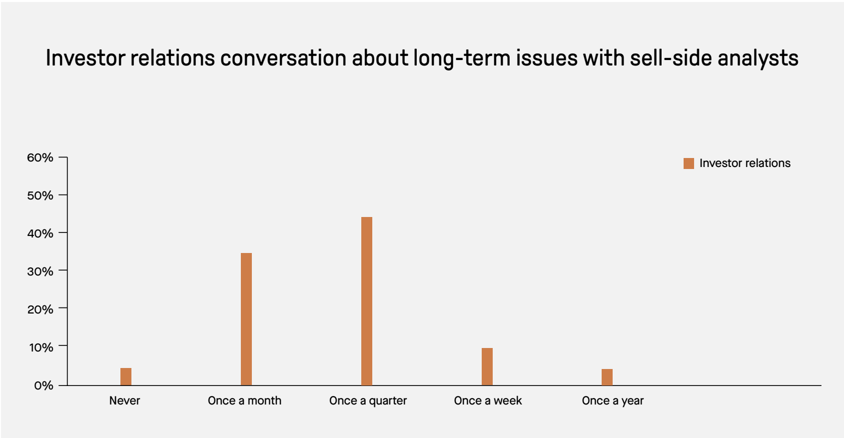


Figure 4: On average, how often do you (IR) have conversations with sell-side analysts about long-time issues?

We find that **all parties perceive there is an ongoing conversation about long-term issues**: ranging from **once a week to once a quarter**. Only a few respondents say that long-term issues are not discussed at all. This shows that long-term issues are perceived to be part of the capital market conversation; this is contrary to what could have been expected in light of the various recent policy initiatives that promote more long-termism.

We need to bear in mind, however, the respondents have different views on what long-term actually means (c.f. the previous section). Therefore, we have performed a separate analysis of the group of respondents that say a long-term perspective is more than a five-year horizon. One could hypothesize that this group would feel there is less of a long-term conversation, as they tend to define long-term to be in a more distant future. Interestingly, however, we find that these respondents also think there is an active conversation about long-term issues (at least once a quarter).

Comparing Figure 3 and 4, we note that Investor Relations officers perceive they talk more about long-term issues with buy-side analysts than with sell-side analysts. This is also reflected in the interviews. As one IR officer expressed:

> "I would say that 75-80 per cent [of sell side focus] is on [the] quarter, the next quarter, and the rest is two years ahead".
>
> Investor Relations Officer

The same respondent states:

> "Those discussions [with buy side] are more enjoyable. /.../ The discussions are often a lot more long term. We talk about strategy, management priorities, what is our long-term thinking, what are the opportunities, and what are the threats."
>
> Investor Relations Officer

One buy-side analyst expressed similar views regarding the time horizon in sell-side research.

> "No one [in sell-side research] cares about three years from now. The [sell-side] analysts don't put any effort into those numbers. "
>
> Buy-side analyst

Views on Sell-Side Research

In terms of the balance between short and long-term issues in sell-side analyst research, a total of **51 per cent of buy-side analysts, 50 per cent of IR officers and 38 per cent of sell-side analysts think that sell-side research has a detrimental short-term focus.**

Only 33 per cent of buy-side analysts think that sell-side research helps to create a dialogue, which promotes long-term value creation. **However, the clear majority of the sell side (64 per cent) believes their research is helpful in talking about the long term.**

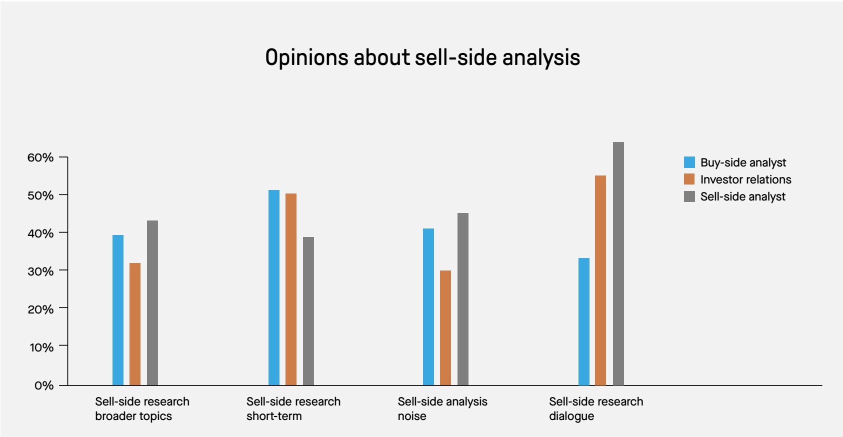


Figure 5: Opinions about sell-side analysis

This graph shows the share of respondents that said "I agree" or "I strongly agree" with the respective statements: Sell-side research effectively incorporates analysis of broader and non-financial topics // Sell-side research has a detrimental short-term focus // Sell-side research produces too much noise, instead of in-depth analysis // Sell-side research helps create a dialogue within financial markets that is supportive of long-term value creation in companies.

We also asked if sell-side research produces too much noise, instead of in-depth analysis. **A total of 30 per cent of investor relations think sell-side research produces too much noise, as do 41 per cent of buy-side analysts and 45 per cent of sell-side analysts.** We note that sell-side analysts themselves are the ones that agree the most about sell-side research creating too much noise. This is not in line with their higher confidence regarding the other dimensions of their research.

According to our survey, **sell-side analysts are more confident they effectively incorporate analysis of broader and non-financial topics**: 59 per cent of sell-side analysts agree with this, compared with 39 per cent of buy-side analysts and 31 per cent of investor relations.

One sell-side analyst in our interviews explained that, even if the long-term analysis is not visible in the quarterly reports or earnings calls, it is still there in the background:

> "My impression is that it is a basic part in all analysts' work: to have a view on that. But that view may not be highlighted in the same way. It is not affecting a quarterly report right then, so it is more interesting on reporting day to understand 'What drove this number; why was the margin in India bad at that time.' Because that is what is relevant then, while the business potential in five years may not have any room in the quarterly report. But I have a hard time thinking that an analyst would have, for example, a strong "buy" recommendation without having a strong reasoning around where the company will stand in five years."
>
> Sell-side analyst

We find there are different views among the three respondent groups on the value of sell-side research for long-term investment analysis: with sell-side analysts being generally less concerned. Despite the variation, we find it striking that such a large fraction of the respondents thinks that sell-side research suffers from large shortcomings: in terms of ability to incorporate non-financial issues, doing in-depth analysis, and taking a long-term perspective. Given the commercial relationship between the buy side and the sell side, questions arise as to why the buy side still purchases the analysis from the sell side or why it does not try to push for a more long-term perspective. We now address the demand from the buy side on sell-side research.

Demand from the buy side

As is noted in Figure 2 and 3, the respondents from the buy side perceive that they frequently ask questions about long-term issues: to both investor relations and sell-side analysts. This seems to be on their agenda. However, **the sell side does not perceive the buy side to be as active in posing long-term questions, as the buy side actually believes.** Note: these differences might be influenced in part by how members on the buy side interpreted the question and the number of contacts to which they are exposed.

We did, however, note doubt in both the workshops and the interviews regarding whether the buy side is, in fact, explicitly asking the sell-side for long-term investment analysis. At least two possible reasons for this emerge from our interviews. First, we note that the buy side does not necessarily think the sell side has neither the time, nor the competence to do long-term in-depth analysis, which would be valuable for the buy side. One buy-side analyst expressed a lack of confidence:

> ”Let's say that we would ask... “How do you think Swedish manufacturing industry would be affected by electrification?”, for example. They don't have those resources. And, even if they would pull something together, then I don't know [laughing] if it would be that valuable.”
>
> Buy-side analyst

At the same time, a sell-side analyst said:

> Our view has been that the sell-side analysts are actually uniquely qualifed to provide the information: because they understand value analysis.
>
> Sell-side analyst

Some of the disbelief from the buy-side analyst seems to be related to the view that sell-side analysts have a motive of promoting sales:

> ”Well, I have been working here for ten years, so I know a bit about how it works. They are... to put it bluntly only salespeople. They live only from sales volume.”
>
> Buy-side analyst

When reflecting on the relation between the buy side and the sell side, it seems the buy side does not necessarily use the sell-side research as a source for fundamental analysis (partly because the lack of confidence mentioned above). Rather, some buy-side analysts rather use the conversation with sell-side analysts (and their reports) as a way of finding out what is “going on” and, ultimately, forming their own opinion about what is already priced in the market.

> “Yes, but we don’t read so much of it. Or at least, I personally don’t do that. There are people who do. But we use them as sounding boards. For even if we meet a company that we think we know well, it is very good to hear everybody’s arguments. Why they think this or that. So that’s how we use them, I’d say. But what their recommendations are or their target price, we couldn’t care less about.”
>
> Buy-side analyst

Even if the buy side in their own analysis forecast fundamental value-drivers, an important part of their investment decision is about finding the under-valued stocks.

> ”We analyse companies, but we buy stocks. Basically, we are looking for good companies with stable cash flows. But sometimes, these are already discovered. The best thing you can find, the absolute best, which everybody is looking for obviously, are companies with a low valuation: that all the others think are crappy companies.”
>
> Buy-side analyst

If the buy side does not consider sell side output as a source of fundamental analysis, it might not be obvious for the buy side to look upon the sell side as a potential source of analysis about long-term risk and opportunities. And without an explicit demand, it seems unlikely that the sell side would develop a more long-term analysis.

> “The sell side will always respond to what buy-side wants. [...] It’s a service business.”
>
> Sell-side analyst

A more nuanced picture emerges, if one takes into consideration the different roles on the buy side. According to one of the interviewees, there are actors on the buy side, notably sustainability officers that do, indeed, ask for more long-term analysis. Our survey supports this proposition. We find in a separate analysis of our survey data that buy-side analysts with an ESG focus seem to ask more long-term questions to the sell side, compared to their other buy-side colleagues.[12] The extent to which these sustainability officers are able to have an impact within their own organizations might vary significantly, however.

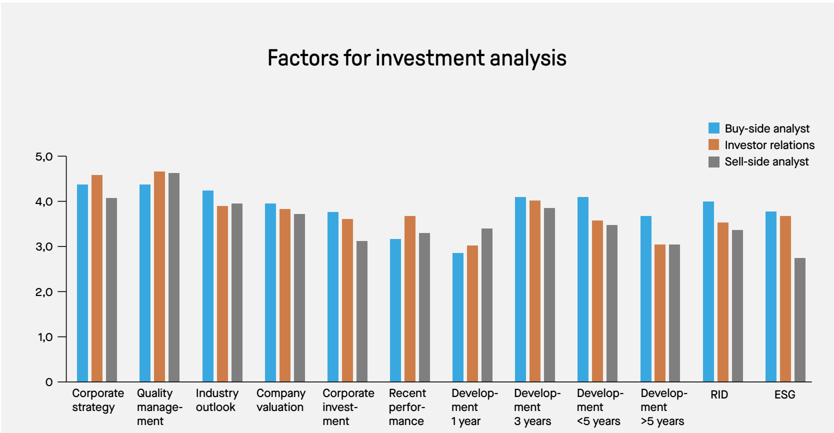
> "You can have a sustainability group who are tasked with the implementing, who will be very active. And then you have a group of portfolio managers who still see their job as providing or generating return within a defined fairly short time frame, and don't necessarily get why spending time on sustainability would help them improve that job."
>
> Sell-side analyst

3. What is important for the investment analysis?

The factors perceived to drive the investment case might also influence the extent to which long-term perspectives are included in the analysis.

Figure 6: Factors for investment analysis

This graphs shows average responses to the question: How important do you think the following factors are in conducting an investment analysis on a scale from 1 Strongly disagree to 5 Strongly agree?"



12) The difference between the two groups is however not statistically significant.

We asked all respondents to give their view on the importance of each of some pre-defined factors, ranking them from not important (= 1) to very important (= 5), see Figure 6.

According to our survey, the top three items that are perceived on average to be most important for the investment analysis are the following:

- **Buy side:** Corporate strategy, quality of management, industry outlook
- **Sell side:** Quality of management, corporate strategy, industry outlook
- **Investor relations**: Quality of management, corporate strategy, expected company development coming three years

The three items that were deemed to be least important are the following:

- **Buy side**: Expected company development coming 12 months, recent performance, expected company development five years, and beyond.
- **Sell side**: Material ESG issues, expected company development five years and beyond, corporate investment plans
- **Investor relations**: Expected company development coming 12 months, expected company development five years and beyond, Research & Development plans

The three groups are aligned when it comes to their perceptions about the most important issues for the investment analysis: namely, Corporate strategy, Quality of Management, and Industry outlook (and expected development coming three years from IR). All three groups also seem to agree on the level of importance (approximately four out of five) for expected company development up to three years.

Sell-side analysts disagree with both of the other groups (significant at 10 per cent level) on the importance of material ESG factors for the investment analysis. Sell-side analysts assign an average of 2.72 (out of 5) for these issues and, in fact, list it as the least important component of the investment analysis. Since ESG factors tend to have more significance in the long-term, this might be another indication of the shorter time horizon of the sell side. This may also be connected to the challenge of quantifying ESG, which can be a hurdle when it comes to integrating it into models for financial analysis.

Investor relations assigns a greater importance to recent performance than the other groups. This is probably a reflection of IR spending a considerable amount of their time on corporate reporting, which tends to look back historically.

Figure 7: Employers' support for long-term investment analysis

This graphs shows average responses to the question: To what degree to do you agree with the following statements about your employer on a scale from 1 Strongly disagree to 5 Strongly agree?

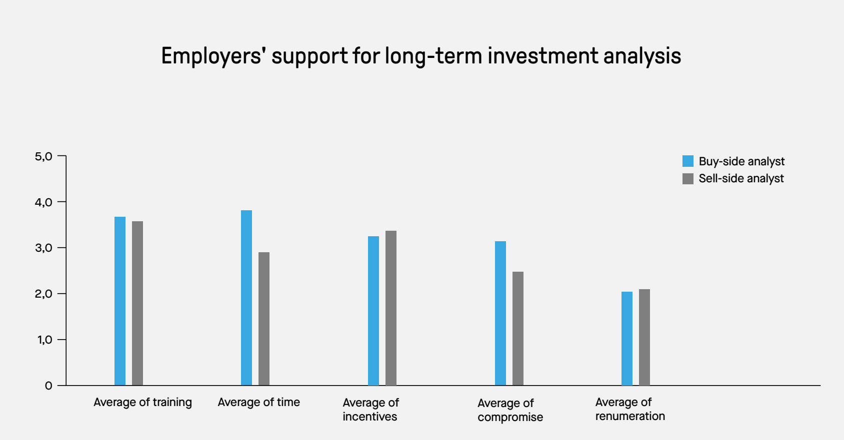
I feel that my employer provides me with appropriate training to conduct long-term research

I feel that my employer gives me enough time to conduct long-term research

My employer offers me financial incentives to conduct long-term research

My employer compromises long-term goals in favour of short-term goals

I feel that my remuneration model prevents me from focusing on long-term investments/on long-term research



4. What stands in the way for more long-term perspectives?

Based on our pre-survey workshop as well as on results from the aforementioned study by Aviva Investors[13], we have identified a number of possible hurdles and constraints for taking a long-term view in investment analysis, which we have asked the survey respondents to rate.

One possible constraint for conducting more long-term analysis could be lack of training. Our survey shows that 60 per cent of both sell-side and buy-side analysts feel that they get appropriate training in order to conduct long-term research. This means that 40 per cent are either indifferent or feel that they do not receive appropriate training. Is seems, therefore, that one viable avenue for increasing a long-term perspective could be capacity building in taking a broader perspective, also including non-financial parameters in the analysis. In our interviews, one sell-side analyst pointed to how a more long-term and ESG focused analysis cannot rely on current skills alone:

> "And then of course you've got to train a whole generation of analysts on what is material and what isn't material from a financial perspective."
>
> Sell-side analyst

Another factor that may influence the prospects of more long-term analysis may be time-constraints that inhibit analysts from doing research on long-term issues. Based on our survey responses, we find that **only 25 per cent of sell-side perceive that they get enough time from their employer to conduct long-term research, to be compared with 70 per cent of buy-side respondents.**

One sell-side analyst explains how he is currently writing a thematic report about two companies, but that the short-term focus dictated the amount of time that can be spent on it.

> "You have your windows between the quarterly reports"
>
> Sell-side analyst

13) Aviva Investors (2017) Brave New World https://integratedreporting.org/wp-content/uploads/2017/10/research-brave-new-world.pdf

It is clear that buy- and sell-side analysts respectively work with different conditions in their daily work to be able to spend time on long-term analysis. This seems to be a structural issue, likely connected to the business model of the two different types of analysis. To create room for more long-term analysis with the same amount of resources implies that one would have to spend less time on the type of analysis that is being done today. This is a prioritization that the market participants will have to address in order to achieve a shift towards more long-term perspectives.

While as much as 70 per cent of buy-side analysts do not feel hindered by time-constraints, it means that, at the same time, a full 30 per cent cannot say that they do not feel this constraint. Our results also show that **40 per cent of buy-side analysts feel that their employer is compromising long-term over short-term goals** (21 per cent for sell-side). It seems, in other words, that also on the buy side there is room for reducing the hurdles for long-term analysis on the part of the employers.

In light of the interviews and workshop discussions, we believe this has to do with how the buy side evaluates performance in relation to benchmarks on a relatively short time-horizon. Even though they have a long-term mandate, it is still challenging to find a way to evaluate long-term performance. The short-term evaluation may have effects on decision-making.

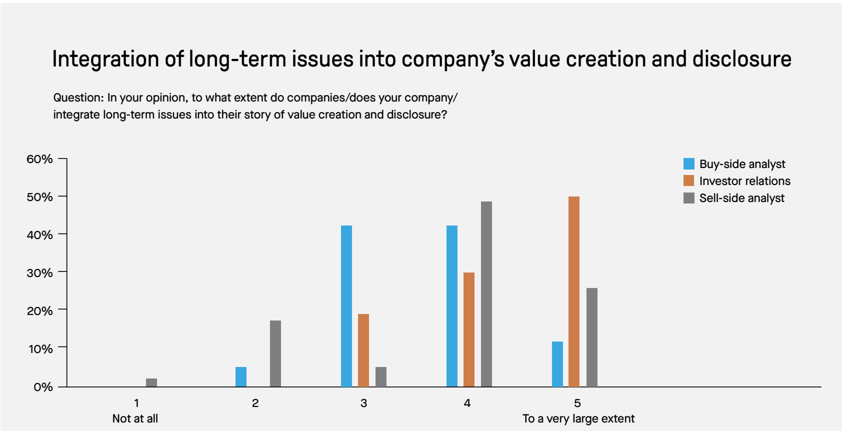


Figure 8: In your opinion, to what extent do companies/does your company integrate long-term issues into their/its story of value creation and disclosure on a scale from 1 Not at all to 5 To a very large extent?"

In terms of renumeration, both sell-side and buy-side analysts seem to think that their **remuneration models are not hindering them from taking a more long-term perspective** (both groups answered on average 2.5 on a scale from one to five). It is however less clear whether they generally are offered financial incentives from their employer to perform long-term investment analysis (on average just over three on a scale from one to five).

In order to conduct long-term analysis, there must of course also be sufficient corporate disclosure to build this on. In our survey, sell-side and buy-side analysts do not agree with Investor Relations about the extent to which companies integrate long-term issues into their disclosure of value-creation. **50 per cent of investor relations respondents agree with the statement that corporate disclosure integrate long-term issues to a very large extent, whereas the ratio for buy side is 12 per cent and for sell-side 26 per cent.**

One buy-side analyst reflected on corporate disclosure:

> "[Companies] quite often talk about their visions, and why they should grow. So they do talk about long-term, too, in my view. It is not a ten-year perspective; it's not. But it is... it is three [years]. /.../ But it is never on a detailed level. It is more visions."
>
> Buy-side analyst

Potentially, companies may need to adjust how they communicate long-term issues to better fit with analysts' information needs. There is already a movement around integrated reporting and how to communicate long-term and non-financial goals in the capital market conversation, which will likely be important also for promoting long-term analysis.

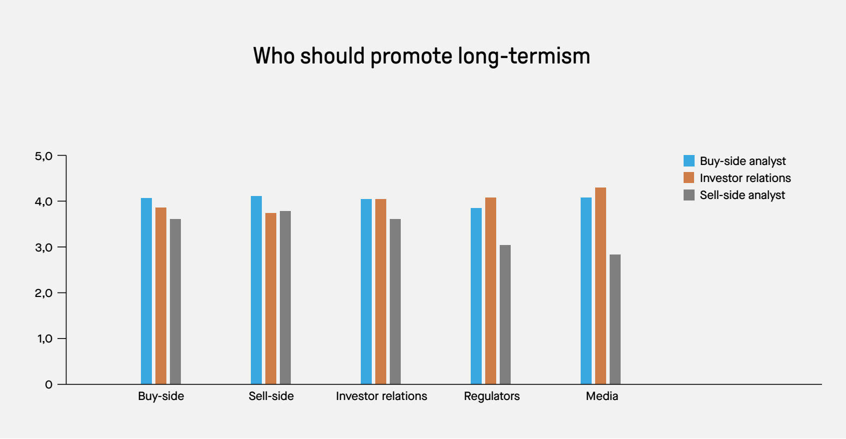
5. Who should promote more long-term analysis?

In our survey, we asked the three groups whether they think that buy side, sell side, investor relations, regulators, and/or media should help to promote more long-term thinking. Our findings show that all three groups feel that all suggested actors should do this (more than 3 on a scale from 1 to 5) (Figure 10). The levels are in general lower for sell-side analysts, potentially indicating that they find the lack of long-termism a smaller problem than the others.

Differently from the other groups (significant at the 10 per cent level), **sell-side analysts think media and regulators have a comparably smaller role to play** in helping to promote long-termism. **Investor relations and buy-side respondents do however identify media as a key actor that should promote more long-term thinking.**

Figure 9: Who should promote long-term investment analysis

This graphs shows average responses to the question: To what extent do you believe the following market actors should promote more long-term financial analysis on a scale from 1 Not at all to 5 To a large extent?



14) The European Commission's Action Plan on financing sustainable growth https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

We also asked respondents to specify which more specific measures would help to promote long-term investment analysis, based on suggestions in the European Commission's Action Plan on financing sustainable growth[14]. **On average, all three groups put most of their hope in the establishment of harmonized methodologies for sustainability benchmarks** (Figure 10).

The largest discrepancy among respondent groups is in two items: First, **investor relations is less inclined, on average, to legal requirements to disclose long-term plans and targets** compared to buy-side analysts especially, as well as sell-side ones. Second, **investor relations respondents are less enthusiastic, on average, about the suggestion to clarify rules according to which the company directors are expected to act in the company's long-term interests.** The results are perhaps not surprising, given that it could have direct implications on the companies IR officers represent. Both of these suggestions are however among those that score the highest (on average) among buy-side respondents.

Actions that score relatively lower, on average, include changes to MIFID II to incorporate sustainability issues into financial advice, and legal clarification of institutional investors´ and asset managers´ duties in relation to sustainability. Investor relations are generally less optimistic than the other groups about most of the suggested actions: with an average score of less than three out of five for all but two of the options.

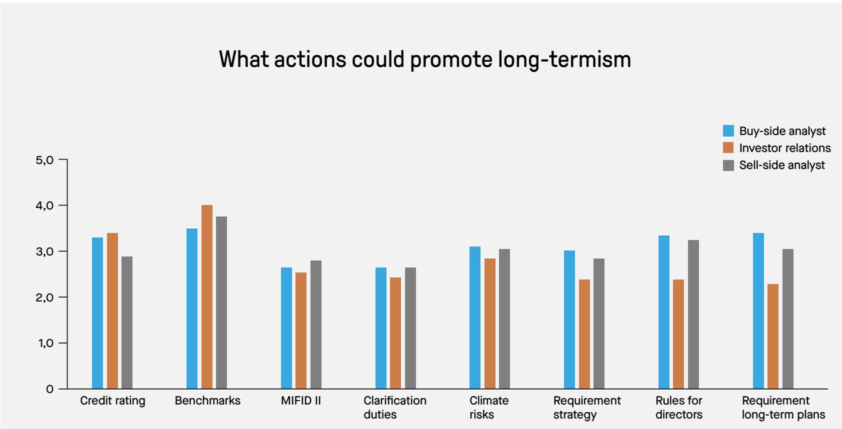


Figure 10: What actions could promote long-termism

This graphs shows average responses to the question: What actions could promote long-termism on a scale from 1 Not at all to 5 To a large extent.

Inclusion of sustainability criteria into credit ratings

Establishment of harmonized methodologies of sustainability benchmarks

Changes to MIFID II to incorporate sustainability issues into financial advice

Legal clarification of institutional investors' and asset managers' duties in relation to sustainability

Inclusion of climate risks into prudential requirements

Legal requirement for companies to develop sustainability strategies

Clarification of rules according to which company directors are expected to act in the company's long-term interests

Legal requirement for companies to disclose long-term plans and targets

6. Our findings in a global perspective

UK-based ESG-profiled asset manager, Aviva Investors published a global survey in 2017 with the aim to better understand why sell-side research tends to focus on the short term and does not integrate material non-financial issues. Aviva expressed concern that ignoring these issues could lead to capital being allocated on an inappropriately short-term basis, potentially rewarding poor corporate practices. A total of 342 sell-side research analysts completed the survey worldwide.

Our report asked some of the same survey questions, although to an audience that also includes buy-side analysts and the investor relations function (all based in Sweden); it is interesting to compare results. This may also shed light on the extent to which our results are Sweden-specific or more general.

Our findings support those of the Aviva report on the following four items:

- **Detrimental short-term focus:** In both studies, approximately four out of every ten sell-side analysts (a total of 38 per cent versus Aviva 42 per cent) think that sell-side research has a detrimental short-term focus. Buy-side respondents in our study are even less forgiving: 51 per cent support the statement.

- **Dialogue promoting long-term value creation:** In both studies, a majority of sell-side analysts (a total of 63 per cent versus Aviva 64 per cent) believe that sell-side research creates a dialogue, which promotes long-term value creation. Buy-side analysts in our study are not as convinced. As reported earlier, only 33 per cent of buy-side analysts agree with this statement.

- **Noise over in-depth analysis:** Just under half of all sell-side respondents (a total of 45 per cent versus Aviva 48 per cent) think that sell-side research produces too much noise, instead of in-depth analyses. Only 30 per cent of investor relations respondents agree with this, and 41 per cent of buy-side analysts.

- **Important factors for constructing the investment case:** In our study, the three most important issues for the investment analysis were the following: Corporate strategy, Quality of management, and Industry outlook (for both sell-side and buy-side analysts). These responses are similar to the sell-side responses in the Aviva study where Strategy, Quality of management, and Valuation came out on top (Industry outlook was not an option).

There are two questions where our results diverge.

- Getting long-term questions from the buy-side: Nearly half (47 per cent) of all global respondents received questions once a week from buy-side analysts about long-term issues, whereas only 28 per cent of Swedish sell-side respondents reported getting questions that often. Also, 12 per cent of sell-side analysts in Sweden get such questions from buy-side less than once a year, or not ever; nobody ticked this box in the Aviva survey.

- Incorporating analysis of broader and non-financial topics: Swedish sell-side analysts are more confident than their global peers that they effectively incorporate analysis of broader and non-financial topics: 59 per cent of sell-side analysts in our study agree with this statement, compared to 31 per cent in Aviva Investor's study.

The sell-side analysts' views on long-termism in investment analysis in our study is seemingly not specific to the Swedish market for the most part; rather, they reflect a global sentiment. Given that financial markets around the world share similar structural features, it is not surprising they also share the same structural problems. The flip side of the coin is that solutions may also be globally applicable, which could be advantageous from a policy perspective.

Concluding discussion

This study has explored the topic of long-term perspectives in investment analysis. Our results lead us to a couple of reflections.

What we have here seems to be something of a chicken-and-egg situation: The sell side is waiting for the buy side to ask for more long-term analysis, while the buy side is not necessarily confident that the sell side would be able to fully deliver upon that request.

Our study shows there is a mismatch between how often the buy side and the sell side think they are talking with each other about long-term issues, with the buy side being more optimistic. The sell side also expresses that it is a service business. **We propose that the sell side's focus on long-term analysis may increase if buy-side analysts would make more explicit requests for it, as well as specifying what "long-term" means for them.**

Our interviews indicate that buy-side analysts do not necessarily have confidence in the sell side being able to deliver long-term analysis, whereas sell-side analysts feel that they are particularly well equipped to do so. Meanwhile, the survey shows that up to 40 per cent of sell-side analysts do not feel that they get appropriate training to conduct long-term analysis. **We suggest that future studies should explore the extent to which the buy side has enough confidence in the quality of sell-side long-term analysis**, and whether sell side has the skills to match buy side expectations, or if these factors are a in fact a road-block to advancing long-termism in investment analysis.

There is anecdotal evidence in our study that buy-side analysts do not always use sell-side analysis as direct input for their work. Another thing to consider is that a shift towards more long-term focus would incur trade-offs with other sell-side services due to resource constraints. **Buy-side analysts may need to ask themselves if sell side should be the main provider of long-term analysis or if they should source it from specialists services providers.** This is not a recommendation on our part; it is, however, food for thought.

There is, however, also a role for sell side and corporations to play here. While our interviews indicate that the sell side takes on a passive role in this commercial relationship by primarily responding to client demand, one could perhaps argue for sell side taking a more active role and designing and delivering services based on the implications of the sustainability mega-trend for the sectors they cover.

As for companies, we think that they would need to adjust how and to what extent they communicate long-term issues, to better fit analysts' information needs. Our survey showed that overall, investor relations are more confident than the analysts that their company integrates long-term issues into its story of value creation and disclosure.

Another reflection is that this study does not capture the actual amount of long-term conversations being held, analysis being applied, or other artefacts that can evidence the occurrence of long-term perspectives in the analysis. Our results only suggests that there is a **perception** among most of our respondents that a long-term conversation is ongoing in the dialogues they have with each other. **Even if the investment analysis contains an element of long-termism with which both analysts and corporate are content, there may still be a gap to bridge in order to align investment analysis with the Sustainable Development Goals: whether it is from a risk or value perspective.** We found that sell-side analysts in particular attribute little importance to ESG issues, which indicates there is still some way to go to integrate these and other long-term issues into mainstream financial analysis.

Our results are largely in line with a global study about sell-side analysis conducted by Aviva Investors, to which we have referred in this report. That study concludes that the sell side is behaving rationally within an irrational system, and that it would be very difficult for an individual analyst or a research team to overcome the hurdles of competing demands. Aviva Investors purport that policymakers and all market participants should review the incentives and motives along the whole investment chain. When we asked our respondents about who should promote long-termism, a majority feels this burden on everybody's shoulders, including buy- and sell-side analysts, investor relations, media, and regulators – which may, of course, mean that it is therefore on nobody's shoulders. **In order for a more long-term focus to be realised, broad-based initiatives such as the European Commission's Action Plan on financing sustainable growth, the Task Force on Climate-Related Financial Disclosures, will be important in setting the tone.**

Through this work, we have also learned that long-term and short-term perspectives can – and must – co-exist. Not only sell side but also interviews with investor relations pointed out that the long-term and short-term focus tends to be too polarised in the general debate. As one sell-side analyst said: "For the long-term to work, the short-term must work too." **So, it is not simply a matter of exchanging long-term for short-term, as there is merit in both.** There is value in quarterly reports and short-term evaluation: for corporations, analysts, and investors. There is also some merit in short-term holdings (although this is not the focus of this report), as it provides liquidity on the market. As this and other studies suggest, this may be a problem though if the short-term focus takes resources from warranted long-term analysis. As noted, 51 per cent of buy-side analysts and 38 per cent of sell-side analysts believe that sell-side research does have a detrimental short-term focus.

The quest for more long-termism in capital markets continues even if there is also room for some amount of short-term analysis, not the least on a policy level. Regulators, policy makers, clients, business partners, and many other stakeholders are now asking corporations and their investors (and, hence, financial analysts) to engage in long-termism while planning for 2030 and beyond. As the journey toward a more environmentally and socially sustainable development intensifies, **balancing the short term with the long term will likely be the largest managerial task of any company and, thus, for many financial analysts.** Therefore, when it concerns long-termism in investment analysis, we hope this study can spur a much-needed discussion among the different actors that make up the ecosystem around financial analysis.

> "Balancing the short term with the long term will likely be the largest managerial task of any company and, thus, for many financial analysts"

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