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The Generation Foundation and the 2° Investing Initiative partner to address the "tragedy of time horizons” across the investment chain.

The Generation Foundation and the 2° Investing Initiative have announced a research partnership to study and address the “tragedy of the horizon”. This concept, coined by Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, refers to the mismatch between the short-term horizon of decision-making across the investment chain and the long-term horizon of key financial risks.

The Generation Foundation, the advocacy initiative of Generation Investment Management, and the 2° Investing Initiative, a financial think tank focusing on aligning investment portfolios with climate goals, have identified the short time frames used in financial risk analysis, investment mandates, and incentive systems across the investment chain as a key obstacle to the much-needed anticipation of climate-related financial risk and opportunity in capital allocation.

According to David Blood, Senior Partner of Generation Investment Management, "We believe the transition to a low carbon economy will be the most significant event in economic history and prudent investors should consider allocating capital accordingly. In addition, the investor community should consider long-term sustainability factors in the risk and return profile of all assets because it can enhance results."
"Assessing carbon policy risks for the finance sector is now on the agenda of the G20. We intend to work on this issue with rating agencies and investors, with a view to addressing short-termism in investment processes and incentive systems", said Stan Dupré, founder and director of 2° Investing. "This project will explore the root causes of short-termism in financial markets and test potential remedies including new performance metrics, incentives systems and governance frameworks".

The first of several reports from this research partnership, to be released in early 2016, “will put investment decisions and risk frameworks under the microscope and quantify time frames at each step of capital allocation, from companies that invest in long-term industrial assets, to long-term investors who own their shares and bonds”, Stan Dupré added.

"Generation's vision is to fully integrate sustainability into every aspect of financial markets, and The Generation Foundation supports innovative thinking that can help reinvent capitalism accordingly. This includes an emphasis on how to retool investment frameworks to account for the transition to a low carbon economy." said Al Gore, Chairman of Generation Investment Management.

The joint project starts today for a period of three years. Daniela Saltzman, director of The Generation Foundation will join the board of directors of the 2° Investing Initiative.

Key contacts:

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The Generation Foundation is the advocacy initiative of Generation Investment Management, a boutique investment manager based in London. Generation takes a long-term view, fully integrating sustainability research and insights into a rigorous framework of traditional financial analysis while aligning incentives with the interests of clients. The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Its vision is a sustainable form of capitalism aligned with a low-carbon, prosperous, equitable, healthy and safe society.

www.genfound.org

2° Investing Initiative is a think tank created in 2012 to foster the integration of climate criteria in investment frameworks and financial regulation. It works with financial institutions, governments and universities to advance research and test new solutions. The first 2° investing regulation, on mandatory climate disclosure for investor has been introduced in France in August 2015.

www.2degrees-investing.org