

# Defining Long-Term Value Creation

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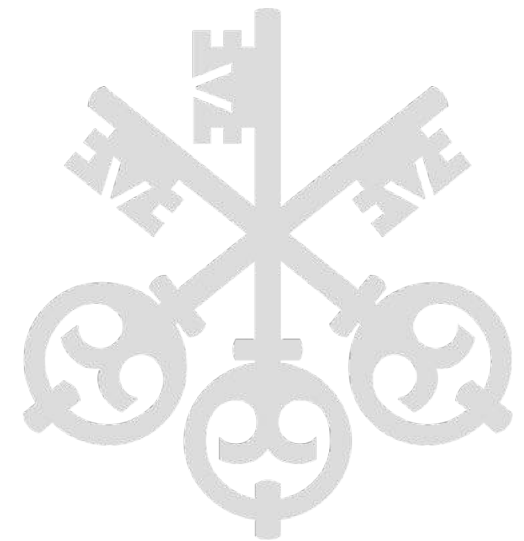
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# The Team

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# Agenda

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1 Motivation and Task Definition

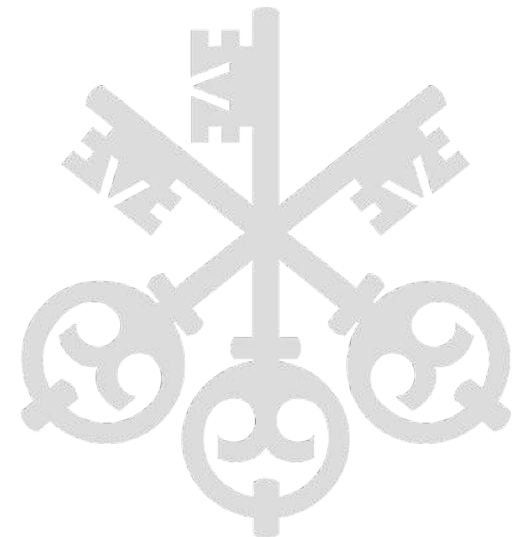
2 Project Deliverable

3 Research Process

4 Deep-dive KPIs

5 Model Details


6 Implementation & Outlook




# Disclosure of banks contradicts empirical findings in the industry with respect to short-termism

## Motivation behind the Project

### What is claimed...

"...we worked intensively to make Credit Suisse a stronger and more efficient organization focused on servicing our clients and **on creating long-term value for our shareholders.**" 

"We (...) serve our clients, **generate long-term value** for our shareholders and contribute to the **broader public.**" 

"We build on **long-term oriented management**, our integrated and diversified business model and our international pipeline."  BNP PARIBAS

"We expect that company boards (...) are **aimed at long-term value creation**, and report on their strategy and priorities."  NORGES BANK

### ... and what is practice

#### Activist Hedge funds



demanding increasing payouts

#### Exec. Compensation Design



does not support longer-term strategic goals

#### Quarterly Capitalism



management, analyst and investor focus on quarterly numbers

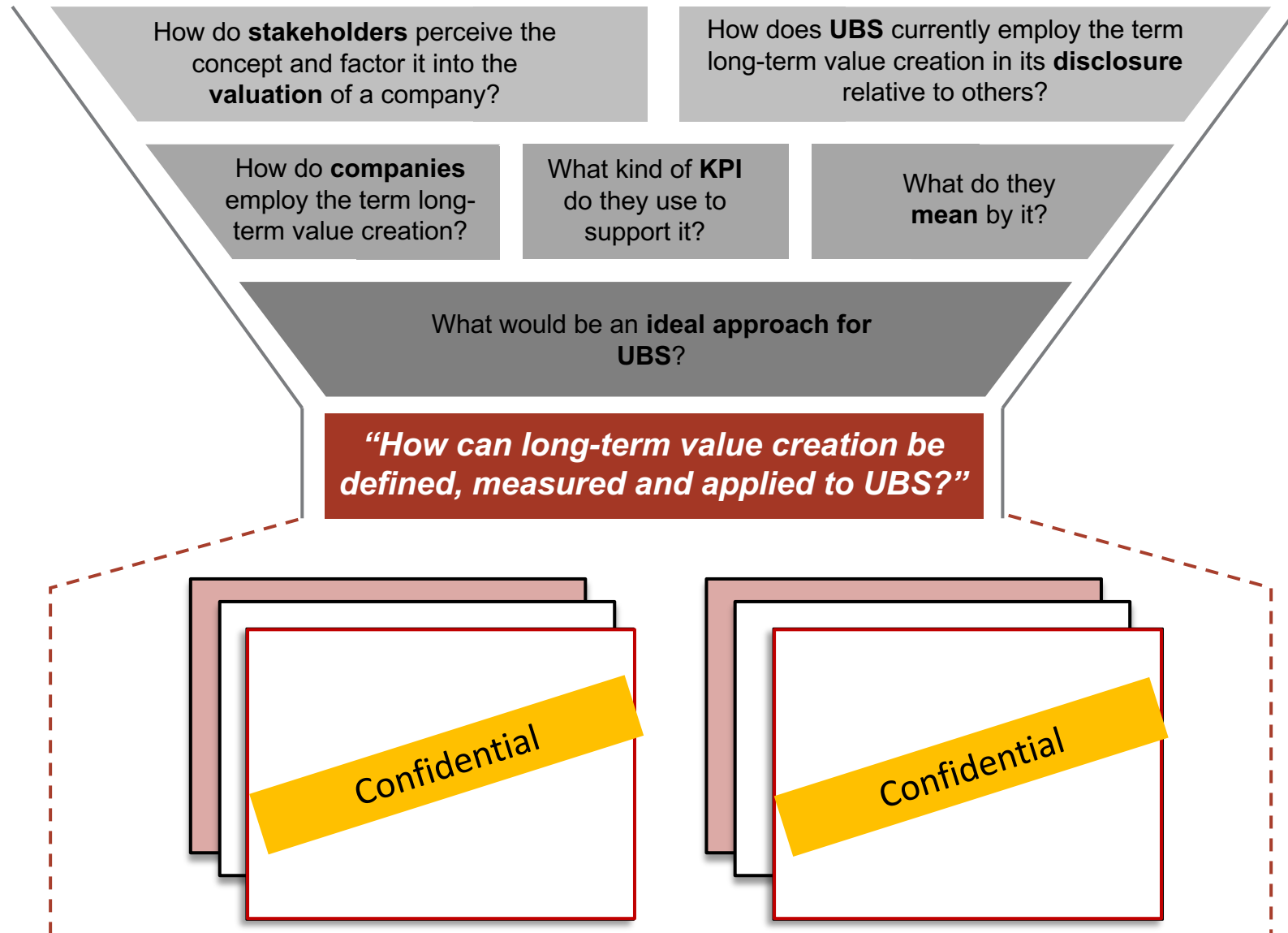
#### Change from Investing to Trading



technology & regulation reduces price of trading, making it more common

# Through a synthesis of all project sub-questions, our final task required a twofold deliverable

## Research Question



# Our long-term value creation framework accounts for stakeholders, sustainability, impact and purpose

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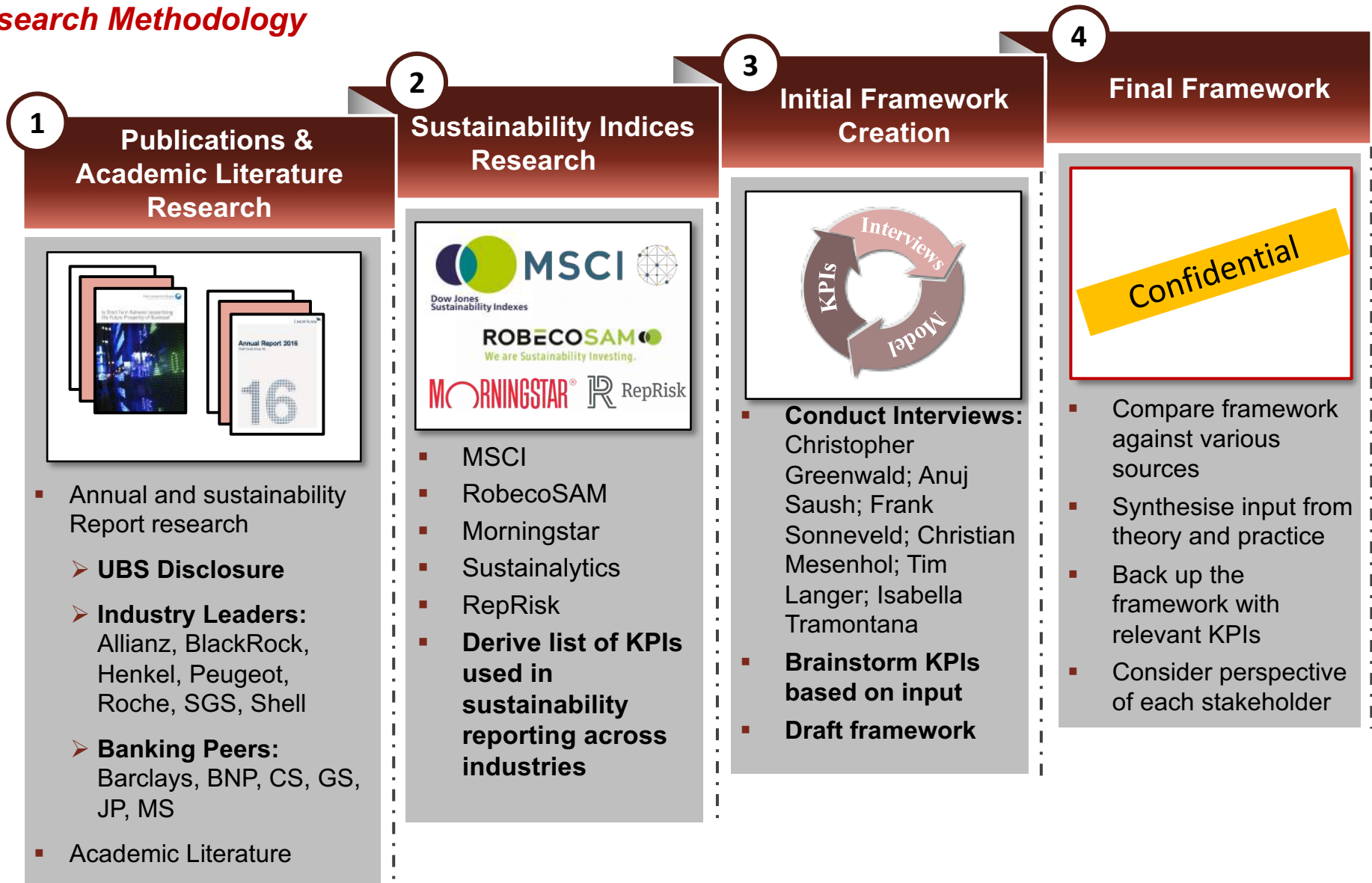
# Each stakeholder cares about the economic, social and environmental dimension of value creation differently

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# During the research process we iteratively compared company disclosure, indices and expert insight

## Research Methodology



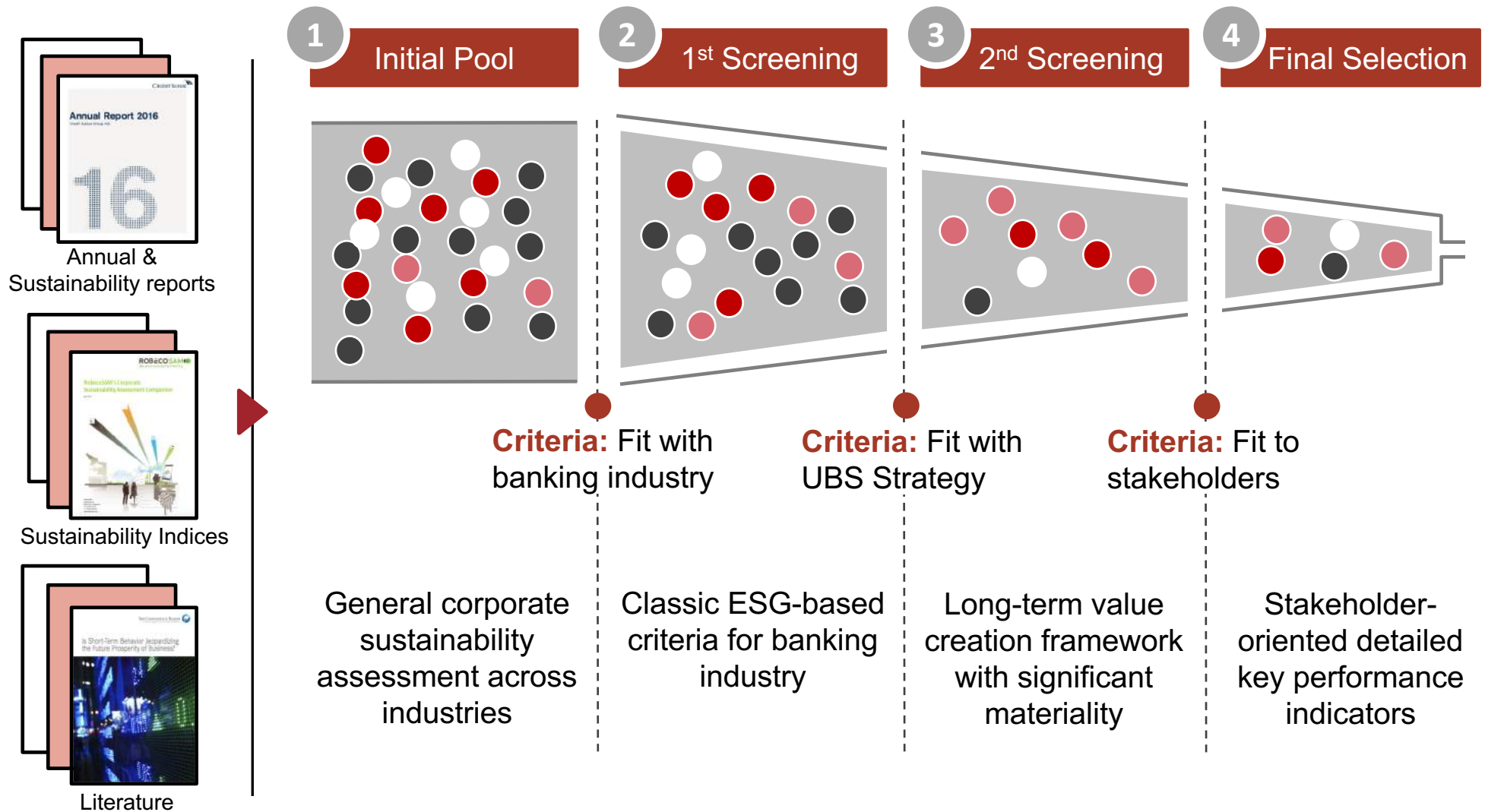
# Company disclosure illustrated loose commitment from banking peers and inspiration from industry leaders

## Company Disclosure Research

Companies	Anonymous	Anonymous	Anonymous
Definition	<ul style="list-style-type: none"> <li>No clear definition of long-term value creation or how it is specifically created</li> <li>Long-term value creation linked to <b>shareholders returns</b>, sustainable investing, performance and SDGs</li> </ul>	<ul style="list-style-type: none"> <li>Most of the banks associate long-term value creation with <b>financial/ shareholder's returns</b></li> <li>Definition and scope of concept are <b>not fully clear</b></li> </ul>	<ul style="list-style-type: none"> <li>Long-term value creation <b>conceptualized and defined at Henkel</b></li> <li>At other companies mostly used referring to <b>financial performance supplemented by other factors</b></li> </ul>
KPIs	<ul style="list-style-type: none"> <li>Limited performance measurement on long-term value creation is provided beyond financial performance</li> <li>Inclusion of climate related metrics related to <b>ESG criteria</b></li> </ul>	<ul style="list-style-type: none"> <li>Mostly <b>qualitative</b> KPIs</li> <li>uses <b>Net book value per share</b> as one of the indicators of continuous value creation</li> <li>uses <b>proxies</b> to account for their sustainability performance</li> </ul>	<ul style="list-style-type: none"> <li>Measurement and assessment provided are <b>partly qualitative</b></li> <li>All companies also provide <b>quantitative measures referring to environmental impact and long-term value creation</b></li> </ul>
Other findings	<ul style="list-style-type: none"> <li>Value creation and long-term focus is present in through performance goals on societal and environmental dimensions</li> <li>aims at being a leader in sustainable investing and a recognized innovator "Creating long-term positive impact for our clients, investors and society" (Annual report 2017)</li> <li>The question remains: <b>What long-term value creation specifically means and which KPIs supplement it?</b></li> </ul>	<ul style="list-style-type: none"> <li>For some banks (e.g. ) the term is presented in terms of a "vision" that is <b>loosely committed</b> to</li> <li><b>recognize the importance of ESG metrics</b> and goals yet often fail to present specific and concrete measures to achieve them</li> </ul>	<ul style="list-style-type: none"> <li>shows <b>concise strategy</b> and specific metrics, such as CO<sub>2</sub> generated, water consumption</li> <li>Part of <b>executive remuneration</b> at depends on goals achieved in sustainable development</li> <li>Social impact and long-term value creation seem to have been <b>connected to the core business</b> to be perceived as credible</li> </ul>

# We selected the final set of KPIs in three steps out of a broad selection from various indices

## KPI Selection Process



The defined KPIs can be assigned to the various elements of the framework

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# Through its role as facilitator UBS enables the creation of significant indirect impact

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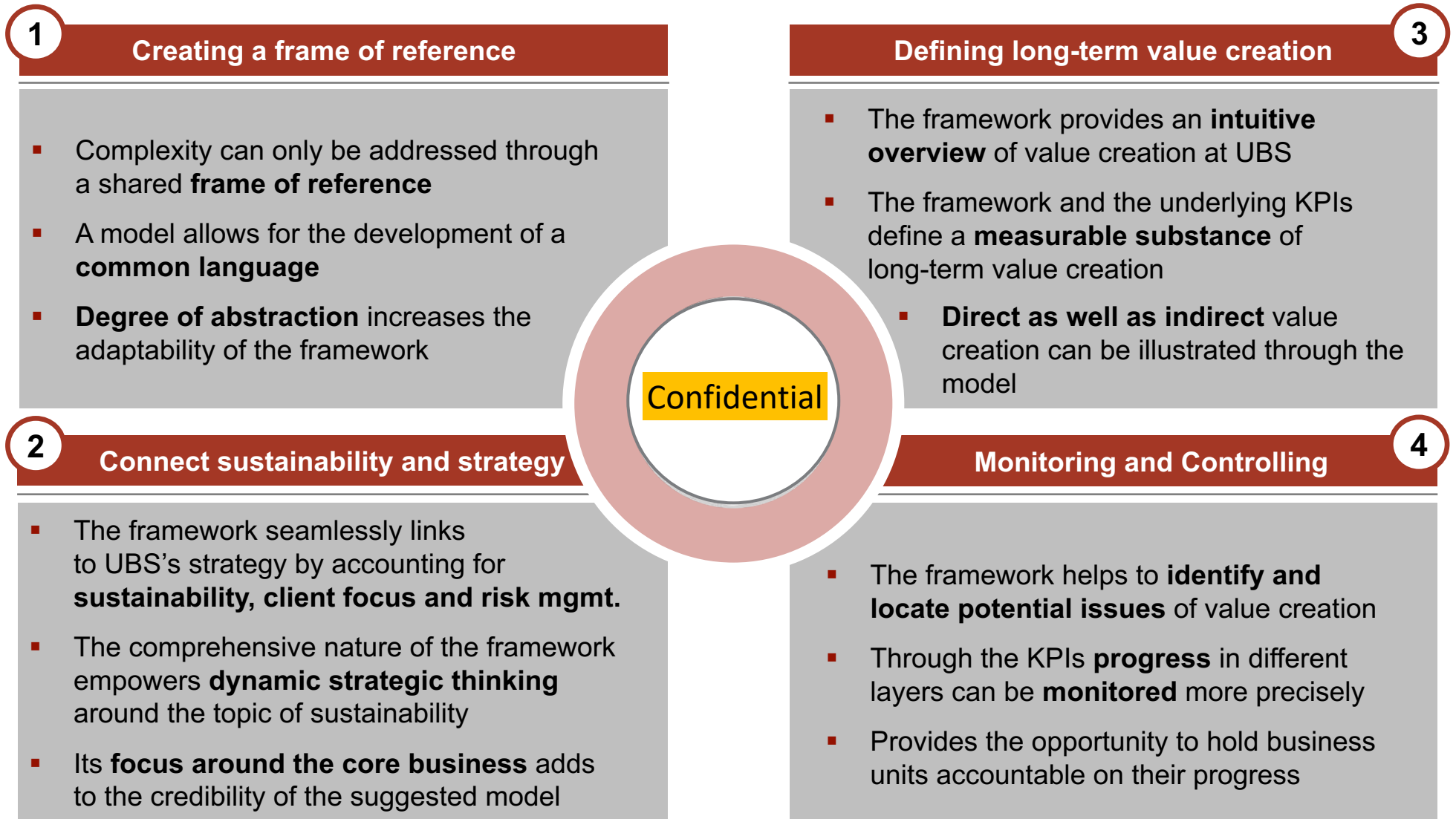
# Long-term value creation is dependent on environmental factors such as unexpected events and megatrends

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# The long-term value creation model provides huge benefits to UBS on four related dimensions

## Value-added for UBS



To fully leverage the model's potential, a thorough implementation is key

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# As a newly-found model for long-term value creation, our model faces certain limitations and challenges

## Key Limitations & Challenges

