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Baillie Gifford is a Scottish partnership that is responsible for managing approximately $240billion of assets. These are predominately invested globally and with demonstrably low turnover. We try to back emergent companies, whether private or public, and from their early years to decades later becoming globally dominant giants. Our investment record has produced excellent returns for savers and clients but we cannot become complacent about this. For this to continue we desperately need companies to be able to invest for the future without excessive pressure from the loud noise of stock markets.

We fear that the current workings of stock markets are damaging to overall economic health. Capitalism is not functioning as it should be. Investment levels and the supply of new capital is unduly low. Fewer companies are able to go public, still fewer companies that do so dare to invest to drive our societies forward or to challenge the incumbency of oligopoly and near monopoly. As a fond outside admirer of the traditional economic dynamism of the United States this is historically troubling to observe.

We fear that the behaviour of the fund management industry is a critical factor in this chain of decline. Fund mangers all too frequently see themselves as childish competitors in a 100 yard dash rather than as the crucial arbiters of deployment of the necessary capital to build societal wealth. With rewards for apparent success so high but so bizarrely miss-measured in a manner that confuses luck and illusion as opposed to long-run contribution to building successful companies it's hard to see much grounds for hope unless the structure of capital markets changes to encourage more enlightened decision making.

Whilst we realise that more will undoubtedly be needed we sincerely believe that a Long-Term Stock Exchange might prove a surprisingly weighty contributor to changing the ethos of finance. Potentially it could help to limit several of the most damaging aspects of current market misbehaviour and replace them with more beneficial characteristics. More specifically we would identify the following issues. The first problem of today is that there is an excess vulnerability to news flow that is colourful and appears immediately important but that means little or nothing or indeed the opposite of what it at first sight appears to convey. This in turn creates rapid share price movements that managers (and all too often clients) believe they need to respond too despite all evidence to the contrary. As we know stock turnover has increased sharply and most volume is in the hands of very short-term players.

The pattern of over-reaction is most pernicious around the ceremonies of quarterly earnings. We do not believe that the oscillations of a 13 week period carry a fraction of the significance or attention that they currently absorb. Worse still they encourage companies to favour near-term profitability to make the numbers and generate the headlines beloved of the media, of high frequency traders and volatility loving hedge funds. There is repeated survey evidence that executives would rather retreat from worthwhile investments than endanger the numbers. We would prefer a system that discourages such events and such traders. We do not believe that traders and speculators are the same as investors.

This leads onto another troubling issue that we believe the proposed Long Term Stock Exchange could ameliorate. At present we find that discussions with unquoted companies are more beneficial than with most (not all) public companies. This is because it is quite clear that all companies- especially young companies trying to invest for the future- face real and serious challenges. But stock markets as presently constituted do not promote the serious dialogue that it vital for healthy and constructive engagement by committed investors. Management fear that investors will flee, investors do flee and both fear the wrath of regulators. What is instead needed is a relationship of trust over transaction and joint contribution to solving the series of inevitable challenges that are the inevitable path of economic and corporate life. Unless current stock markets adapt then the best and most ambitious companies will increasingly remain private. This means they will be inaccessible to most investors.

We think the LTSE can also contribute to changing the behaviour of asset owners in addition to fund managers. Our experience is that many of our clients and the representatives of individual savers would dearly like to see their funds committed for the long-term. But events and temptations frequently get in the way. We think they realise this and would thoroughly approve of use of a Long Term Stock Exchange to provide the necessary option of patience.

We would therefore be enthusiastic supporters of The Long Term Stock Exchange and commend the project.

James K Anderson

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