

PSI Asia-Pacific Conference Worker's Capital and Economic Organising

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Three key points from the presentation

- Establish the key issue that workers pension and other savings are now, outside of banking, the main source of capital for the global economy.
- That these savings own individually and collectively a slice of the macro economy and as such are 'universal owners'. The sponsoring unions, trustees, and fiduciary managers have a key role to play.
- The Trade Union and Labour Movement should organise workers capital and develop a new macro economic model to assist in the investment/productive process which will ultimately serve all.

Workers pension funds are the ultimate owners of the means of production

Pension funds = Workers Capital = Capital Stewardship

“...the largest domestic owners of UK shares are pension funds and insurance companies who now hold about 18 per cent and 21 per cent of equities respectively – or two out of every five UK shares....“But they hold these shares on behalf of workers contributing to pension schemes and insurance policies. Working people are now the ultimate owners of most blue-chip firms in the UK”

“In formal terms, British capitalism has given workers ownership of the means of production.”

Brendan Barber, TUC general secretary Observer, 22/12/02

US\$Bn Pension Fund Assets 1997-2012

Over the last 15 years global assets have nearly trebled. US, Japan, UK and Canada account for 86%

Country	1997	2007	2012
US	7,893	15,206	16,851
Japan	1,901	2,793	3,721
Canada	1050	2,646	1,483
UK	517	1,030	2,736
Netherlands	365	993	1,199
Australia	193	934	1,555
Totals	11,919	23,602	27,545

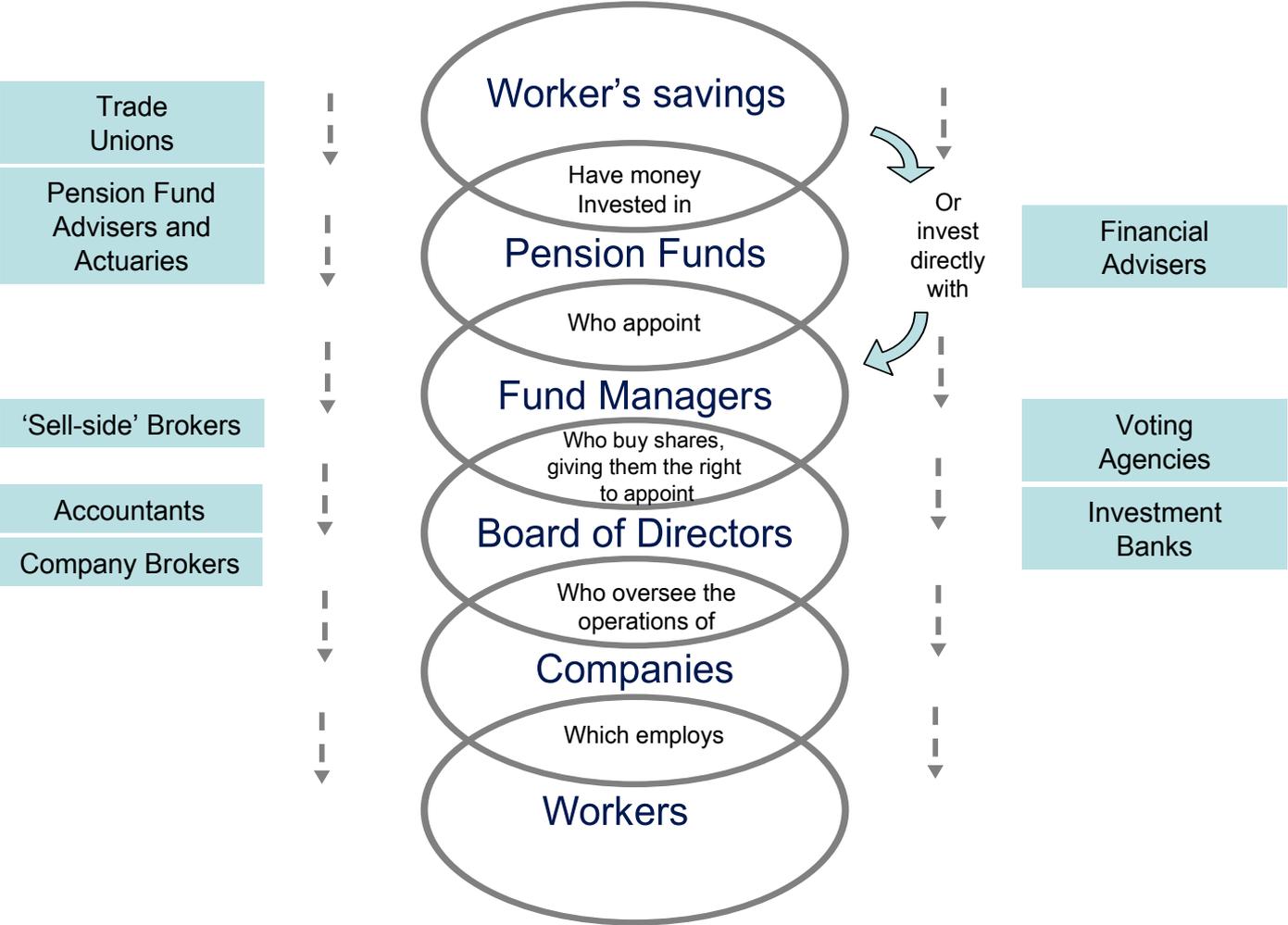
P&I 300 Ranking (in US\$ billions)

Rank	Fund	Country	Total assets	Rank	Fund	Country	Total assets
1	Government Pension Investment	Japan	\$935.569	21	Employees Provident Fund	Malaysia	\$82.256
2	Government Pension	Norway	\$285.625	22	Wisconsin Investment Board	U.S.	\$80.853
3	ABP	Netherlands	\$273.904	23	IBM	U.S.	\$79.567
4	California Public Employees	U.S.	\$218.214	24	National Public Service (***)	Japan	\$77.993
5	National Pension	Korea	\$203.232	25	General Electric	U.S.	\$76.039
6	Federal Retirement Thrift	U.S.	\$188.086	26	New Jersey	U.S.	\$75.544
7	GEPF	South Africa	\$177.559	27	BT Group	U.K.	\$75.202
8	California State Teachers	U.S.	\$149.008	28	Ohio Public Employees	U.S.	\$73.572
9	New York State Common	U.S.	\$144.289	29	ATP	Denmark	\$73.206
10	Local Government Officials (***)	Japan	\$136.845	30	Boeing	U.S.	\$72.848
11	Postal Savings Fund	Taiwan	\$128.194	31	AT&T	U.S.	\$71.556
12	Florida State Board	U.S.	\$124.450	32	Central Provident Fund	Singapore	\$70.468
13	Ontario Teachers	Canada	\$120.981	33	North Carolina	U.S.	\$70.016
14	General Motors	U.S.	\$118.992	34	Ohio State Teachers	U.S.	\$67.965
15	New York City Retirement	U.S.	\$114.598	35	Verizon	U.S.	\$62.639
16	Pension Fund Association (***)	Japan	\$106.767	36	Alecta	Sweden	\$62.113
17	PGGM	Netherlands	\$106.526	37	Public Schools Employees (***)	Japan	\$60.345
18	Canada Pension	Canada	\$100.738	38	Washington State Board	U.S.	\$60.045
19	Texas Teachers	U.S.	\$100.717	39	Michigan Retirement	U.S.	\$59.988
20	New York State Teachers	U.S.	\$94.347	40	Universities Superannuation	U.K.	\$59.017

What are the assets (roughly)?

- 60% equities or shares – in UK and Global Stock Markets – if these are new shares they represent real investment – otherwise they are bought/sold by a broker
- 15% gilts – these are government bonds repaid with interest – you lend UK state and others money
- 10% property – commercial real estate – you buy real estate and obtain rental income
- 5% corporate bonds – issued by companies – this is real investment, companies use this to invest
- 5% Private Equity/PPP infrastructure – schools/roads etc.
- 5% cash and commodities – interest bearing accounts and oil/gold, even art

The Investment Chain



UK Stewardship Code

- So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:
- Publicly disclose their policy on how they will discharge their stewardship responsibilities.
- Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
- Monitor their investee companies.
- Establish clear guidelines on when and how they will escalate their stewardship activities.
- Be willing to act collectively with other investors where appropriate.
- Have a clear policy on voting and disclosure of voting activity.
- Report periodically on their stewardship and voting activities.

The key aspects of corporate governance in the UK

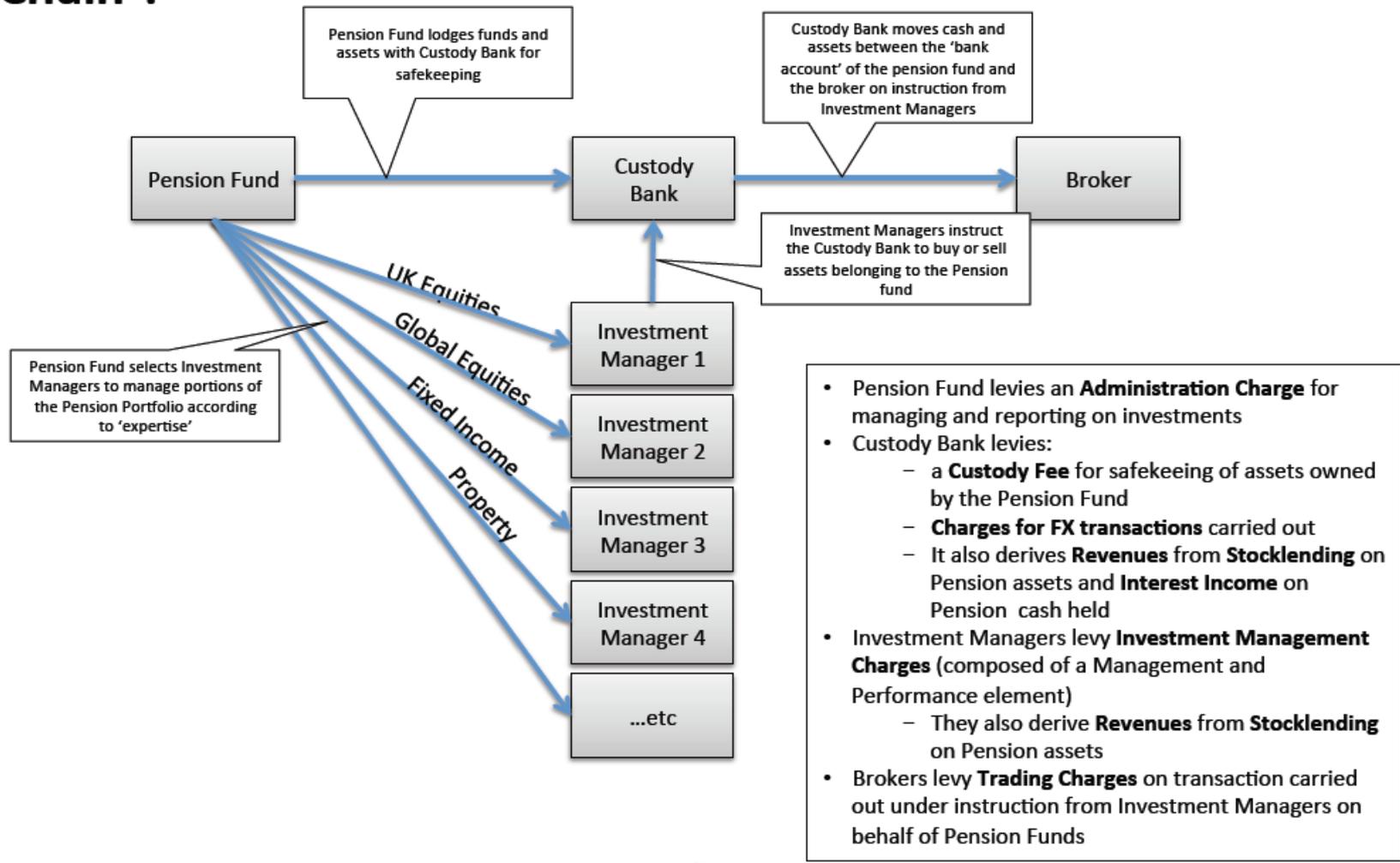
- A single board collectively responsible for the company
- Checks and balances including:
 - Separate Chairman and Chief Executive.
 - A balance of executive and independent non-executive directors.
 - Strong, independent audit and remuneration committees.
 - Annual evaluation by the board of its performance.
- Transparency on appointments and remuneration.
- Effective rights for shareholders, who are encouraged to engage with the companies in which they invest.
- The UK Corporate Governance Code operates on the basis of the ‘comply or explain’ principle and is regularly reviewed in consultation with companies and investors.

Legitimacy for intervention

- European and UK Investment Legislation for Pension Funds
- General ‘fiduciary responsibility’ for pension fund trustees
- United Nations Finance Programme and United Nations Principles for Responsible Investment

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society.”

Where do the costs go? What is the 'Pension Fund Value Chain'?



Effective Governance for Pension Fund

1. Aligned interests with scheme members
2. They had strong governance
3. Sensible investment beliefs
4. Right-scaled, from \$30bn+ of assets under management
5. Competitive compensation for fund staff

Economic theory and investment principles

From “Efficient Market” to “Universal Ownership”

Hawley and Williams in ‘The Rise of Fiduciary Capitalism’
(2000) Develop Universal Ownership theory

Universal Ownership key principles

Each fund's performance tends towards being an expression of the performance of the economy as a whole

Each fund is a co-owner with other funds of the whole economy, and funds should seek to collaborate with co-owners to improve overall economic performance

Each fund is a co-owner with others of entire sectors – costs of competition between firms are costs borne by owners

Governance rights should be exerted to optimise the relationship of externalities between assets in their impact on economic performance – reducing negative externalities and promoting positive ones

Overall economic growth should be able to lift both investment income and wage income, ensuring that pensioners can improve their income without taking from the wages of the younger generations.

But the overriding consideration

"...the time has come for institutional investors to explicitly recognise that economy-wide, macroeconomic issues heavily influence the returns they will earn on their investments"

(The Rise of Fiduciary Capitalism, Hawley and Williams, 2000, p 22)

Universal Owners Must Engage with Governments

Hawley and Williams in 'The Rise of Fiduciary Capitalism' (2000)

Develop Universal Ownership theory, suggesting fiduciaries have an obligation to consider engagement with governments regarding:

- Externalities in relations between and within asset classes
- Monetary policy
- Fiscal policy
- Regulation
- “Public-policy-like” positions on education, infrastructure, transport, communication, training, efficiencies within business

Labour Movement Renewal Tasks

- Recognise, organise, train and support fund fiduciaries (trustees) – which pension funds, which investment funds and are there union trustees?
- Develop Universal Ownership theory
- Collaborate with other unions, internationals, NGO's, academics and political organisations
- Develop and model new macro-economic policy, around labour distribution, money supply, regulation and fiscal policies that support transformational activity

PSI developments

- 2012 Durban Congress calls for pension working group - Small working party sketched out in October 2013
- Provide material for pension staff and trustees outlining and summarising :
 - the dangers of investing in PPPs and privatisation
 - the threat to defined benefit pension plans
 - the failures of defined contribution pension plans
 - the features of hybrid pension models (cash balance, etc.)
 - investment products and the investment chain, economic processes such as the creation of money and the role of debt

- Outline the elements of Universal Owner approach to pension fund investing, including a focus on social, fiscal, monetary policy and regulation.
- Develop a critique of the G20-OECD infrastructure and long-term investment guidelines which suggest that pension funds should allocate much larger share of their investments to this asset class.
- Develop a PSI strategy for input into and linking with the CWC and UN PRI activities (PSI could contribute to principles for investment, suggestions for new policies and activities, including support for PUPs, focus on cities, etc.).
- UNISON has built a content management system/web platform where PSI and affiliates can access and collaborate
- We would welcome the participation of the region in this project

United Nations Principles for Responsible Investment

- Principle 1: incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: be active owners and incorporate ESG issues into our ownership policies and practices
- Principle 3: seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: promote acceptance and implementation of the Principles within the investment industry
- Principle 5: work together to enhance our effectiveness in implementing the Principles.
- Principle 6: report on our activities and progress towards implementing the Principles.

THANK YOU !

**AND GOOD LUCK IN YOUR
DELIBERATIONS**