**Pension for Purpose Podcast, Season 2 Episode 1, Stewardship with Laasya Shekaran, David Brown and ShareAction**

Laasya Shekaran: Hello everyone and welcome to our first episode of 2025. My name is Laasya Shekaran, and I'm really excited to be kicking off season two of the Pensions for Purpose Podcast as your new host.

We've got a great season ahead lined up, where we'll be covering loads of important topics related to the future of pensions, people and planet and where better to start than with our guest for today's episode, Catherine Howarth. Catherine is the Chief Executive of ShareAction, a brilliant organisation that works with investors, policymakers, and individuals to tackle the most pressing issues of today and Catherine's also recently been appointed as a board member of Nest, the largest DC Master Trust in the UK. Catherine, welcome to the show and of course, Happy New Year.

Catherine Howarth: Thank you Laasya, it is so great to be here with you and David.

Laasya Shekaran: Yes, I'm also joined by David Brown, who is my Pensions for Purpose co-host for today's episode, welcome David.

David Brown: Yes, welcome and Happy New Year to everybody! Before we get on, as we've got a busy agenda today. Laasya, you are new to our team and it is fantastic to have you join us. Maybe for our listeners you could say a few words to introduce yourself at the beginning.

Laasya Shekaran: Absolutely, I'm so excited to be joining the team here at Pensions for Purpose. So, as I said, my name is Laasya. I've been in the pensions industry for about eight years now, having previously worked in investment consulting.

I'm very passionate about understanding how the pensions world and the financial world intersects with the so-called 'real world.' The environmental and social systems that we exist within, because it doesn't all happen in a vacuum. Everything is interconnected and I think Pensions for Purpose does really exciting work to recognise that and get everybody across the industry to recognise that. I'm really excited to be here and especially excited to be hosting the podcast.

So as you said David, we have an absolutely jam-packed agenda today. I'm really excited to be getting into all of it. We're going to be talking a lot about stewardship today, and this is very relevant at the moment, given that the FRC is currently consulting on some proposed changes to the UK Stewardship Code. Before we get into the detail of all of that. Let's start at the beginning. What do we actually mean by stewardship, Catherine? And why is it important.

Catherine Howarth: So I'm just going to start with a non-technical definition. I think the essence of stewardship is about when you own something like shares in a company, it might be bonds in a company, or real estate assets that you take a real interest in what is going on and you assert yourself as appropriate as an owner, to guide the management of that company, to ensure that they are really building wealth over the long term, but in a sustainable way.

In a way that doesn't drive negative impacts on society, environment, or stakeholders. So it's really about responsible ownership in action and the crucial thing, and I guess why we're so keen at ShareAction in the action part is that it's not easy, it takes a lot of skill to be a good steward.

Now, one of the reasons this is actually a really great place to start the discussion is that the definition of stewardship is actually one of the things that's up for grabs in the Financial Reporting Council's proposed changes to the Stewardship Code. I know we're going to come on to that a little bit later, but it is worth highlighting right away that the current definition in the Stewardship Code, emphasises the importance of benefits to the economy, the environment and society.

The new proposed definition which we really do not favour and we hope that listeners will contribute to the consultation, strips out the reference to economy, environment and society. I really think that leads to a much more withered away, less important approach to stewardship if we take those things out because it's all about situating asset ownership and investment in the context of the society around it.

David Brown: That's a great introduction to what stewardship actually is. I'm really pleased Catherine that you mentioned two great things there. One point you mentioned is that it's broader than just equities, but is also linked into the changes in the Stewardship Code, which we'll come on to later.

First of all, before we get to the Stewardship Code itself. Can you maybe just give us an overview to how the approach to stewardship can vary across asset classes? For example, differences between equities and bonds and also private markets against public markets.

Catherine Howarth: Absolutely! A lot of people make the erroneous assumption that stewardship is all about public equity ownership, because I think a lot of the high-profile work that gets reported in the media at large is about companies' annual general meetings and the voting that takes place at that, because that is critical as a stewardship tool for equity owners, they have votes and in particular, if you buy equities on the stock market, those are publicly listed companies and everyone that owns those companies has a vote.

You can vote for the directors, you can vote on some of the standing items like the vote for the annual report accounts, for example and of course you can propose votes by using your rights to put forward a shareholder proposal, where you take the initiative in putting something up to a vote of all the shareholders as one of the shareholders yourself rather than as a management team. So those are the crucial tools in the equity space and bondholders don't have votes, so it does look really different for bondholders. But bondholders typically or other companies are often seeking fresh capital injections from bondholders in the form of freshly issued bonds and that gives bondholders lots of points of leverage.

Every time a company is coming and looking to raise new debt and issue new bonds, bondholders have a really big opportunity to say, 'yes we'll lend, but we're really concerned about whether you're managing your climate risk appropriately, or whether you've got the right remuneration arrangements in place that really manage our risk and help us as a bondholder to see this investment in your company and this debt within a bigger portfolio'.

So we really think that bondholders have a lot of influence or can do as stewards of companies. Mostly they're not exercising that influence as much as they might. Particularly in the pensions field when you think about defined benefit (DB) pensions and how much of the overall portfolio might be in debt, corporate debt and sovereign debt, it's actually super important for pension funds to think about their opportunities and responsibilities as stewards of bonds as well as equities.

Laasya Shekaran: That's such an important point because, there's about more than a trillion pounds in corporate DB pensions and a lot of that money is invested in bonds. We're seeing lots of these corporate DB pension schemes de-risking, so it's only really going more and more in that direction. Then you've got the bulk annuity insurers as well, which hold a lot of bonds, so there's so much money there. I do think that the focus has been more in equities than bonds in the past. If asset owners, consultants and asset managers want to improve their approach to stewardship, what should they be doing?

Catherine Howarth: So we put out some guidance on this last year and we've got a series at ShareAction called RISE, which is responsible investment standards and expectations. When we set out what we think is industry best practice in some quite concise guides. We did one on the whole process of escalating your engagement as a steward of a company. So a lot of the exchanges that take place under the guise of stewardship between investors and companies, sometimes it's a bit like tyres spinning, they don't really drive to outcomes. So you have a conversation or an exchange with a company, but you don't quite get the satisfaction you wanted and things don't change that you'd raised and so you go round and round in a little bit of a somewhat unproductive loop.

We looked at this business of as a steward. How do you get the results? After all, as an institutional investor, you've got an obligation to all of your activities to be adding value for the underlying pension savers. So when it comes to stewardship, how do you get those really good results and outcomes?

We define that in this guide on escalation best practice. We say that the first step is about communicating and setting clear expectations for the company on whatever issue it might be. That's at the heart of this particular act of stewardship. So it might be on your expectations that the company have a low carbon transition plan that's robust and 1.5 degree aligned, or it might be something to do with the way they manage human capital or it might be purely about financial management of the company. But in any case, setting clear expectations, then monitoring progress and applying a toolkit of escalation tools in a predetermined speed, so that the company knows up front, that if you have hopes and expectations for them doing something differently, they know what that is going to look like and if they don't move along and manage those risks, this is what will happen next. In the case of shareholders, that might well be starting with letters exchanged privately, then you might move to collaboration and obviously Pensions for Purpose is a brilliant network to enable collaboration amongst like-minded asset owners in the UK.

If those collaborative engagements with companies do not achieve the results, then you start to use the more action orientated tools, voting shareholder resolutions. Ultimately, if you are not seeing those risks managed, you move through to things like divestment or reduction of your exposure to that particular stock or holding. So we think that the whole business of stewardship can actually be much more rigorously managed, more systematic, more predictable, both for the companies on the receiving end of engagement and for the investors themselves and that will deliver really strong results for underlying pension savers and beneficiaries of pension schemes, which is what this is ultimately all about.

David Brown: That's brilliant Catherine for taking us through the RISE guides, I can talk from a personal perspective having reviewed both the RISE guides that have been published. They are brilliant documents for any asset owner to read.

I know you focus a little bit more today on the second one around escalating engagement with companies and the RISE two guide, but equally RISE one, which focuses on how asset managers can set interim net-zero targets, I thought was brilliant to help on your net-zero journey. So I really recommended reading it.

But let's move on, we have got a lot cover. So the Financial Reporting Council is currently consulting on proposed changes to the UK Stewardship Code as you've already mentioned. Can you give us an overview of some of those changes that they are suggesting? And maybe how asset owners can respond to those changes.

Catherine Howarth: Yes, I already highlighted at the beginning, but it's worth giving its history, The Stewardship Code came into place right after the financial crash of 2008/9 to try to define what good oversight of companies looks like by responsible institutional investors, because there was a strong sense that leading up to the financial crisis, actually, a number of investors had taken their eye off some of the risks being run in financial services and banking in particular to manage the risk of huge disruption in capital markets, it's really important that we have standards and expectations as set out in The Stewardship Code, for people that manage, or institutions that manage significant amounts of capital on behalf of millions of people with pension savings. The code is an incredibly important document to establish what does good look like, if you are managing someone else's money for the long term.

The first iteration in 2010 was really important, but there were hugely helpful and positive changes in a new version of the code in 2020. Now the FRC is proposing to change again. We think the changes this time around are actually really unfortunate for the most part. There is one element we really support, which is the reduction in expectations on reporting of stewardship activity, because we do think there's a risk that some institutional investors are spending so much time reporting that they're not actually got enough capacity and resource to undertake the real work of stewardship. So, we do want to see a better balance there. But overall, the changes proposed we're concerned about, I have already mentioned, the proposal made by the FRC to remove reference to environmental and social benefits from the definition of stewardship. We think that would be a big backward step, and imagine the many people in the Pensions for Purpose Ecosystem and network and membership would thoroughly agree with that, because fundamentally it's all about making sure that we situate investment in that bigger purpose of having a flourishing economy with wealth created in harmony with people and communities, stakeholders and the environment, so that's a shame. We also think it's really unfortunate to remove the economy from the definition, because after all, we do need a thriving economy.

I've already talked earlier about how crucial we think it is that stewardship can include rigorous and robust escalation steps to achieve results and we think it's therefore extraordinary that the FRC is proposing to remove the principle on escalation from the code. Finally, they're deprioritising collaborative engagement, which we think is a really backward step and not in the spirit of Pensions for Purpose, which is a fabulous collaboration that brings the power of different pension funds together in order to be more cost-effective and more effective.

So these are all things that are a bit puzzling frankly and it's super important that by the 19th of February, which is the closing date for the FRC's Code review, pension funds as fiduciaries submit their thoughts to the Financial Reporting Council. Most of the signatories are asset managers, so we think that it will only make the job harder for pension funds in overseeing the stewardship activities of their asset managers if the code is weakened in these ways, so it's in the interest of pension fund executives and boards and trustees to ensure that we don't end up with a weaker code that really makes it much harder for them to ensure that asset managers are delivering in a way that really supports the long-term interests of scheme members.

David Brown: Yeah, I guess at the end of the day, Catherine, pension funds are all universal owners. So the society and the environment we cannot escape that and I'm fully supportive of the comments you've raised in terms of the response that you at ShareAction are undertaking to the code. So any asset owners out there, we would encourage you to also respond in a similar way, or with your own views as appropriate.

Laasya Shekaran: There is a lot going on there and there's a lot that pension funds and asset owners need to be thinking about. Of course, the pensions industry is a busy one at the moment, and this discussion around stewardship and the Stewardship Code sits within kind of the broader pensions landscape and a lot going on there. To give some context, in addition to this consultation on the Stewardship Code, there are also a number of other ongoing consultations, including ones about DC and an LGPS consolidation.

So it would be useful to understand how this all fits together. David, I'm going to turn the mic onto you as my co-host and ask you, how is the pensions industry thinking about all of this together, with the various consultations and all the changes going on?

David Brown: Yeah, absolutely Laasya. I think you said it in your question there, that it's a really challenging time for the pensions industry, and probably one of the busiest periods we've actually had in a long time. I think there are similarities between both the DC and the Local Government Pension Scheme consultations and at the end of the day they're both addressing economies of scale and both are causing a lot of uncertainty in the industry.

It is probably worth giving a little bit of background first, and the UK currently has the third largest pool of pension assets in the world. We've got three trillion of assets under management, but the concern behind these consultations is that a pensions market is too fragmented, particularly for defined contribution.

So the consultations are bold in their nature, but they're basically focused on the scale of LGPS consolidation and improved governance. The structure of the pensions ecosystem with a greater focus on value over cost, which I think is a good thing, and also at the end of the day, my political objective to further increase allocations to investment in UK assets, and we'll touch on fiduciary duty later. First of all, in a defined contribution world the Government's call for evidence behind the consultation suggests that you get the benefits of scale starting around 25 billion, but real benefits from investment capability and economic growth start at over 50 billion.

Now the challenge here is only a small number of personal pensions have reached 50 billion in assets under management, and no master trusts have yet reached that size, although a few are getting quite close to that now. So the government is concerned that the pace of DC consolidation is too slow. So one of the big challenges in the industry that I see is that master trusts and GPPs are all thinking about how will they get to that minimum of 25 billion by 2030, and that's even before we get into complexities about how that's measured between default funds and so on.

But one example, through the consultation, which I think is quite interesting that the Government has picked up on, is to actually help facilitate the speed of consolidation. Looking at policy proposals, overriding individual contracts to allow the bulk transfer of assets for contract-based schemes without individual savers' consent, and if that's done in the right way with appropriate consumer safeguards that could be a helpful measure.

To put this in context, there's over 310 billion pounds in contract-based DC currently and the policy outcomes that the government are looking for here are to increase allocations to infrastructure and private equity and for those much bigger funds over 50 billion, to then have the opportunity for greater direct investment and through doing that they believe that this would then help negotiate lower investment fees. The Government sees big prizes here and I'm sure there are a lot of opportunities here. It's not going to be easy and it takes time for these things to actually happen.

So, turning to LGPS, there us a similar agenda here, we're looking at tackling fragmentation and inefficiency, as the Government sees it and looking for further consolidation, we're already a long way in that journey. Back in 2015, we had the 86 administering authorities come together to form the eight investment pools, but the Government wants to go much further. In short, they want to reform the LGPS asset pools, boosting LGPS investment in localities and regions in the UK. What we think of as place-based investing and strengthening the governance of both the local government pension schemes, administering authorities, and also the pools themselves.

Why might the government be wanting to do this? Well, the Chancellor, early on her appointment, visited Canada last August. Often we refer to the funds over there as the maple eight, the eight big funds over there, and the Chancellor has been taken by their model demonstrating robust performance and setting a good global example.

Although a note of caution I would give is that this model in Canada was set up 30 years ago. So obviously, things change and it's not necessarily what happened there will happen here in the future, and that might be one of the concerns the pensions industry currently has. But broadly, the measures I've talked about from the LGPS perspective are intended to complement the National Wealth Fund and the British Growth partnership going forward.

So where does this leave the LGPS pension committees? Well at Pensions for Purpose, we work with a lot of them, and I think it's fair to say they're all facing a period of significant uncertainty in terms of their governance structures going forward.

On the one hand, they're going to be passing more assets to the pool, but on the other hand, they're being asked to potentially look at more local investments. What might that look like? How might you identify those opportunities? So lots and lots of uncertainty in one word. So getting back to today's topic of stewardship, I think as these measures come together and we get greater scale, greater scale generally leads to increased investment budgets and bigger teams and that can then hopefully drive more dedicated engagement and collaboration, which is what we're talking about today.

Laasya Shekaran: I think something that I really take away from all of this is that there's a lot of proposed changes and they can make a really big difference. We talked about how just changing that wording and that definition of stewardship in the Stewardship Code can have real implications on how people think about stewardship. Same with the proposals and all these consultations and the incentives around why the Government's proposing these changes may not always align with the important things to pension schemes, especially the fact that pension schemes think in very long-term time horizons, whereas the government perhaps thinks more in election cycle time horizons.

I think what's really important is that we can influence that. These things aren't just one and done. There's consultations out there, we have a voice, and it's really important that we use it.

Something that you mentioned David, that I want to pick Catherine's brains on is this point around fiduciary duty, because that is always a topic of debate in the pensions world. It's something that I know that ShareAction has done a lot of work on itself. Catherine, perhaps just give us a bit of an overview. How is ShareAction thinking about fiduciary duty?

Catherine Howarth: If you're a pension trustee, or a board member of a pension scheme that's in the local government system, therefore it's not trust-based, but it's an administrative authority or legal structure you've got legal obligations to the people who have put the money in and who will depend on that to support them in their old age, when they get to leave work and hopefully withdraw their pension. The way those legal duties are defined are critically important to the manner of investment of the money, because that's obviously the day-to-day. The work of running a pension scheme is all the administrative side of making sure people get their benefits, and that you run a tight ship from an admin point of view, but critically it's putting that money to work in the real economy over the long term in order to grow the pool and at the moment the definition of, and all people that run pension schemes are obliged in law to act in the best interests of pension savers.

Best interest is currently defined in law in a way that's quite narrow, focused very much on or understood to be focused very much on maximising investment returns and even over quite short-term horizons, and that results in potentially quite irresponsible investment and we think this undermines the long-term best interests of those pension savers. So we are looking for a change in the law through legislation that clarifies that when you act in someone's best interest, you consider the impact of the investments on their quality of life now and in the future. You can take account of the wishes and preferences of the people whose money it is, and ultimately what we want to do is create more legal safe harbor for trustees of pension schemes and board members of pension schemes that want to invest in a way that thinks about purpose and impact.

At the moment we know that many lawyers advise schemes to be pretty cautious and careful around that, and we think that that has its roots in understandable reasons and in certain critical legal cases going back decades now. We need a legal framework for pensions that's fit for purpose in the 21st century. That understands that we live in a world of systemic climate-related, and biodiversity-related risks that people are hugely interested in the way companies behave towards their stakeholders, because after all, pension savers are also customers of companies, employees of companies and most pension savers when asked, are incredibly supportive of a responsible investment approach that thinks about impact. But the law doesn't really create space for that or legal safe harbor for that. That is the change we're looking for and we think given that there's a pension schemes bill coming up this year and a pensions review being led by the government.

There are really important timely opportunities to crack this nut once and for all, because it's kind of lingered around for years, it's got debated and there have been multiple law commission reviews and different efforts to get to the bottom of this. Ultimately legal uncertainty hangs over all of this. We think it is fundamentally unfair on trustees and problematic for trustees that want to do the right thing on responsible investment and ultimately really bad news for pension savers too. I think we see an opportunity and a need, we’re really interested in collaborating with Pensions for Purpose. In fact, we already are and we love that and with other networks of schemes and trustees across the UK who are troubled by the legal uncertainty, in the context of wanting to do the right thing on responsible investment.

David Brown: So a really good way forward there to suggest clarification through law to fiduciary duty. I guess Catherine, it is probably worth mentioning at this stage and I think you alluded to it. The Financial Markets Law Committee Report last February is not going far enough to what obviously you're asking for today, but for any trustee out there that does want to consider climate and positive impact. That's a very good read for any asset owner and their advisers to take into consideration, because I think you can get comfortable with impact investing. The report itself makes it very clear that climate is a very significant financial risk. So it's not going far as what you're calling for today, but it's a helpful step in the right direction.

Catherine Howarth: Absolutely, it is definitely a really helpful contribution. We just want to give trustees even more legal safe ground for action.

David Brown: Brilliant. Right, we're coming towards the end of the podcast this morning, to reflect we've talked a lot about trustees, the government and administering authorities. We haven't talked much about members themselves. So maybe a final question for you Catherine, is how should we be thinking about and engaging with members, when we think about stewardship activities?

Catherine Howarth: So I'm so glad we're ending on this, because ultimately this is members money and this is all about serving members’ interests. I do think that in the 21st century in a world increasingly of DC arrangements, where people are bearing the investment risk, we should have a more inclusive participative culture in the industry. I think technology can hugely help with that. I think there are innovations in things like the introduction of citizens assemblies for pension savers.

There's an amazing scheme for people that work in the retail sector in the Netherlands that's trialled that they got 50 of their members who were representative of the scheme membership as a whole, to spend three days deliberating on responsible investment themes and throwing up Catherine Howarth: their preferences and priorities for their trustees who are now taking that on board. They're not slavishly following everything the members say, because you've got your duty to weigh up and think about those risks and impacts and to have that access to technical expertise on investment, strategy and tools, but the members should be heard, and of course, I think on the whole can give and do a very strong mandate for investing with purpose.

I'm really glad we're ending on that, because I think there's huge room for innovation for fresh thinking, and for schemes to really stretch themselves, to embrace and engage with respectfully taking on board and seeking the preferences and views of members on these themes.

David Brown: That's brilliant. We have the technology to actually enable these things to happen, maybe it was more challenging in the past and also some great case studies. I'm going to research that one you mentioned in the Netherlands myself. So some really good best practice there, thank you, Catherine.

Laasya Shekaran: It's a bit of a no brainer, isn't it?! Because if members engage with their pensions, yes they get to influence all of this, but they're also more likely to contribute more to their pensions and actually think about their financial futures. So it really seems like a win win to me. It's been an absolutely brilliant discussion today, I'm so happy that we were able to have you on here. Before we leave, what is one key takeaway you would want our listeners to take from this episode?

Catherine Howarth: Oh, gosh! I just think it's going to be such a big year for pensions, David has already alluded to that. I think my takeaway is that we should just all support each other to make the biggest impact we can on these debates, that collaborative submissions to consultations are going to be a really smart solution here.

I really want all schemes to participate in these discussions, but for us to make that manageable and do chip in, do be empowered and have your voice in this critical year for pensions, policy and pensions thinking, let's do it together.

Laasya Shekaran: I love that. What an inspirational call to action. Thank you so much for joining us today, Catherine.

Catherine Howarth: Thank you.

Laasya Shekaran: So, as Catherine said we have a huge year ahead of us in the pensions industry and we all need to come together and support each other. Listeners if you want to ensure you never miss an episode, do hit the follow button, you can find us on all the podcast platforms. Thank you very much for listening and I look forward to seeing you all again soon.