

The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

Letter # 287

December 2009

PETER DRUCKER'S 'PENSION FUND SOCIALISM':

STILL A WORK-IN-PROGRESS

"...in 1933, Berle and Means showed that the traditional 19th Century capitalists had disappeared...ownership of capital was divorced from control...management had become accountable to no-one...today, the wheel has come full circle... pension funds are now the owners, not because they want to be, but because they have no choice. They cannot sell. They also cannot become owner-managers. But they are owners nevertheless..."

Peter Drucker, 1995

Drucker's Central Question

In the 1995 reprint of his 1976 classic *The Unseen Revolution*, Peter Drucker wrote "no book of mine was ever more on target...and been more totally ignored". By 'unseen revolution' in 1976, Drucker meant that a future flood of retirement savings would accomplish what Karl Marx's predicted workers' revolution had failed to do: make workers the owners of the means of production. By being 'on target' in 1976, Drucker meant that he had asked the key questions and issued the key warnings about the issues such a state of affairs would raise. The most central question of all was: would pension funds be able to act as knowledgeable, responsible owners and represent the best interests of pension fund beneficiaries...and thereby transform capitalism? The goal of this *Letter* is to assess where we stand on that central question as we enter the second decade of the 21st Century.

Analyses on the causes of the recent Global Financial Crisis have not placed pension funds in a particularly favorable light in their role as knowledgeable, responsible shareowners. For example, the recently released Walker Review in the United Kingdom recommends overhauling the boards of financial institutions to make them more effective governance mechanisms. Assessing the role of

asset owners, the Review admonishes: "Institutional investors should be less passive and be prepared to engage earlier if they suspect weaknesses in governance...Early engagement can save everyone substantial time and money later on". Not exactly a ringing endorsement of shareowner stewardship.

The UN PRI Survey: Findings

A recent survey of pension funds and other institutional investors who are signatories to the UN's six Principles of Responsible Investment (PRI) sheds additional light on the progress institutional investors are making towards becoming the kind of shareowners Drucker hoped for. The resulting Progress Report on implementation of the Principles is based on responses to the survey, which was sent out to 300 of 650 Principles signatories (\$20 trillion in assets). In this *Letter*, we focus on responses specific to three principles as they relate most closely to the shareowner stewardship issues and challenges we address here:

- **Principle 2:** *We will be active owners and incorporate Environmental, Social, and Governance (ESG) issues into our ownership policies and practices.*
- **Principle 5:** *We will work together to enhance our effectiveness in implementing the Principles.*