Delivering Sustainability through Stewardship

Eva Micheler

based on a paper by Eva Micheler and Dionysia Katlouzou, The Market for Stewardship and the Role of Government (2020, forthcoming)

Stewardship as a mechanism to deliver sustainability

UK Corporate Governance Code 2018, UK Stewardship Code 2020

Companies will act sustainably because investors will encourage them to do so

Government facilitates this market

Who are the Stewards?

Shareholders – persons whose name is registered in the register of members of a company

Ca 1960: those were individuals

Now: nominee companies acting for funds (mostly pension funds)

Why would investors demand sustainability from investee companies?

Financial return (empirical evidence goes both ways)

Altruism

Pensions and Sustainability

Pension savers

Pension trustees (defined benefit schemes)

Independent Governance Committees (defined contribution schemes)

Investment consultants

Fiduciary managers

Other service providers (proxy advisors, custodians, voting agents …)

Investee companies

Pensions and Sustainability

Pension savers rely on default settings

Pensions savers have a strong preference for financial return

Growing market for sustainable investment but small for the time being

[ESG active investors: Norwegian Government Pension Fund Global; Duchy of Cornwall; Church of England]

The Government

Strong interest in active stewardship
Strong preference for market-led solutions

- Financial Reporting Counsel/Audit Reporting and Governance Authority
- Financial Conduct Authority
- Competition and Markets Authority
- HM Treasury
- Department for Business, Energy & Industrial Strategy
- Department for Work and Pensions
- Pensions Regulator

Government as a participant in the market

CMA 2018: 90% of the revenue of investment consultants and fiduciary managers derives from pension

ONS: Cost of pension tax relief in 2017-18 was £37.8bn.

Government as part of the problem

good reasons to support pension savings

But: The current system

- encourages certain forms of investment.
- affects the financial incentives of savers.
- discourages activism.
- subsidizes certain providers.
- deprives these providers of oversight.

Conclusions

The government draws its field of vision too narrowly.

It overlooks its own role as a market participant.

It should act as a steward in the same way it expects pension savers to.

Tax credit should be available only for stewardship active investments.