

# Funding the Future

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*This video was actually recorded about three or four days ago, before the furore about pensions that has erupted here over the last couple of days broke out. It does, however, highlight a key issue about pensions: they are almost totally financially opaque to most people.*

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Pension funds provide the most opaque form of investment in the UK. It's crazy that all the rules of corporate governance collapse when it comes to pension funds. We need reform now.

[https://www.youtube.com/watch?v=yGkbZTdLwKQ&si=K8\\_xFm0ukMILU9C0](https://www.youtube.com/watch?v=yGkbZTdLwKQ&si=K8_xFm0ukMILU9C0)

This is the audio version:

[https://www.podbean.com/player-v2/?i=2kpq5-18c2a40-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo\\_link=episode\\_page&btn-skin=c73a3a](https://www.podbean.com/player-v2/?i=2kpq5-18c2a40-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a)

This is the transcript:

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Do you know where your pension is? By which I mean, do you know where your pension is invested? Because that of course, is where your pension is.

You might say your pension is with a large company, maybe with your employer's pension fund, but the reality is, that your pension is, of course, invested somewhere,

and I was intrigued recently to note an email from the firm of financial advisors, Hargreaves Lansdown, who had asked people a question, which was, do you know where your pension is invested?

Six in 10 people said they did not know where it was invested.

That split curiously on gender grounds. 51% of men claimed that they knew, and only 28% of women did, but most of them admitted that as far as they were concerned, their pension was invested in a default fund, which meant that either it was in the general fund that their employer ran for them, or it was in the with profits or general fund run by an insurance company for them.

But in either case, they had remarkably little real understanding of where their pension was invested at all. And that really matters, because if you don't know where your pension is, first of all, you don't know what your money is doing in the world, and secondly, you don't know how it's being invested to create for you the income that you might want in old age.

And there's a very good reason why you don't know where your money is, and that, I will suggest to you is because there is a conspiracy in the City of London, and beyond, to ensure that you are in the dark about what is really going on with your money inside your pension fund being hidden from you in a very deliberate fashion.

Now, there are a few ways in which you can save money for your pension, which you might know about. For example, if you put all your money into cash, you might think you know what it's being used for, but in practice, do you know which bank it's with? Do you know that it's safe? That is an immediate and obvious question to ask, and I bet you wouldn't know the answer.

Again, if you choose to put your money in government bonds, then you can actually even nominate, potentially, in which country you wish those bonds to be placed. So you could say, I want all my pension to be placed in UK government bonds, but even then, do you know which government bonds, and which are inflation-linked, and which are not inflation-linked, and so on.

So, there are so many questions, and you won't know the answers.

But let's go to the more likely situation, where you don't put all your pension savings in either cash or bonds, and that's true of the majority of people. Suppose you have part of your pension invested in shares, as is normal.

Suppose you simply put your money into what is called an index fund. In other words, the pension company is going to put the money into a fund which replicates how the FTSE 100 behaves to produce an economic performance which is consistent with that of the market as a whole in broad terms.

But I'll still ask you a question. How many people do you think in the UK know precisely which companies make up the current FTSE 100, because the membership changes every three months? I've got to be honest with you, I've researched the FTSE 100 for over 20 years now, and I still couldn't tell you for certain who the constituents are at present.

So if I don't, how many people ever do know? And that's my point. The fact is that pensions are designed so you don't know. You will be encouraged to put your money into vague pots, which will be described as balanced funds, or growth funds, or diversified funds, or Asian funds, or whatever it might be, and after that, you are basically encouraged to ask no further questions.

You might be able to find out what has happened in the fund in broad terms, but where is the money invested? They won't tell you.

But let's compare this with the myth about corporate governance that exists in the UK. Suppose that instead of saving your money via a pension fund in the shares of a company, you invested directly, which is theoretically available to you as an option for saving, because that's all a pension is, you just won't get all the tax reliefs. Well, companies have massive disclosure requirements imposed upon them by company law and by accounting regulation, and by their auditors.

So companies must publish their accounts and make them available to every single shareholder, however small their holding might be.

They must say what their financial performance has been.

They must disclose what their business activities are.

They must say where they're trading.

They must disclose in which countries, broadly speaking, they make their profits.

They must disclose their future prospects.

They must tell you what the risks are with regard to their operations because they're required to do so by law.

And as a pension fund investor, you get precisely none of that information, and yet you could be the same identical person, investing yourself or via a pension fund.

You remain the real shareholder, the saver, in both cases, except in a pension fund, you are completely denied the information.

They treat themselves as if they are the owners.

They presume your money is under their control.

Pension fund managers are that arrogant.

They think that you've given up the right to owning the investments that you fund and give them the right to control them.

So you don't get the right to vote at the annual general meeting, for example, of the companies in which your savings are invested via a pension fund.

You don't get the accounts, and you get no say in the stewardship decisions that are made by a pension fund around the choices of companies.

Fund managers act as if they really are the owners of the shares, and as such, they are unaccountable because there is no requirement for them to prepare accounts, and that is to me, one of the most ridiculous situations of all.

If you invest directly in the company, you get vast amounts of information.

If you invest via a pension fund, basically even the pension fund doesn't have to tell you what is up to. You'll get an annual statement, which is very brief. It will tell you whether your value of fund has gone up or down, and that will be about it.

So we are working in a situation where two legal fictions exist side by side, and yet the same beneficial owner exists in each.

In one, there's the legal fiction that, as a saver, you are required to know everything about the company. And in the other, the legal fiction is that you need to know nothing about the company.

Well, my suggestion is that the second legal fiction should not be continued because it is being exploited by the City of London to make sure that several things happen.

One is that companies are run in the interest of fund managers and not you.

Another, is that companies are run in the interest of the City, and I do not frankly think that on most occasions the interest of the City of London coincide side with your priorities, because the City of London is dominated by the interest of the wealthy, and you probably aren't that wealthy; you're putting money aside in the hope that one day you might have a pension income.

So, my suggestion is that we actually need to shatter this opacity between you as the pension saver and the pension arrangement in which you are invested.

So, my suggestion is very simple. There should be full fund level accounts in every pension fund.

If they produce a fund for investing in the far East, it should produce a full set of accounts for that fund's behaviour.

If they produce another one for UK small companies, it should have a set of accounts, and so on.

You should have full information on where the fund is invested, for how long the investments were held in each company, what the trades were, and whether it was profitable or not. And you, as a shareholder should also be consulted every time a company that is invested in by the fund in which you own a share has an annual general meeting. Then, I suggest, your pension fund should advise you of that electronically, so it would be almost costless to do this, and you should have a right to choose how you want the pension fund that acts on your behalf to vote at that annual general meeting. So the pension fund can't decide itself what it thinks is right for you. You should be able to think about what is right for you. And it will be down to those who vote to decide how the pension fund as a whole places its vote at that annual general meeting. So they can't say, well, 97% of people didn't vote, so we'll decide what to do for them. No, the active people will decide what happens.

What would this do? It would shatter the City of London's current cosy arrangement where it can extract value out of your pension fund without you, frankly, having any idea about what is going on, as I'm quite sure you have not.

Fund managers' power and profit would be put on the line. They would have to account for what they do with the power they have, and most particularly, they would have to prepare accounts showing what they've done with your money. And why should they be different from anybody else in this regard? If a company has to, so should they.

But the real problem we have is that politicians are unwilling to challenge this system.

That's partly because of their ignorance.

I've no doubt it's also partly because of lobbying.

But what we do need to do is educate our politicians as to the reasons why they should be worried about this. Because there is a real risk that there is a systemic scandal going on with regard to the money in our pension funds.

There are trillions invested, yet we have literally no control and no knowledge over what these pension funds are doing. That needs to change. It needs to change now because we need this money to be used for the benefit of society. And what we can be quite sure of at present is that that is not the case.

This is one thing where Rachel Reeves and I are in agreement. She knows that pension fund money is not being used for the benefit of the UK, and so do I. And that means you're losing out. So we need to change. And we need to change for the better. And the

City of London has to be held to account for what it does with our pension money.