Funding the Future

Is Nvidia threatening your pension?

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Is Nvidia putting your pension at risk? The return of Jensen Huang to the company raises questions that go far beyond one chief executive or one technology company. They concern the safety of your retirement savings.

Millions of people depend on pension funds invested in major corporations, particularly in the United States. But what happens when those corporations are no longer properly accountable to their shareholders?

In this video, I explain why Nvidia’s corporate governance raises serious concerns about the future of our pensions.

For more than 40 years, neoliberal economics has promoted shareholder value as the foundation of economic success. We were told that private corporations, properly managed and accountable to investors, would deliver prosperity and financial security.

But what happens when powerful chief executives become almost untouchable, boards lose their independence, and governments intervene to protect corporate leaders?

And what also happens when financial markets celebrate these developments instead of questioning them?

The consequences could be enormous.

Pension funds need dependable long-term investment returns. Instead, they are increasingly exposed to speculative markets, inflated technology share prices and corporate governance failures.

The AI boom makes these risks particularly significant.

I argue that we need better accounting, auditing, corporate governance and pension arrangements that put people’s long-term security before short-term financial speculation, and all because your retirement should not depend on the whims of powerful corporate executives.

https://www.youtube.com/watch?v=izBvDxPxT00?si=xvlYdPc94FqzFI-t

This is the audio version:

This is the transcript:

https://www.podbean.com/player-v2/?i=fnznp-1bbe77e-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

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Is Nvidia putting your pension at risk? That's not the question that most people are asking just after Jensen Huang has returned to the company and delighted financial markets, but I think it should be. And that's because you have very little control at all over the assets in which your pension fund is invested, and some of those will be in major US corporations. And what we're seeing at Nvidia is, I think, going to be typical of what is going to be happening in the US corporate market.

And it appears to me that corporate accountability in the USA is going to collapse as a consequence of a decision to return to office a man who has allegedly had a relationship with a woman who is supposedly a Chinese spy, and I'm working upon reports from US media to make those claims, and who has apparently confessed to a relationship with another woman which was not allowed under company rules, and who has also managed the company in a way which many people question as to their, well, ethics.

Pension funds are heavily invested in these corporations, but it appears to me that if we put a man back in charge of a company where there is no effective corporate accountability structure- and that appears to be true of Nvidia, which does not have a properly functioning board- is there a disaster waiting when the whole of American enterprise, in which so much of your pension is going to be invested, is based upon a cult of a supreme leader of a company who may not be as innocent as the popular myth might like to present? Could this be a warning of disaster ahead, in other words, if that culture of corporate governance collapses?

This matters because your pension depends upon sound corporate behaviour. You need long-term stable returns on the funds in which your pension fund is invested on your behalf. And amongst the major corporations in the world, Nvidia is amongst the most valuable. To put this in context, when its shares fell by 30% when Jensen Huang was sacked, that wiped around $2.7 trillion off the company's value, and that is only a little

less than the value of the whole London Stock Exchange. That is how important this company is.

Now, I'm aware that all share prices depend upon confidence and expectations. But I also know that corporate misconduct can destroy that confidence. But we appear to be seeing an exception here. A cult around an individual, backed by the president of the USA, is creating a bubble when there should perhaps be a word of caution being put in place. This company has not got a governance structure that will now limit what Jensen Huang can do. He has absolute supreme control over this company, and your future may depend upon his good judgment, and there's plenty of evidence that he lacks it in some areas.

So who is protecting your pension when governance fails? That is the question I'm asking, because corporate governance is supposed to protect investors.

Limited liability created the need for accountability. Let's be clear. You put your money in a pension fund. They put it in a company, and there is a divide between them as the shareholders in the company and the company itself. And that divide has to be crossed, and it's crossed by accountability. The directors are supposed to answer to shareholders, and boards are supposed to have control over powerful chief executives to ensure that they do not abuse their situation. And accounts and audits are meant to provide essential safeguards.

Those protections should make investments safer and so your pension more secure. This really is a personal issue for everyone who has pension savings. And neoliberalism promised that form of shareholder protection as part of its idealised form of shareholder value.

And let's be clear about this. It built a whole political philosophy based upon the idea that shareholder value, and the idea of the corporation, could deliver well-being for everyone. That has been the dominant basis on which we've managed our economy for the last 45 years. That is why your pension is now outsourced to a private sector provider and is not being mainly provided by the state for most people in the UK.

This idea has become pervasive. And in this environment, profits and share prices become measures of success. We know that. It's reported how the share indexes have moved on our major news broadcasts almost every day. And corporate governance supposedly creates the checks and balances to ensure that this success is real.

But there's a point to note in all this. Neoliberalism was built on the idea of shareholder value and shareholder protection. And neoliberalism has been the dominant political philosophy of Western states for the last 45 years, ever since it was introduced by Margaret Thatcher in the UK and Ronald Reagan in the USA, in around 1980 in both cases. And the point is, the whole idea of the creation of shareholder value has underpinned our society since then. But that requires there to be strong and efficient

corporate management.

The logic of the whole idea of neoliberalism is that corporate management is so good that we hardly need government and accountability guarantees that it will be effective because shareholders can hold it to account. That is its underpinning theory.

But suppose that's wrong. Suppose we haven't got that corporate governance in place. And suppose governments are interfering in this process, and we know that Donald Trump has claimed credit for the reappointment of Jensen Huang to NVIDIA. He says he demanded that the board reappoint him, and that's what they did. In other words, every sign of good corporate governance has failed here.

The board have been overruled. The shareholders have been ignored except with regard to their short-term interest with regard to the share price. And the government has actually intervened to get an outcome which it had no apparent right to demand. That is my point, and that means that profit and share price, which have become the measures of success, may be undermined as indicators of that very fact because instead what we're seeing is control of companies being passed to a very decided, and very small elite.

On the basis of that, if corporate governance is failing, the assumptions that have underpinned the whole basis on which we organise pensions into the future are becoming increasingly questionable. The fact that shareholders might have no influence over companies, that they might have no control over boards, and that boards might have no control over their chief executives, means that the whole concept of shareholder value is undermined and destroyed, and that creates questions for your pension fund.

And corporate accountability has, and let me stress this point, been progressively undermined since the 1990s. Audit requirements have been reduced, most especially for smaller companies, but questions about whether audits are going on elsewhere are also increasing by the day. We know less and less and get smaller amounts of assurance from audit than we have ever had in the past because of the way in which audit has been reframed.

Accounting increasingly emphasises financial asset valuations as well. In other words, the emphasis in the accounts that we get is not upon the creation of real value for the benefit of society generated by trading, but is instead very heavily influenced by the way in which the financial asset valuations of a company change over time. And judgment rather than real value creation very often underpins the way in which accounts are presented to us.

As a consequence, we can't be sure what value is really being generated by a company during the course of a period, and what we can clearly see is that existing directors are largely controlling board appointments. In other words, shareholders are being cut out

of the equation of controlling companies. And we've even seen that in the UK, where, in a mutual building society, Nationwide, the members tried to appoint a member to the board and failed. The existing board ensured that their choice of appointment was made, and as a consequence, accountability was undermined.

And governance codes, which are meant to regulate corporate governance, appear to be failing for these sorts of reasons all over the place. Executive power has become increasingly concentrated as a result, and Nvidia just exposes this problem.

Huang resigned following revelations about his conduct, the sort of revelations that would ensure that anyone else in his company would have been shown the door immediately with no appeal. That is the relevant point here. He broke the rules of the company with regard to affairs. He might also have undermined US national security. That's an allegation which has been made by many US newspapers. And yet he's not only been reinstated, but he's also been reinstated with the support of the US president.

This indicates something very important. It says there is no independent accountability in the company. And it says very clearly there's one rule for everybody except the chief executive, who operates to a different standard. And if that's the case, we've got a problem. And the fact that the short-term share price rose is not compensation for the existence of this problem.

Markets might have celebrated Huang's return, but higher prices do not guarantee long-term security or safety with regard to expected returns. Corporate risks have not disappeared because Huang has returned, and pension funds could still suffer substantial market losses in the future. Indeed, the risk of those is increased because the share price has been inflated again. Today's gains can become tomorrow's pension losses in that case, and that's because there's a real conflict of interest going on here.

Corporate executives are seeking rewards and personal power, and this desire appears to be growing. The cult of the chief executive is bigger now than it has ever been before. Meanwhile, shareholder funds seek short-term financial returns because they are trying to prove that they're good corporate managers, and short-term financial returns are what they think indicate that fact. But the pension savers who actually entrust their money to these shareholder fund managers need long-term returns.

There is then no alignment between these three groups inside a corporation. The chief executive, maybe the board, the fund managers, and the people who will actually benefit from the profits earned in the long term all have different objectives. And at the same time, the corporation is trying to capture within the ring-fence of its accounts all the gains that it can, whilst trying to push all the costs that it can avoid out into society at large. But the only problem is that the pensioners who are the shareholders who they are eventually serving are the people who are out there in society at large.

None of this adds up. That is my key point. We are literally seeing a broken model of corporate management and a broken model of pensions, and this means your pension could be vulnerable.

Pension funds increasingly depend on financial markets, and technology shares have become incredibly influential within them, and concentrated investments create additional financial risks. And we're now seeing that in the AI sector, something I have talked about often if you watch this channel.

But weak governance makes those risks harder to control. And ordinary people, that's you through your pension fund, ultimately bear the risks and the consequences, and this is what we need to face.

We need pension funds, and we need pension arrangements we can trust. And that means that corporate governance must provide genuine accountability if investment in shares is to be part of a pension portfolio. But right now, it is clear that the logic of shareholder value cannot guarantee pension security, if ever it could.

Retirement provision needs dependable long-term investment, and that is not what it's supplying. We are instead getting short-term hype, short-term, frankly, corruption, and short-term misinformation. And that means that we are not getting the information we need to protect people from corporate excess. And that is going to have long-term consequences when the long term is what we're worried about.

This is obviously a pension system that is going wrong. So the obvious question to ask is: should our pensions depend on such a system? Should we be saving in this way? Should we be looking at alternatives? Should our pension arrangements depend upon this system of investment in corporate shareholdings?

I am not convinced. I'm not convinced for a very good reason. And that is because the companies themselves are not evidencing that they are worthy of our trust. And that is a big allegation to make, but one which I think is justified.

They are not creating value. Most of them are frankly flailing around, not knowing what to do most of the time. The only reason why the stock markets look good is because of the hype around AI at present, and we're not seeing long-term value creation. So what can we do instead?

Now, I'm not going to be able to answer all of those questions in this video, but I will be looking at this in videos to come. And the point is, we do need a better pension system. I'm not saying we can completely ignore the creation of value inside companies, but if they are to be a part of this portfolio, we have to impose better accounting, better auditing, better corporate governance, and better management systems upon them so that we cannot get a situation like this one where Jensen Huang has returned to NVIDIA, in my opinion, completely inappropriately, and we must instead get a system which is

concentrated upon the creation of long-term value.

And at the same time, we must have a government backstop and a guarantee. There must be a system which ensures that people are not left exposed to corporate excess and therefore have their future dependent upon people like Jensen Huang and his obvious fallibilities.

That’s what I think. What do you think? Let us know. There’s a poll down below.

Poll

[poll id="599"]