HIGH MEADOWS INSTITUTE

ESG in a Post COVID-19 World

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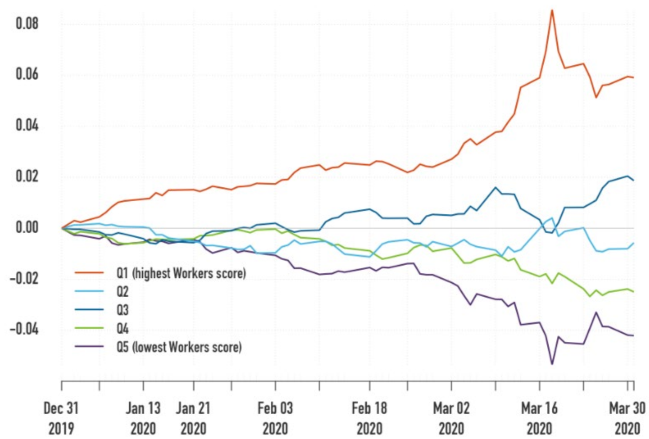
Charting the rise of ESG

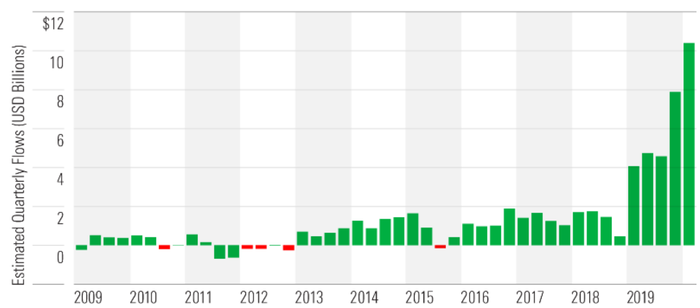
Do companies that prioritize and invest in their workers perform better? And in what direction are sustainable fund flows going during the bear market? Below we feature our favorite charts answering these very questions.

Cumulative outperformance over the market



[JUST Capital](#) found that companies protecting employee health and safety during COVID-19, providing fair and equal pay and other benefits, outperformed their peers by 7.3% during the pandemic [April 23rd].

Sustainable funds US quarterly flows



Source: Morningstar Direct. Data as of 3/31/2020. Includes open-end and exchange-traded funds available to U.S. investors. Includes funds that have been liquidated; does not include funds of funds

[Morningstar](#) data shows flows to ESG funds reached a record $10.5 bn in the first quarter despite the pandemic [April 9th]. Earlier data from the [FT](#) also showed that flows into ESG ETFs both on fixed-income and equities have held up better versus the market [March 16th].

Tracking market responses to COVID-19: Investors dial up the pressure on companies

Over 300 institutional investors and service providers representing over $9.2 trillion USD in AUM signed the [Investor Statement on Coronavirus Response](#), launched by **Domini Impact Investments**, the **Interfaith Center on Corporate Responsibility** and the **Office of the New York City Comptroller Scott M. Stringer**. The signatories ask businesses to take the following actions during COVID-19: provide paid leave, prioritize health and safety, maintain employment, maintain supplier/customer relationships and exercise financial prudence [May 5th].

The **Global Impact Investing Network** (GIIN) launched the [Response, Recovery, and Resilience Investment Coalition](#) (R3 Coalition) in collaboration with impact investing networks to maximize impact investing efforts to address social and economic consequences of COVID-19 [May 12th].

BlackRock released their [Q1 Investment Stewardship Report](#) documenting 802 company engagements since the start of the year, including 150 COVID-19 related engagements. Governance themes were discussed the most (659), followed by environmental (467) and social (286) [April 21st]. Looking ahead, BlackRock expects engagement discussions to morph from discussions on corporate responses to the crisis into discussions on lessons learned to enhance long-term resilience. BlackRock's latest research found that in Q1 of 2020, 94% of a globally representative selection of sustainable indices outperformed their parent benchmarks [May 18th].

Calvert highlighted how the COVID-19 outbreak has further placed [social inequality in the spotlight](#), exposing challenges beyond income and wealth inequality. Calvert says increased inequality represents a systemic risk factor with significant negative implications for economic activity and financial stability, but the issue may be materially underestimated in the ESG space. They are partnering with KKS Advisors to understand drivers of inequality and actions that companies and investors can pursue [May 1st].

State Street Associates and **Harvard Business School** expanded their research on corporate resilience and response during COVID-19. Using data for 3,078 companies around the world, they found that more positive sentiment around a company's response to the crisis (specifically related to labor practices, supply chain and repurposing of operations to provide solutions to the crisis) is associated with less negative returns. The evidence challenges the notion that companies need to adopt practices that hurt their employees because investors want them to do so [May 18th].

Towards a Sustainable Economic Recovery

Ceres and the **Lead on Climate 2020** group issued a Business Call to Action to "Build Back Better": Over 300 businesses called members of the U.S. Congress for a build back strategy "that recognizes the need for a resilient, clean energy economy" [May 13th].

Canada has made reporting climate risks consistent with TCFD a condition of receiving its COVID-19 bailout funding [May 12th].

The **EU** launched a new consultation on the renewed sustainable finance strategy: The consultation states "the ongoing COVID-19 outbreak in particular shows the critical need to strengthen the sustainability and resilience of our societies and the ways in which our economies function."

The spring update of the Edelman Trust Barometer 2020 shows society wants companies to step up in the fight against COVID-19. 65% of the respondents expect CEOs to take the lead in addressing the pandemic, yet less than half of respondents think businesses are doing well or very well at implementing safety measures to protect workers and customers. To increase trust, businesses should collaborate with governments and competitors, redefine the company's purpose and goals around fighting the pandemic, switch production to provide essential goods to fight the pandemic and donate needed equipment to healthcare and education providers [May 5th].

Responsible Business in the Age of COVID-19: Insights from the Financial Times Global Boardroom

The **Financial Times** held a 3-day global boardroom, in which HMI's president and CEO, Chris Pinney, joined a panel to discuss "Responsible Business in the Age of COVID-19." Below are key takeaways from the session:

- "COVID creates an opportunity to address things in a radical way – we have gone through a period of seductive incrementalization…Large companies are going to have to collaborate to set standards for labor and other issues [in supply chains] and work alongside governments on this." - Chris Pinney of High Meadows Institute
- "Companies which understood before COVID-19 the need to have good relations with suppliers and employees are better placed now." - Paul Polman of Imagine
- "Prioritizing ESG principles is just good management. You want to build back better with good management practices. Investing in sustainability increases innovation, talent retention and decreases risk." - Tensie Whelan of NYU Stern Center for Sustainable Business

Two steps forward, one step back: Executive Pay

With widespread employee pay cuts, rising unemployment levels and growing concern about job prospects during the crisis, a big question is whether senior corporate executives will be willing to share the pain during the crisis. In the US, a recent survey conducted from March 27th to April 7th found that 84% of businesses have taken no action on executive pay, two-thirds of companies had already made equity grants to executives this year and 94% do not plan on making changes to these awards [May 18th].

Thinking ahead: The HMI View on Navigating the Future

At HMI, we're thinking about how COVID-19 will change public and investor expectations for business, and how companies will adapt going forward. So far, it's clear that businesses that promote the health of their workforce and channel their purpose to generate solutions amid the crisis will be rewarded for doing so. Market outcomes are reinforcing why ESG matters, with record inflows to sustainable funds and sustainable companies showing higher resilience. Going forward, corporate leaders should expect tougher questions on how they treat their employees, suppliers and customers during these times – as well as more scrutiny on thorny issues such as executive pay. Business leaders will have to sharpen their ESG skills as investors, governments and wider society will dial up the pressure on responsible leadership and boosting long-term resilience to systemic risks like a global health crisis or climate risk.

This briefing note was developed in collaboration with KKS Advisors.