COVID-19: Investors are finding new ways to drive positive social outcomes

Marie Fromaget Responsible Investment Analyst, AXA IM
Caroline Moleux Senior Portfolio Manager, Framlington Equities - AXA IM Core

COVID-19 has been a test of companies' sustainability credentials. It has sharpened public and investor scrutiny of environmental, social and governance (ESG) practices and has notably intensified attention around the 'social' component.

This should be no great surprise. The social pillar captures much that came to the fore as the world responded to the virus. The pandemic has exposed concerns about employee treatment, supply chain management, gender inequality, ethnic diversity, global health, education, data privacy and more.

Investing for human capital impact

As lockdowns arrived, there has been a spike in scrutiny around pay and benefits, job security and company support for staff. One survey of investors by JPMorgan asked what would be the most significant ESG implications of COVID-19: Human capital ranked first and working from home ranked third[1].

Companies are not facing this in isolation. As social issues become increasingly material due to the pandemic, there has been action from governments[2] to support this shift, including direct financial support. It makes sense for investors to understand the implications as social objectives assert more influence over corporate behaviour – and to keep pace with the political and regulatory curve.

This is clearly of particular relevance in AXA IM's Human Capital Impact Equity Strategy. Our focused engagements with management have targeted employees' wellbeing in this pandemic. It has been a time when safety and security became the unequivocal priority, and when effective working from home has been implemented very quickly – and at a scale never seen before.

The good news has been that most investee companies have enacted effective measures and reported no loss of productivity. This makes sense, as the strategy seeks out companies well-positioned to respond to human capital challenges. The next test will be how new ways of working evolve into formalised frameworks and corporate policies.

In the strategy, we seek out firms that we believe have leading practices for employee management, and who are most able to transform their practices to support societal transitions. We see potential advantage for investors willing to support these companies, both through the allocation of capital and through engagement.

Companies want to improve, but they also want to compare favourably against peers when investors make allocation decisions. Although there remain challenges in gaining access to comparable, material social data, it is also true that active engagement with management teams has given us more qualitative information and insight.

Training and upskilling

Even before the pandemic, workplaces were facing major shifts. The rise of digitalisation, automation and sustainability has required new skills. Entirely new jobs are emerging as other roles disappear. At the same time, CEOs of major corporations have ranked access to key skills and expertise as the third highest threat to their business[3].

Joining this mix, the pandemic forced staff and companies to be more flexible in how they expect work to be conducted. In our view those that handle this most effectively will improve their ability to rebound from the crisis.

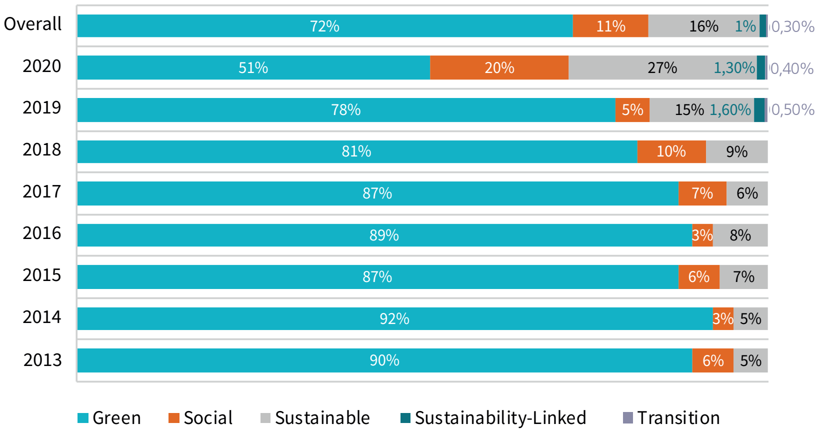
So, how should companies and their employees adjust? We see training and development – upskilling, reskilling, lifelong learning – as a cost-efficient approach to deal with skills shortages. It is expensive and time-consuming to hire a new employee[4], and recruits increasingly expect training as part of an incentives package[5].

For their part, industries have a financial interest in preventing the emergence of so-called stranded workers, with one major analysis in the US[6] showing that an overall investment of $4.7bn could reskill a quarter of workers in disrupted jobs while retaining a positive cost-benefit balance. We believe investors can gain an edge if they allocate capital to the best-prepared and most agile companies.

Reputational risks

Momentum around diversity and inclusion as an investment theme has been growing. This was further consolidated by events in 2020, when women and ethnic minorities were disproportionately affected by the pandemic and as businesses sought to respond to the Black Lives Matter movement.

Sustainability bonds market evolution



Source: Natixis Green and Sustainable Hub, as of 16 October 2020

Reputations (among clients and staff) are at stake for those reluctant to take credible positions and to integrate them into their business strategy. One survey from an online recruiter found that 76% of jobseekers[7] were considering diversity as a key criterion when deciding where to work.

Shareholders have seen the risk in this, and now expect better transparency and accountability around diversity. One key survey found that almost 75% of investors expected companies to disclose demographics of board members when permitted by law[8].

A new asset class

Just as the pandemic sharpened the investor focus on these aspects of business strategy, it also opened up fresh opportunities. It was a pivotal moment for social bonds, the proceeds of which are used to finance or refinance projects with a positive social outcome.

In the COVID-19 crisis, this has included financing for the immediate public health challenge and for healthcare-related projects, as well as emergency support loans for small and medium-sized enterprises. Social and sustainability bonds accounted for 20% and 27% respectively of total sustainable use-of-proceeds bond-related issuances at mid-October, versus 5% and 15% respectively over the whole of 2019[9].

Add to this trend the European Union's commitment to fund its SURE jobs fund with up to €100bn in social bonds and the momentum appears strong. The SURE programme[10] will make the EU the largest social bond issuer and will almost triple the size of the market.

As active investors in the sustainable use-of-proceeds bond market[11] we have adjusted our analysis framework to assess COVID-19 bonds. To date, we have approved investments in about 30 bonds. We believe that this is an efficient and scalable market to allow investors to help finance the battle against the pandemic. Alongside this new asset class, we also expect green bonds to help finance the recovery, having seen that many bonds have a secondary positive social effect, and we will be encouraging green bond issuers to add social factors into their reporting.

FOOTNOTE

1 "Tracking the ESG Implications of the COVID-19 crisis". JP Morgan. Data as of 30 March
2 Policy Responses to COVID-IMF, Jan 2021
3 CEOs' curbed confidence spells caution, 22nd annual PwC survey, 2019
4 Society for HR Management, 2019
5 HR Review
6 Towards a reskilling revolution, WEF 2019
7 Glassdoor launches employee reviews for diversity and inclusion practices. VentureBeat, 30 Sept 2020
8 ISS 2020 Global Benchmark Policy Survey.
9 Natixis Green & Sustainable Hub market data, Sept 2020
10 EU to sell social bonds to fund entire 100 bln-euro SURE scheme. Reuters 7 Oct, 2020.
11 AXA IM had almost €10bn of AUM in green, social and sustainability bonds, 30 Sept 2020

AXA Investment Managers