MAYER | BROWN

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# @ESG Snapshot

## Key Themes

- ESG investing is weathering the COVID-19 storm
- Parallels between the "climate emergency" and the current health emergency
- Corporates and financial institutions need to think carefully about how to integrate COVID-19 into the ESG commitments
- Emphasis on the long term

## General

### ESG shines in the crash

An excerpt from the *Financial Times*, "For months, the ESG cynics have warned that sustainability strategies would get tested in a downturn. Well, here we are. This week the S&P 500 has suffered its quickest descent into a bear market on record, killing off an 11-year bull market. So after booming in a bull market, will ESG now wilt as investors retreat to tried-and-true strategies? Thus far, the answer seems to be no. Take, for example, the MSCI Europe ESG Leaders index: by Thursday morning this had outperformed the EU benchmark by 180 basis points since the beginning of the year. MSCI's Japan and US Leaders indices have outperformed by 50bp." *FT*, March 16, 2020. Click here for full article

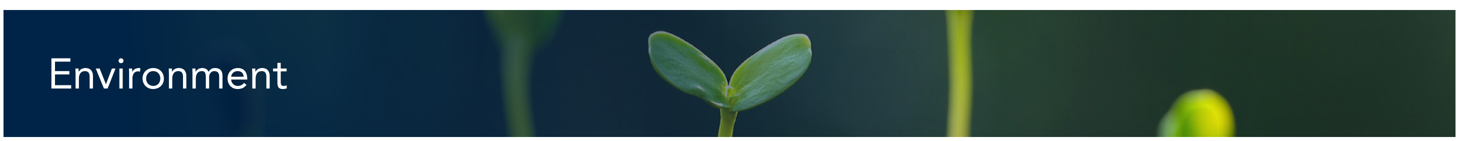
### How responsible investors should respond to the COVID-19 coronavirus crisis

In a statement from the *Principles for Responsible Investors (PRI)*, the organization advised their members that "The COVID-19 crisis impacts all investors and their beneficiaries – regardless of holdings, strategy or role in the investment chain. Responses to the crisis must therefore be predicated on the basis of systemic integrity and long-term universal returns being more important than relative company performance. Outflows from funds see some asset owners and managers facing liquidity pressures, as well as declining fee revenues resulting from those outflows and from overall market falls. Despite this, signatories to the Principles for Responsible Investment can and should respond

– by using their influence with companies and governments, and through their investment decisions. They should be supporting sustainable companies through this crisis – in the interests of public health and long-term economic performance – even if that limits short-term returns." "PRI signatories should be supporting sustainable companies through this crisis – in the interests of public health and long-term economic performance – even if that limits short-term returns." *PRI*, March 27, 2020. Click here for full article

### Coronavirus Pandemic Could Elevate ESG Factors

The *Wall Street Journal* reports that recent volatility in financial markets due to the coronavirus pandemic could provide investors with more of an incentive to grill companies on nonfinancial risks. Environmental, social and governance investing was growing in popularity before the virus began to circulate, as investors flocked to companies that have taken steps to manage nonfinancial risks related to matters such as climate change, board diversity or human rights issues in the supply chain. But the pandemic has demonstrated on a large scale the importance of other factors that are paramount to ESG investors. Among them: disaster preparedness, continuity planning and employee treatment through benefits such as paid sick leave as companies direct employees to work from home. A group of 300 mutual funds that integrate ESG factors into their investment decisions attracted $21.4 billion in new money in 2019, compared with $5.4 billion a year earlier, according to data from Morningstar Inc. Companies should expect more investors to ask questions about resilience and contingency planning, viewing the issues in light of the pandemic as relevant to a company's long-term performance, according to Jeff Meli, global head of research at British investment bank Barclays PLC. *Wall Street Journal*, March 25, 2020. Click here for full article



## Environment

### Covid-19 economic rescue plans must be green, say environmentalists

*The Guardian* reports that environmental campaigners are demanding that economic rescue packages to deal with the impact of the coronavirus must also be green. "Governments need to put huge amounts of money into trying to sustain jobs and livelihoods," said Mary Robinson, a former Irish president and UN high commissioner for human rights, who served twice as UN climate envoy. "But they must do it with a very strong green emphasis. The threat from climate change is as real as the threat from Covid-19, though it seems far away." *The Guardian*, March 24, 2020. Click here for full article

### Will Covid-19 have a lasting impact on the environment?

A report from the *BBC* notes that in China "emissions fell 25% at the start of the year as people were instructed to stay at home, factories shuttered and coal use fell by 40% at China's six largest power plants since the last quarter of 2019. The proportion of days with "good quality air" was up 11.4% compared with the same time last year in 337 cities across China, according to its Ministry of Ecology and Environment. In Europe, satellite images show nitrogen dioxide (NO2) emissions fading away over northern Italy. A similar story is playing out in Spain and the UK. Only an immediate and existential threat like Covid-19 could have led to such a profound change so fast; at the time of writing, global deaths from the virus had passed 20,000, with more than 400,000 cases confirmed worldwide. A global pandemic that is claiming people's lives certainly shouldn't be seen as a way of bringing about environmental change, either. For one thing, it's far from certain how lasting this dip in emissions will be. When the pandemic eventually subsides, will carbon and pollutant emissions "bounce back" so much that it will be as if this clear-skied interlude never happened? Or could the changes we see today have a more persistent effect?." *BBC*, March 27, 2020. [Click here for full article]

### Delay is deadly: what Covid-19 tells us about tackling the climate crisis

An excerpt of a report from *The Guardian* states that "the coronavirus pandemic has brought urgency to the defining political question of our age: how to distribute risk? As with the climate crisis, neoliberal capitalism is proving particularly ill-suited to this. Like global warming, but in close-up and fast-forward, the Covid-19 outbreak shows how lives are lost or saved depending on a government's propensity to acknowledge risk, act rapidly to contain it, and share the consequences. On these matters, competence and ideology overlap. Governments willing to intervene have been more effective at stemming the virus than laissez-faire capitalists. The further right the government, the more inclined it is to delay action and offload blame elsewhere. International comparisons suggest this could be making infection and death rates steeper." *The Guardian*, March 24, 2020. [Click here for full article]

### When Covid-19 has passed, we will still need to fix the environment

*Forbes*' environmental reporter Mike Scott reports, "The year 2020 is shaping up to be one of the most pivotal and transformational in recent history, not just because of the devastating impact of coronavirus but because of the momentous changes related to climate change and the environment. Since the start of the year, we have seen oil companies commit to new environmental targets and technologies from clean power to hydrogen fuel, banks withdraw from coal financing and automakers releasing a swathe of new electric cars onto the market, while renewable energy and storage continue to become increasingly competitive with fossil fuels. But risk analysts Maplecroft are not impressed. "2020 was supposed to be a transformational year for the environment. The end date of a raft of corporate sustainability goals, the year when the curtain falls on Kyoto, and the Paris Agreement officially kicks into gear," they write in their recently-published Environmental Risk Outlook 2020. "But now we're here, it's clear business and governments are falling short of what needs to be achieved. Over the last 12 months alone, we've seen the Amazon and huge swathes of Australia on fire, Typhoon Idai claim more than 900 lives in southern Africa, while record temperatures became the new norm around the world." *Forbes*, March 12, 2020. [Click here for full article]

## Social

### Where to find ESG in the coronavirus chaos

An excerpt from a report in the *Financial Times*: "During the halcyon days (remember February?) before coronavirus became the all-consuming concern, ESG was the cause célèbre that executives loved to discuss. Signing cheques to plant millions of trees or fund a worldwide charity concert was easy when companies consistently beat their earnings estimates. But how is that playing out at a time when companies are tapping credit facilities, slashing dividends and in some cases simply struggling to survive for the foreseeable future? Some have been quick to jump into the fray to protect employees (or the additional "E" that should be in the ESG tagline, according to the interview that Leo Strine, former Delaware chief justice, gave to *Moral Money* last autumn.) Take American Express. Stephen Squeri, chief executive, was quick to pledge when the virus struck that he would not lay off workers imminently, even as the credit card group suffered collapsing revenues. "It's a real short-term answer, and it doesn't help you get out of the chute really quickly," he declared. Few other institutions have been so forthright.

But New Jersey-based OceanFirst Bank is offering to defer certain loan payments for up to 90 days, and telling all healthcare professionals or emergency responders they are eligible for mortgage payment deferrals. The bank, which has more than $10bn of assets, has also given its employees 80 hours of paid time off to quarantine for family care. *FT*, March 20, 2020. [Click here for full article]

### From bad to worse: How COVID-19 has exacerbated social risk in the gig economy

According to a report from *Vigeo Eiris News*, beyond emergency workers, there is another category of worker that remains highly active during this crisis: the gig worker. And, in particular, drivers and riders for companies such as Uber, Postmates, Lyft, Instacart and Deliveroo, who continue to provide food deliveries, and other key services, to communities during the lockdown. Gig-platform companies typically state that their role is limited to channelling the labour offer and that they are not responsible for directly controlling the performance of gig workers. This is an arrangement that benefits gig-platform companies because workers with employee status are often entitled to additional social protections. Many gig workers are not classed as employees even though the gig-platform companies steer and control their performances and represent their main source of income. In essence, the gig-economy model has transferred a significant amount of risk from corporates to individual workers. *VigeoEiris*, March 3, 2020 [Click here for full article]

### Human rights must be maintained in beating back the COVID-19 pandemic, 'without exception' – UN experts

Excerpted from a report from the *United Nations*: "Everyone, without exception, has the right to life-saving interventions and this responsibility lies with the government", said the group of 42 experts – representing nearly every independent rights specialist working within the Human Rights Council-mandated system—maintaining that the scarcity of resources or insurance schemes should never justify discrimination against certain groups of patients. "Everybody has the right to health", they declared. They cited people with disabilities, older persons, minority communities, the internally displaced and those living in extreme poverty, as well as people in detention, the homeless, refugees and other groups needing government support. While advances in biomedical sciences are vital for the right to health, the experts underscored that "all human rights" were equally as important and that non-discrimination, participation, empowerment and accountability must be applied "to all health-related policies". *UN*, March 26, 2020. [Click here for full article]

## Governance

### COVID-19 in the context of ESG investing

Elen Callahan, reporter for the Structured Finance Association, writes, "Given the rise of urban living around the world, outbreaks of infectious diseases are inevitable. An increasingly mobile global population, as well as growth of high-density living, outbreaks have risen significantly in the past 30 years (sic) (World Economic Forum, January 2019). While not all pandemic in scope, increasingly interdependent economies and complex globalized supply chains have raised global sensitivity to these outbreaks. It is for this reason that some involved in ESG investing have suggested including "business readiness for infectious disease outbreaks" as one of the considerations in the taxonomy used to certify these financial instruments." *Structured Finance Association*, February 19, 2020. [Click here for full article]

### Six things banks should do to minimize impact to the economy—responding to COVID-19

Management consultants from the firm Oliver Wyman report that it is the banking industry that will have the greatest single influence on the United Kingdom economy, and how businesses and consumers are impacted by the emerging crisis. Poorly organized, knee-jerk reactions could lead inadvertently to banks amplifying the impact of

the outbreak. Well structured, considered and organized approaches will serve to dampen it. The outbreak comes at a point when the economy is already fragile with growth, slowing through the second half of 2019 and forecasts for 2020 seeing downgrades. The economy flatlined in the last quarter of 2019 and leading indicators such as business confidence suggest over half of companies see the virus posing a moderate or severe threat to their business. The recommended six actions for banks to take are: shift from business continuity to crisis management; scenario plan to 'level 5'; be decisive in support for clients; deliver on the demand for digital; and prepare for the long haul. *Oliver Wyman*, March 10, 2020.
Click here for full article

### Coronavirus as a new systemic risk: Implications for corporate governance and investor stewardship

The *International Corporate Governance Network (ISG)* writes that "despite these negative economic events investors should avoid focusing on the crisis in terms of its short-term shareholder value implications. It is here where a long-term perspective, and perhaps a grounding ethics and values more generally, should also guide investor responses. In the language of modern finance, this may be less an opportunity for investors seeking alpha generation in individual companies than it is a question of addressing 'beta' issues—the volatility/stability of the markets and financial system as a whole. This may be fiendishly complicated, but an important guiding principle for investors relates to their fundamental fiduciary duty of care to their beneficiaries. This confirms the importance of taking a long-term perspective, since most ICGN Members, and large institutional investors more generally, are managing assets for pension plans or retirement saving plans, where the investment horizon is intrinsically long-term, or in theory infinite. From the perspective of investor stewardship and fiduciary duty—and consistent with ICGN's Global Stewardship Principles and Policy Priorities—it is fair to suggest that in reacting to this crisis investors should generally seek to maintain an approach that promotes long-term investment horizons and sustainable value creation for individual companies and markets." *ICGN*, March 2020
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