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

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The COVID-19 pandemic – and the global response to it – is a serious threat not only to global health, but to our communities, our economies and our investments. As long-term stewards of capital, investors can and should act now to help reduce harmful impacts including: the direct effect on public health, the severity of the associated economic slowdown, the deepening of inequality in societies and the resulting impacts of all of the above on mental health.

The PRI will work with signatories to further develop thinking on what the COVID-19 crisis means for investors. We are establishing two signatory participation groups to coordinate and develop investor responses, focusing on:

- short-term responses, and ensuring responsible ESG approaches remain at the forefront of investor activities;
- a future economic recovery phase, considering the how the financial system should function to ensure sustainable outcomes.

These groups will encourage discussion and then support action on the highest priority areas for investors, companies and governments. We will write to signatories inviting them to participate when these groups open.

This article will be updated periodically, and additional information on ways to get involved will be provided to signatories via the PRI Collaboration Platform.

The COVID-19 crisis impacts all investors and their beneficiaries – regardless of holdings, strategy or role in the investment chain.[1] 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.[2]

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.

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Companies should be managing for the long-term when assessing how they treat employees, contractors and suppliers, prioritising these needs over immediate returns to shareholders. They should be acting responsibly in setting the pricing and the supply levels of goods and services that can help society respond to the health and/or economic aspects of the crisis we are all facing. They should work with suppliers, unions, governments, investors and employees to design and implement solutions that avoid externalising further unnecessary harm onto economies and society.

Governments should continue to respond with emergency economic support. These are unprecedented times, and unprecedented government interventions will be essential to the response. Such measures will need to evaluated not only according to their overall macroeconomic impact, but also based on their ability to support other priorities critical to public wellbeing and long-term economic strength, such as combating inequality and enabling the low-carbon transition.

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An immediate, robust response to the COVID-19 crisis is needed across the global economy. Longer-term, we believe that the crisis raises broader questions on how our financial system is structured to respond to such threats.

Immediate investor actions

- Action 1: **Engage companies that are failing in their crisis management**
- Action 2: **Engage where other harm is being hidden behind, or worsened by, the crisis**
- Action 3: **Re-prioritise engagement on other topics**
- Action 4: **Publicly support an economy-wide response**
- Action 5: **Participate in virtual AGMs**
- Action 6: **Be receptive to requests for financial support**
- Action 7: **Maintain a long-term focus in investment decision making**

RESPONDING TO COVID-19: IMMEDIATE INVESTOR ACTIONS

ACTION 1

Engage companies that are failing in their crisis management

Investors should engage with companies that are failing to protect workers' safety and/or their financial security, and those prioritising executive pay and/or short-term returns to shareholders.

How individual companies manage the coronavirus crisis will have impacts beyond their own financial statements and valuation. Companies that unfairly restrict paid sick leave, lay off workers earlier than is necessary or in spite of government support, or fail to provide a safe working environment are immediately and directly harming individuals, the economy and investors, as well as slowing the speed of the eventual economic recovery. Companies that prioritise human capital management can help avoid further harm and contribute to a quicker economic recovery.

Less than a year after major announcements on moves away from shareholder primacy[3], this is a unique opportunity for companies to urgently implement such a shift by prioritising employees, contractors, suppliers and communities over the short-term needs of shareholders.

New guidance from the International Labour Organization[4] and the United Nations Global Compact[5] can inform investors of good corporate practice in this area. Investors should use media reports[6], NGO resources[7], and existing controversy/reputation-focused ESG data providers to identify examples of poor practice, and raise these as concerns with relevant companies – through engagement, AGM statements or more assertive tactics such as voting against board members, voting against the accounts or calling for an Extraordinary General Meeting in extreme cases. Similarly, good practice – which includes examples of companies switching production from existing products to critical items such as medical ventilators, personal protective equipment for medical staff and hand sanitisers – should be commended.

Investors should also encourage responsible financial management that allows companies to prioritise employees, contractors, suppliers and the longer term health of the company itself over bonuses for executives, and buy-backs and dividends for shareholders.

ACTION 2

Engage where other harm is being hidden behind, or worsened by, the crisis

Investors should engage with companies and governments that are using the cover of the crisis to avoid scrutiny, or where changes in supply-and-demand patterns and to supply chains risk exacerbating other issues.

Investors should watch for examples of companies and governments[8] taking the opportunity to make decisions on, or announce, issues that would normally be subject to far more scrutiny than they will receive while public and media attention is focused on responses to the coronavirus.

Investors should also evaluate any changes to supply-and-demand patterns that risk exacerbating other issues. For example, rising demand for processed foods and meat[9] may increase pressure on deforestation linked to palm oil, cattle and soy supply chains. Increased demand for home-delivered goods (combined with safety concerns about the virus itself) risk worsening working conditions in warehouses, distribution centres and parcel delivery.[10]

Company disclosures, media reports and reputation/controversy-focused ESG data providers can be used to monitor behaviour and raise concerns.

ACTION 3

Re-prioritise engagement on other topics

Investors should re-prioritise engagement to focus on COVID-19 for companies that are in crisis management.

Most discussions with affected companies and sectors should be re-focused on issues relating to COVID-19 and the response to it. Discussions on other topics should be postponed where possible to allow management and boards the ability to focus on crisis management (notwithstanding Action 2 above).

Even for engagement related to COVID-19, in the absence of evidence of irresponsible behaviour, investors should be conscious of the need to allow companies time and capacity to manage their way through the crisis.

ACTION 4

Publicly support an economy-wide response

Investors should use their public voice to encourage governments and companies to take appropriate action.

As respected voices in the financial sector, investors should publicly support government interventions made at the scale needed to deliver an expedient and just recovery in public health and the global economy.

Public signalling can also be an effective and efficient means of communicating expectations to investees without diverting company resources from crisis management.

Investors can express their views through their websites, through media statements, at AGMs (see below) and through collective efforts available on the PRI Collaboration Platform, such as the Investor statement to companies on coronavirus response developed by Domini.

ACTION 5

Participate in virtual AGMs

Investors should use virtual AGMs to allow appropriate oversight of investees to continue.

Annual General Meetings (AGMs) provide an efficient way for investors to ask questions about, and emphasise support for: responsible human capital management, prioritisation of long-term financial management over dividends and buybacks, board involvement in crisis management and business continuity planning.[11] They also provide investors with a means to re-emphasise non-coronavirus priorities that they expect companies not to neglect, such as the climate emergency.

While governance concerns have previously been raised about online AGMs,[12] in the current environment investors are encouraged to use these platforms to ensure oversight continues in lieu of in-person formats.[13]

PRI signatories can continue to make use of the PRI Collaboration Platform, including the vote declaration system, to keep informed of key upcoming shareholder votes and to collaborate with peers.

ACTION 6

Be receptive to requests for financial support

Investors should be open to supporting companies, debtors and governments with flexibility in financial arrangements and with more direct support where feasible.

As companies come under continued financial pressure, investors – in a range of asset classes – may be called on to assist by providing flexibility over normal financial obligations. Such requests naturally require case-by-case assessment, but where feasible investors should consider granting as much grace as possible in order to assist in a coordinated economy-wide response and recovery.

Any investors that have opportunities to support governments in funding the response are encouraged to do so.

ACTION 7

Maintain a long-term focus in investment decision making

Investors should align long-termism in stewardship with long-termism in investment decision making.

Investors should review positions and trading activity, including those of any external managers, to ensure their investment activities are aligned with the long term and economy-wide response needed – including in light of concerns around the potential exacerbating effects of short selling.[14]

A SUSTAINABLE RECOVERY

When the public health emergency of COVID-19 starts to subside, the approach to recovery must be aligned with other key priorities: in particular, the climate and biodiversity emergency and the level of inequality. The crisis has highlighted the attention that social issues, including emerging labour practices, must receive in the responsible investment community. The precariousness of work provided by the gig economy has again been exposed, with workers left critically vulnerable by economic downturns.

Government support should be prioritised for companies, sectors and business activities that help respond to these other crises rather than those that risk exacerbating them. Public health efforts will undoubtedly need to be strengthened.

> "When the public health emergency of COVID-19 starts to subside, government support should be prioritised for companies, sectors and business activities that help respond to crises such as the climate emergency and inequality, rather than those that risk exacerbating them."

Human rights and labour practices in global supply chains

Responsible labour practices – including providing stable incomes, safe workplaces and access to paid sick leave – are critical to help avoid future harm to public health and economies. These factors will need to be considered in investees and throughout their supply chains, and as an integral part of business models not as isolated risk management considerations.

The PRI's work in this area will focus on investors' engagement with companies, governments and other stakeholders.

Climate and biodiversity emergency

Destruction of habitats and ecosystems, both through direct deforestation and degradation as well as from climate change, has been linked to the COVID-19 outbreak[15], and a global failure to act risks future epidemics as diseases continue to spread between animals and humans.

The PRI's work with signatories on climate[16] (including Climate Action 100+ and the UN Asset Owner Alliance), biodiversity, deforestation and land use change[17] will be further strengthened to combat the risk of future crises.[18]

As we continue to face such issues, a review is needed of the structure and readiness of markets to respond to such economic and societal threats, including how to better prioritise and address key systemic issues over narrower company- or portfolio-specific ones,[19] and how to increase collaboration between investors.

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PRI STEWARDSHIP SERVICES AND COVID-19

The PRI Collaboration Platform continues to operate as normal. Signatories are encouraged to use the platform to collaborate on public signalling, engagement with companies and upcoming (virtual) AGMs.

The PRI's collaborative engagement programme also continues, but in line with the guidance above, lead investors are encouraged to determine on a company-by-company basis whether it is appropriate for dialogues to continue in the near term, and to consider unintended side effects of any responses to the COVID-19 crisis, particularly in deforestation/land use-focused initiatives[20].