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Responsible Investment

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

- The COVID-19 pandemic has put corporate ESG practices in the spotlight. Fresh attention has fallen on social issues such as public health, human capital management and societal inequalities
- This has led more stakeholders to ask how investments can be made with positive social outcomes and impacts
- In this paper, we look at the various approaches AXA IM has adopted to help our clients achieve these objectives
- We believe investors can drive positive social outcomes through investment in different asset classes and can deliver impact through engagement and voting

Marie Fromaget,
Responsible Investment Analyst

Caroline Moleux,
Senior Portfolio Manager,
Framlington Equities - AXA IM Core

The COVID-19 pandemic has become a test of companies' sustainability credentials. It has served to sharpen public and investor scrutiny of environmental, social and governance (ESG) practices and we have observed that this has particularly involved a more intense focus on the 'social' component.

It should be no great surprise. The social pillar in ESG includes a wide range of issues that came to the fore as the effects of the virus and accompanying lockdown measures took hold. The pandemic has exposed concerns about employee treatment, supply chain management, gender inequality, ethnic diversity, global health, education, data privacy and more.

In this context, we have seen a spike in stakeholder interest about investments that can drive positive social outcomes. This has been with a view to the short-term objective of improving the situation related to the public health emergency as well as the long-term objective of helping develop a more pandemic-resilient society. This also feeds into the wider desire to make decisive progress towards the United Nations Sustainable Development Goals[1].

In this paper, we will highlight a series of approaches adopted by AXA IM and address some of the challenges and opportunities presented.

1 https://sdgs.un.org/goals

> **"As lockdowns were imposed, there has been a spike in public scrutiny around pay and benefits, job security and company support for mental/physical health"**

Focusing on social issues in the pandemic

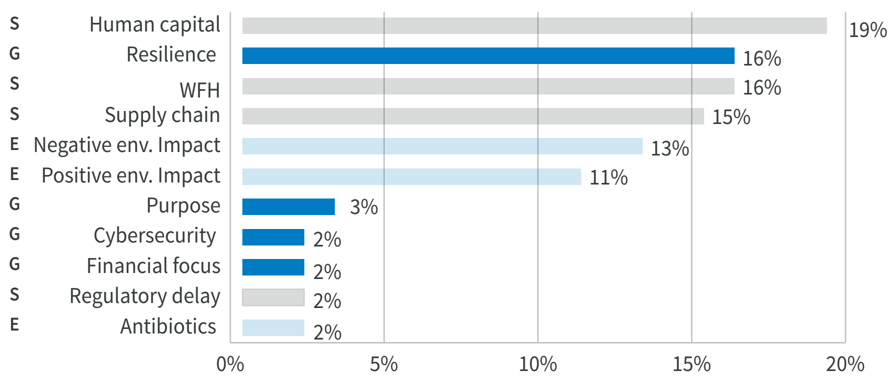
Concern about workers' health and safety and the quality of working conditions has been a clear focus during the COVID-19 crisis. As lockdowns were imposed, there has been a spike in public scrutiny around pay and benefits, job security, company support for mental/emotional/physical health and for adaptability around working from home. All of this has happened at a time when income inequalities and poverty rates were already increasing in many major economies.

Among investors, this has resulted in more attention being given to social issues. One survey conducted by JPMorgan asked what would be the most significant ESG implications of COVID-19: Human capital ranked first and working from home (arguably a feature of human resources policy supporting human capital development) ranked third.

Importantly, companies are not facing this new dynamic in isolation. As social issues become increasingly financially and reputationally material due to the pandemic, there has been action from governments and policy makers to support this shift. It makes sense for investors to understand the implications of this, and to keep up with the political and regulatory curve.

Government measures have ranged from increased health expenditures to support for workers and vulnerable groups (such as social security benefits, special transfers to poor households, minimum wage subsidies, payment to workers without sick leave, access to employment insurance). There has also been a focus on the most-affected sectors (through exemptions from social security contributions, grants to cover staff costs, tax deferrals), as well as anti-price gouging policies. The key national policy responses to limit negative human and economic impacts of the pandemic have been tracked by the International Monetary Fund.

The three pillars are well represented in the most recurring topics
"What are - or will be - the most significant E, S, and G implications of COVID 19?"



Source: J.P. Morgan, Results from the survey "Tracking the ESG implications of the COVID-19 Crisis" Chart courtesy J.P. Morgan Chase & Co., Copyright 2020. All data as of 30 March.

Investing for human capital impact - portfolio manager's perspective

This health crisis has crystallised the need to make our economic and societal models evolve more rapidly by taking all stakeholders into account. And for AXA IM, the pandemic has reinforced the importance of integrating social objectives into corporate strategy.

This is clearly of particular relevance in our Human Capital Impact Equity Strategy and in our focused engagement with management at investee companies this year, we have sought to discover the importance attached to employees' wellbeing in this pandemic. It has been a time when safety and security became a non-negotiable priority, and when effective working from home has needed to be implemented very quickly – and at a scale never seen before.

The good news, at least initially, has been that most of those investee companies have put in place effective measures, and have reported no loss of productivity. This makes sense, as the strategy has always sought out companies well-positioned to respond to human capital challenges and attuned to the well-being of employees.

In the longer term, the real test will be how these new ways of working evolve into formalised frameworks and corporate policies. The best companies with the most progressive approach to human capital management should take into account psycho-social factors as well as corporate culture, project management, retention of employees and attractiveness for new hires.

In the Human Capital Impact Equity strategy, we aim to back companies that we believe have leading market practices to employee management, as well as those most able to transform their practices and support societal transitions. The central idea is that there is a potential advantage for investors willing to support these companies, both through the allocation of capital and through engagement dialogue. It is important to note that we prioritise constructive regular discussion with management and the board on material human capital issues rather than simply imposing our views. Our experience has been that companies are increasingly open to an active dialogue on social issues. The motivation is two-fold. They want to improve, but they also want to compare favourably against industry/market peers when potential investors come to make allocation decisions. Active engagement with management has also given us more qualitative information and insight into the company.

However, there remains a challenge to get access to comparable and material social data. The issues we discussed in our Human Matters research paper are still relevant. Companies are struggling to select the appropriate key performance indicators (KPIs) and metrics. Also, some data disclosure may be prohibited or limited depending on the jurisdiction. Our engagement is designed to overcome the current lack of data transparency and get more information around social performance. We do so by seeking disclosure on indicators where the definitions and parameters are in line with the best-established social standard reporting and by encouraging companies to publicly disclose them.

Training and upskilling employees – a key driver of human capital management

Even before the pandemic, the workplace was facing major shifts in technology and in societal expectations. The rise of digitalisation, automation and sustainability have forced companies to adapt as the skills and expertise required from their employees change over time. Many occupations are rapidly evolving, and entirely new jobs will emerge as other roles disappear.

The World Economic Forum (WEF) has predicted that emerging professions could account for six million job opportunities worldwide between 2020 and 2022[2]. These are new, technology-driven roles enabled by digitalisation and automation. On top of that, exceptional circumstances – such as the 2020 pandemic – have forced employees and companies to both be more flexible in how they expect work to be conducted. This also feeds into the goal of improving their ability to rebound from the crisis.

Before the pandemic, half of companies worldwide were already struggling to fill open positions due to a lack of sufficiently qualified candidates. Chief executives (CEOs) of major corporations have said that access to key skills and expertise was the third highest threat they see to their business, according to a PricewaterhouseCoopers survey[3].

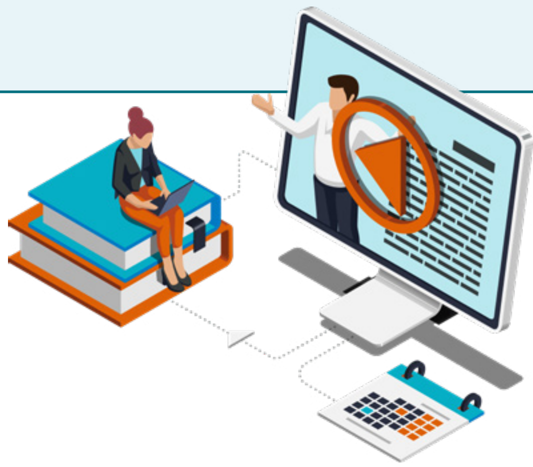
So, how should companies and their employees adjust to the rapid and sometimes unpredictable evolution of the workplace? We see training and development – upskilling, reskilling, lifelong learning – as a cost-efficient approach for businesses to deal with skills shortages. It is expensive and time-consuming to hire a new employee: It is estimated to cost around half a year's salary on average in recruitment and associated costs[4]. Also, employees increasingly expect companies to provide training as part of an incentives package[5].

Companies – on their own and through industry-led collaboration – have a financial interest in preventing the emergence of so-called stranded workers. And we believe investors can gain an edge if they too respond to the skills challenge by allocating capital to the best prepared and most agile businesses. Regardless of the wider benefits to society and the economy, an analysis conducted in the US[6] showed that an overall investment of $4.7bn could reskill a quarter of workers in disrupted jobs while retaining a positive cost-benefit balance. This should encourage companies to explore the benefits of retraining / upskilling before firing and hiring for disrupted or transitioning jobs.

Cost/benefits of reskilling/upskilling versus redundancy and external hiring

Benefits	Costs
Lower expenses: • Avoided severance and hiring payments • Avoided reduced productivity of new employees • Avoided reduced productivity due to low employee morale during phases of redundancies Increased productivity benefits the company and employees Improve employer branding Improve employee engagement	Reskilling expenditures Missed productivity during the time of reskilling

Source: Towards a reskilling revolution, World Economic Forum, AXA IM



It will be important to develop both hard skills (expertise and techniques) and soft skills (leadership, creativity, adaptability and empathy). These are competencies that can't be replaced by machines and will be even more valuable in a future working environment where technology is ubiquitous.

[2] Jobs of Tomorrow, Mapping Opportunity in the New Economy, WEF 2020
[3] CEOs' curbed confidence spells caution, 22nd annual PwC survey, 2019
[4] Society for Human Resource Management, 2019
[5] HR Review
[6] Towards a reskilling revolution, World Economic Forum, January 2019

Investing to drive diversity and inclusion

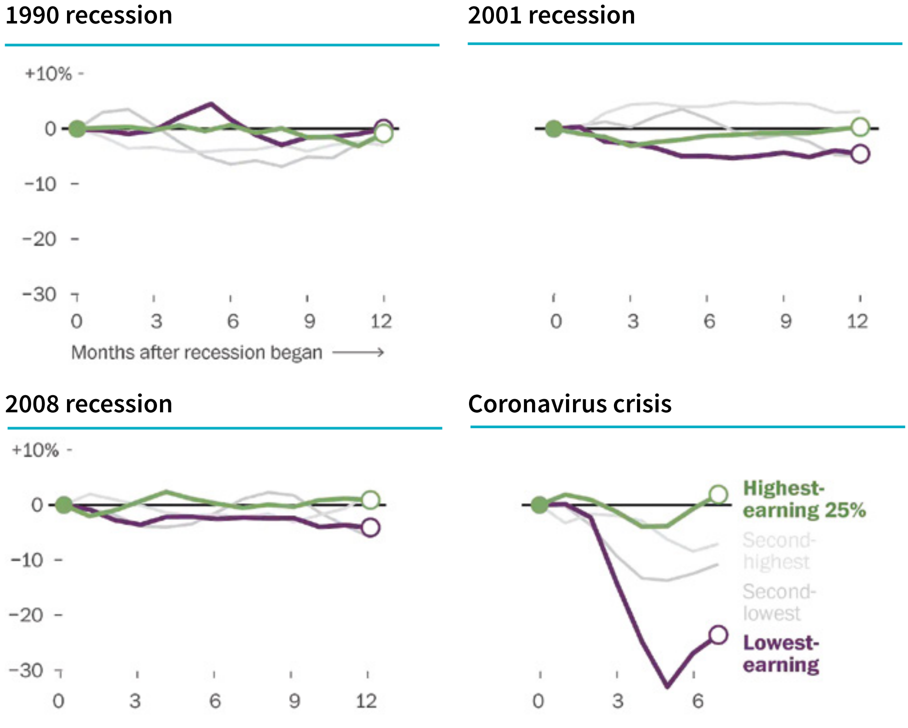
Diversity and inclusion has become an important area of investment and engagement in recent years, particularly around gender. It has also led to some noticeable regulatory measures such as on gender pay gap reporting in the UK, the Professional Equality Index for men and women in France and gender quotas for corporate boards in California. We believe the momentum on these issues is growing – further consolidated by two events in 2020.

First, the economic downturn from the pandemic had unequal social effects. According to former Chairman of the US Federal Reserve Ben Bernanke, the recession in the US was more unequal than usual, adding that "the sectors most deeply affected by COVID disproportionately employ women, (ethnic) minorities and lower-income workers".

Women were on the frontlines of the public health emergency as they account for 70% of health and social workers globally. The lockdown also increased cases of domestic violence against women[7]. Men's contribution to household chores during the lockdown may have increased, but the share of unpaid domestic and care work carried out by women – in normal times about three times more than that carried out by men[8] – nonetheless intensified[9].

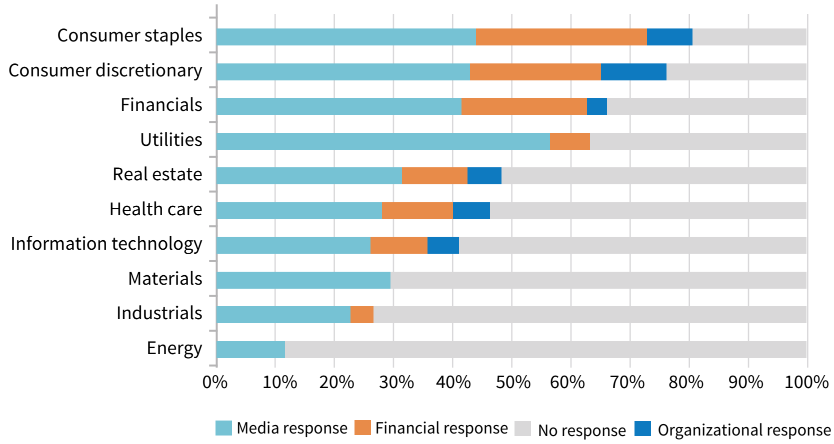
Second, tragic events in the US that led to the Black Lives Matter protests clearly boosted the focus on racial and ethnic diversity in the corporate and financial worlds. Reputations are at stake for companies reluctant to take a credible position on the issue of diversity and racial justice and integrate them into their business strategy. S&P found the most reactive companies listed on the S&P 500 as of 25 June were in consumer facing and financial sectors.

The coronavirus crisis is different - Job growth (or loss) since each recession began,



Notes: Based on a three-month average to show the trend in volatile data.
Source: Labor Department via IPUMS, with methodology assistance from Ernie Tedeschi of Evercore ISI
THE WASHINGTON POST

Consumer Goods And Financial Services Sectors Dominate S&P 500 Company Responses To George Floyd's Death



Sources: Companies' social media channels, company websites, S&P Global Ratings Data as of June 25, 2020

[7] UN Women, The Shadow Pandemic, https://www.unwomen.org/en/news/in-focus/in-focus-gender-equality-in-covid-19-response/violence-against-women-during-covid-19#facts
[8] UN WOMEN, Progress of the World's Women, https://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2019/poww-2019-fact-sheet-global-en.pdf?la=en&vs=0
[9] Ipsos Survey, https://data.unwomen.org/features/ipsos-survey-confirms-covid-19-intensifying-womens-workload-home

"AXA IM has been leading the launch of the 30% Club France Investor Group and will act as a co-chair"

Companies that neglect the importance of diversity and inclusion may be at risk from losing clients, as well as employees and prospective candidates[10]. Glassdoor, an online rating site of companies by workers, added a new feature this year allowing users to assess companies on diversity and inclusion. This was after it conducted a survey that found 76% of jobseekers were considering diversity as a key criterion when deciding where to work.

Despite commitments to racial justice, MSCI ESG research found that only around a quarter of 375 very large publicly traded companies in the US currently disclose workforce ethnicity data[11], and just 8% disclosed the full set of information required by the US Equal Employment Opportunity Commission. This includes data on the percentage or number of employees by race and details of diversity at management and senior management/executive levels.

The topic also resonated oversees. Now, corporate performance assessments are constrained by current permission to publish ethnic diversity data, except for the UK.

Investors now expect better transparency and accountability around diversity and use their ownership rights to raise concerns and express views. The ISS 2020 Global Benchmark Survey Policy revealed that almost 75% of investors were expecting companies to disclose demographics of their board members, including ethnicity, when permitted by law.

Establishing AXA IM's new gender diversity voting policy

This year, we strengthened our gender diversity voting policy by expanding it into developing countries and hardening our standards in developed markets. Our expectations for developed markets will be for companies to have at least one-third of Board directors from the least represented gender (in almost all cases this will be women – a few exceptions aside). In developing markets, and also Japan, we are calling for 10%. Full details can be found here. These new voting rules are already in place for developing markets and will be activated from 2021 for developed economies.

Leading collaborative engagement - 30% Club France Investor Group

In 2020, AXA IM has been leading the launch of the 30% Club France Investor Group and will act as a co-chair. The objective is to press companies in France to achieve at least 30% of women in executive management teams by 2025. The main focus will be on SBF 120 index companies. The Group acknowledges the need for better corporate diversity in all its forms, but due to reporting specificities in France, the focus of stewardship activities will be on gender diversity until further notice. We have been a member of the UK's 30% Club Investor Group – the original model– for a number of years now. In parallel, we have also engaged companies extensively on the issue of gender diversity in four countries (China, Germany, India, Japan) where our research[12] identified major obstacles for equality in career progression.

[10] https://venturebeat.com/2020/09/30/glassdoor-launches-employee-reviews-for-diversity-and-inclusion-practices-at-companies/
[11] MSCI Research, Corporate racial diversity : overview and challenge. Data for 373 US-based constituents of the MSCI ACWI Index as of November 30, 2018
[12] "A lifetime of gender inequality: What investors can do" – AXA Investment Managers, May 2019.

Investing in COVID Bonds - the pandemic leads to a new asset class

This year has been pivotal for the social bond market. Issuance has – until 2020 – remained low compared to the rapidly growing green bond market. This was mainly due to complexity in finding a sufficient eligible pool of social assets for a bonds' use of proceeds. There are also challenges in selecting and disclosing useful social performance and impact indicators.

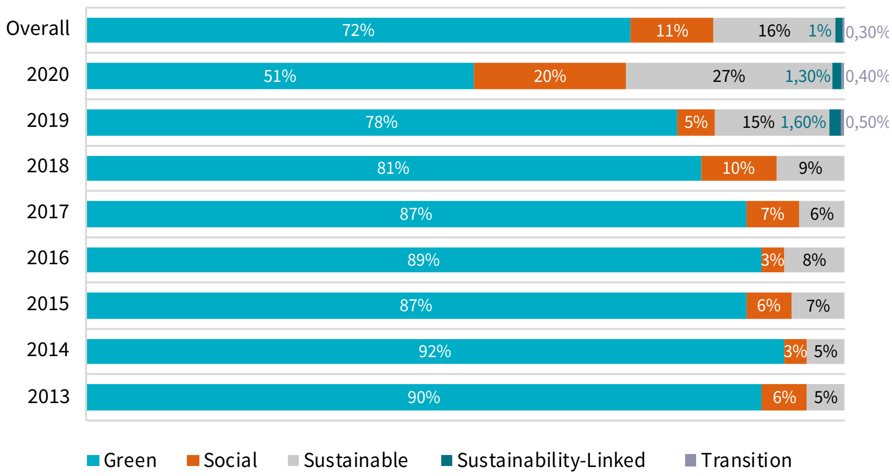
Social bonds, whose proceeds are used to finance or refinance projects with a positive social outcome, have been deployed to raise capital to tackle the effects of the COVID-19 crisis. This has included financing for the immediate public health challenge and for healthcare-related projects, as well as boosting economic resilience by providing emergency support loans for small and medium-sized enterprises. Social and sustainability bonds – which finance both green and social projects – accounted for 20% and 27% respectively of total sustainable use-of-proceeds bond-related issuances at mid-October, vs 5% and 15% respectively over the whole of 2019. Social bond issuance topped $56bn at end-September, which is about three times more than in 2019[13].

With the European Union (EU) coming to the market to finance its €100bn SURE (Support to mitigate Unemployment Risks in an Emergency) programme through social bonds by end-2021, the importance of the social bond market is poised to grow, and its weighting is inevitably going to be revised upward. Indeed, the SURE program will make the (EU) the largest social bond issuer and will almost triple the size of the social bond market.

As active investors in the sustainable use-of-proceeds bond market – we had almost €10bn of assets under management in green, social, and sustainability bonds as of 30 September 2020 – we have adjusted our analysis and due diligence framework to assess COVID-19 bonds. To date, we have approved investments in about 30 COVID-19 bonds. We believe that this is an efficient and scalable market to allow investors to help finance the battle against the pandemic.

We also see green bond issuers using debt to help finance the pandemic recovery effort in the midst of this increased interest in projects that have a positive social outcome. We have seen for many years now that many green bonds not only have a primary positive environmental outcome, but also a secondary positive social effect.

Sustainability bonds market evolution



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

[13] Natixis Green and Sustainable Hub market data, October 2020

As impact reporting in green bonds matures and improves, we are encouraging issuers to enrich their reporting further by adding social-related KPIs. This is particularly the case for eligible green projects which improve surrounding communities' standards of living, such as for example clean transportation or sustainable water and wastewater management.

Some issuers, such as the African Development Bank Group, have already added a social component to their green bond impact reporting for some years already. We believe it is time for other issuers to follow suit and bring the reporting to the next level.

The African Development Bank is already including social impact in its green bond reporting

Project type	Annual absolute (gross) water savings (millions m^3)	Annual GHG - greenhouse gas emissions reduced or avoided (tons of CO^2e)	Other indicators
Green Zones Development Support Project - Phase 2 - Kenya		35,870	• 0.7% decrease in poverty levels • EUR57 increase in average annual household income • 7,700 female-headed households will benefit from value addition and other income generating activities
National Irrigation Water Saving Programme Support Programme – PHASE II - Morocco	98		• Direct beneficiaries: 9,300 farms with a target population of 55,800 • 1.1 million jobs created
Dar-Es-Salaam Bus Rapid BRT Project - Tanzania	1,340		• 732,000 beneficiaries • 24% reduction in accidents • 43 minutes gained in travel time • 64,050 new passengers • 1,530 jobs created

African Development Bank – Green and Social Bond Newsletter – Issue 06, March 2020

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