COVID-19:
Stewardship and the pandemic

Foreword by Hans Stoter
Global Head of Core Investments,
AXA Investment Managers

Responsible investment in 2020 was meant to be all about starting the Transition Decade to a low-carbon future. The asset management industry would build on the mainstreaming of ESG and climate change into investment strategies – and AXA IM would seek to lead from the front. The shock of the COVID-19 pandemic may have shaken things up, but it has only served to strengthen those trends.

This virus has forced a reckoning throughout the world, putting stress on economies and livelihoods alike. As we publish this 2020 H1 Stewardship Report, there are signs that we are emerging from the first wave of this unprecedented moment, and we can make some initial observations about where we find ourselves.

A key conclusion we've reached is that our thematic ESG convictions have become even more relevant in the pandemic. Our research and engagement around climate change, biodiversity, human capital management and gender inequality, public health and corporate governance have adapted to explore how COVID-19 might change industries and alter ways that we might invest. This has included research on COVID bonds, carbon emissions in the lockdown, and the resilience of ESG leaders against laggards in the market downturn.

Here was an opportunity for real-time testing of corporate sustainability, a chance to call on fellow investors to help deliver a 'green recovery' and to examine the development of new financial instruments that could both build resilience to the pandemic and embed sustainable practices into the future.

This research also bolstered our stewardship activities. The COVID-19 crisis has sharpened the importance of active ownership, particularly around certain crucial issues. We doubled down on some of our engagement activities around public health, human capital and shareholder rights. So too, our enhanced voting policy on core themes revealed our industry leadership on resolutions around gender diversity, climate change and board accountability.

As an active long-term fund manager, we had the agility and experience to respond quickly and meaningfully in this crisis, helped in part by the quality of our existing relationships with investee companies. Despite the lockdown, we engaged more than 180 issuers in the past six months and voted at about 4,300 shareholder meetings. AXA IM's record of expressing our opinion and recommendations through engagement and voting is revealed over the following pages.

We are only at the half way mark of 2020 and we have already seen a startling and generation-defining global crisis. But the pandemic will not press pause on the Transition Decade, and we know that climate change will steadily impart its own dramatic effects. There is much work to do in the months that follow, on this and a host of other sustainability themes, but as we begin to understand what a post-COVID-19 world might look like, one thing is clear: active, decisive, informed and responsible investors have never been more important.

Engagement in review

Yo Takatsuki,
Head of ESG Research and Active Ownership

The first six months of 2020 can be divided into two very distinct halves. Our engagement programme came in two highly-contrasting segments – business as usual before the COVID-19 lockdown, and then an altogether quite different period when we were all confined to our homes from mid-March onwards.

For most of the first quarter (Q1), our engagement was focused on the key thematic areas that we consider most urgent and material for investors: climate change, biodiversity, human capital as well as gender diversity, public health, data privacy and corporate governance.

Climate change continued to be a major area of activity throughout the first half. The intensity of engagement efforts did not slow even after the lockdown started. We continued to participate in the Climate Action 100+ investor group, where we lead engagement with numerous companies in carbon-intensive sectors - and have started an initiative with state-owned oil and gas companies. This period also saw significant climate-related commitments being announced by European energy companies. These were major milestones, a decade in the making.

We also started our work as co-chairs of the newly established Climate Transition Finance Working Group. This was set up under the auspices of the Green and Social Bond Principles to press forward the concept of transition financing – where companies in carbon-intensive sectors raise funds in capital markets for their decarbonisation efforts. The group has attracted more than 80 institutions ranging from corporates, investors, investment banks and other stakeholders. A Working Group event hosted in February in London focusing on concepts such as science-based targets, and alignment with the +1.5 degrees celsius pathway, envisaged under the Paris Agreement.

Our work around biodiversity and slowing the extinction of species gathered pace. Investors need to be able to assess biodiversity risks and opportunities but measurement remains difficult due to limited relevant and uniform data. In this respect, we collaborated with three French asset managers to develop a methodology for biodiversity impact measurement.

Following the lockdown, the dynamics of engagement changed completely as we became reliant on electronic communication. What is noteworthy is just how quickly both our colleagues and the representatives of investee companies adjusted to this "new normal". It meant that disruption was kept to a minimum, and by April, engagement dialogue had largely resumed. This is an important time of year as companies solicit the views of investors ahead of annual shareholder meetings (see voting section for more). Our engagement in Q2 took on a COVID-19 tone. One early observation was that investee companies acknowledged that the crisis brought public scrutiny on their ESG-related practices, whether it was public health, human capital management or shareholder rights-related issues. Our discussions with companies often revealed the strain this placed on boards of directors and senior management as they navigated an unprecedented crisis. The engagement case studies on pages six and seven reveal more about our COVID-19 related engagements.

On behalf of our clients and wider stakeholders, and despite all the challenges of this period, we engaged more companies in a six-month period than ever before – 181 issuers in 28 countries. The case studies and the statistics that follow go some way to revealing the breadth and depth of our ever-evolving active ownership programme as we strive to meet our stewardship-related duties, and drive positive impact for society and the environment.

181
Issuers engaged in H1 2020
versus 77 issuers in H1 2019

65
engagements at senior executive or board director level

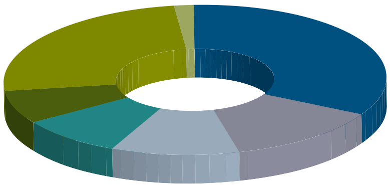
Our engagement with companies covers a broad spectrum of key ESG themes

Business ethics
1.5%

Corporate governance
24.9%

Public health
7.3%

Social relations
9.0%



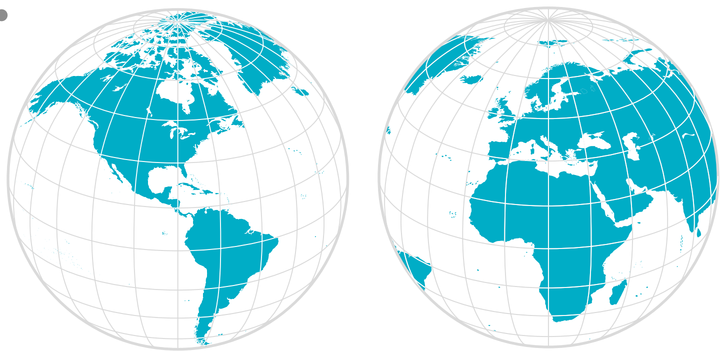
Climate change
33.5%

Resources and ecosystems
13.1%

Human capital
10.7%

In H1 2020, we engaged with companies across the world:

2.2% Australia
0.6% Austria
1.1% Belgium
0.6% Chile
2.8% China
1.1% Denmark
1.7% Finland
22.7% France
3.9% Germany
0.6% Guatemala
7.7% India
0.6% Indonesia
1.1% Ireland
5.0% Italy



Japan 8.8%
Luxembourg 0.6%
Mexico 0.6%
Netherlands 1.7%
Norway 0.6%
vPhilippines 0.6%
Portugal 0.6%
vRussia 1.1%
South Korea 0.6%
Spain 3.3%
Sweden 1.7%
Switzerland 2.8%
United Kingdom 11.0%
United States 14.3%

More than 80% of our engagements in H1 2020 were linked to the United Nations Sustainable Development Goals. The breakdown of that portion is as follows:

SUSTAINABLE DEVELOPMENT GOALS

How we exercised our voting rights in H1 2020

Just as the COVID-19 crisis impacted almost every facet of business operation during the first half of this year, the peak of the 2020 proxy voting season (March to June) was also affected. The pandemic shaped the way annual general meetings (AGMs) had to be arranged and conducted.

Irfan Patel
Corporate Governance Analyst,
AXA Investment Managers

Social lockdowns imposed by governments globally curtailed companies' ability to hold in-person AGMs. Some firms announced a postponement, others moved to hold virtual, online meetings on an exceptional basis. This was very much the notable development of this year's proxy voting season. AXA IM is supportive of virtual online meetings in such emergency cases, but we have encouraged companies to return to physical, in-person meetings once the COVID-19 situation normalises.

Virtual, online meetings help augment shareholder participation especially for international investors who can rarely attend. This is a positive for shareholder rights – but we also believe it should not be a permanent replacement for in-person AGMs. We expect a hybrid format – where in-person meetings incorporate online participation for investors – will become increasingly commonplace.

More broadly, we are witnessing the gradual evolution of corporate governance from a traditional shareholder-primacy approach to one in which the interests of a wider stakeholder base are taken into consideration. We note that one area of our focus in engagement discussion has been to challenge companies to establish a clearly stated corporate purpose. That purpose should not be defined solely by profit maximisation but should also express the ambition for wider societal impact. This might be framed by a desire to help achieve the United Nations Sustainable Development Goals through a company's business activities.

This intentionality should be supported by the right governance approach, and by a board of directors and senior executives with the right blend of experience and expertise. The purpose should set expectations in the workforce of what performance and success look like, and this in turn would shape employee culture and behaviour. It is testament to just how important this topic has become in society that words such as 'stakeholders' and 'company purpose' are becoming a serious part of the everyday business lexicon.

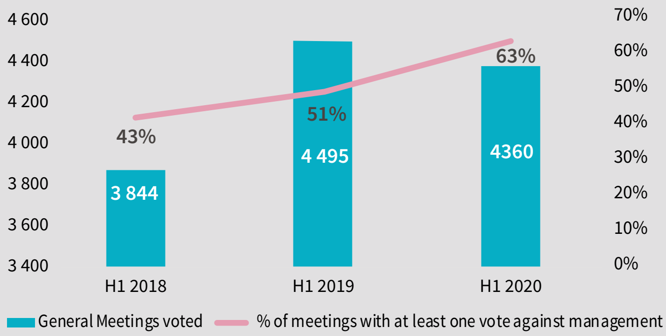
We recognise the need for flexibility and prudence in our voting approach in these extraordinary times, however, our commitment to strong governance remains steadfast and we continue to hold investee companies to high governance standards. These are defined by our in-house voting policy[1].

[1] AXA IM Corporate Governance and Voting Policy https://www.axa-im.com/documents/20195/618080/AXA+IM+Corporate+Governance++Voting+Policy+-+May+2020+%28EN%29.pdf/d102b181-5186-18a9-f47d-cba415401224?t=1589546884851

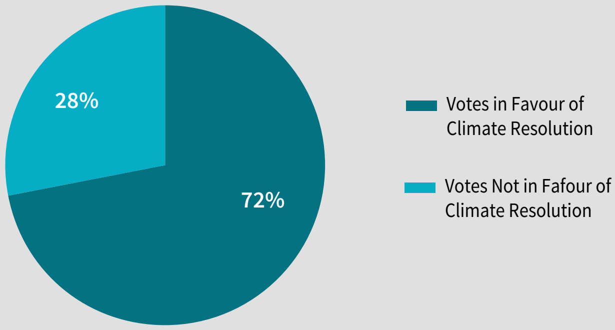
Governance and voting highlights from the first half of this year include:

- We voted against management on at least one resolution at 63% of company meetings. This was a notable increase from last year. *(see graph 1)*;
- We enhanced our voting policy on key topics including board gender diversity, time commitment of directors, auditor rotation, and the integration of non-financial ESG metrics into executive compensation;
- We supported 72% of the 39 climate change-related shareholder resolutions proposed at 32 company general meetings we voted at *(see graph 2)*; and
- We continued to challenge company boards on worker rights and employee safety in the face of an unprecedented global pandemic.
- Clearly, there has been a range of corporate responses to the pandemic and its aftermath. Our response, in the way we hold companies to account and use our voting rights at general meetings, will reflect how companies have treated employees, respected shareholder rights, adapted executive rewards and positioned the company in society.

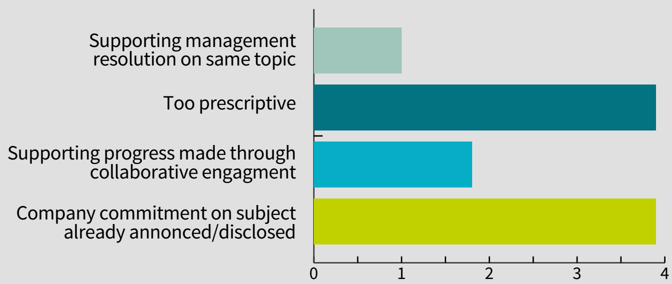
Graph 1: AXA IM 2020 voting season number of meetings voted and level of dissent



Graph 2: Climate change related shareholder proposals – how we voted



Reasons for not supporting climate shareholder resolution



COVID-19 Engagement case studies

Issue: Public health

Engagement detail: The scale of the COVID-19 pandemic is unprecedented but the dynamics of the disease – how it spreads and affects patients – were arguably, predictable. Coronavirus has exploited well-established inequalities in society and vulnerabilities in healthcare systems. So, although this highly infectious disease has impacted all our lives in some way, it has not affected us all equally. These have been long-running concerns in our engagement with investee companies on global health.

We are a member of the External Review Committee of the Access to Medicine Foundation, a well-regarded not-for-profit organisation which conducts research into pharmaceutical companies' sustainability practices. We have leveraged this position to conduct extensive in-depth engagement with the sector in recent years. This meant that when the pandemic struck, we were able to engage companies on their COVID-19 response in an efficient and positive fashion.

We engaged 28 healthcare companies on these issues in the first half of 2020, calling for them to: share COVID-19 related intellectual capital; assist with manufacturing capacity to scale-up production of effective treatments; and to set affordable prices. This included a collaborative investor initiative which saw us write to major pharmaceutical firms alongside more than 60 other financial institutions. We also delivered direct positive impact by becoming a major donor to the Access to Medicine Foundation[2].

Issue: Human capital management

Engagement detail: The COVID-19 crisis has put human capital management practices by companies under the spotlight. As the lockdown took hold, we engaged with a range of corporations experiencing the pandemic in different ways, urging them to ensure that they deployed support systems to their workers during the crisis.

We were encouraged to see that many companies immediately prioritised the health and well-being of employees. Those with which we had discussions represented a range of industries and provided different solutions to their employees. These ranged from: an immediate shift to home-working; adequate health and safety protection for workers who had to work away from home; and specific additional pay or bonus for staff at higher risk of infection – such as those working in shops and warehouses. Our discussions revealed that some firms had learnt valuable lessons from past crises, where there had been severe operational disruption (such as major natural disasters), or more recently from any Wuhan-based factories/offices which had shut down earlier in the coronavirus' course. Unsurprisingly, our engagements around employee treatment with companies in heavily affected sectors such as aviation were difficult – many were considering potential staff redundancies.

[2] https://www.axa-im.com/content/-/asset_publisher/alpeXKk1gk2N/content/axa-im-to-partner-with-the-access-to-medicine-foundation-and-develop-a-philanthropy-mechanism-on-its-impact-fund-range/23818

Issue: COVID-19 Bonds: Financing the pandemic fight

Engagement detail: We have seen a new breed of use-of-proceeds bonds arrive on capital markets in response to the pandemic, namely COVID-19 bonds. These aim to raise funds for fighting the crisis in two main ways i.e. dealing with the immediate health emergency – acquiring medical equipment and medicines and supporting the economic recovery through financial assistance for businesses. As this market emerged in March, we engaged market participants including COVID-19 bonds issuers.

The COVID-19 bond market was further evidence of the proactiveness with which bond-only issuers (such as multi-lateral development banks) are seeking the views of investors on ESG issues. We clarified our expectations around the transparency of use-of-proceeds bonds and ongoing reporting commitments. We also published our expectations[3] and considerations for investment in these bonds. Our discussions were largely constructive. Issuers demonstrated adequate transparency on the use of proceeds and made commitments to publish reporting, including details of outcomes and impacts of the financing.

Issue: Shareholder rights

Engagement detail: The lockdown started at a time when most companies were making final plans for their AGMs. This meant companies had to adjust rapidly to the emergency, with most deciding to cancel in-person meetings and move ahead with virtual, online AGMs.

We had clear concerns that this situation would result in an erosion of shareholder rights and much of our discussions with companies ahead of votes focused on how open dialogue between investors and the board would be protected in a virtual format. Altogether, most firms committed to protecting shareholder rights and ensuring that investors would get an opportunity to interact with the board. We attended numerous virtual AGMs and all of them allowed some time for a question and answer session. US technology companies were particularly good at making AGM participation technologically easy, where shareholders' written questions were submitted and discussed, and where complete meeting transcripts were made available. These are positive examples. At the same time, there were difficult discussions on issues such as dividend payouts, and companies had to alter plans to deal with regulatory pressure, as well as significant cost pressures and sharply falling revenue. There was also heightened scrutiny on executive pay proposals.

[3] https://www.axa-im.com/content/-/asset_publisher/alpeXKk1gk2N/content/insight-covid-19-how-a-new-breed-of-bonds-can-help-finance-the-fight/23818

All data and statistics sourced from AXA IM as at 31 December 2019, unless otherwise stated

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