

2020 - Quarter 2



Impact Investing News

John McGowan, MBA, CFP®



Close your books. We're having a test.

It's as if *every* business – large and small – was handed the same dreaded pop quiz. Vested stakeholders – employees, customers, shareholders, and communities - are sitting in the Teacher's chair, grading the papers, and finding out who's been doing their homework and who's been day-dreaming. Never have business continuity policies been tested this acutely and broadly as they have by the COVID-19 pandemic. A test where the act of supplying, purchasing, and even being at a place of work can bring horrible health consequences.

ESG factors – measurable environmental, social, and governance qualities of a company – are serving as a valuable tool in this assessment process. ESG ratings help answer stakeholder questions: How well is the company protecting the health and safety of its most valuable assets - its employees and customers? How well was the business able to pivot when its supply chains were disrupted by shutdowns and many workers forced to stay home?

It's no surprise that record levels of dollars have continued to pour into investment funds that use ESG factors in selecting their holdings. Much progress has been made towards securing reliable sources of ESG ratings from providers such as Morningstar and MSCI. Mandala Financial Advisors, at the forefront of this movement, is building portfolios for our clients with ESG mutual funds and exchange-traded funds (ETFs), curated with the goal of achieving the greatest financial, environmental, and social impact.

In our Q2-2020 issue of Impact Investing News we explore how – often in striking ways – businesses and investors have responded to the health and financial risks wreaked by COVID-19.

Record ESG Investment Inflows Continue

Morningstar has released its analysis of U.S.-based ESG investment funds during the COVID-19 crisis. It reported that a record \$10.5 billion flowed into ESG funds during the first 3 months of 2020. Compare that to \$20 billion for the *entire* year 2019. In a recent conference call last week, Morningstar announced April 2020 set a monthly record of inflows, even during the stock market free-fall.

You may be wondering how ESG funds performed during the pandemic. [Morningstar reported](#) that ESG funds year-to-date returns through March showed they outperformed their conventional peers. 70% of all sustainable funds ranked in the top half of all funds, and 44% of sustainable funds ranked in the top quarter of all funds. The factor that contributed most to this outperformance were the ESG ratings of the company stocks held in these funds.

Why the Accelerating Interest Amongst Investors?

The answer lies in two words: **Resiliency** and **Values**.

Resiliency. The recent performance of ESG funds demonstrates their resiliency in the face of extreme volatility. This resiliency comes from investing in companies that manage more material risk factors. For instance, those consumer goods companies with high ESG ratings for their supply chain management and innovation are most likely better prepared to minimize disruptions to their operations when a natural disaster, such as a pandemic, strikes.

Values. Capitalism is evolving. Would companies be able to offer better compensation to their lowest paid employees if CEOs weren't earning [278 times](#) as much on average? Would people of color be at no higher risk of COVID-19 if more were in jobs where healthcare benefits were offered and affordable? People in the 20th century cast their vote for environmental and social change at the ballot box. In the 21st century, people are seeing real change by voting through their investment and consumer choices. Sustainable investing, when done collectively, is a powerful force for changing business behavior. Capitalism can lift the condition of all – the shareholder, the employee, the customer, the community, and the planet.

Faith-Based Values as Sustainable Values

Faith-based groups were some of the first socially responsible investors. In 1758, the Quakers prohibited members from participating in the slave trade. John Wesley (1703–1791), a founder of Methodism, encouraged his followers to do no harm to their fellow man through their business practices and avoid industries such as tanning and chemical production which can harm the health of workers.

This legacy continues today. Pope Francis, leader of the Roman Catholic Church, has been a vocal critic of the traditional model of capitalism – shareholder return at all cost. In response to the COVID-19 crisis ravaging the poor and vulnerable, he stated, “Greedy for profit, we let ourselves get caught up in things and be lured away by haste, ... we were not shaken awake by wars or injustice across the world, nor did we listen to the cry of the poor or of our ailing planet.” U.S.-based Catholic institutions recently committed to investing **\$40 billion** in sustainable investments targeting the crises of climate change and social inequity.

“S” is for Social Justice

Prior to the COVID-19 crises, businesses wakening to ESG risks were primarily focused on environmental risks (i.e. the “E”) from the effects of climate change. The acuteness of today’s pandemic has now pushed social risks (i.e. the “S”) to the top. ESG investors are monitoring corporate behavior as businesses navigate the deep social risks associated with this crisis.

Paid Sick Leave – [43% of America's top employers](#) have expanded their paid sick leave policies since the onset of the pandemic. Some are offering it for the first time. Given 24% of Americans don’t have access to paid sick leave, the current crisis presents businesses the opportunity to improve their labor practices by providing such incentives for sick employees to stay home and help prevent risks of mass employee illness and facility shutdowns.

Stakeholder Safety – It’s in the interest of every business to keep their stakeholders healthy. Starbucks is working on offering [more cashless options](#) for purchases, helping keep customers and baristas safer by removing the handling of cash. Look for more retailers to pursue cashless transactions going forward.

Pay Equity – As of April 22, 27% of executives in the top 100 U.S. employers are taking pay cuts to demonstrate they are shouldering part of the financial burden in the face of worker layoffs. Cuts have mostly been in salary and bonuses, not in corporate stock which comprises the lion’s share of an executive’s compensation. Still, under stakeholder pressure, more companies are expected to cut executive pay in the coming weeks and months.

Communication – When the media revealed that many big businesses well-positioned to ride out the pandemic had taken PPP (Personal Paycheck Protection) funds intended for more fragile small businesses, there was a swift backlash. Being transparent with stakeholders about applying for those funds, and why they were deserved, would have saved companies, such as [Shake Shack](#), from public shaming.

Verizon is an “A” Student

[Verizon](#), as a forward-looking business leader, was clearly doing its ESG homework and deserves a gold-star on its response to the COVID-19 pandemic. Here are some of the actions it's taken:

- Gave first-responders priority access to their network
- Implemented a work-from-home strategy for the majority of its workforce, limiting those in the field to essential workers needed to keep the network operating
- Closed or reduced hours at stores to balance critical customer need with employee safety
- Waiving all late fees and not terminating services for those residential and small business customers who cannot pay their invoices due to financial hardship caused by COVID-19.
- Created a \$7.5 million recovery fund providing direct support of small businesses affected by COVID-19.

Tyson Gets an “F”

[Tyson exemplified a company ill-prepared for an employee health crisis](#). The meat-packing industry has been consolidating for years, creating mega-plants with lines that operate so fast that it requires workers to stand shoulder-to-shoulder to keep up. Production workers earn about \$13 per hour with no paid sick-leave benefits; if you don't show up at work, you can't feed your family. Close proximity, low pay, and no sick leave added up to a recipe for disaster in the face of highly infectious COVID-19. Meat producers have created hotspots of COVID-19 spread. We'll have to wait and see if the federal government steps in with guidelines that protect workers and the national supply of animal protein. So far, the current Administration is simply demanding meat producers keep plant's open, with no policy for managing the virus spread.

Check out our recent [“little goat” blog entry](#) to learn more about “social washing” in the context of Tyson's current public relations disaster.

Pandemic Ignites Innovation for Social Good

“Necessity is the mother of invention.” The COVID-19 pandemic has ignited a streak of innovation well beyond big pharma's “Battle of the Stars” competition for a vaccine.

- **Ventilators** - On the onset of the virus, a team of researchers at the University of Illinois at Urbana-Champaign rushed to develop a new emergency portable breathing machine. UIUC engineers made plans for their prototype available for free, in hopes that a manufacturer would quickly begin to produce the devices. Six weeks later, it's happening. Los Angeles-based electronics company Belkin is collaborating with the university to produce the FlexVent. Check out this [New York Times podcast](#) to better understand how conventional capitalism and dysfunctional governance decimated our ventilator stockpile long before COVID-19 hit the radar. It's fascinating.
- **Personal Health Monitors** – Never one to miss an opportunity to extend the Mac product line, Apple is enhancing the Apple Watch to be an [early-warning COVID-19 device](#) that measures the wearer's oxygen level and sends a warning if it drops too low, often prior to the user being aware it's happening.

- **E-Learning** - With 1.38 billion young people out of school during pandemic lock-downs, e-learning platforms – virtual tutoring, video conferencing, language apps - are surging in popularity. Zoom served many schools in a pinch. But the pandemic is accelerating innovation in the digital e-learning space. Most experts believe schools will permanently move to a hybrid learning model using both in-person and virtual channels. Still, this solution only works if the student has high-speed access, often beyond the means of less privileged families.
- **Telemedicine** – As the virus bore down, healthcare providers rapidly turned to telemedicine solutions – web conferencing between doctor and patient – as a way to keep up with crushing demand and to keep COVID-19 from spreading out of control in their offices. Until now, Telemedicine has been mostly focused on treating rural populations where medical providers are in short supply. Now, seeing its benefits amidst a contagion, experts are anticipating telemedicine will permanently transform the healthcare delivery model. Insurers have been an obstacle, but are beginning to soften their stand against covering virtual consultations.
- **Pot...yes, that kind** – COVID-19 appears to be pushing cannabis closer to national legalization. Eight states deemed recreational cannabis essential during shutdowns. Cannabis CEOs are positioning their growth industry as a key driver in economic stimulus through job creation and tax revenue. The average consumer purchase at the register in late March [increased by 47%](#).

What's Old is New Again

General Mills has seen a 60% increase in canned goods sales during the pandemic. The reason? Customers want to make fewer trips to the grocery store where social distancing can be difficult. Canned goods are easy to store and have a long shelf life. And they're "greener" than you would expect. General Mills uses cans made from [70% recycled material](#).

General Mills was also able to use the experience it gained from its plants in China to proactively protect its workers in the U.S. when COVID-19 first hit. Now it can hardly keep up with consumer demand and is hiring line workers and office staff to find more workers. That's resilience!

Plant-Based Protein Surges

The U.N. promotes, "Flexitarianism," the reduced consumption of meat in our diets, as an important step towards achieving sustainable production and consumption. Meat *production* is known for its heavy toll on the land, air, and biodiversity. Meat *consumption*, when eaten in large portions over time, is known to cause serious health effects. Some good news: The pandemic has accelerated the demand for meat-substitutes. While the U.S. government forced meat producers to remain open, sales of plant-based proteins have climbed as much as 200% since the onset of the pandemic...and it's caught investor attention. Impossible Foods, the maker of Burger King's plant-based Impossible Whopper, raised \$500 million in capital even as the stock market plunged in March. InnovoPro, an Isreal-based startup deriving protein from chickpeas, and Plantible Foods, which extracts proteins from Duckweed, just collectively raised [\\$20 million](#) in venture capital.

Importantly, China, with 60% of the world's population and the largest pork consumer, is warming up to plant protein. Starbucks recently launched a line of plant-based "pork," produced by Hong Kong's Omnipork,

in its [4,200 shops across China](#). This is good news given China's history of outbreaks of infectious disease in its domestic and wild animal populations and the risk of being passed to humans.

Opportunity for Environmental Reset

Climate scientists may never again have access to the real-life data they've been capturing over the past few months. As global economies shut down due to COVID-19, greenhouse gas emissions fell an [unprecedented 17% in April](#). The Indian capital of New Delhi, known for having some of the most polluted air in the world, is revealing vistas of mountains and skylines after decades of obscurity. Cities such as Washington, D.C., Philadelphia, New York and Boston have reported a 30 percent decrease in air pollution from the year prior. China has seen a 40% reduction in nitrogen dioxide, a pollutant generated from burning fossil fuels, and the UK dropped its level of nitrogen dioxide even further by 60 percent. In Venice, normally teeming with tourists and boat traffic, cloudy canals have become sparklingly clear and natives are enjoying [views of fish and dolphins](#) in the canals.

These drops in greenhouse gas emissions and pollution are allowing the environment to begin repairing itself in dramatic ways. It's also giving climate change scientists data to better understand the extent and speed that change must take place to slow and reverse the build-up of harmful emissions to avoid catastrophic and irreversible damage to our planet. A 2019 United Nations report estimates global greenhouse emissions must fall by 7.6% **each year** to achieve current goals. A pandemic shutdown is only temporary and if permanent climate action isn't taken, emissions will return to their annual rise of 1.5%.

Some governments and jurisdictions are already holding discussions on how to rebuild their economies in concert with environmental initiatives. German Chancellor [Angela Merkel is challenging EU members](#) to set up economic stimulus programs for businesses with incentives for reducing carbon emissions. Merkel says governments should pull in private-sector investors through financial markets in order to fund the costly shift towards a more climate-friendly economy. Expect to see more European green bonds hitting the market.

In California, the fifth-largest economy in the world, Governor Gavin Newsom announced he has set up a [98-member task force](#) with representation from business, labor, government, philanthropy, and academia, to help rebuild the economy that better represents social and environmental justice. His spokesman said the task force will be co-chaired by Newsom's chief of staff, and former presidential candidate Tom Steyer, who will, "ensure the recovery plan is equitable, green, and lifts up under-resourced communities hit hardest by this pandemic."

What's Next? You Are.

The acuteness of the health and financial crisis caused by COVID-19 has demanded global entities focus and cooperate in ways we have rarely seen. The COVID-19 and climate crises have one striking similarity – both know no border or boundaries. And how do they differ? A COVID-19 vaccine will likely be found within a year. Climate change solutions will demand the same intensity and commitment, but over decades.

It's still too early to know how economies will take shape over the next few years of fiscal recovery. But these types of opportunities to rally support for investment in green infrastructure for a more sustainable future rarely come in a lifetime. "Never allow a crisis to go to waste," Rahm Emanuel recently said, repeating a quote he made famous while serving as President Obama's advisor. "Start planning for the future."

It's easy to feel helpless in the face of a crises. But don't despair. You can be part of the solution. Begin by contacting your representatives in Washington D.C. to let them know you want to see green infrastructure and green jobs as the centerpieces of the recovery from our current economic crisis. And if you have a dollar to invest, put it in sustainable funds. Capitalism is evolving. Business leaders have begun to understand an unhealthy environment and an unjust economy is business without a future. It's a swelling wave that neither this Administration, nor any future one, can successfully hold back.

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