



People often say a crisis brings out the best and worst in people, and we have seen the same in companies during the pandemic. Source: iStock/Getty Images International.

Sustainable theme focus: Covid-19 highlights the importance of responsible capitalism

In recent decades, capitalism's focus has become one dimensional: to generate financial returns for shareholders with little to no accountability of a corporate's impact on society and the environment. However, more corporates are broadening their "purpose" to include the impact their operations and products have. This has been referred to as "responsible capitalism", where *all* stakeholders are considered in the running of a business – employees, customers, suppliers, communities and the environment, not just shareholders.

People often say a crisis brings out the best and worst in people, and we have seen the same in companies. Mastercard has responded to the pandemic by committing to provide \$250 million in small business support, mostly in the form of cyber vulnerability assessments and identity theft protection³ – two things that have become key as shops remain closed and retail moves online. Another example, this time not held in the portfolio, is Facebook whose Small Business Grants program will give more than \$100 million to 30,000 small businesses across the globe.⁴

In contrast, we've seen price gouging of goods such as hand sanitiser and face masks, which surely shows the worst in companies attempting to take advantage of public fear. Amazon has removed 500,000 items due to "Covid-based price gouging" and suspended 6,000 accounts for breaching fair pricing policies.⁵

Another clear example showing the best and worst of companies can be seen in Western apparel brands. These companies have a responsibility for millions of factory workers in countries such as Bangladesh and India, and during

this crisis should be honouring existing orders. But many have not done this, meaning suppliers unable to bear the financial burden have had to lay off or suspend millions of workers, often without pay and severance, pushing an already precarious group to greater economic vulnerability. We are pleased to see that the companies held in GSO, such as Adidas, are honouring their commitments as tracked by the Worker Rights Consortium.⁶

In another area of corporate life there is the question of dividends, which are

close to investors' hearts and now a matter of hot debate. Whose should be cut and by how much? The answer is not simple as pension schemes globally depend on dividend income to provide regular payments to retirees. Without these payments they could be forced to liquidate assets at a time when the market is reeling from the impacts of the pandemic, potentially threatening the system's financial stability. On the other hand, companies whose revenues have been hit, and those such as banks who are systemically important and could use their cash to support vulnerable businesses, should focus their efforts in these areas. EssilorLuxottica, a leading producer of ophthalmic lenses and one of our holdings, has cut its dividend to protect its balance sheet after a tough quarter and finance a crisis fund for its employees, a move we fully support.

Ecolab has also demonstrated its commitment to its employees. Executives have taken pay cuts in order to supplement sales teams' incomes, some of whose

customer base (restaurants and hotels) are in complete lockdown leading to a collapse in new business. This is something that could cause financial ruin when typical sales team salaries are 50% commission based.

Another tool used to boost shareholder returns, and in turn management incentives, are share buybacks. Companies have previously done this even if it meant sacrificing business investment or leveraging corporate balance sheets to do so. However, as government funds are being deployed to save companies, such practices are coming under increased scrutiny. Indeed there has been political commentary on why this may be regulated going forward, such as this from Chuck Schumer, a US Democrat leader:

"One of the reasons industries are so short on cash right now is that they have spent billions buying back their own stocks instead of investing in their workers and saving for a rainy day. That needs to be addressed NOW."⁷

The actions taken by companies over this period – to support employees, customers, suppliers and local communities – show a new type of responsible capitalism. It also shows an understanding that by looking after the surrounding community, despite potential short-term costs, they strengthen their corporate landscape in the future. As long-term investors, actions like these give us confidence that the companies we invest in are likely to weather the storm.

³ Mastercard press release, Mastercard Commits \$250 Million To Support Small Business' Financial Security, 7 April 2020.

⁴ Forbes, Vistaprint, Facebook, Verizon, More Offer COVID-19 Grants To Small Businesses, 16 April 2020.

⁵ CNBC, Amazon removes hundreds of thousands of 'high-priced offers' amid coronavirus price gouging, 6 March 2020.

⁶ www.workersrights.org/issues/covid-19/tracker

⁷ Chuck Schumer, Twitter (@SenSchumer), 18 March 2020.

Company Q120 sustainable impact highlights

We took advantage of the market sell-off to initiate three new positions in the strategy. These were:

Company	Sustainable Category	
	<p>Advanced Contributor</p>  <p>Sustainable Resource Management & Transformation</p>	<p>Akzo is one of the global leaders in paints and coatings with more than 50 top global brands including Dulux. It views sustainability as a clear business opportunity, classifying all its R&D as sustainable. It is leading its peers both in reducing potentially hazardous chemical content and using recycled paint as an input. Its product range includes innovative sustainable paints such as "forest breath" which is bio-based and captures pollutants.</p>
	<p>Sustainable Leader</p>  <p>Health, Wellbeing & Food Security</p>	<p>Danaher is a global science and technology innovator focusing on life science tools, diagnostics and environmental solutions such as water quality treatment. It is committed to improving quality of life around the world with all its segments united by a shared purpose: "to help realise life's potential".</p>
	<p>Sustainable Leader</p>  <p>Regeneration & Infrastructure</p>	<p>Kingspan manufactures high performance insulation solutions, building envelope technologies and renewable hot water systems for the construction industry. It is benefiting from the structural growth in demand for low-energy building solutions, particularly driven by tighter energy-efficiency regulations.</p>

Source: Columbia Threadneedle Investments analysis/internal reports, 28 April 2020. The mention of any specific shares or bonds should not be taken as a recommendation to deal. All intellectual property rights in the brands and logos in this slide are reserved by the respective owners.

To find out more visit
COLUMBIATHREADNEEDLE.COM



Important Information. For internal use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients). Past performance is not a guide to future performance. Your capital is at risk. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. This material is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide investment advice or services. Where references are made to portfolio guidelines and features, these are at the discretion of the portfolio manager and may be subject to change over time and prevailing market conditions. Actual investment parameters will be agreed and set out in the prospectus or formal investment management agreement. Please note that the performance targets may not be attained. The analysis included in this document has been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. Any opinions expressed are made as at the date of publication but are subject to change without notice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. This document includes forward-looking statements, including projections of future economic and financial conditions. None of Columbia Threadneedle Investments, its directors, officers or employees make any representation, warranty, guaranty, or other assurance that any of these forward looking statements will prove to be accurate. The mention of any specific shares or bonds should not be taken as a recommendation to deal. This document and its contents are confidential and proprietary. The information provided in this document is for the sole use of those receiving the document. It may not be reproduced in any form or passed on to any third party without the express written permission of Columbia Threadneedle Investments. This document is the property of Columbia Threadneedle Investments and must be returned upon request. This document is not investment, legal, tax, or accounting advice. Investors should consult with their own professional advisors for advice on any investment, legal, tax, or accounting issues relating to an investment with Columbia Threadneedle Investments. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparty and no other Person should act upon it. Issued by Threadneedle Asset Management Limited, registered in England and Wales, No. 573204. Registered Office: Cannon Place, 78 Cannon Street, London EC4N 6AG. Authorised and regulated in the UK by the Financial Conduct Authority. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.
columbiathreadneedle.com Issued 05.20 | J30592 | 3062873