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Asset Owners are Adapting ESG Frameworks to Respond to COVID-19

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Scott Kalb is the Founder and Director of the Responsible Asset Allocator Initiative at New America, dedicated to mobilizing capital toward responsible investing and supporting the United Nations Sustainable Development Goals. The RAAI publishes the “Leader’s List: The 25 Most Responsible Asset Allocators” in the world. Mr. Kalb is the founder and CEO of KLT Advisors, a firm dedicated to working with the sovereign and government fund community on long-term investment solutions. In addition, Mr. Kalb serves as the Chairman of the Sovereign Investor Institute, a membership organization of Institutional Investor and leading forum for sovereign and government funds around the world.

About New America

We are dedicated to renewing the promise of America by continuing the quest to realize our nation’s highest ideals, honestly confronting the challenges caused by rapid technological and social change, and seizing the opportunities those changes create.

About Responsible Asset Allocator Initiative

RAAI is focused on mobilizing capital from the world’s largest institutions toward responsible investing and the achievement of the Sustainable Development Goals of the United Nations.

Asset Owners are Adapting ESG Frameworks to Respond to Covid-19

The Responsible Asset Allocator Initiative (RAAI) at New America finds that 25 leading public pension and sovereign wealth funds, with assets of \$6 trillion, are investing tens of billions of dollars in COVID-19 solutions and in funds to support stricken companies.

One thing the global COVID-19 pandemic has made abundantly clear is that health-care policy and economic policy are inextricably intertwined. We have seen tremendous damage inflicted on the global economy, not to mention terrible loss of life, as many elected officials have been unable and sometimes unwilling, to respond to the crisis with steadfast leadership and effective policies.

Asset owners charged with safeguarding national wealth and growing long-term savings cannot afford to sit on the sidelines during this pandemic. They must adapt their environmental, social and governance (ESG) frameworks to respond effectively to the crisis or suffer potentially far-reaching consequences in their portfolios. The pandemic is forcing asset owners to recalibrate their thinking about the financial system and its fragility in the face of shocks that threaten the collective well-being of society. Such risks include not only disease, but also social injustice, racial inequality and climate change.

COVID-19 TRACKER

The Responsible Asset Allocator Initiative (RAAI) at New America analyzed how **the top 25 RAAI Leaders in responsible investing** are responding to the COVID-19 crisis. The RAAI found that the Leaders, composed of public pension and sovereign wealth funds controlling \$6 trillion in AUM, are adapting their ESG frameworks to meet challenges created by the pandemic. The RAAI created a COVID-19 Tracker looking for actions taken in response to the crisis under six ESG criteria:

1. **Disclosure:** Is the asset allocator providing critical disclosures to stakeholders and beneficiaries on business continuity during the crisis?
2. **Commitment:** Is the asset allocator sticking with its responsible investing principles and maintaining a long-term investment horizon?
3. **Intention:** Is the asset allocator adapting its portfolio to respond effectively to the COVID-19 crisis?

4. **Accountability:** Is the asset allocator supporting portfolio companies that prioritize employee safety, job security, and relief for supply chains, even at the expense of short-term profits? Is it holding companies accountable?
5. **Partnership:** Is the asset allocator working with others to fight against the pandemic?
6. **Impact:** Is the asset allocator investing in COVID-19 solutions, for example tests, equipment, and medications? Is it supporting local businesses or global firms impacted adversely by the crisis?

CONCLUSIONS

Only six months have passed since COVID-19 became a global pandemic, but already most of the asset allocators tracked in the RAAI study are moving quickly to adapt their ESG frameworks and take concrete actions in the fight against COVID-19. You can follow the actions taken by the leaders by clicking the links provided in the tracker table below.

Over two thirds of the asset allocators tracked in the study reiterated their commitment to ESG principles and long-term investing, provided critical disclosures to stakeholders on COVID-19, adjusted their portfolios in response to the crisis, and joined partnerships in the fight against the pandemic. Most impressively, one third of the asset allocators examined had already invested tens of billions of dollars into COVID-19 solutions and into funds to support companies stricken by the pandemic. The pandemic is leading asset allocators to take a hard look at investing more heavily into the “S” factor in their ESG frameworks, in addition to environmental considerations.

TRACKER RESULTS

Topping the list of RAAI leading asset allocators responding to the pandemic were two Dutch pension funds—**APG** (AUM \$570 billion) and **PGGM** (AUM \$329 billion)—which both scored a perfect 100 percent across the six criteria in our COVID-19 tracker. Other top scoring asset allocators in the fight against COVID-19, included the **AP Funds** (AUM \$180 billion) of Sweden, **CDPQ** (AUM \$251 billion) and **OTPP** (AUM \$160 billion) of Canada, **Caisse des Depots** (Book Value \$459 billion) of France, **NBIM** (AUM \$1.1 tn) of Norway and **NZSF** (AUM \$30 billion) of New Zealand.

Disclosures on Business Continuity: Twenty-one of the 25 Leaders tracked, or 84 percent, provided information on office closures, pension payment

schedules, withdrawal or contribution options during the crisis, and links to helpful websites on COVID-19. **CDPQ** gets special mention for imposing a salary freeze and postponing bonus payments for senior executives, to show solidarity with beneficiaries during the crisis. **AP3** (AUM \$45 billion) of Sweden took a contrarian view, publishing a statement urging an early reopening of the economy, in March 2020, despite COVID-19.

Commitment to ESG and Long-term Investing: Seventy-five percent of the asset allocators analyzed stressed maintaining a long-term approach to investing, sticking with ESG principles and investing in a sustainable recovery during and after the crisis. For example, **NBIM** published a guide for voting on sustainability issues and **GPIF** (AUM \$1.6 trillion) of Japan published a stewardship report. Other asset allocators doubled-down on climate change action, including **PensionDanmark** (AUM \$30 billion) of Denmark which committed to a renewable energy fund, and **RPMI Railpen** (AUM \$32 billion) of the U.K. which invested in wind farms.

Intentionality and Portfolio Adjustments: Eighty-four percent of funds took actions such as adding or reducing risk in response to the crisis, searching for unique investment opportunities and shifting exposure to asset classes. For example, **Australian Super** (AUM \$119 billion) of Australia shifted to credit and private equity in response to the crisis while **Caisse des Depots** adjusted its housing portfolio. **NBIM** continued its exclusion program, eliminating more coal and energy companies from the portfolio while **PGGM** expanded its investment into healthcare.

Making Portfolio Companies Accountable: Only 4, or 16 percent of the 25 asset allocators examined, showed support for companies taking socially responsible actions that could have negative impacts on short-term performance. For example, **APG** demanded that Amazon account for worker safety measures during the pandemic while **AP4** (AUM \$46.4 billion) of Sweden expressed willingness to forego dividends from companies hurt by COVID-19.

Partnerships Against COVID-19: Two-thirds of the Leaders joined collaborative efforts in the fight against COVID-19. For example, over 100 Canadian CEOs, including **BCI** (AUM \$153 billion), **CDPQ**, **CPPIB** (AUM \$324 billion) and **OTPP**, signed a letter urging Canadian firms to care for employees during the crisis even though “this could have significant economic impact on businesses in the short term.” Another example, four asset allocators, **AustralianSuper**, **BCI**, **APG**, and **PGGM** formed a coalition to launch a green ESG investing tool during the period.

Impact Investing in COVID-19 Solutions: A third of the asset allocators tracked are investing into COVID-19 solutions and into funds to support companies impacted by the crisis. For example, **CDPQ** established a CAD \$4 billion fund to support Quebec businesses temporarily affected by the COVID-19

pandemic; **ISIF** (AUM \$20 billion) from Ireland created a EUR \$2 billion fund to support medium and large Irish firms; **APG** invested over EUR 550 million in COVID-19 bonds; **Khazanah** is considering investing up to \$1.2 billion into hard-hit Malaysia Airlines; and **Caisse des Depots** of France not only issued a COVID-19 bond but also is investing up to EUR \$42 billion in listed French companies impacted by COVID-19.

RAAI Leaders' Response to the Coronavirus								
Name of Fund	Country	AUM (US\$bn)	Disclosure: Business Continuity	Commitment: ESG/Long-termism	Intention: Portfolio Adjustments	Accountability: Evaluating Companies	Partnership: Against Covid-19	Impact: Investing in Solutions
AIMCo	Canada	\$88	Measures to respond to Covid-19		Measures to deal with market volatility, Reassuring stakeholders on fund performance			
AP Funds	Sweden	\$180	AP3: We must get things moving, AP3: focus on the economy, not Covid-19, AP4 discusses brutal impact of Covid-19 on the economy		Sweden boosts buffer funds' ownership cap	AP Funds debate dividends versus executive pay at Spanish company, AP4 evaluating dividends case by case	API joins 90 European firms demanding sustainability in economic recovery	
APG	Netherlands	\$570	Joint statement on Coronavirus response, APG in media campaign to keep business travel to minimum	Reaffirming commitment to long-term investing, Anchoring investment policy with long-term approach, APG calls on government not to ignore large polluters, Australian and Canadian pension funds join Dutch SDI platform – IPE.com	APG looking for opportunities during the crisis	Ensuring accountability towards social needs, Guidance on corporate expenditures and social/sustainable bonds, APG calls on Amazon to explain Coronavirus protection measures	Investor statement on coronavirus response, APG partners with BCI, Australian Super, and PGGM to launch green investing tool for SDG	APG invests over half a billion in Covid-19 bonds
AustralianSuper	Australia	\$119	Measures to respond to Covid-19, Information on early withdrawals, Australian super funds troubled by rush for second withdrawal under coronavirus rules	Advice to members on long-term investing	Impact of Coronavirus on performance, AustralianSuper seeks credit and PE amid pandemic		Australian Super partners with APG, BCI and PGGM to launch green investing tool for SDG	
BCI	Canada	\$153	Measures to respond to Covid-19, Covid-19 Safety Plan	Taking stake in water company	BCI shifts portfolio during Covid-19		Commitment to sustainable capital markets, Open letter to Canadian companies regarding Covid-19, BCI partners with APG, Australian Super, and PGGM to launch green investing tool for SDG	
Caisse des Depots	France	\$459	Measures to respond to Covid-19	Promoting quantitative biodiversity metrics, Mobilizing budget for the tourism industry, Integrating biodiversity into the post-Covid recovery, Reaffirming commitment to sustainability during Covid-19	Caisse des Depots adjusts housing portfolio during pandemic		Caisse des Depots signs letter committing to green recovery	Supporting French listed companies impacted by crisis, Supporting French tourism companies BPI issues Covid-19 bond
CalPERS	US	\$338	Measures to respond to Covid-19, Information on family leave during pandemic, FAQ about CalPERS and Covid-19, How CalPERS addresses Covid-19		Managing public pension funds in the time of pandemic, Risk mitigation strategy nets \$11 billion, CIOs ride the corona storm, Coronavirus side effect: CalPERS Drops to 60% Funded			

CalSTRS	US	\$239	Measures to respond to Covid-19 resources, CalSTRS increases state's supplemental contribution rate, Assuring pensioners on long-term performance, Employee information: Effects of School Closures	CalSTRS renews focus on ESG, engagement and Covid-19 response, CalSTRS says climate change is portfolio threat	Covid-19's negative impact on public pension systems	Co-founder of Sustainable Capital Markets Partnership	
CDPQ	Canada	\$251	Measures to respond to COVID-19, Executive salary freeze, bonuses postponed	CDPQ renews commitment to achieving carbon neutral portfolio	New appointment to face global economic challenges, CDPQ buys stock during crisis	Open letter to Canadian companies regarding Covid-19	Creates \$4bn fund to support local Quebec companies, CDPQ increases support for protective gear maker Medicom
CPPIB	Canada	\$324	Reassuring members on long term performance	Reassuring members on long term performance	Navigating market meltdown & volatility, impact on retirement funds: assurance on performance, CPP adds \$17B to assets despite pandemic, Coronavirus Risks Manageable for Canadian Pension Funds	Open letter to Canadian companies regarding Covid-19	
ERAFP	France	\$34.4	ERAFP continuity of pension payments	Tenders for €125bn in US SRI, ESG equities		ERAFP Joins UN-Convended Net-Zero Asset Owner Alliance	
FRR	France	\$37	FRR faces liability changes in COVID-19 social security debt plan	Reforms to lead to greater equity, illiquid, ESG investments	Ramping up equity exposure, Equity, illiquid investments delayed due to Covid-19 crisis		
GPIF	Japan	\$1,600		GPIF joins GRESB to increase ESG information disclosure, GPIF fifth stewardship report	GPIF increases foreign bonds by 10%, GPIF reports fiscal year decline on coronavirus hit	Launching initiative to promote Green Bonds, Co-founder of Sustainable Capital Markets Partnership	
ISIF	Ireland	\$19					Creates EUR2bn Pandemic Stabilisation and Recovery Fund
Khazanah	Malaysia	\$22		Khazanah reaffirms ESG commitment	Shopping for good investments abroad during Covid-19, 2020 to be challenging after profitable 2019, Khazanah Chief restructures portfolio		Khazanah considers providing up to \$1.2 bn to Malaysia Airlines Aid
NBIM	Norway	\$1,078	NBIM holds regular meetings to deal with COVID-19 situation	Publishes guide for voting on sustainability proposals, Publishes special report on climate finance	Drawing down on oil revenues to ease Coronavirus impact, Excludes coal companies, Excludes energy companies	NBIM publishes guide to improve impacts on children in apparel industry	UNICEF, NBIM guidance for businesses on prioritizing child rights in global supply chains
NZ Super Fund	New Zealand	\$30	Measures to respond to Covid-19	Maintaining commitment to long-term investing, Investment into waterfront land, NZ Super acquires New Zealand pathology business APHG	Guardians publishes white paper on Portfolio Completion	Encouraging social media to control objectionable content	OTPP, NZSF acquire Covid-19 tester Asia Pacific Healthcare Group
OTPP	Canada	\$160	Measures to respond to Covid-19	OTTP and Wellington expand research into climate change, OTTP backed Cubico buys windfarms in Greece	OTTP buys stock during crisis	Open letter to Canadian companies regarding Covid-19	OTPP, NZSF acquire Covid-19 tester Asia Pacific Healthcare Group
PensionDanmark	Denmark	\$37	How will the Corona crisis affect pension?	Committing to latest renewable energy infrastructure fund	Unlisted assets perform during Corona crisis	Joining the Letter to World Leaders for net zero Covid-19 recovery plan	
PGGM	Netherlands	\$329	Implementing ESG during a crisis	PGGM supports forests for climate neutral recovery	Investing in healthcare to do well and do good	Impactful companies stabilize portfolio during pandemic	Collaboration in pharma industry for Covid-19 solutions, PGGM partners with BCI, Australian Super, and APO to launch green investing tool for SDG



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