# Foreword

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Although the second quarter of every year is dominated to some extent by company annual general meetings (AGMs) and the proxy voting season, this year has been particularly notable. Details of our voting focus over the period are summarised later in this report, but the story of this year has been more involved than usual.

The coronavirus pandemic, social distancing and lockdowns have made for an unusual season, with the need for remote AGMs and responses to other challenges facing our companies. This has had a significant impact on the focus of our collaborative work in particular. As the crisis developed, considerable time was dedicated to consulting with other capital markets stakeholders.

## Examples of this work include:

- Collaborating with other market participants in the UK's Pre-emption Group to help put in place special arrangements to enable affected companies to raise significant amounts of capital quickly and effectively in response to the crisis.
- Working with counterparts at the Investment Association (the UK's trade association for the Investment Management industry) to provide companies with guidance and comfort on the approach investors could take across a range of issues, including financial reporting, AGMs and dividends.
- Providing input and feedback to regulators and the UK Government via HM Treasury on the above issues, as well as debt covenants, working capital statements and other market dynamics.
- In the equity markets, helping to provide the capital that businesses have needed in the face of the crisis.
- In the debt markets, helping to provide the capital needed to fund Covid-19 responses and initiatives. The developments in the social, sustainability and green bond market have been particularly interesting and are discussed later in this report.

Compared to the global financial crisis, the Covid-19 crisis has already had a significantly more direct and widespread impact on businesses and society. As economies look to reopen, a tendency towards a return to pre-crisis norms will be a possibility, although given the breadth and scale of the impact it is reasonable to expect that behaviours – both individual and corporate – may change, perhaps permanently. The seeds of this are certainly evident from our research and engagement.

Through the crisis we have maintained particular research intensity on the situation playing out. The ongoing collaborations between equity, responsible investment and credit analysts, as well as portfolio managers, have helped to identify some fundamental shifts and changes that are either accelerating or starting.

Now the focus of that work has turned to how, from both a top-down and bottom-up perspective, the world will change over a three- to five-year time horizon, to ensure our investment perspective continues to benefit from that research intensity.

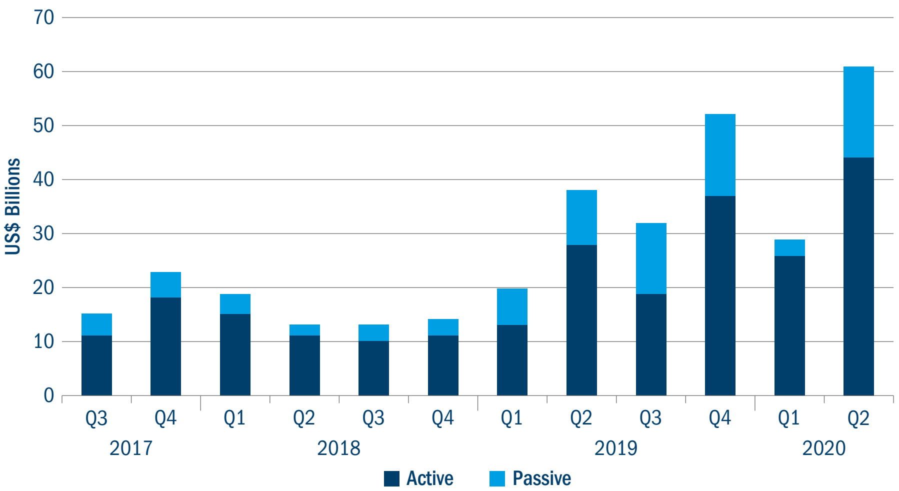
Going into the crisis, the responsible investment world was already facing a tsunami of regulatory initiatives, which is likely to continue. In looking at how policymakers respond to the crisis two themes will be important in shaping the required stimulus:

- Firstly, there has already been a recognition that current policy measures do not adequately address the asymmetric effects of the crisis on the most vulnerable households, which need the most immediate support. It has also highlighted concerns about the medium- to longer-term impact on inequality and sustainability. This provides policymakers an opportunity to build on existing policy work to systematise and prioritise initiatives that support "inclusive growth".
- Secondly, and unsurprisingly, there are clear signs of apprehension about the potential to lose focus on the "climate crisis". However, the risk should not be as great as some fear. Many climate-positive policies are seen to have high overall desirability for policymakers crafting their response to the crisis. The logic is simple: they can have significant benefits as measures of economic stimulus, with high long-run multiplier effects offering a strong return on investment for government.

While responses will not be uniform around the world, we are seeing continued emphasis on sustainability, not least in Europe – both at EU level as well as among local regulators – in continuing to pursue the climate and sustainability reform agenda that pre-dated the crisis. In addition, it appears there is growing investor interest in, and demand for, solutions that incorporate responsible investment approaches.

Supported by the stock market recovery and this heightened interest in environmental, social, and governance issues, a recent report by Morningstar remarks that global inflows into sustainable funds were $71.1 billion for the second quarter of 2020, up 72% on the first quarter. Europe continued to dominate this trend, accounting for 86% of this. Over Q2, flows into European sustainable funds more than doubled to $61.3 billion (Figure 1). It is notable that these flows outpaced the mainstream flows: over the quarter, investors poured €35.1 billion into

**Figure 1: Quarterly European Sustainable Fund Flows (US$ billions)**




Source: Morningstar Direct, as at June 2020.

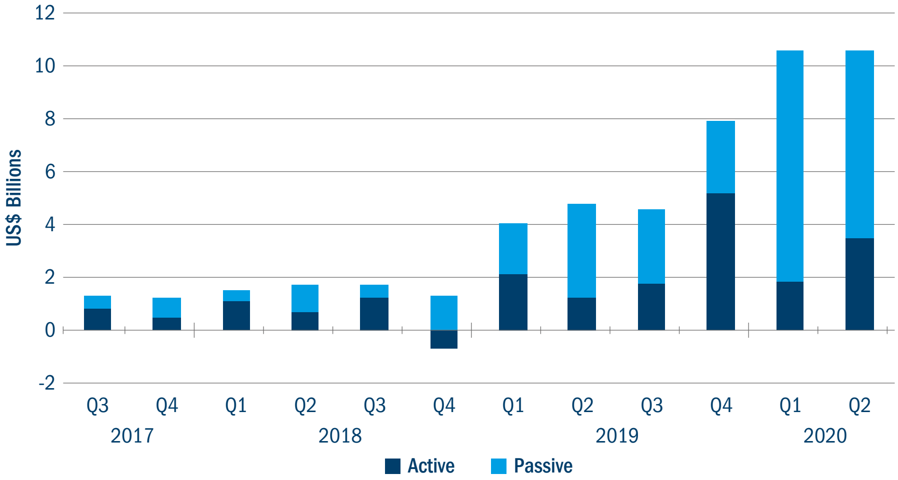
sustainable equity funds, 63% more than in their mainstream equivalents. Although flows into sustainable fixed income funds were also positive, they did lag their mainstream peers. This will, in part, be down to the more limited choice in sustainable bond strategies.

The US, meanwhile, accounted for 14.6% of global inflows. Over Q2 US sustainable fund flows continued to grow at a record pace, with estimated net flows of around $10.4 billion (Figure 2). Of that, investors pumped $5.8 billion into sustainable funds in April, almost all of it to equity funds – the largest monthly flow ever for US sustainable funds.[1] These flows were similar to those in Q1, bringing the total for the first half of the year to $20.9 billion, just shy of the total for the whole of 2019 (US$21.4 billion).

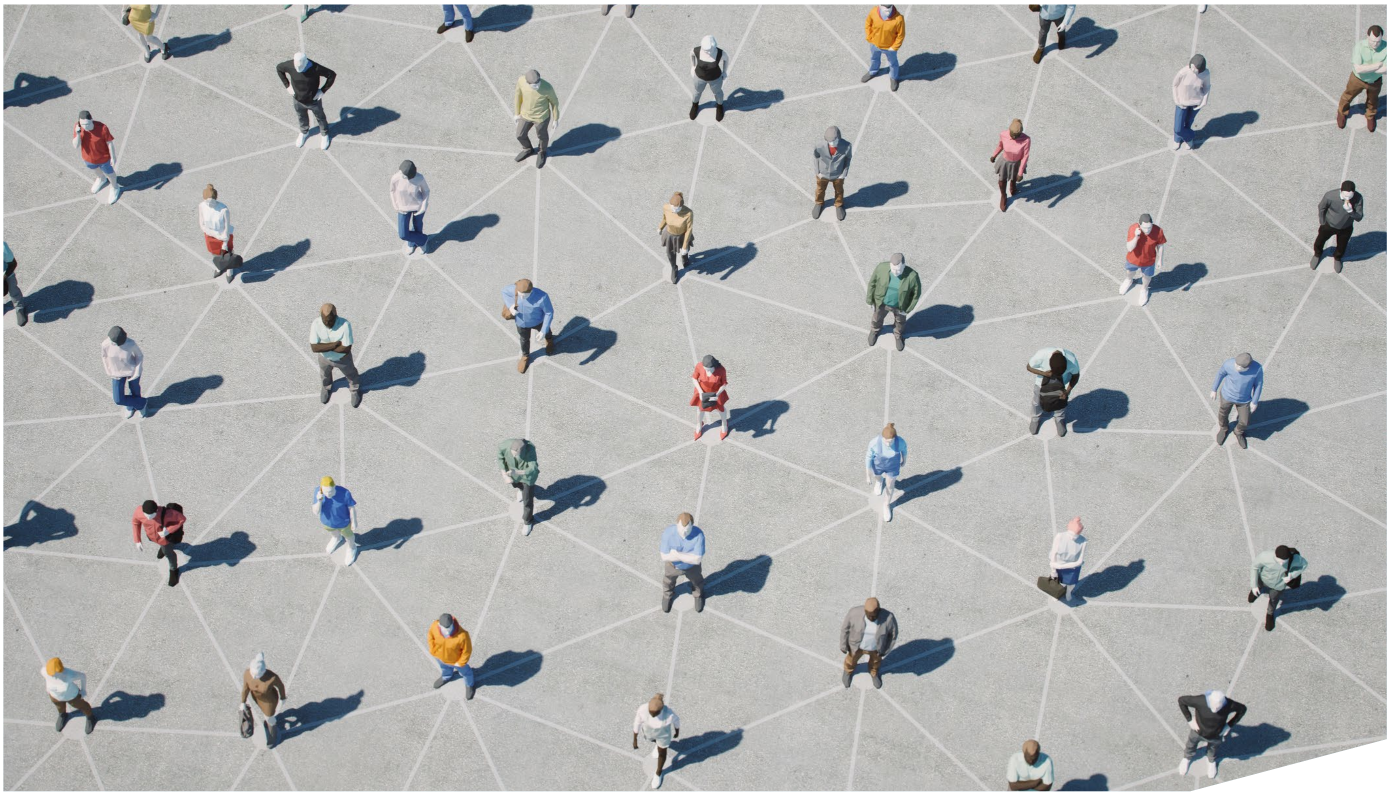
As always, I hope you find the topics and insights in this quarterly report to be informative and helpful. It has been a busy quarter in the responsible investment field, and that is something I don't expect to change given the policy environment and growing levels of investor interest.

**Source:**
1 Morningstar Direct, June 2020.

**Figure 2: Quarterly US Sustainable Fund Flows (US$ Billion)**




Source: Morningstar Direct, as at June 2020.



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