

*Vigeo Eiris'*

*COVID-19 Dataset*



# Introduction

The impact of COVID-19 on the ESG industry has already been profound and multidimensional. The phenomenon has driven a rebalancing in the prominence of social considerations within ESG. Different market participants have remarked upon the resilience of ESG funds<sup>1</sup> during this crisis when compared to a number of traditional ones. There has been lots of discourse on the likely rise of Social Bonds in the recovery phase of the crisis. Our teams have noted how CSR has really come to the fore and been used effectively by a number of companies to ensure their capacity to reach out to their stakeholders during a period of time marked by isolation and distance<sup>2</sup>. The UN-PRI has mobilized investors around a set of short-term principles<sup>3</sup> and the Investor Statement on Coronavirus response<sup>4</sup> has provided more operational guidance on the practices to be encouraged of business leaders. Whilst it appears that the lockdowns are easing up in many parts of the world, the ESG risks that COVID-19 has integrated into our systems will continue to materialize over the long term

Since the start of the COVID-19 pandemic a number of our clients have requested support in understanding how ESG assessments can bring additional insight into their risk and opportunities assessment processes. Specifically, many have requested help to identify ESG factors that are indicative of resilience to the long-term operational impacts of the pandemic. In that context, Vigeo Eiris has produced a **COVID-19 ESG Risk and Opportunities Dataset (C-19 Dataset)**. The data can be used as a lens to view the extent to which a company is fundamentally prepared to manage the risks and opportunities that the pandemic presents over the medium and long term.

The C-19 Dataset takes a multi-dimensional approach:

- Analyzing corporates' management approaches on **13 ESG criteria** of interest in the context of the pandemic. This includes analyzing their exposure to and management of controversies.
- And analyzing their contribution to **5 Sustainable Development Goals** (SDGs) of particular interest in the context of the pandemic. This includes an assessment of the products and services produced by the company.

The C-19 Dataset can be used to facilitate:

- Risk and opportunity assessments,
- Good practice identification,
- For reporting and communications.

<sup>1</sup> Majority of ESG Funds outperform wider market over 10 years – Financial Times – 13/06/2020

<sup>2</sup> Corporate Social Responsibility – the COVID-19 Stress Test - Vigeo Eiris – 28/04/2020

<sup>3</sup> How Responsible Investors should respond to the COVID-19 Coronavirus crisis, UN Principles for Responsible Investment Bulletin, 2020

<sup>4</sup> Investor Statement on Coronavirus Response, Interfaith Centre on Corporate Responsibility, 2020

## ESG factors

The ESG information that we have identified as relevant for the development of the C-19 Dataset has come from three products:

- **VE's Corporate ESG Assessments:** this product assesses the managerial approach of companies on up to 38 ESG criteria. From these, a subset of 13 ESG criteria have been selected. Using publicly available information and a highly structured assessment methodology, we examine the policies, systems and results of companies.
- **Controversy Risk Assessments:** this product assesses a company's exposure to and management of ESG controversies across 38 ESG criteria. As above, a subset of 13 ESG criteria have been selected. A specialist team utilizing a range of data collections and sorting tools provide daily updates and ESG alerts on companies on this specific angle of their performance.
- **Sustainable Goods and Services Assessment:** this product assesses the level of involvement of companies in the development of, or provision of goods and services that are supportive of the Sustainable Development Goals.

In total, there are **thirteen ESG criteria** that have been identified as material.

Type of Criterion	Name of Criterion
<b>Governance</b>	Audit & Internal Controls
<b>Governance</b>	Shareholders
<b>Governance</b>	Executive Remuneration
<b>Social - Customers</b>	Responsible Customer Relations
<b>Social - Suppliers</b>	Sustainable Relations with Suppliers
<b>Social - Suppliers</b>	Integration of Labour Standards in the Supply Chain
<b>Social - Community</b>	Social and Economic Development
<b>Social – Human Capital</b>	Fundamental Labour Rights
<b>Social – Human Capital</b>	Social Dialogue
<b>Social – Human Capital</b>	Reorganisations
<b>Social – Human Capital</b>	Remuneration Systems

<b>Social – Human Capital</b>	Health and Safety
<b>Social – Human Capital</b>	Working Hours

**Audit & Internal Controls:** this criterion provides a view on the crisis management and ESG risk management systems that have been put in place by the company. These are always highly material elements for our assessments but in the context of a pandemic, their importance is more pronounced. They can be considered as fundamental indicators of preparedness for risk and crisis management.

**Shareholders:** maintaining strong relations with shareholders is vital in the face of difficult financial conditions. This is already the case for many listed companies. This criterion provides a view on the nature of the company’s relations with its shareholders.

**Executive Remuneration:** the balance sheets of companies in most sectors have been negatively hit by COVID-19. The remuneration policies for top management are also under greater scrutiny than usual in the current context. This criterion provides a view on the transparency of policies as well as the integration of ESG factors into these policies.

**Responsible Customer Relations:** Ensuring business continuity and respecting contractual clauses is a key responsibility during this complex period. Companies failing in this respect may have a ‘grace period’ but as we start to end lockdowns in many regions, they are facing heightened scrutiny from consumers and may be exposed to legal and operational risks should they fail to address these responsibilities in the medium term.

**Sustainable Relationships with Suppliers:** supply chains have been heavily impacted as a result of lockdown practices. For small suppliers, liquidity challenges related to prompt payments or cancelled contracts have been well reported on. Companies that retain open and transparent dialogue with their suppliers and seek to support them through the crisis will help to generate supply chain resilience, protect downstream jobs and may further embed supplier fidelity for the future.

**Integration of labor issues in the supply chain:** the vulnerabilities faced by workers extends throughout the supply chain. Whilst the severity of the impacts varies both regionally and on a sector basis, ensuring that labor standards are respected by suppliers is another way in which companies can support greater resilience to the impacts of COVID-19.

**Social and Economic Development:** with a decline in local activity (mainly as a result of lockdown practices), efforts to support local development will help companies to protect their license to operate whilst mitigating the negative impacts on local businesses.

**Fundamental Labor Rights:** respecting freedom of association and the right to collective bargaining facilitates open and transparent dialogue and can foster a spirit of collaboration between management and the workforce. In the current context, where the workforce across many industries are defining the

new ‘normal’, this may represent an indicator of strength and efficiency in moving forward on complex discussions.

**Social Dialogue:** the pandemic is already resulting in major disruptions to the working arrangements of blue- and white-collar workers worldwide. As the workforce looks to define what the new ‘normal’ looks like, ensuring that a strong level of social dialogue takes place will support efficient negotiations and smoother relations with the workforce.

**Reorganizations:** the ILO estimates a rise in global unemployment related to the pandemic of between 5.3 million and 24.7 million work positions<sup>5</sup>. Managing these in a principled and transparent manner may provide an operational advantage to corporate that are able to make decisions effectively and in a transparent manner.

**Remuneration Systems:** The ability of companies to ensure the decency, transparency and objectivity of employees' remuneration systems is crucial during this crisis to limit risks related to human capital, to limit turnover and ensure business continuity.

**Health and Safety:** plainly, ensuring workplace health and safety (both in terms of occupational health and mental health) is an issue of heightened concern in the current context.

**Working hours:** alongside the increased flexibility in working arrangements that has accompanied the pandemic (work from home, work from abroad etc.) is the challenge of extended working hours. Ensuring that employees are appropriately supported and managed in this respect is vital to ensuring the long-term sustainability of such practices.

## *SDG factors*

We have also identified several goods and services that are supportive of a number of Sustainable Development Goals (SDGs) of particular interest in the context of the pandemic. These are listed below and companies that are involved in these are identified in the C-19 Dataset.

Sustainable Development Goal	Products & Services of particular importance during a global pandemic
<b>SDG3 Good Health &amp; Well Being</b>	<ul style="list-style-type: none"> <li>✓ Healthcare services;</li> <li>✓ Healthcare materials;</li> <li>✓ Medical equipment;</li> <li>✓ Medical technology;</li> <li>✓ Pharmaceuticals;</li> <li>✓ Telemedicine;</li> <li>✓ Water distribution;</li> <li>✓ Waste-water treatment; and</li> </ul>

<sup>5</sup> COVID-19 has exposed the fragility of our economies – International Labour Organisation – Guy Ryder – 27/03/2020

	<ul style="list-style-type: none"> <li>✓ Access to insurance.</li> </ul>
<b>SDG4 Quality Education</b>	<ul style="list-style-type: none"> <li>✓ Educational services; and</li> <li>✓ Educational materials.</li> </ul>
<b>SDG 6 Clean Water &amp; Sanitation</b>	<ul style="list-style-type: none"> <li>✓ Access to water;</li> <li>✓ Sanitation products;</li> <li>✓ Water distribution; and</li> <li>✓ Waste-water treatment.</li> </ul>
<b>SDG8 Decent Work and Economic Growth</b>	<ul style="list-style-type: none"> <li>✓ Access to insurance;</li> <li>✓ Employment services for disadvantaged populations;</li> <li>✓ Finance for SMEs; and</li> <li>✓ Insurance for SMEs.</li> </ul>
<b>SDG 10 Reduce Inequalities</b>	<ul style="list-style-type: none"> <li>✓ Access to insurance;</li> <li>✓ Employment services for disadvantaged populations; and</li> <li>✓ Information.</li> </ul>

## *Using the C-19 Dataset*

We have made this data available to all of our clients on the VE DataLab platform. There are two ways to do this:

- Heading to the **Data Hub** where you are able to view and export the C-19 dataset:
  - Please open the “*Data Hub Settings*”
  - Please open the “*Load Saved View*” function
  - Please select the “*C-19 Dataset view*”
    - The data will populate on the screen first
    - You are able to export this to excel formats using the Data Hub settings.
  
- Heading to the **Strategies** section where you can then go a step further to develop a bespoke approach to **scoring** and **weighting** the different datapoints that we have outlined. You are also able to remove data points that you do not consider material. In conducting this kind of approach, our client relationship managers are available to support you in this process.
  - Please select from the list of strategies “C-19 Dataset”.

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