# #postCOVID19 Part Two

*Featuring: **Linda-Eling Lee**, Global Head of ESG Research at MSCI*

**Adam Bass:**

This is MSCI Perspectives, your source for weekly research insights as investors respond to the COVID-19 pandemic. I'm your host Adam Bass. And today is May 28th, 2020. This week we continue our conversation with Linda-Eling Lee. We'll talk about ESG's resilience during the pandemic, new corporate trends, and some potential risks and opportunities. Finally, we'll discuss what a green recovery might look like and the potential role of ESG across asset classes.

**Adam Bass:**

Linda, thanks again for talking with us. Let's jump right back in. This crisis has forced all of us to adapt to new ways of doing business regardless of our industry or job function. How has it changed the way investors evaluate companies?

**Linda-Eling Lee:**

So as companies and sectors are retooling their businesses and their operations, and many of them obviously have to in this current environment. Investors are going to want to focus on how it is that companies are balancing some of the new ESG risks and opportunities that might arise from that. So one of them, for example, which is very top of mind at the moment, is holding annual general meetings virtually or digitally. This is out of necessity, but that can really change the way shareholders and management actually interact. And so you can imagine that there are real benefits, and some of those benefits are that it can save costs, it can actually cut the carbon footprint from people not having to show up in person, it can streamline the meeting process.

**Linda-Eling Lee:**

But on the other hand, you also then put more of a buffer or a distance between investors who may have hard questions for managers who may not have to answer them in this kind of a forum. It can actually discourage access to retail investors who might be less technologically enabled to access the meetings. So there are drawbacks and benefits, and I think it's the balancing of these two that I think investors are going to want to pay attention to. And that's just one of the dozens of new practices I think that companies are experimenting with at the moment.

**Adam Bass**:

What's interesting there, is that the first thing that comes to my mind about online shareholder meetings is that it means more folks can attend. Though, I will admit, that may reflect more about my own perspective and access to virtual events. As you mentioned earlier in our discussion, the crisis has highlighted exactly this type of inequality. But what about another constituency of companies, their employees? What are some trends you're seeing there?

**Linda-Eling Lee:**

Well, I think one very important one is simply how investors and companies think about what a dangerous job actually is. Because as companies reorganize their working environment to mitigate contagion, I think that the way we can measure how well they're doing that is actually very limited if we're looking at traditional measures. Because traditionally, investors have really thought about employee health and safety as a problem more for heavy industries or for extractives, injury rates and fatality rates are something that is actually very well measured and reported. But they're not really the most appropriate measures for the kind of dangers that we're talking about that are not on the shop floor or in mines, but at the supermarket checkout counters or at the airport. And so we're going to have to define them differently. We have to apply new types of data to measure how well companies are doing in protecting their workers. So we see that there's an emergence of both the need and availability of alternative data to measure new forms of health and safety.

**Adam Bass:**

Speaking of new forms or new ways of doing things, supply chains. There's been a lot of talk about the interdependence of the global economy, especially in this area. Are there ESG concerns here?

**Linda-Eling Lee:**

Well, we've seen some industries having to accelerate really the diversification of their supply chain because of the pandemic. Having everything in one location, for example, a huge concentration in Asia, means that when there is a disruption, as there was earlier in the year, it can really put a stop to your operations. But to the extent that diversification of your supply chain means going to places that have lower labor standards, rather than higher, also brings additional both safety, but reputational risks, for companies. So this is one area where I think it'll be interesting to watch in certain industries whether or not they will be migrating out of places that actually have decent labor standards at the moment and actually going to places that have even lower labor standards.

**Adam Bass:**

As investors look ahead to an eventual recovery, a lot of the questions have been around what shape it will be. V-shaped, U-shaped, et cetera. You and your team, though, are asking more about color. Specifically, how green. Can you give us an example?

**Linda-Eling Lee:**

One, I think, interesting example there would be around green buildings. So we tend to think of green buildings as being associated with simply with its energy saving properties. But actually green buildings are also healthier buildings because indoor air quality is actually a key feature of certified green buildings. The air systems that are used in green buildings are supposed to be more effective in filtering out most virus sized particles. That's obviously something that's going to be important to you and to me when we go back to the office, Adam, and I think that a lot of other office and retail tenants are going to want to seek out green properties for that reason, because companies are going to want to prioritize their employee and their customer wellbeing. And it's something where being green and from an energy saving perspective is also addressing a social concern.

**Adam Bass:**

Developers have been financing some of those green buildings through green bonds. We heard a lot about them before the crisis, but have we seen an expansion on the use of green bonds or other ESG linked loans?

**Linda-Eling Lee:**

I think what's really interesting about green bonds is that it can be extended to target other social and economic issues so that we can actually have an instrument to incentivize a green and inclusive recovery. And sustainability bonds, for example, and sustainability link loans, these are innovations in financing they're growing really quickly. I think they can be easily leveraged and scaled up even further so that we can build this post COVID economy that is both green and inclusive. I mean, we really are able to talk and chew gum at the same time and be able to balance all of these different challenges and be able to actually have a much more holistic way of investing into this recovery.

**Adam Bass:**

And some of the color of that green recovery might actually come from unexpected sectors, like energy.

**Linda-Eling Lee:**

There has been a lot of focus on the distress that the oil and gas sector has been undergoing. And there is a lot of talk about, "How is the sector going to shake out?" What's kind of interesting though is whether or not some of these players are going to be able to survive, depends on how quickly they might be able to transition to a lower carbon economy. And what we've seen in our research is that some of these companies have already actually invested quite a bit of their R&D budget in low carbon technologies. And we know this through analyzing their patents and seeing what proportion of their current patents actually have low carbon technology applications.

**Adam Bass:**

So we've talked about some of the ways companies have adapted to this crisis and some of the potential post COVID themes. But I wonder, which of these are temporary and which ones might actually survive in the long term? Has that been part of your team's conversations?

**Linda-Eling Lee:**

That's a great question, Adam. This is actually one that the team and I spend a lot of time on right now is just kind of sorting out what's really more short term and really more than noise and what are actually really impactful factors that are going to change the way companies operate and the way investors should be looking at ESG. I think that what might be more structural shifts are things that were probably underlying trends or even underlying vulnerabilities that are just being triggered and really magnified through the pandemic and the response. So that's what we try to tease out is what's actually going to be accelerated from underlying trends we already know were happening versus the things that seem like an about face now, short term reversals, that may not actually have legs in the future.

**Adam Bass:**

Could it be that we've finally arrived at a place where ESG investing has simply become investing?

**Linda-Eling Lee:**

I think it's dangerous to prognosticate. However, I do feel like we are building a new habit and I do hear investors ask for that third dimension, right? So it's not just the risk and the return, but also the ESG exposure and possibly even the impact of their investments. And that's something that is becoming true practice, if you will, becoming more and more ingrained part of the investment language.

**Adam Bass:**

That's all for this week. Thanks to Linda and to all of you for joining us. If you have a moment, we hope you'll subscribe so you can stay up to date on our latest episodes and insights. If there's a topic you'd like explored, or just want to let us know what you think, don't hesitate to leave us a comment. For more from MSEI, check out our sister podcast ESG Now. Follow us on the MSEI LinkedIn page. And don't forget to bookmark www.msei.com/coronavirus for all our crisis related content. Until next week, I'm your host, Adam Bass and this is MSEI Perspectives. Stay safe, everyone.

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