



May 2020

Response and responsibility

We believe good corporate governance is a necessity for sustainable growth, and no time highlights the critical nature of stewardship better than now. Sarah Goose explores how Covid-19 is separating the winners from the losers, and those whose concerns stretch beyond just shareholders to include all stakeholders.

Last year saw a huge acceleration in the attention management teams gave to ESG (Environmental, Social and Governance) issues, with environmental commitments commanding most attention. Those companies with vows for net-zero and hefty decarbonisation plans caught the eye of investors and earned a premium.

Since the interruption of Covid-19, however, the lesser-appreciated of the ESG triumvirate has emerged as a key differentiator. Social factors, which include treatment of employees, customers and suppliers, have grown in importance through the pandemic as corporate proactivity, or reactivity in many cases, has earned media attention.

Growing investor interest in how companies are behaving has been kindled by our voracious appetite for social media. Lockdown has accelerated the digitalisation of our lives and the capacity for news about a company's activities to quickly spread globally. This is detrimental to the fortunes of businesses that are deemed to have behaved irresponsibly. But it has offered a tailwind for companies that acted responsibly as Covid-19 took a grip of our normality.

“Entering into a crisis is not the time to figure out what you want to be. You must already be a well-functioning organisation prepared to rapidly mobilise your resources, take your losses and survive another day for the good of all your stakeholders.”

Jamie Dimon, CEO JPMorgan



As investors we often focus on the numbers, yet the intangible essentials of behaviour and fair treatment can be just as important. Companies that are aware of the role they have within their communities and environment, and who respect the other members therein, will enhance their reputations and the status of their brand during this historic episode. Good deeds undertaken now may be long remembered.

It has been reassuring to see so many companies that feature in our client portfolios garnering positive headlines.

Healthcare

It is in the healthcare sector that companies have been able to make the most obvious contribution to wider society – through testing and treatment. **Grifols**, the Spanish pharmaceutical company and blood plasma specialist, was an early mover during the pandemic. It has worked with health authorities in Europe and alongside the US Food and Drugs Administration on Covid-19 tests, while also developing treatments using plasma.

Consumer

In other sectors, we have been impressed with **Unilever**, which has long been supportive of its suppliers worldwide. The company's superior distribution network, especially in emerging markets, has ensured their targeted response reaches the areas that need it the most. Management quickly reallocated €500m to provide cash-flow support to customers and suppliers, prioritising the smallest of these. In addition to ramping up production of hand sanitiser, soap and disinfectants, Unilever also partnered with the UK government to jointly commit £100m for a mass-awareness campaign to tackle the spread of the virus.

Unilever reported flat sales in the first quarter of 2020 and a relatively underwhelming set of results. It is clear that its acts of altruism will affect immediate profits, but its conduct at this difficult time will be critical to the reputation of the company in the long term.

In mid-March **LVMH** made headlines by rapidly re-configuring its French perfume factories to produce hand sanitiser for donation to hospitals. The confidence required in this act demonstrated first-mover advantage.



LVMH fashion houses have been making face masks and PPE clothing.

It is all the more impressive given the economic uncertainty. Perhaps less publicised is a recent initiative to reaffirm the company's fight against domestic violence – a more personal project to help employees at risk.

Nestlé similarly ensured it contributed externally and internally, partnering with charitable organisations and contributing vast aid packages to those most in need, while also paying all hourly and salaried staff affected by temporary stoppages in full for a minimum of 12 weeks. The list of Nestlé's actions is long and impressive.

Technology

Having only recently been targeted by governments and trade bodies over lax regulation of their services, large technology companies have been instrumental in the pandemic relief efforts. **Google** has joined forces with governments globally to help track the spread of



the virus, offering systems for communication and collaboration and supporting remote learning across the world.

Microsoft leveraged the full force of its global operations and multi-sector expertise to help in countless ways. The company's actions show its awareness of the role it plays in society and the responsibility its management felt to act swiftly and effectively.

Telecommunications

Lockdown has made us more dependent on our screens for news, work and entertainment. Availability of Wi-Fi and data is a necessity for the continuance of businesses in many parts of the world. Alongside offering generous support packages for its employees, **Comcast** made its 'Internet Essentials' service free to new customers for 60 days. Offering unlimited data, special services for students, waiving late fees, and suspending Sky Sports subscriptions, Comcast has provided an impressive response and highlighted how integral its services are in many lives.

Financial Services

Even in the banking sector, where companies have been particularly affected by government intervention, well-positioned businesses have acted conscientiously. **JPMorgan** mobilised its resources rapidly, putting programmes in place to help underserved small businesses

and going to great lengths in its philanthropic efforts. A \$1 for \$1 policy ensures all employee donations to Covid-19 relief efforts are matched by the company. This may seem like a simple strategy to enact; however, the focus here on employee engagement is key.

The efforts of all these companies should serve to strengthen the relationships with customers, suppliers and staff.

The holistic view

Investors often think they know a company's senior management but it is only when crisis strikes that we really test their mettle. The current extraordinary economic situation has given us all a chance to see beneath the marketing messages to discover the real values and priorities of company boards.

As long-term investors we take seriously the broader fundamentals and softer aspects when considering an investment. We have been pleased to see so many of the companies we invest in shunning short-termism or the potential to exploit immediate gains at the expense of suppliers or customers. These companies have sought out opportunities that will enhance their position from a holistic perspective well into the future.

Images: Shutterstock and LVMH

Stocks named here have been long-term holdings. You should not infer that we are recommending individuals buy them.

Opinions and views expressed are personal and subject to change. No representation or warranty, express or implied, is made or given by or on behalf of the Firm or its partners or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this document, and no responsibility or liability is accepted for any such information or opinions (but so that nothing in this paragraph shall exclude liability for any representation or warranty made fraudulently).

The value of an investment and the income from it can go down as well as up and investors may not get back the amount invested. This may be partly the result of exchange rate fluctuations in investments which have an exposure to foreign currencies. You should be aware that past performance is not a reliable indicator of future results. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

James Hambro & Partners LLP is a Limited Liability Partnership incorporated in England and Wales under the Limited Liability Partnerships Act 2000 under Partnership No: OC350134. James Hambro & Partners LLP is authorised & regulated by the Financial Conduct Authority and is a SEC Registered Investment Adviser. Registered office: 45 Pall Mall, London, SW1Y 5JG. A full list of partners is available at the Partnership's Registered Office.