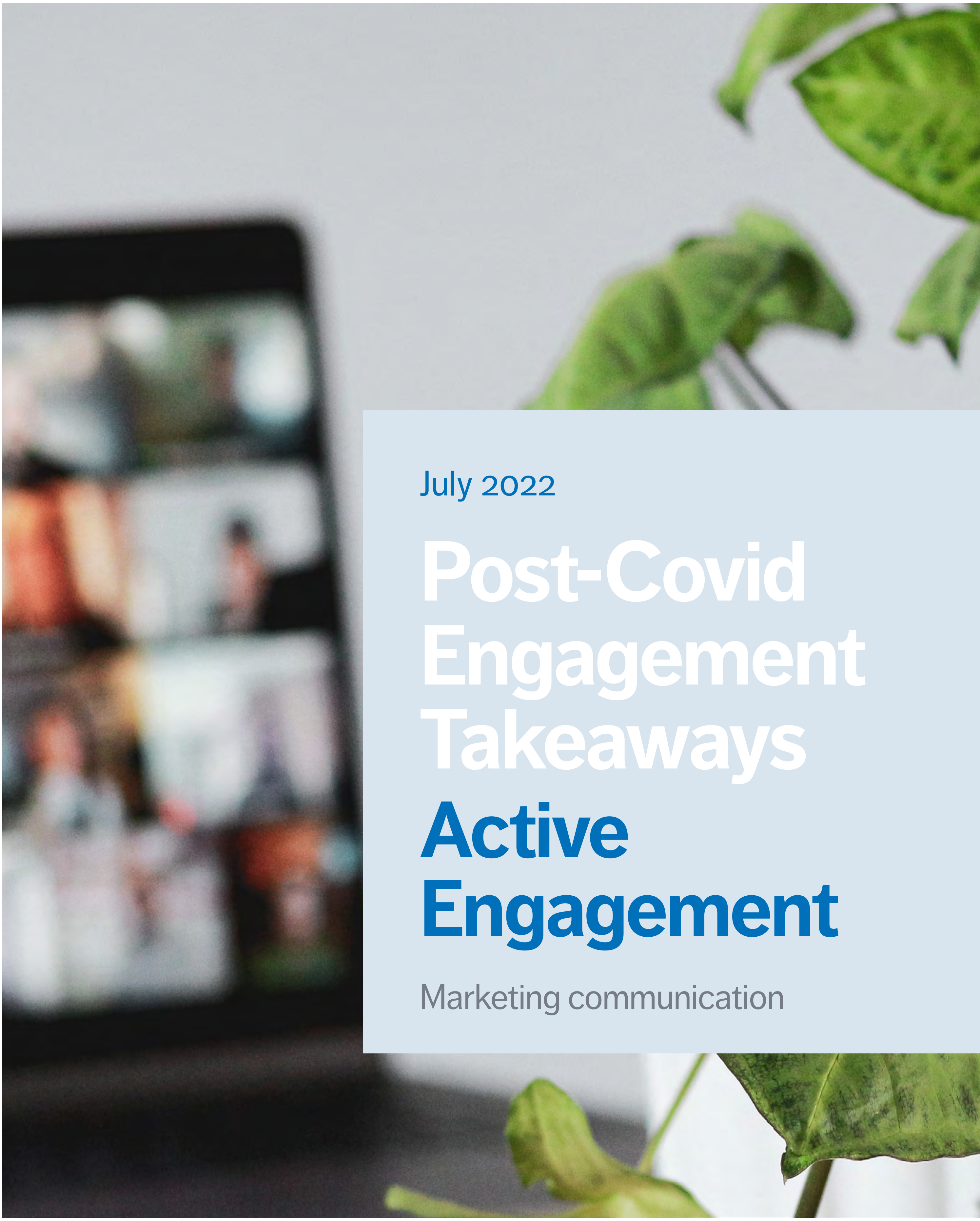

July 2022

# Post-Covid Engagement Takeaways

# Active Engagement

Marketing communication

CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

# The topic

## The world will never be the same

### Corporates' long-term relations with stakeholders were deeply affected by Covid

The pandemic changed the rules of the game at both individual and collective scales. It impacted the world economy from many different perspectives. Not only did it create a short-term financial strain, it also pushed several corporates to re-draft their long-term strategies.

In our research, we have investigated how relationships with stakeholders were impacted and the changes now integrated as the "new normal" course of business for Candriam's investee companies. As a result and in the framework of a dedicated engagement campaign we launched Mid 2021, **the impact of the pandemic on human capital management and the supply chain structure, as well as the changes in consumers' patterns and trends have become our privileged fields of investigation.**


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# Part I
# Unprecedented events have shed the light on the "ESG focus"

## The year 2020 rocketed the world

The COVID-19 pandemic impacted our lives in ways that we could not even imagine before. In the matter of a few days, panic spread across the globe. Hospitals filled up in no time and bed seats in intensive care units became rare. Queues at pharmacies and supermarkets became longer and longer, fuelled by peoples' rush to stock up as much as possible. Perhaps the most emblematic picture of the pandemic was the bird's eye view of empty streets in all major capital cities throughout Europe. Caught by surprise by how rapidly the situation escalated, many Western countries' governments took the decision to impose a (almost) total shutdown of their economies, where only few businesses (providing "essential services") were allowed to operate. It was the beginning of a deep sanitary, economic and social crisis with an immediate and immense impact on the economy.

The restrictions and the slowdown/shutdown of activity pushed several players into financial distress. The action from governments and central banks, together with the improvement in the sanitary situation and the roll-out of the vaccines, seemed to have helped the world economy back to pre-pandemic levels. However, as we dug deep into our research at Candriam, we realized that was not the case.

**Although numbers (revenues, volumes, costs etc.) were coming back to normal, some practices and patterns had changed for good.**

# The COVID-19 pandemic put the "ESG spotlight" on several issues

First of all, major health and safety issues had to be addressed. These, coupled with the effort to avoid essential services' disruptions, contributed to severe job inequalities. Moving away from consequences at a country-wide scale and focusing on impact on corporates' management, these issues posed a great risk to ***human capital management*** and, one year into the pandemic, translated into more difficult hiring and talent retention (*"the great resignation"*).

But the restrictions imposed across countries in both developed and emerging markets also impacted the ***global supply chain*** in a major way, with a lasting impact on operational flows' efficiency. The slowdown in activities, coupled with worsening health and safety conditions, exacerbated existing concerns such as labour rights protection along the chain and challenged Thomas L. Friedman's flat world concept, fundamentally questioning globalized business model and value chains. In addition, the pandemic has left its mark on ***consumers' patterns and consumption modes*** across many industries.

Across all stakeholders' relationships mentioned above, the exponential digitalisation trend is probably the most visible, and now considered as the "new normal". It is essential to get a complete view of the underlying drivers of such changes, as well as more silent trends that will influence business management over the long term. We have deliberately chosen not to focus in this engagement campaign on the loss of biodiversity and the increased stress on ecosystems at the likely origin of this pandemic (virus striking human beings after mutating via animals). These issues are the subject of separate engagement campaigns.

# A change of lens

Two years after the beginning of the pandemic, it is time to sit down and reflect on what happened during the crisis, but also to better understand how our investee companies are positioned in the Post-COVID world. We want to grasp not only the impact of the pandemic on corporates' businesses but also on their long-term relationships with stakeholders. To do so, we assess the new associated challenges, risks, opportunities as well as related resilience. Finally, we want to support practices' improvement when relevant.

We developed this campaign in collaboration with our team of ESG & Fundamental Sector Analysts and Portfolio Managers from different investment strategies: European and Emerging Markets fundamental equity strategies, as well as Thematic Investments and Global Credit strategies. The information gathered in this campaign feeds the ESG analysis framework used by our sector analysts adapting it to the Post-COVID new business order. It was also an opportunity for our investment teams to delve into how ESG changing factors were contributing or not to the corporates' financial stability.

# New areas of focus

The ESG team started this campaign by identifying the most material topics on a sector basis and by drafting a list of pertinent questions for each of them. After that, we liaised with our Portfolio Managers/Fundamental Analysts in order to agree on priority topics and target companies. These were defined according to teams' interest coupled with the related level of risk or importance of changes. We refined the choice of topics and questions for each company, as well as the formulation of the questions per se, depending on the nature of their business.

On the topic side, **changes in consumers' patterns and trends, supply chain disruption and human capital management practices of corporates** ranked first.

Regarding targets of engagement, the choice fell on **23 companies**. Hospitality management, retailing, as well as food & beverage or staples retailing appear as the most predominant sectors of our sample. Transport operators and healthcare sectors are not represented here, by choice: as they have attracted most of the attention during the pandemic, both our analysts and fund managers felt it was more valuable to bring to light the sectors less discussed. Here below is the detailed list of targets per sector.

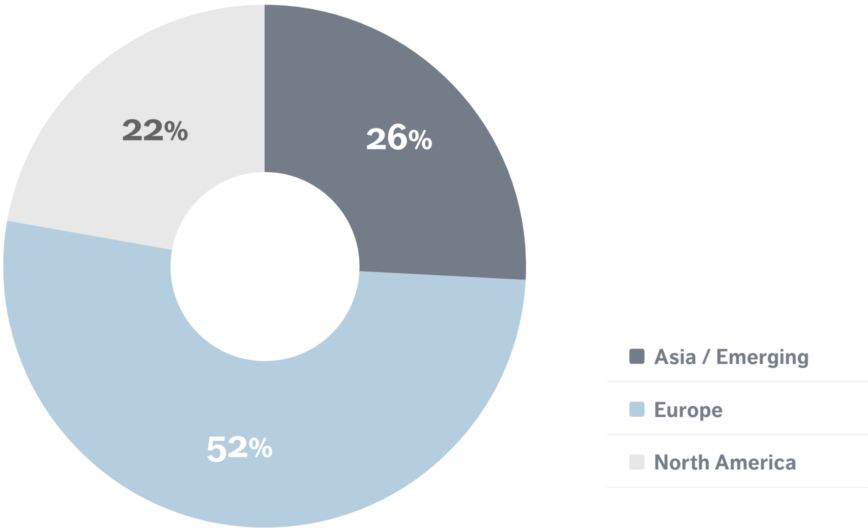
## Number of companies contacted by sector

| | |
|---|---|
| **Automotive** | 2 |
| **Hotel, restaurants & leisure** | 4 |
| **Technology & semiconductors** | 2 |
| **Textile & luxury goods** | 1 |
| **Commercial services** | 1 |
| **Food, beverage & tobacco** | 2 |

| | |
|---|---|
| **Building products** | 1 |
| **Machinery** | 2 |
| **Electric equipment** | 1 |
| **Food and staples retailing** | 2 |
| **Real estate** | 1 |
| **Retailing** | 4 |

**Source: Candriam**

## Geographic origin of the 23 companies of our sample




Source: Candriam

## Examples of questions we submitted per topic

| | |
|---|---|
| **Change of consumers' patterns and trends** | 1. Has the company's business been impacted by the change of consumers' patterns post-pandemic? In case, how has the company business evolved? |
| | 2. What initiatives did you take to better answer new patterns and demands? |
| **Supply chain management** | 1. How did the pandemic impact the organization of your supply chain over the long term? More specifically: do you consider any plan including reshoring of production? If so, how do you plan on managing your relationship with your suppliers and workers for mitigating associated risks? Furthermore, did you explore new suppliers or more systematically search for alternative suppliers? |
| | 2. COVID-19 has posed challenges (e.g. restricted mobility, quarantine rules etc.) hindering optimal due diligence efforts for own operations and suppliers' operations; did the company implement remote auditing/assessments of their suppliers? |
| **Human capital management** | 1. What efforts were/are being taken to support continuous employment during the COVID-19 crisis to avoid permanent layoff? Did any layoffs occur due to the pandemic? If employees were furloughed, what benefits and support were provided and for how long? |
| | 2. Has the pandemic increased difficulties of recruitment (competencies' shortage) and how do you deal with this issue? |

# Part II
# Changes in consumers' patterns and trends

If anything, the pandemic completely changed our lifestyle. Several of these 'new normal' patterns, such as the onset of homeworking and the increase in online shopping, are part of the general trend toward digitalization. The level of interconnectivity between people and services has never been so high while a substantial reduction in business trips has occurred, allowing to save time and resources (financial and non-financial).

**Discussions we had with companies however underlined that most changes triggered by the pandemic were not sudden but merely part of secular trends. Accelerated Digitalization is probably the most obvious example.**

We can easily divide our target companies in two distinct categories: those already prepared or those lagging behind when the pandemic broke out.

## Retail

In the first case, the impact was limited, while, in the second, companies had to quickly adapt and find other revenue sources. **Retail companies** we surveyed appeared clearly to be the most prepared. At the beginning of the pandemic, their business changed overnight and retailers quickly reacted and re-planned it in order to accommodate an exclusively online experience without suffering extreme financial losses or logistic issues. Less intuitive, the commercial real estate company we interacted with, had well anticipated the move to online shopping and "buy online pick-up in store" (BOPIS) experience while scaling down its pipeline and increasing its mix-used buildings' portfolio. This enabled the company to limit the impact on its revenues but also to prepare for the progressive alleviation of restrictions, as the omni-channel shopping trend accelerated in 2022.

## Hospitality

On another note, the reduction of volumes in business trips hit the **hospitality management** sector very hard. They had identified homeworking as a trend they expected to develop in the long-term, not so soon, and not so radically. After an initial period of exclusive homeworking, companies adopted different stances related to homeworking: freedom of choice over homeworking, no homeworking at all, or hybrid solutions. Business trips did not resume to pre-pandemic levels and they are not expected to do so. Hotel owners were unprepared for this situation but proved inventive. First, they prepared for the rebound of leisure travel with the development of less standardized hotels, called “lifestyle hotels”, where customers spend more time in lobbies and bars. Secondly, they adapted their offer for business travellers, anticipating that future business trips will more frequently combine business with leisure activities (“bleisure”): lobbies are turned into work spaces accommodating customers who need a solution for remote working.

## Agri-food, food retail, restaurants

This increased importance placed on leisure and on taking care of ourselves also found an echo in the **agri-food, food retail/restaurant sectors**. This is another evidence that the pandemic emphasized the importance given to healthy lifestyle. Customers’ awareness towards the products’ health benefits is higher than ever and as it appeared clearly in our discussions with companies, the snacking sector has not been spared. For one specific company we surveyed and active in this branch, changes triggered by the pandemic confirmed and boosted expectations attached to those Healthy/Natural pillars, rewarding their efforts and investments in this field over the past decade. They now look forward to improving organically and externally.

However, most of the surveyed companies also keep in mind the decline in purchasing power for some segments of the population (accented since the recent energy crisis after the war in Ukraine). We noted with interest, that in such a context, businesses that had included circular economy into their strategy had navigated better through the crisis, demonstrating that resilience and sustainability could go in pair.

## Adaptation is key

Surveyed companies that suffered the least were also the ones who had identified solid emerging trends and had integrated them into their investment plan over the short/medium term. This forward-looking mindset as well as the ability to maintain investment in innovation and measurement of consumers’ expectations should definitively remain at the centre of ESG analysis when assessing companies’ resilience capacity. Historically, investment in workforce training & development, in diversity (of experience, gender, nationalities / ethnicity, age etc) and in knowledge sharing is taken into account in our ESG analysis of how well the company manages its clients’ expectations. We believe the pandemic only confirmed their importance as they are key to companies' agility.

# Part III
# Supply chain management

The impact of the pandemic on the supply chain was both severe and wide. A lot was written about it in the past 2 years, analysing in detail the financial difficulties that hit companies. The restrictions-induced shutdown of factories in the emerging economies, coupled with a rising demand for tech products and lack of raw materials caused order cancellations and delays in deliveries.

Obviously our engagement addressed the impact of the pandemic on corporates' long term strategies for the supply chain. More precisely, we analysed the search for alternative/new suppliers and the reshoring of production.

Here again, **the crisis only accelerated existing trends**: Globalized business models, backed by an extensive and complex supply chain, had already experienced some flaws. Quality issues, patent infringement, political tensions increasing the risk of supply stoppage and evolution of climate regulation supporting the relocation of some industries were some of the reasons that had pushed several companies to look for alternative solutions. Surveyed companies detailed for us their various approaches, the most recurring ones being:

- the general consolidation of the supply chain,
- the optimization of local procurement and local-for-local strategy,
- the search for new/alternative suppliers,
- the development of new technologies focused on lower usage of raw materials
- the intervention in the geographic mix along the chain in case of presence in countries at risk.

However none should consider suppliers as easily interchangeable. This is particularly true for sectors where R&D is supported by both suppliers' and clients' forces or when the tasks assigned to suppliers require high technology or rare savoir-faire. In that sense, preserving good and sustainable relationships with suppliers or business partners in general is essential.

During the pandemic, depending on countries, the level of state aid radically differed and for many companies, the vulnerability of business partners worsened. Some surveyed companies outlined a very proactive approach, from extending payment requirements to the creation of supporting funds.

## Focus on labour conditions

In our research, we paid particular attention to the impact of the pandemic on the already severe **labour conditions** in some supply chains. Indeed, for several sectors, manufacturing and sourcing of raw materials (among the most labour-intensive parts of the supply chain) are often located in countries at high labour risk. For Human Rights due diligence performed or reviewed during the pandemic, new risks obviously arose. But another pillar of business partners' monitoring in the labour and human rights field got heavily impacted: on-site audits. Auditing the supply chain has always been a very important and sensitive practice. During the pandemic, conducting proper audits was particularly important considering the presence of workers in countries at high risk. At the same time, the restrictions imposed on movements represented a serious obstacle. Some surveyed companies conducted audits through the entire pandemic period in several forms, either on site (thanks to local presence), virtually or through self-assessments. However, the limits of such approaches are well known, especially for the last two options. For these companies, the number of audits is now slowly getting back to pre-pandemic levels. If the situation was not perfect, it at least allowed them to keep close contact with their suppliers and to limit potential abuses. Some corporates mentioned they had stopped contractual relationships after evidence of violations regarding minimum living wage and/or modern slavery.

## The absence of audits during the pandemic aggravated the risks of forced labour

At the other end of the spectrum, a semiconductor company we discussed with, - a sensitive sector - fully halt audits of its supply chain during the pandemic. While several NGOs have condemned the return of practices that some countries had managed to considerably reduce (such as forced labour, notably of migrants), the sudden economic upturn and labour shortage of labour faced by suppliers has only aggravated these risks. In such cases, the prolonged absence of audits over several months is for us a real source of concern.

> **"The supply chain of the future will certainly be less global and more local and concentrated"**

The disparity between surveyed corporates' approaches appeared much more marked in the relationships with suppliers than with consumers. It is not really a surprise, but supply continuity disruption put on the front scene stresses again the importance of suppliers. **The supply chain of the future will certainly be less global and more local and concentrated,** and ideally less exposed to geopolitical risks. The focus on the respect of fundamental labour/human rights should remain in our ESG analysis model, with increased light on the living wage. Indeed, no living wage means no savings, which means more vulnerability to any unexpected event, for workers and thus for the community and economy they belong /participate to.

# Part IV
# Human capital management

## New challenges: Recruitment and retention

The pandemic-induced restrictions were very severe. Many companies, in several businesses, were forced to shut down their activities. As a result, in some sectors (hospitality management and retail first) the first reaction was to reduce the workforce, through lay-offs and furloughs. In such an uncertain context, many people found themselves without a salary and with deep concern on the future of the job market. On the other hand, in sectors considered essential or where demand increased during the pandemic, employees found themselves in a difficult situation. A combination of low wages and difficult working conditions (exacerbated by the pandemic) pushed many employees to the extreme. Therefore, once the recovery started, the impact of the pandemic on the human capital management of several corporates was still very visible. As a just backlash, the main concern, now, is related to recruitment and retention.

All sectors share a common difficulty in post-pandemic recruitment. Employees started reflecting on their roles, contribution and what really matters to them. It is important, in this case, to have a clear idea about the engagement of employees, how to analyse it and how to intervene in case of shortcomings. The labour market is tight, candidates are not only looking for higher wages, but they also want to be part of a welcoming culture, they want to progress in their career and they want flexibility. Some companies are working on these topics tracking the level of engagement within the workforce. Surveys are used to understand the needs, actions plans are organized to tackle the main development areas. On a different note, other companies tackled this issue from a purely financial perspective, raising wages and including bonuses as a way to improve the motivation of their employees. But how to ensure it will last? Indeed, engagement also results from the historic relationship employees have with their company. The way this company supported them during the pandemic is of key importance.

**“Through this engagement campaign, we wanted to understand how corporates had managed the engagement of their employees during and after the pandemic, as well as the related impact on recruitment and retention.”**

## The level of support of management towards the employees in an emergency situation speaks a lot

The pandemic is considered a once-in-a-lifetime catastrophe and it put companies under extreme pressure regarding human capital management. Companies rolled out plans to support employees and, at the same time, triggered extensive restructuring of their practices. Analysing the measures they took to support employees was particularly interesting for us in order to measure the level of support of management towards the employees in an emergency situation. Among the answers we received, we can put forward some examples. During the pandemic, some companies actually went the extra mile and took initiatives such as halting their share buy-back programs to create a fund to support employees or to provide extra temporary benefits for employees laid-off or furloughed during the pandemic. Other companies outlined the efforts to align the benefits package across the organization. At the same time, in other cases, the pandemic accelerated restructuring measures that were already being discussed.

## "From a general point of view, we were reassured by the level of flexibility and adaptability in the companies we surveyed."

## In the post-Covid world, HR too must be adapted towards more flexibility to ensure employee engagement

The pandemic was like a jolt in the system of the human capital management of many sectors. Companies had to be ready to face these issues and, at the same time, flexible to adapt solutions to improve employee engagement. The answers we received confirmed that this is changing for the long term: employees' loyalty is more uncertain and some sectors which cannot, per their nature, offer work flexibility for a majority of employees, will find will find recruiting more challenging. Workers interchangeability cannot be the rule anymore, which means Human resources must be adapted/resized to be in a capacity to listen to and to address new and more specific demands. This is something we will focus on in the way we analyse this item in our ESG analysis framework.

In all cases, the functions of human resources, its means and inventiveness will remain under the radar in our analysis. We also expect companies to improve their disclosure when reporting on the efficiency of the measures in place, going beyond the standard satisfaction survey. **Recruitment and retention should definitely be part of the metrics integrated into management compensation scheme for sectors facing important HR challenge.**

# Next steps?

Engagement is a key and essential tool in the ESG analysis framework. By initiating a dialogue with our investee companies, we are able to better understand the issues they faced during Covid, and the way they reacted. We may thus analyse the best practices and help companies improve. **This campaign was a good opportunity for us to focus on issues that are material in the ESG analysis framework.** We had the chance to understand the companies' reaction to the changes in relationships with their main stakeholders, other than investors.

The answers we received help us better understand the stances of our companies in the Post-COVID world. Our ESG analysis already integrated topics such as the resources allocated to the identification and analysis of new business trends, diversity at the service of agility & innovation, level of knowledge of the supply chain and its specific challenges, the relative importance of local suppliers, and the size and efficiency of the human resources function and programs. This campaign confirmed their importance and will shape our future engagements.

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