



The Observer

(Following the announcement made by Prime Minister, YAB Tan Sri Muhyiddin Mohd Yassin on 25 March 2020, and in relation to the extension of Movement Control Order to 28 April 2020 to contain the COVID-19 outbreak, public listed companies have postponed their general meetings to a later date. Hence, there will be no Weekly Watch featured on newsletter).

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The unintended impact of COVID-19

Since it first surfaced in December 2019 in Wuhan, China, the coronavirus diseases (COVID-19) has taken an unprecedented feat to upend our way of lives. It has claimed over 140,000 lives, torn thousands of families apart and caused millions of job losses globally. For the first time in history, people are required to stay at home for months to reduce the spread of virus.

Few countries are able to withstand the impact of COVID-19 unscathed as it sweeps through Asia to the EMEA region and the Americas continent. The pandemic has placed tremendous strain on healthcare, economic, political and social systems.

In United States, a record 22 million workers filed jobless claims in the past four weeks. Citizens are forewarned of imminent economic recession by governments.

At the local front, life would surely be tougher at least for the next few months. Think tank Malaysian Institute of Economic Research (MIER) projected that Malaysia may record job losses of 2.4 million due to the outbreak. The impact of the pandemic is simply beyond measure both monetarily and psychologically.

Impact to environment

But on the other side of the same coin, the pandemic has also offered a short-term relief to environment. The drop in traffic, industrial and commercial activities due to lockdown measures introduced by governments globally have led to a significant decline in greenhouse gases and air-polluting emissions.

Some experts are of the view that improved air quality may reduce number of deaths related to exposure to harmful particles in polluted air that

subsequently lead to heart and lung diseases. The World Health Organization estimates 4.2 million deaths every year as a result of exposure to outdoor air pollution.

Beijing, which is known for its polluted air has had the unusual sight of clear blue skies as factories in the region shut down production due to the outbreak. Meanwhile in Venice, touristy water canals now look clearer due to lesser boat traffic as people stay at home due to nationwide lockdown.

India, which has 21 of the world's 30 most polluted cities (IQAir AirVisual's 2019 World Air Quality Report) also experienced an unintended respite from lung-choking air pollution level thanks to a nationwide lockdown due to COVID-19 outbreak.

Cities in India recently recorded much lower level of harmful microscopic particulate matter (known as PM2.5) and nitrogen oxide that is released by vehicles and power plants. Government data showed average concentration of PM2.5 in capital city New Delhi dropped by 71% in a week after lockdown began.

Companies around the world have also rethought the way they run business to slow the spread of coronavirus disease. Coffee chain Starbucks Corp has paused the use of reusable cup from customers to prevent spread of viruses.

While we stay at home, there has been a surge in amount of household garbage as we increasingly shop online and order meals to be delivered to our doorsteps.

The consequence of the shift in consumption behavior is – increased level of one-time use packaging that will end up in dumpsite and take years (or forever) to decompose itself.

Amidst this outbreak, some cities in United States have halted recycling programs as authorities are concerned about the risk of spreading virus in recycling centers.

Incorporation of ESG in investment decision

At first glance, the decline in greenhouse gases emissions due to Covid-19 outbreak may seem as a win for the fight against climate change. However, such improvements may be short-lived and hardly a sustainable one.

Once industrial and commercial activities resume gradually, citizens in cities like New Delhi might have to wait for another few years before they can see clear sky again. Without a concerted effort and plan, these improvements are unlikely to stay on.

More proactive approaches are needed to ensure corporations conduct their businesses with public and environmental interest in mind as well. This is where environmental, social and governance (ESG) kicks in.

Globally, asset managers have incorporated ESG issues into their investment strategy and decisions. BlackRock, the world's largest fund manager with US\$7 trillion in assets announced in January this year that it will double the number of sustainability-focused exchange traded funds it offers to 150. It also aims to increase the size of its sustainable assets 10-fold from US\$90 billion to US\$1 trillion within the next 10 years.

Locally, Bursa Malaysia and FTSE has launched an ESG index namely FTSE4Good Bursa Malaysia Index to recognize the companies with leading ESG practices and to support investors in making ESG investments in Malaysian PLCs.

In addition to this, Bank Negara and Securities Commission have established a joint committee on climate change with the objective to equip the financial sector to understand and respond better to the financial risks posed by climate change. This is intended to support Malaysia's orderly transition to a low-carbon economy.

ESG may be a buzzword for layman investors. As time goes on, it is hopeful that the top-down approaches taken by regulators and asset managers will eventually result in a better integration of ESG factors into investment decision and decision-making process at micro level.

ESG is not the prerogative of institutional shareholders only; minority shareholders can (and should) play their part in holding corporates accountable for better ESG appreciation.

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- With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.
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