

Reimagining Fiduciary Duty: Why Institutional Investors Should Strategically Engage on Corporate Purpose to Mitigate Systemic Risk



by *Bhakti Mirchandani, Director of Responsible Investing, Trinity Church Wall Street*

The COVID-19 pandemic continues to destroy American lives and livelihoods. More than 6.5 million Americans have been infected, more than 195,000 have died, and more than 40 million filed for unemployment in May, with the recovery slowing. University of Virginia researchers estimate the private cost of an individual infection to be \$80k and the true social cost to be more than three times higher. The pandemic and widening inequality have long-term implications for stakeholder capitalism.

Within a year of the BRT statement, the public health and economic crises have been testing these commitments. The [Test of Corporate Purpose's \(TCP\)](#) finding that companies with consistent and positive track records of effectively managing issues relevant to COVID-19 or inequality have continued the outperformance during the crisis makes sense. Prioritizing worker health and safety and customer access and affordability are like muscles—strengthened by exercise.

The pandemic demonstrates why institutional investors must go beyond security selection and portfolio construction to optimize risk-adjusted returns. Investors must also consider the systemic risk that lack of health insurance, sick leave, and consistent employment create. 27.5 million Americans are uninsured and may avoid medical attention because they cannot afford it. Increasing unemployment can create a downward spiral as the unemployed reduce expenses. By mitigating these systemic risks, sustainable investing can enhance risk-adjusted returns beyond what diversification alone offers. One might argue that the duty of care includes considering sustainability. ESG fund outperformance during the pandemic is a case in point.

More important than ESG integration for investors seeking impact is the investor-investee dialogue on sustainability. Strategic engagement is the most reliable form of sustainable investing in that its impact has been clearly demonstrated empirically. Institutional investors recognize this: strategic engagement on sustainability is widespread and growing. \$9.8 trillion in assets under management use strategic engagement, and investors filed 429 ESG shareholder resolutions during the 2020 proxy season.

This research shows that COVID-19 has heightened focus on employee health and safety, labor practices, and access and affordability. We encourage investors to urge companies to consider these key issues as they translate stakeholder capitalism commitments into action or risk reputational and performance issues.

Research supports these marketplace trends. Aspen Institute research finds that employees who have benefits, good wages, and opportunities to advance are more productive and stay



in their jobs longer. In addition, a Harvard survey of 92 empirical studies concluded that human capital is material to financial performance. Prioritizing worker health and safety is critical to corporate success. According to California Congressman Ro Khanna, almost 60 million employees are working to care for the sick, deliver groceries, and maintain the internet and electrical grids. According to OSHA, an agency of the U.S. Department of Labor, employee trust in their employers to provide a healthy and safe workplace reduces absenteeism during a pandemic. Clear communication promotes confidence in the employer's ability to protect workers and increases the likelihood of employees reporting to work.

Focusing on the well-being of employees and affordability and access to a broad spectrum of customers may be just the right approach that companies need to navigate these choppy waters. This [study](#) demonstrates that what matters most is whether a company has a strong track record of proactively managing issues and is an early responder on relevant issues during a crisis. Sustainable and other long-term investors may be just the right stakeholders to help companies become proactively early responders.