

ACTIVE VOICE *from Putnam Investments*

Covid, Community, and Climate (C3)

At an April 7, 2021 all-employee meeting, Putnam Investments President and CEO Bob Reynolds described the rising community sensibility in the wake of the Covid-19 crisis. Noting a renewed appreciation of Diversity and Inclusion (D&I) nationwide, and within Putnam itself, he said, “We want to be a company that gets this right.” Stephen Denny, Head of Human Resources, Diversity and Inclusion, stressing the vital role of transparency and accountability, added, “What gets measured, gets done.”

The Covid-19 crisis revealed long-standing social and community development deficits that have lingered for years. Due to a complex set of factors, the health and financial impacts of the pandemic and lockdown fell disproportionately on some of the most vulnerable members of our communities — the poor, people of color, and women.

The C3 Project examines the impacts on and resilience of Americans in the face of dual health and financial crises. We shine a light on what this means for future challenges for our company, our community, and our climate.

- *Covid-19-driven changes for work and for business will have both short- and long-term impacts.*
- *Community has experienced strains yet shown durability, with signs that a communitarian spirit can be revived.*
- *Climate change tested our disaster preparedness over the past year and is well recognized as an existential crisis.*

As a firm, Putnam is committed to keeping you apprised of key trends and their impact and opportunities for our stakeholders. The Covid, Community, and Climate (C3) Project offers perspectives on mega- and micro-trends that have gathered steam for many years and accelerated over the past year.

We began the C3 project with a focus on Covid-19. In this edition, we explore the social, political, and financial impacts of recent events — including rising concerns over inclusion and racial justice. We assess the impact of recovery and infrastructure spending by the federal government on community development and “social infrastructure.”

In our upcoming conclusion of the C3 series, we will explore exciting investment opportunities in sustainability and ESG, including the role of intentionally minded investment flows in mitigating climate change.

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The Community of communities

Few mourn the passing of 2020. A year of pandemic, deep and sudden recession, fractious politics, social strife, computer network hacks, hurricanes in the South, and wildfires in the West. And for an encore, in early 2021, the Texas electrical grid was laid low by an unprecedented deep freeze. America's "community of communities" — social, political, and financial — has been stressed, burned out, and stretched to the limit.

But a community is a living thing — constantly morphing and evolving. While 2020 was no one's favorite year, by early 2021, with hospital admissions declining, vaccine distribution running well ahead of schedule, a \$1.9 trillion stimulus in place, and a \$2 trillion infrastructure package (including substantial social infrastructure) on the agenda in Washington, public confidence has risen like a tide. Underscoring this renewed spirit, the Conference Board projected GDP growth of 5.5% for 2021 — a rate not seen in the United States for more than 35 years.

After the pandemic, no community will return to business-as-usual; nor should it. The global economic lockdown of 2020 was many things — a test of resilience, a harsh light shone on unsustainable inequities, and a wake-up call for public policy. But it was also an inflection point; a once-in-a-generation opportunity to rediscover optimism, embrace change, and forge a sustainable global economy for the twenty-first century.

Stakeholders and social equity

When Covid-19 became a pandemic, millions of professionals retreated to home offices, "digitizing" their productivity in a way that kept the economy afloat. But millions of other American workers, in public-facing roles such as education, logistics, retail, and hospitality services, were directly exposed to layoffs and to the virus itself. Small business was particularly hard hit.

Covid-19 compounded a generation of lackluster wage growth by landing most heavily on the community of workers earning low wages, people of color, immigrants, and women, particularly female heads of households. The consequences left many Americans uncertain that their children's lot in life would be better than their own.

But even as questions were being raised in the heartland, a new community spirit was growing in business. In 2019, when the Business Roundtable issued a new "Statement on the Purpose of the Corporation" its 180 signatory organizations pledged to advocate for a "fundamental commitment to all of our stakeholders," eschewing narrow, profit-focused shareholder orthodoxy.

These themes had been simmering in corporate boardrooms for decades. It is now well understood that companies with robust ESG bona fides tend to outperform competitors. They are well-run, cognizant of their role as corporate citizens, and committed to doing the right thing for stakeholders. The Environment and Governance elements of ESG have been mainstreamed for some years. (We will explore sustainable investment themes in more detail in the third and final installment of the C3 Project, on Climate). Today, the "Social" component is coming to the fore.

Workplace adherence to principles of diversity and inclusion (D&I) creates teams with more varied gender, age, ethnicity, religious and cultural backgrounds, marital and family status, sexual orientation, and other individual characteristics. These teams, in turn, function more effectively, better meet client needs, and collaborate in differentiated, innovative ways.

D&I best practice turns on five critical principles

1. **Accountability:** Commitment of senior leadership to diversity and inclusion at all levels.
2. **Communication:** Making D&I principles known to all organization associates, senior leadership, clients, partners, and the community at large.
3. **Culture:** Ensuring an environment where all associates are respected, included, and empowered to realize their greatest potential.
4. **Talent Management:** Building a diverse talent pool that in turn can attract, retain, develop, and advance varied professionals who bring new problem-solving perspectives and skills to their work.
5. **Measurement:** Tracking D&I initiatives in a transparent manner that drives continuous improvement.

These data-supported measures are crucial for fulfilling the increasing transparency requirements of clients, vendors, partners, regulators, and investors. And they serve as a roadmap for the stakeholder economy.

Politics and Policy: The Covid-19 Response

The \$1.9 trillion American Rescue Plan (ARP) is nothing if not ambitious. In addition to supporting the distribution of vaccines and PPEs, it sends billions of dollars in aid directly to American families, particularly those with children, extends federal unemployment benefits, rolls out new small-business loans, and directly supports public transportation, housing, healthcare, and state and local governments. It is certainly one of the most comprehensive community development programs in the history of the United States.

The ARP represents an economic policy pivot — from the supply-side “trickle down” tax cuts of recent decades to a demand-side “trickle up” of direct cash infusion. Analyzing its effects will inform the debate over whether select components of the ARP might be made permanent.

As of the publication date of this note, Congress is preparing to debate the Biden administration’s \$2 trillion infrastructure proposal, the American Jobs Plan (AJP). Invoking infrastructure legacies such as the G.I. Bill of Rights, the interstate highway system, and the space race, the AJP calls for legacy infrastructure like roads, bridges, rail lines, ports, and airports.

The AJP also proposes ambitious, next-generation infrastructure — research and development, clean energy, a retrofitted electrical grid, and universal broadband. Community-focused social infrastructure is a major component. These improvements include safe drinking water and modernized housing, schools, and hospitals as well as support for early childhood education and caregiving.

Many more community-focused policy solutions are gaining traction in Washington, aimed at building a structure for success that makes it easier for Americans to succeed and less likely for them to fail.

- The American workplace retirement savings industry will soon get a boost from the creation of open multiple employer plans (MEPs), allowing small companies to band together to offer retirement savings at work.
- Republican Senator Mitt Romney of Utah has proposed one of the most generous child-benefit packages ever proposed, the Family Security Act, which would provide a flat monthly cash benefit for families up to a maximum of \$15,000 per year.
- Democratic Senator Cory Booker of New Jersey and Representative Ayanna Pressley of Massachusetts have proposed the distribution of a \$1,000 “Baby Bond” to every American newborn and up to \$2,000 more per year, with accrued savings applied to buying a home, paying for school, starting a business, or kicking off a retirement savings fund.
- Democratic Congressman Richard Neal of Massachusetts, Chairman of the House Ways and Means Committee, and Republican Congressman Kevin Brady of Texas, Ranking Member of Ways and Means, after differing publicly over stimulus and infrastructure legislation, have co-sponsored the Securing a Strong Retirement Act of 2020 (aka SECURE 2.0), which would default new 401(k) plans to automatic enrollment, modernize the Saver’s Credit, create new financial incentives for small businesses to offer retirement plans, allow workplace savings to pay down student loans, and facilitate the use of annuities in qualified retirement plans.
- The Problem Solvers Caucus in the House of Representatives and the G-20 group in the U.S. Senate are working to find common ground on key issues like the minimum wage, immigration, defense, and other big-picture issues.

Stewards of capital: Advisors, consultants

In the face of the Covid-19 pandemic, wise stewards of capital were desperately needed. Unforeseen events can often trigger long-term financial consequences, throwing up fundamental roadblocks to life goals. In times of volatility, advisors and consultants optimize their client relationships through dispassionate counsel: Take a deep breath, assess current circumstances in the context of long-term strategies, don't overreact to temporary volatility, stick to the long-term plan.

When retirement savers were offered liberal access to emergency withdrawals of their funds courtesy of the CARES Act in early 2020, advisors wondered whether they might hit the panic button and liquidate their investment positions. In testament to the sound construction of workplace savings plans — and to the steady hand of the financial advisory community — savers took minimal action.

According to the Investment Company Institute,¹ only 2.3% of participants in defined-contribution plans stopped contributing in 2020. Only 5.8% of participants took Covid-related withdrawals. The financial market volatility of the pandemic lockdown was clearly a test — and the financial community passed with flying colors.

Beyond Covid-19

Financial history suggests that when economic, political, and social trends are moving in acceptable ways, people muddle through. But when the system receives a shock — a pandemic, economic dislocation, civil conflict, or war — people respond. The sharp shock of the 2020 pandemic and economic disruption may prove to be one of these historic inflection points.

While Covid-19 remediation got off to a rocky start in early 2020, by early 2021, public and private resources were joined in one community effort: to distribute vaccines (the biggest stimulus of all), kick start the economy, and get the whole labor force back to work. This new spirit of cooperation is working. By April 2021, the U.S. was among world leaders in vaccine distribution, reaching the milestone of more than 200 million doses administered.

The pandemic is a stress test for the world. But the crisis led to a fresh understanding of long-term challenges; a laser-focus on solutions by employers, partners, and colleagues; a rekindled belief in the power of government, and a growing sense that technology, financial innovation, smart policy, and a spirit of inclusion will lead the global community of communities back from the brink.

Next in C3: Climate impact

Climate risk is well recognized across the political and policy spectrum as an existential crisis. And climate is a key focus of the new administration in Washington. A global wave of sustainable energy, low-carbon infrastructure, and economic/financial activity consistent with the principles of sustainable investing is gathering as a driver of innovation and investment. Investors and shareholders want to join money and meaning. Sustainability is our present and our future, and it will be the feature of our next Active Voice.

¹ <https://www.investmentnews.com/covid-didnt-change-401k-saving-habits-ici-says-203242>

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