In our outlook for 2022, we highlight the critical importance of Human Capital and the expected elevation of society and community alongside climate as a critical issue going forward. The invasion of Ukraine has again highlighted the importance of energy transition as the rising tension between energy dependency and the journey to net zero role. However, what we are focused on today are perhaps the less obvious, but no less serious, ramifications of the inflationary backdrop which has been exacerbated further by this war.

2022 will see the inflation at its highest level in developed markets since the early 1980’s and subsequently, it will also see the largest drawdown in consumer purchasing power and fall in standards of living for several decades. Indeed, as the chart below shows, in the UK, the Office for Budget Responsibility (OBR) estimated that we will see the largest fall in disposable income since the Second World War. This clearly has short term economic implications but it is the longer term ramifications which are perhaps more damaging for society and for capitalism as a whole.

It is said that inflation is very democratic in that it impacts everyone. But the impact is undoubtedly felt unequally. The poorest households are being hit hardest, where spending on necessities like energy and food, represents a significantly higher percentage of their disposable income. In the UK in 2020, the poorest household spent on average between 32% of their disposable income on food and energy compared to just 8% for the wealthiest households. The current impact of higher food and power prices means that the poorest households could see the cost of these necessities rise to over 40% of disposable income, a 10 percentage point increase. The equivalent rise for the wealthiest households is just 2-3 percentage points.


Source: BlackRock. The opinions expressed are as of April 2022 and are subject to change at any time due to changes in market or economic conditions.
Unfortunately, this inflationary period follows a period of extremely low real wage growth in developed market economies, starting with the financial crisis in 2007-2008. The Office for Budget Responsibility (OBR) spring projection in the UK for example (March, 2022), believes that average real weekly earnings will only rise £18 per week between 2007 and 2027. This compares to £240 a week if grown in line with the pre-financial crisis trend. Exacerbating this further is the withdrawal of government support. In the US, the end of the monthly child tax credit, worth USD300 for each child above 6 and USD250 for each child below 6, is expected to contribute to nearly 4m children entering poverty. In the UK, the lack of indexation within benefits will see an additional 1.3m people enter poverty, including 500,000 children.

The knock-on impact on affordability and the standard of living will be significant and create more inequality within society. There are many repercussions of inequality. Research has shown that less equal societies cause a wide range of health and social problems from lower social mobility, lower life expectancy, higher infant mortality, weaker education standards, lower productivity, and lower economic stability. It is also a significant contributory factor to declining birth rates, as families and individuals face rising concerns on their own economic stability, delaying or cancelling plans for larger families.

This strengthens our view that the role of employers becomes ever more important in this backdrop. **Human capital must be nurtured, supported, and invested in. We are entering a new era, post COVID, where employees are elevated as stakeholders and where the continuous search for lower pools of labour cost makes way for fairer and more equal pay.** The companies in the Developed Market Sustainable portfolio employ, between them, approximately 2.1m people. If you account for their families, their suppliers and customers, they influence and impact tens of millions of people. We continue to engage with purpose on these matters. We expect all our companies to have well developed human capital programmes that promote health and safety, well-being, education and career development as well as diversity, equality and inclusion. We also seek to invest in companies that are enabling financial and digital inclusion as well those enabling broad prosperity.

We have been encouraged by the continued progress being made by portfolio companies. For example, the additional focus **Symrise** is putting on its supply chain, drawing on internal and external resources as well as **enhanced** training and supervision to ensure that suppliers comply with their approach to human rights. Nestle has announced an ambitious plan to tackle child labour in cocoa production, promoting education and rewarding farmers not just for the quantity and quality of their cocoa beans but also for their contribution to the environment and local communities. **Analog Devices** appears to be successfully integrating the employees of recently acquired Maxim, boasting strong retention rates while **Mastercard** continues to make good progress on its journey to one billion, its ambitious program to financially include one billion people into the digital economy by 2025.

Source: BlackRock, as of April 2022.

Some of the companies mentioned have consistently demonstrated strong ESG practices and are categorised as an ESG leaders. Reference to individual companies mentioned in this communication is for illustrative purposes only and should not be construed as investment advice or investment recommendation.
Two social enablers we would like to delve into a bit deeper are Intuit and Rentokil. Intuit for promoting inclusion and Rentokil as an Employer of Choice. Intuit is a global technology platform enabling financial inclusion and powering prosperity for individuals and small and medium sized businesses alike. Key applications are Turbo Tax, Quickbooks, Mailchimp, Mint, and Credit Karma. We see Intuit enabling its ~100mn customer base by providing a trusted, time and cost efficient one-stop-shop for online tax management, bookkeeping, financial planning and lending and marketing services. In addition to its products and services making it easier for individuals and small businesses to prosper, we see Intuit’s commitment to Diversity, Equality and Inclusion (DEI) as industry leading. In FY21 Intuit succeeded in reaching its Global employee gender diversity goal with 30% female representation within the Technology organisation, historically a male dominated division. The company goal for 2024 is 37%. We note gender is only one part of the DEI conversation, with Intuit seeking greater Employee Ethnicity representation with a target to increase the representation of underrepresented minorities to 18% of its US based workforce by 2024.

Rentokil is a leading global provider of products and services in Pest Control and Hygiene with ~46k employees. We see Rentokil leading on its human capital management practices. Rentokil has recognised the importance of its employees to its success, specifically identifying the correlation between employee engagement, employee retention, employee productivity and customer satisfaction and growth. The company has meaningfully invested in its labour training and skilling for both new and existing employees as well as improving career progression. Actions speak louder than words: Rentokil’s senior managers waived 20-65% of their salaries in 2Q20 in addition to bonuses and established a ‘Colleague Support Fund’ for those impacted by Covid. We classify Rentokil as an Employer of Choice within the portfolio and view its leading approach towards their employees as a competitive advantage and an essential component of the company’s future success.

We recognise there is a long way to go and more opportunities for improvements. As we go through our engagements in 2022, human capital policies are one of our highest priorities.

As always, we would be delighted to hear from you.

David, Adam and Ruth

Source: BlackRock as of April 2022.
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