

Terms of Reference – PRI Investor Working Group on Sustainable Palm Oil

A. INTRODUCTION

The ESG team within the PRI Executive is responsible for providing thematic expertise across ESG issues. Responsibilities include coordinating collaborative engagements on ESG topics, developing guidance documents, briefings or collaborative initiatives on ESG issues, and supporting the participation of signatories in engagements promoted on the PRI's Collaboration Platform.

Since 2011, the PRI has coordinated an Investor Working Group on Sustainable Palm Oil, with an original aim to raise awareness amongst investors of the ESG issues that arise in the palm oil value chain, to provide a unified investor voice in support of sustainable palm oil, and to engage with companies in support of more sustainable practices. Palm oil has several significant benefits and advantages compared to its substitutes, including higher yields, lower costs and more versatility. As such, palm oil production has contributed significantly to national development in the countries where it is grown. However, there are also concerns that the environmental and social issues associated with unsustainable palm oil could have a material impact on companies across the palm oil value chain.

The investor working group on sustainable palm oil was set up by the PRI in 2011, and has been coordinated by the PRI since then. The investor working group on sustainable palm oil is guided by the PRI and an advisory committee, which is currently made up of 9 organisations: ACTIAM, APG Asset Management, Aviva Investors, Generation Investment Management, Green Century Capital Management, Hermes Equity Ownership Services, HSBC Global Asset Management, KLP and Robeco. This advisory committee works with and guides the PRI to set the strategy and direction of the investor working group on sustainable palm oil.

The group initially decided to engage with key buyers of palm oil, however by 2013 the group decided to shift their attention to palm oil growers, processors and traders. As part of this engagement, 15 companies have been engaged by investors, and engagement dialogue is still ongoing. During the course of 2017 the advisory committee discussed the possibility of engaging with a number of banks in the ASEAN region who are significant lenders to the palm oil industry. In early 2018, WWF Singapore presented their research on ASEAN banks' environment and social risk policies, as well as their sustainable palm oil and no deforestation policies, to the investor working group. It was decided that this research would form the basis of the PRI Investor Working Group on Sustainable Palm Oil's next engagement with ASEAN banks.

This updated Terms of Reference applies to the whole investor working group on sustainable palm oil, including those investors involved in the ongoing engagement with growers, processors and traders, as well as the upcoming engagement with ASEAN banks.

ROLE OF INVESTORS AND PRI IN COLLABORATIVE ENGAGEMENTS

In collaborative engagements, signatories are responsible for the dialogues with investee companies. Recognising this, in September 2015, the Board agreed the below policy which provides more clarity on the roles of investors and the PRI Executive in PRI-coordinated engagements:

- Investors are responsible for the engagement dialogues with companies that they undertake as part of a collaborative engagement.
- PRI is responsible for ensuring that the collaborative engagements coordinated and managed by the PRI are aligned with the PRI strategy and for ensuring that the resources required for each engagement are utilised as effectively as possible toward their aims and objectives.

The below terms of reference incorporate the remainder of the 'Rules' as agreed by the Board for all working groups and advisory committees.

B. OBJECTIVES

This investor working group has the following objectives:

- To educate investors of the material ESG issues that affect companies across the palm oil value chain.
- To engage with companies across the palm oil value chain to promote a sustainable palm oil industry and to improve companies' disclosure and management of the various ESG risks associated with palm oil.

C. ELIGIBILITY AND MEMBERS

Members of the investor working group should be committed to participating for the duration of the collaborative engagement.

Guidelines on participation of different signatory categories in PRI-coordinated initiatives typically follow the below model. The PRI may use different guidelines for a particular group depending on the nature of the initiative, and may at its discretion change or adapt this model where advised by a project's advisory committee. PRI signatories participating in the investor working group on sustainable palm oil should meet one of the criteria below:

- 1) Institutional asset owners, investment managers, and service providers or investor networks that have assets under management can join the collaborative engagement.
- 2) Service providers or investor networks that do not have assets under management but specialise in engagement, and have a contractual mandate to represent their clients (who must be institutional asset owners and investment managers), can join the engagement.

In this case:

- Engagement service providers must disclose to the investor group, and in any correspondence with companies some, if not all, names of their PRI-signatory clients who they are representing in the engagement. Engagement service providers are encouraged to include client's logos in any correspondence. Where this is not practicable, the engagement service provider's logo could be included along with a footnote with names of some or all of the other clients they are representing.
- Where practical, investor networks should disclose to the investor group, and in correspondence with companies, the names of their members who they are representing for the engagement. Investor networks can represent members who are not PRI signatories but they will commit to have a programme to encourage their members to become PRI signatories.
- Engagement service providers or investor networks are responsible for obtaining approval from their clients/members for the disclosure of client/member names or logos and signatures publicly and in communications with target companies. By submitting client/member names to the PRI, it will be assumed that permission from clients/members has been granted.

D. RESPONSIBILITIES

PRI Executive

The PRI Executive plays an active role in leading and coordinating investor groups and commits to:

- Defining project objectives, strategy and timelines, based on input from signatories
- Providing strategic and organisational guidance and administrative support
- Provide expertise from either internal or external sources, convening, and facilitating regular meetings of signatories.
- Coordinating meetings, providing agendas producing meeting minutes, briefings and publications, etc.
- Where relevant, developing RFPs for research or consultancy and appointing providers
- Ensuring the group moves forward and adheres to agreed timelines
- Assisting the group in applying the PRI evaluation framework and assessing the impact of the engagement
- Ensuring initiatives continue to support the PRI principles and overall strategy
- Providing resources to the group to raise awareness of the issue

Following appropriate input from members of the engagement advisory committee, the Executive at all times retains ownership and final sign-off of any outputs that are published under the name of the PRI, including events, research or outcomes documents. The Executive is responsible for the timelines, resources and budget that have been allocated to the project.

Engagement working group members

By participating in an engagement, group members confirm that they are able to devote sufficient time to the project and duties, as defined below. Proactive participation from all members is crucial for an effective signatory group and the Executive has the authority to remove signatory

participants that do not abide by the agreed commitment levels and invite other signatories to participate.

Signatories may participate in the initiative as leading or supporting investors.

Typical rights and responsibilities for **leading investors** include:

- Joining regular group calls, the frequency of which will be based on project needs.
- Signing joint letters
- Leading dialogues with selected target companies, and adding information to relevant evaluation frameworks for the companies they lead on.
- Sharing information with the group on the issue of focus and company dialogue.
- Informing the group of any engagement strategy involving filing resolutions with companies they lead on and committing not to make an explicit connection to the work of the group in relevant official documentation
- Joining company meetings led by other group members when of interest and appropriate according to the leading investors involved
- Voluntary speaking commitments to present the work of the group. The Executive can provide supporting material.
- Outreach and engagement with peers in relation to the work of the group. The Executive can provide supporting material

Typical rights and responsibilities for **supporting investors** include:

- Signing joint letters.
- Indicating specific companies where they are prepared to join meetings or calls, and providing feedback, information and input to the leading investor.
- Participating in regular group update calls to provide input, the frequency of which will be based on project needs.
- Joining company meetings led by other group members when of interest and appropriate according to the leading investors involved.
- Sharing information with the group (e.g. on issues, countries and companies).
- Voluntary speaking commitments to present the work of the group. The Executive can provide supporting material.
- Outreach and engagement with peers in relation to the work of the group. The Executive can provide supporting material.

There might be more than one lead investor to advance dialogue with the same company. In this case, it is encouraged that a lead and co-lead investor work together. The lead will be the main contact with the company but will work closely with the co-lead who will provide input. In general, only one co-lead will be assigned.

Signatories should reference their level of participation in communications related to the collaborative engagement, e.g. client reporting or marketing materials.

By participating in this collaborative engagement all participants, regardless of type, agree to abide by the confidentiality and non-disclosure arrangements noted in section G below.

PRI Board Oversight

The PRI Board oversees the constructive relationship between the Executive and Signatories as well as acting as a final point of escalation on matters related to the Executive's work to drive signatory implementation of the Principles, including ESG incorporation, active ownership, collaboration and reporting. The Board has oversight of the terms of reference for all advisory committees and working groups.

If a signatory has a significant concern with the operations of a signatory group the signatory can escalate the issue(s) to the head of the PRI Executive. If the matter cannot be resolved by the head of the PRI Executive the issue(s) will be escalated to the PRI Board.

E. ACTION PLAN

The Advisory Committee members have decided to expand the scope of the initiative. From Q3 2018, existing members of the IWG, as well as new members, will initiate a dialogue with ASEAN banks.

Below is the proposed timeline and activities for the engagement with ASEAN banks.

- 30 August 2018: Deadline for signatories to express their interest in joining the engagement with ASEAN banks
- End of September 2018: Lead investors to send letters to relevant banks
- November 2018: Investors trip to Indonesia/Malaysia
- October 2018 – 2019: Ongoing engagement dialogue

Please note that this is only a provisional timeline and may change.

Project evaluation

The PRI Executive will apply the PRI evaluation framework to monitor progress of the initiative against agreed milestones and measure the impact of the dialogue on company performance on the issue of focus.

Escalation

Following the analysis of outcome milestones, engagement groups may discuss an escalation strategy for specific companies, where there is a need for further response or action. In some cases investors may decide to limit their activities to private and confidential follow up efforts, while in other circumstances engagement groups will consider issuing a public statement, filing a resolution or ultimately divesting (when possible) in the case of unsatisfactory corporate behaviour. Any escalation plan will be agreed by the majority of the engagement group's participants. However, decisions on taking part in any particular escalation plan will be made by each investor independently.

Project conclusion

When a group reaches the intended endpoint for dialogues, participating signatories will review progress. Where a group wants to continue a collaborative engagement, the PRI will review

whether to continue to provide staff and resources to the project. In reviewing this, the PRI will consider factors such as:

- The impact and success achieved by the initiative to date, and potential for further impact to be made
- The interest level, participation and commitment of signatories in the group
- Relevance of the issue to the signatory base, and interest of signatories as compared to other ESG topics which could be covered.
- Continued support of the PRI principles and overall strategy

F. REPORTING REQUIREMENTS

The PRI will report on the activities of the engagement working group on the PRI website and / or Collaboration Platform semi-annually. The terms of reference and members of the engagement working group will be available on the Collaboration Platform.

G. CODE OF CONDUCT, CONFIDENTIALITY AND PUBLIC COMMUNICATIONS PROTOCOL

Conduct

Signatories must refrain from using signatory forums for explicit commercial purposes and should focus on furthering the goals and objectives as defined above. Information gathered during the collaborative engagement process should not be used for any other purposes beyond the objectives of the initiative. Engagement working group members should treat their colleagues and PRI staff with courtesy and respect. Failure to meet these requirements may also lead to the signatory being removed from the engagement working group.

Confidentiality

Unless there are exceptional circumstances, the broad theme of the engagement, its existence, and high-level indications of its progress will be disclosed by the PRI. The PRI will encourage disclosure of additional information related to the engagement whenever trust between participating investors and corporate management is not at risk.

The following information will be made **public** as part of this investor working group:

- The names of the participating investors
- Aggregated data on the engagement and its progress, such as the sectors and markets covered, the number of companies engaged, and the number of meetings held.

The following information will be kept **private**:

- During the engagement process, the names of companies under engagement will not be publicly disclosed. Investors will discuss whether targeted companies will be named when the engagement is completed, i.e. as a means to escalate the group's engagement or commend companies that have responded positively.
- Discussions during group conference calls and company updates shared by leading investors

Participating investors are required to abide by the agreement on disclosure of project details.

The PRI Executive may record group calls for internal purposes (i.e. note taking). Recordings are not circulated, as they are presumed to be confidential and sharing them could increase the risk that discussions inadvertently appear in the public domain. Where recordings of group discussions are taken, PRI staff will state at the start of the call that the call is being recorded for note-taking purposes. Call recordings will be deleted within 1 year. Where external experts present to groups on a particular topic, with their prior permission a webinar or audio recording may be taken and shared with investors as a resource.

Communication

Any participating investor will be free to provide information on engagement activities undertaken by them within the collaboration. However, any information disseminated must be in the investor's own words and can only be shared on the basis that the above guidelines on confidentiality are followed. It is also the responsibility of participants to ensure that the confidentiality of the engagement is understood and agreed by their clients and/or members. Should parties in the engagement group wish for their involvement to remain private, the other parties will agree to respect their wishes by not disclosing their names.

The above confidentiality and disclosure arrangements do not limit participants from disclosing information which:

- a) they are able to reasonably establish as previously known to them; or
- b) is in the public domain at the time of disclosure.

Initiatives undertaken by the Executive can be referred to as initiatives 'coordinated by the PRI' and comprised of PRI signatories but references should not suggest or imply that the project has the support of the whole PRI membership. As an example, in letters to companies, engagements can be communicated as being undertaken by groups of signatories to the PRI e.g.:

The undersigned investors collectively represent US\$X trillion in assets, and are participating in an initiative coordinated by the Principles for Responsible Investment (PRI), a global body of investors who believe that environmental, social and corporate governance (ESG) factors affect the long-term performance of investment portfolios.

The Executive is empowered to speak on behalf of a PRI working group, within the terms of any confidentiality agreement in place for the group. For more information on the voice of the PRI see the [PRI Communications Policy](#).

At the conclusion of the initiative, PRI will communicate overall outcomes, and may develop case studies, tools, or lessons learned for signatories seeking to engage on the topic in the future.

H. CONTACT

If you are interested in understanding more about this engagement, please contact: danielle.carreira@unpri.org.