

Terms of Reference – responsible sourcing of cobalt engagement working group

A. INTRODUCTION

This terms of reference applies to the engagement working group, which will undertake the collaborative engagement with the support of the ESG Engagements (ESGE) team within the PRI.

BACKGROUND ON THE ROLE OF INVESTORS AND PRI IN COLLABORATIVE ENGAGEMENTS

In 2015 the PRI Board agreed ‘Rules for advisory committees and working groups’ across the PRI. While the Rules establish that signatory committees and working groups are advisory, in the case of collaborative engagements signatories are responsible for the dialogues with investee companies, and have a higher degree of ownership over the development of a collaborative engagement. 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.
- Signatories provide guidance, advice and expertise to the PRI in the development of collaborative engagements, including on engagement objectives, strategy and focus. The Executive is typically guided by advice from engagement advisory committees or working groups in developing and defining collaborative engagements. However, PRI may not follow advice of signatories, particularly where:
 - It is not aligned with the interests of the broader signatory base;
 - It is not aligned with the PRI strategy and resource allocation, mission or values or the ESG Engagements’ team strategy;
 - It may have a negative impact on the effectiveness or efficiency of the project.
- Where an advisory committee or working group for a collaborative engagement has a significant divergence of opinion on an issue the Executive will take a decision, having consulted with signatories.

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 engagement working group was established with the following objectives:

- Identify and assess existing corporate practices
- Encourage enhanced communication and reporting
- Support improved performance and impact by target companies.

In particular, the engagement dialogues undertaken by the group will seek to improve companies' performance and impact in several key areas, based on the Investor Expectations document associated with the project. These include:

- Human rights risk assessment and comprehensive due diligence efforts
- Impact monitoring and corrective action including on the ground remediation
- Collaboration on systemic issues

C. MEMBERS

Eligibility to join

Asset owners, investment managers, and service providers or investor networks that have assets under management can join the collaborative engagement.

Service providers or investor networks that do not have assets under management but specialise in engagement, and have a mandate to represent their clients, can join the engagement. In this case:

- Engagement service providers must disclose to the investor group, and in any correspondence with companies, the names of all their PRI-signatory clients who they are representing in the engagement. Engagement service providers are encouraged to include client names in any correspondence with companies.
- 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 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 will play a supporting role in leading and coordinating the investor group and commits to:

- Defining project objectives, strategy and timelines together with the advisory committee
- 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 and providing agendas
- Ensuring the group moves forward and adheres to agreed timelines
- Assisting the group in assessing the impact of the engagement
- Ensuring initiatives continue to support the PRI principles and overall strategy
- Managing the content of the relevant confidential online working group space

The Executive, taking into consideration the advice of the advisory committee, can set out guidelines for the operations of a collaborative engagement. The aim of these guidelines are to facilitate effective projects that work towards the desired aim by establishing from the outset the required commitment, timeline, responsibilities and other contributors to a successful outcome. The guidelines are for the final decision of the Executive, taking into consideration the input of advisory committee.

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 this 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. Signatories who are interested and supportive of the topic but do not have time or resources to actively take part in the work of the engagement working group are instead invited to indicate their support through publicly endorsing the statement of Investor expectations on the responsible sourcing of cobalt.

Responsibilities for leading investors include:

- Regular calls, the frequency of which will be based on project needs.
- Leading or co-leading dialogues with selected target companies. Signatories are encouraged to limit co-leads to two signatories per company, and to lead on a maximum of 4 companies.
- For each company where they are a lead, the investor(s) will define relevant focus areas for engagement from the Investor Expectations statement and a review of the company's disclosure or based on an initial call with the company. The company contact is also at the discretion of the lead investor (e.g. sustainability staff vs. board level dialogue).

- Sharing the Investor Expectations statement with relevant companies and using this as a basis for active, sustained dialogue with on behalf of the group, i.e. communicating with the company on a regular basis (e.g. at least every 6-9 months)
- Sharing information with the group and the PRI on the issue of focus and company dialogue
- Informing the group of any engagement strategy involving filing resolutions and seeking approval for making any reference to the work of the group in relevant official documentation
- Joining company meetings led by other group members when considered appropriate by the leading investors involved
- Members of the engagement working group should be committed to participating for the duration of the collaborative engagement.

Responsibilities for supporting investors include:

- Participate in regular group calls, the frequency of which will be based on project needs.
- Indicate specific companies where they are prepared to join meetings or calls, and provide feedback, information and input to the leading investor
- And / or commit to share information with the group – this could be issue specific or company specific knowledge – to be specified by the supporting investor

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

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 AND TIMELINE

Project plan

Signatories will be actively invited to join the engagement from September 2018, but may join the engagement for up to 6 months (through February 2019). Dialogues will be initiated on a rolling basis, using the investor statement as a point of reference. Dialogues are expected to continue through early 2020. Members of the engagement working group should be committed to participating for the duration of the collaborative engagement.

Escalation

The group may discuss an escalation strategy where there is a need to 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. Decisions on divestment will be made by each investor independently.

Project conclusion

When the 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

Where the PRI decides not to continue its support for an engagement, signatories are still able to independently collaborate through the confidential online workspaces on the PRI website.

F. 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 the signatory being removed from the committee.

Confidentiality (to be discussed with the advisory committee)

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 amongst participating investors and corporate management is not at risk.

The advisory committee determined that the following information may be made public by the PRI and / or group members:

- Progress of dialogue on an aggregated basis (e.g. x companies responded)
- Names of investors
- Names of companies (exceptions can be made if needed)

- Summary of engagement outcomes for a specific company can be disclosed with the agreement of the lead investor

The following details may not be disclosed:

- Details of company dialogues
- Which investor engages which company, unless no reference to PRI engagement is made (e.g. if needed for client reporting)

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

Any participating investor will be free to provide information on engagement activities undertaken by them within the collaboration. However, should parties in the engagement group wish for their involvement or the existence of the initiative to remain private, the other parties will agree to respect their wishes by not disclosing their names or making specific reference to the collaborative initiative.

Initiatives undertaken by the Executive can be referred to as initiatives 'coordinated by the PRI' but references should not suggest or imply that the project has the support of all PRI signatories. 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 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

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.

G. CONTACT

If you are interested in understanding more about this engagement, please contact:

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