

# Advance: a stewardship initiative for human rights and social issues

## Participant Terms of Reference

### INTRODUCTION

Advance is a collaborative stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society. The Initiative was set up in May 2022 and has been coordinated by the PRI since then.

This Terms of Reference (“**Terms**”) defines the purpose and structure of this Initiative and summarises the expectations and guidelines for investors engaging with companies as part of this Initiative<sup>1</sup> (or “**Participants**”). All Participants are required to agree to and abide by these Terms.

These Terms are reviewed by the PRI Executive on an annual basis. Where changes are made by the PRI Executive, the Initiative Signatory advisory committee will be consulted, and Participants will be asked to reconfirm their acceptance to the Terms.

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<sup>1</sup> These Terms apply to Participants within this initiative (investors engaging with companies) and not Endorsers (investors who publicly endorse the initiative and its objectives, but do not engage with companies).

## ABOUT THE INITIATIVE

### OBJECTIVES

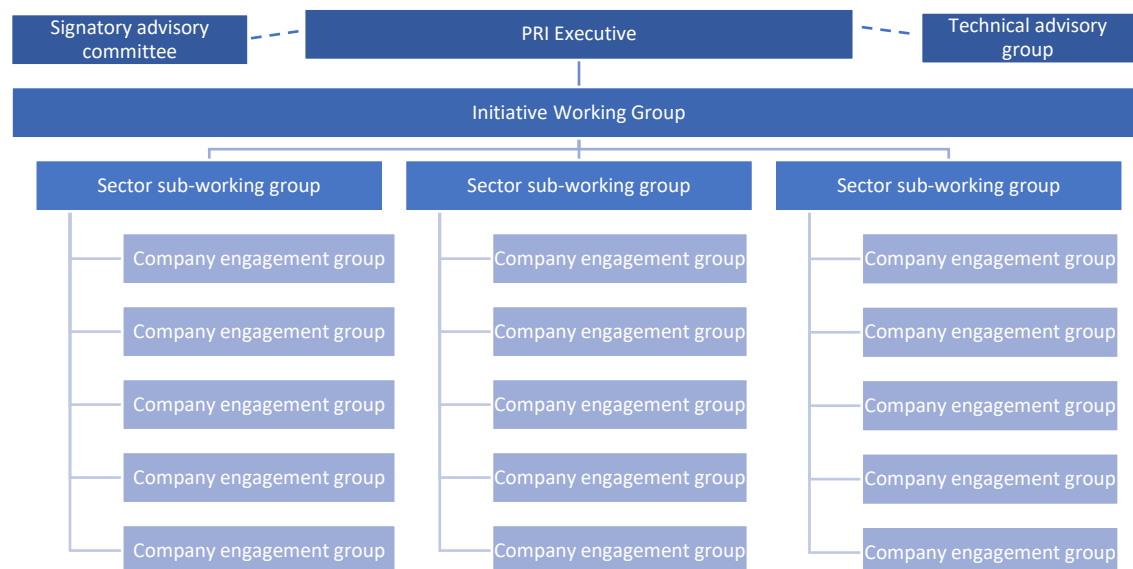
The objective of the Initiative is to advance human rights and positive outcomes for people through investor stewardship.

This Initiative primarily seeks change through investors' use of influence with portfolio companies. The following expectations are set for companies:

- Fully implement the United Nations Guiding Principles on Business and Human Rights (UNGPs) – the guardrail of corporate conduct on human rights
- Align their political engagement with their responsibility to respect human rights
- Deepen progress on the most severe human rights issues in their operations and across their value chains

Within the collaborative Initiative, investor engagement on public policy will be considered (from year two of the Initiative onwards) where issue-specific policy and regulatory intervention is required. Further details on this, including relevant governance arrangements will be released closer to the time, and will build on input from the initiative Signatory advisory committee and technical advisory group. This will be optional for Participants to take part in.

### STRUCTURE



*Image 1: overview of the structure of the Working Group (note, the number of sub-working groups and company engagement groups will vary over time and this image is not an accurate representation of this number).*

The Initiative is facilitated by the PRI Executive and supported by two advisory bodies:

- **Signatory advisory committee:** the signatory advisory committee is typically comprised of PRI Signatories who have committed to lead engagements with companies within the Initiative. The committee provides guidance to the PRI on the development and coordination of the Initiative to support the PRI's decision making
- **Technical advisory group:** the technical advisory group is comprised of PRI stakeholders with deep expertise on social issues and human rights, such as multilateral institutions, human rights organisations, unions and civil society groups. The technical advisory group provides technical advice on human rights to inform the PRI Executive's decision-making around the development and strategy of the Initiative. The group also assists with the inclusion of stakeholder perspectives in the Initiative

Participants of the Initiative collectively come together to form the Working Group of the Initiative. This Working Group is divided into separate sub-working groups based on the sector of the focus companies being engaged. Sub-working groups focused on specific regions of operations or thematic human rights issues may also be established.

For each engagement focus company, a company engagement group is established. These groups are made up of a Lead or two Co-Lead Investors and Collaborating Investors (generally consisting of four members). Investors within each engagement group are responsible for delivering the engagement strategy for each company. These investors are responsible for engaging with companies on the expectations of the Initiative.

## TIMELINE

PRI Signatories will be invited to join the Initiative from May 2022 but may join the Initiative on a rolling basis where opportunities are available. The Initiative will run for a minimum of five years (until March 2027). Participants are encouraged to participate for the duration of the Initiative.

When the Initiative reaches the end of this five years, the PRI Executive – with input from the Initiative advisory groups – will review the success of the Initiative and decide on whether to continue to coordinate the engagement beyond this point. In reviewing this, the PRI Executive will consider the following factors:

- The impact and success achieved by the Initiative to date, and potential further impact to be made

- The level of participation which existing and potential Participants can commit to
- Resourcing levels of the PRI and other planned or ongoing PRI-coordinated Initiatives
- Continued alignment to the PRI Principles and its overall strategy

If the PRI Executive decides against continuing to coordinate the Initiative, PRI Signatories will still be able to independently collaborate through confidential online workspaces on the [PRI Collaboration Platform](#).

## JOINING THE INITIATIVE

### ROLES

The following roles within the Initiative are available to PRI Signatories:

- **Endorser:** Endorsers are PRI Signatories that publicly endorse the Initiative by signing the public investor statement, signalling their support for the objectives of the Initiative. Endorsers who outsource their stewardship activities are encouraged to request that their investment managers and engagement service providers with responsibility for engagement apply to take part in the Initiative or commit to aligning their own engagements to the objectives of the Initiative. Endorsers do not participate in engagement activities within the Initiative and will be listed separately to Participants in public information about the Initiative
- **Participant:** Participants are investors who engage with companies as part of the Initiative. Participants are expected to engage with at least one engagement focus company for the duration of the engagement period. Participants can engage with a company as a “Lead Investor” or a “Collaborating Investor” for specific engagement focus companies. Investors who join the Initiative as a Participant will also be listed as Endorsers of the Initiative
  - **Lead Investor:** Lead Investors are responsible for driving the engagement agenda forward with their engagement focus companies. They are the main point of contact between the focus companies they are engaging with, the group of Collaborating Investors and the PRI Executive. In some cases, there will be two Lead Investors for an engagement focus company, who will drive the engagement together.<sup>2</sup> In this case, these investors are referred to as

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<sup>2</sup> In limited circumstances, the PRI may specifically allow an investor to formally engage a focus company as part of the Initiative without other investors presents in engagement meetings. In these instances, investors are still required to meet all other expectations of Lead Investors, including updating the PRI and other Lead and Collaborating Investors for the relevant focus company on engagement progress. An investor’s request to formally engage a focus company individually will be reviewed on a case-by-case basis and will be at the discretion of the PRI Executive.

Co-Lead Investors. Lead Investors for an engagement focus company can also be a Collaborating Investor for another engagement focus company

- **Collaborating Investor:** Collaborating Investors are responsible for proactively supporting Lead Investors in their engagement with focus companies through for example, participation in preparatory calls and engagement meetings

Endorsers and Participants should reference their level of involvement in communications related to the Initiative, e.g., client report or marketing materials. Endorser investors must clearly communicate that they do not participate in any engagement activities within the Initiative.

## ELIGIBILITY

Participants are typically required to meet the following minimum requirements for joining the Initiative:

- Be a PRI Signatory asset owner, investment manager, network group or engagement service provider (with a specific mandate to engage with companies on behalf of an institutional investor(s))
- Commit to participate in the Initiative as a Lead or Collaborating Investor for at least one company
- To have made a policy commitment to respect human rights and implemented a human rights due diligence process; or to commit to work towards doing so within a year of joining the Initiative. The policy commitment and due diligence processes should cover, at a minimum, the human rights included in the International Bill of Human Rights and International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the eight core conventions. Further information on implementing a policy commitment and due diligence process can be found in the [PRI's paper: Why and how investors should act on human rights](#)
- Commit to devote sufficient time to the Initiative and Initiative duties, as set out in these Terms

## APPLYING TO JOIN THE INITIATIVE

Investors who wish to join the Initiative as a Participant are required to apply. This application requires investors to select the Initiative focus companies they wish to engage, and whether they would like to engage the company as a Lead or Collaborating Investor; and provide information regarding their suitability for this role.

When an engagement group is open to join, Participants are appointed by the PRI Executive, taking into account the following considerations:

- Demonstrated experience of stewardship, especially company engagement but also other [stewardship tools/activities](#) relevant to the Initiative, such as filing shareholder proposals at company general meetings
- Demonstrated experience or knowledge of human rights and social issues
- Leverage with engagement focus company (e.g., stock/bondholding over the term of the Initiative)
- Pre-existing engagement relationships with company
- Geographic proximity to engagement focus company and knowledge of local market
- Specified requirements requested by existing engagement group (e.g., the engagement group may specify that an additional large investor headquartered in the country the engagement focus company is based in would strengthen the influence of the engagement group)

If an investor applies to join a specific company engagement group but cannot join at that time (because the engagement group is full, or the investor doesn't currently meet the criteria), the investor will be added to a company engagement group waiting list. Once a role becomes available (and the investor meets the criteria to assume that role), they will be invited to join that group.

Investors on the Participant waiting list will still be able to join the Initiative as an Endorser and can therefore still publicly support the Initiative's objectives and investor statement. Further, investors are encouraged to carry-out their own stewardship activities in line with the objectives of the Initiative.

## RESPONSIBILITIES OF PARTICIPANTS AND THE PRI EXECUTIVE

In collaborative engagements, Signatories are responsible for the dialogues with investee companies. Recognising this, in September 2015, the Board agreed 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 following outlines specific responsibilities of Participants – both Lead and Collaborating Investors, and responsibilities of the PRI Executive.

## RESPONSIBILITIES OF ALL PARTICIPANTS

All Participants are required to:

- Publicly endorse the investor statement for the Initiative
- Engage with at least one focus company during each year and where possible, for the full duration of the Initiative
- Provide annual high-level reports back to the PRI Executive on their level of participation and progress of the engagement. Collaborating Investors are required to submit a shorter report than Lead Investors, detailing their level of participation in the Initiative
- Attend PRI-organised Initiative meetings where reasonable
- Abide by the responsibilities, guidance and rules set out in these Terms

## RESPONSIBILITIES OF LEAD INVESTORS

- Lead the identification of company-specific engagement expectations (in line with the overall engagement objectives) each year (with Collaborating Investors and PRI staff)
- Develop the company engagement strategy in collaboration with Collaborating Investors and with support from the PRI
- Develop and maintain deep knowledge of the company's business strategy and performance on the issues of focus
- Arrange meetings with Collaborating Investors to encourage alignment in engagement, including prep meetings before joint interactions with the engagement focus company, involving all Collaborating Investors to establish the objectives and talking points for the meeting and discussion items which are in and out of scope
- Arrange dialogue with the company, taking into consideration where most appropriate to involve Collaborating Investors
- Engage with relevant stakeholders including right-holders and affected stakeholders to achieve the objectives of the Initiative
- Where there is overlapping engagement with the engagement focus company on a substantially similar issue by another Initiative, coordinate with Lead Investors for that company in the other initiative to seek maximum possible consistency in company expectations, minimise duplicative requests and avoid any confusion or exploitation of perceived gaps and differences in messaging and asks. This may include sharing with each other the core asks of companies

- and maintaining open and regular communication with one another. The engagement strategy for a company can be shared<sup>3</sup> at the discretion of Lead Investors, subject to the requirement that such information be maintained as confidential upon request. This coordination and communication can be facilitated by the PRI Executive
- Lead the drafting of annual general meeting (AGM) statements or other letters to the company and present these at the AGM (where feasible and appropriate). Consult with the Collaborating Investors on these documents
  - Delegate research, analysis and leading engagement calls to Collaborating Investors where appropriate

## RESPONSIBILITIES OF COLLABORATING INVESTORS

- Proactively support Lead Investors with analysis and assessment of the company to develop a clear set of engagement priorities for use with the company
- Support Lead Investors with the development of the engagement strategy
- Provide input into AGM statements, letters and other communications with the company when requested
- Attend company engagement meetings in support of Lead Investors
- Attend organised prep calls prior to joint interactions with the engagement focus company
- In instances where Collaborating Investors have bilateral individual conversations with companies, which may cover a range of issues, share information relevant to the Initiative with the PRI and engagement focus group and try to coordinate where possible

## RESPONSIBILITIES OF THE PRI EXECUTIVE

- Define the Initiative objectives, strategy and timelines with support from the Initiative advisory groups
- Provide strategic and organisational guidance; and administrative support
- Recruit and onboard Participants onto the Initiative
- Coordinate Initiative meetings and provide agendas
- Provide expertise on stewardship and human rights and social issues from either internal or external sources
- Work with Participants to develop and deliver their engagement strategy
- Facilitate coordination between Lead Investors for the same engagement focus company within different Initiatives

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<sup>3</sup> Material non-public information will never be shared, even within the Initiative.



- Facilitate engagement between Participants and right-holders, affected stakeholders and/or representatives
- Assist the group in monitoring the progress of their engagements
- Measure and publicly report on the progress of the initiative on an annual basis through benchmarking company performance and collect high-level reports from Participants
- Ensure the Initiative continues to support the PRI principles and overall strategy
- Ensure the group moves forward and adheres to agreed timelines

The PRI Executive at all times retains ownership and final sign-off of any outputs that are published under the name of the PRI and the Initiative, including events, research and any other publication. The Executive is responsible for the timelines, resources and budget that have been allocated to all programmes and projects.

## 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 PRI 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 PRI Signatory has a significant concern with the operations of a PRI Signatory group, the PRI Signatory can escalate the issue(s) to the CEO of the PRI. If the matter cannot be resolved by the CEO of the PRI, the issue(s) will be escalated to the PRI Board.

## ENGAGEMENT GUIDANCE

### ENGAGEMENT STRATEGY

Participants are responsible for driving each engagement as independent fiduciaries. This involves developing and implementing company-specific engagement priorities and strategies as informed by the goals of the Initiative. Before an engagement group undertakes engagement with a company, they are required to develop and agree on a written, informal engagement strategy for the company. This engagement strategy should be developed by the Lead Investor of the group, with input from Collaborating Investors and the PRI Executive. Whilst recognising that this strategy may evolve over time, the group should agree on the following:

- Company engagement objectives which align to the overall objectives of the Initiative. This should also include company-specific human rights expectations to be prioritised for engagement by assessing where actual or potential

negative outcomes for people are most severe using the criteria set out in the UNGPs. This process will be supported by the PRI Executive, with input from the Initiative technical advisory group

- The approach to engagement, including the corporate representatives to contact, and the forms of dialogue to use
- Key engagement milestones and planned next steps if those milestones are not met. Investors should agree on when escalation should be carried out and the forms of escalation the group are prepared to undertake

## ESCALATION

Where possible, Participants should seek to build positive dialogue with focus companies and aim to support their efforts on human rights and social issues. However, a central message of each engagement should be that inaction or a lack of progress by focus companies following engagement may result in investors taking further action. To the extent permissible by relevant law and regulation, investors should agree on when escalation should be carried out and the forms of escalation the group are prepared to undertake.

The PRI works to support the engagement group in these instances by assisting in the identification of the most suitable escalation strategy, noting that some actions (e.g., around voting) may require additional steps to be carried out to ensure compliance with legal requirements. Note, all members of the Initiative are independent fiduciaries and vote in accordance with their own voting principles, policies or guidelines and independent internal investment analysis. All members are responsible and accountable for their own voting decisions, including any pre-declaration or vote solicitation.

The use of potential escalation tactics that investors may use in their engagements is at the discretion of individual Participants and/or collaborative engagement groups. Divestment is never an option explicitly considered by an engagement group. Any decision by Participants with respect to investing, divesting or in any way changing the level of holding of a security will always be at their sole discretion and made in their individual capacities. The Initiative only facilitates information sharing regarding these tools and tactics and takes no formal position on them.

## RIGHT-HOLDERS AND AFFECTED STAKEHOLDER ENGAGEMENT

To support investors' understanding of actual risks and outcomes experienced by people, obtain first-hand information and determine priorities for engagement, Participants commit to engaging with right-holders and affected stakeholders or their representatives

where appropriate, such as local communities and trade unions. This process can be facilitated by the PRI Executive with input from the Initiative technical advisory group.

## ANNUAL REPORT

Participants are required to report on the progress of their engagement approximately once a year by completing a standardised questionnaire developed by the PRI Executive. This includes questions on each investor's level of participation, engagement tactics used and progress of the engagement against the agreed upon objectives. Collaborating Investors are required to submit a shorter report than Lead Investors, detailing their level of participation in the Initiative. Participants may also be asked to provide informal updates to the PRI Executive more regularly (approximately once every six months).

Aggregated information from these reports supports the PRI Executive's assessment of the progress of the Initiative and will be included in annual public progress reports.

## RULES AND CODE OF CONDUCT

### CONDUCT

- Participants must refrain from using investor forums for explicit commercial purposes and should focus solely on furthering the goals and objectives as defined above.
- Participants should treat each other and PRI staff with courtesy and respect.

### CONFLICTS OF INTEREST

- It is the responsibility of PRI Signatories to ensure that there are no conflicts of interest when joining an engagement with any given focus company. Should any conflicts of interest arise – either real or perceived – the Participant should promptly disclose these to the PRI Executive.

### LEGAL CONSIDERATIONS AND ACTING IN CONCERT

- Each Participant has the responsibility to obtain its own legal advice pertaining to their participation in the Initiative. In conducting their engagements, investors participating in the Initiative must ensure they are aware of and always in compliance with regulatory requirements related to collaborative investor engagement activities in the jurisdiction where engagement is taking place. This may include regulatory

requirements pertaining to acting in concert<sup>4</sup> or forming a controlling group, which are generally defined as when a group of investors actively and intentionally cooperate to obtain or consolidate control of a company (which is not the intention of the Initiative).

## NON-PUBLIC INFORMATION

- Information should only be shared for the purposes of facilitating the collaborative goals of the Initiative and should be shared on a confidential basis.
- Participants of the Initiative must not seek, discuss or exchange material non-public information with other investors, companies, the PRI Executive or the PRI advisory groups.
- If during the course of engagement, a PRI Signatory inadvertently discovers information believed to be material non-public information, then the usual requirements under the relevant securities laws apply.

## EXTERNAL COMMUNICATIONS AND REPRESENTATION OF ASSETS AND OTHER INVESTORS

- Participants can refer to themselves as Participants in or working as part of the Initiative. However, investors should not state that they represent the Initiative, all its Participants, the full assets under management (AUM) of the Initiative or the full PRI Signatory base.
- Investors in engagements with focus companies should defer to representing only the assets over which they have a fiduciary duty. At no time should an investor claim to represent other investors or their AUM, who may be involved in a company engagement without first obtaining explicit written permission from each relevant investor.
- Investors may indicate that they are designated Lead or Collaborating Investors to engage with focus companies where this applies and at their own discretion, however, participants should not publicly disclose the names of other Collaborating and Lead Investors associated with a specific company engagement group unless they have received consent from these organisations, or this information is already in the public domain.

## INVESTOR PRIVACY

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<sup>4</sup> The PRI has worked with several law firms to provide an overview of the regulation related to acting in concert in key markets, as well as a legal opinion on whether certain behaviours would be considered acting in concert and trigger regulatory requirements. This guidance is available to [PRI Signatories](#), but should not substitute legal advice. Participants need to obtain permission pertaining to their participation in the Initiative.

- By joining, Participants grant the PRI Executive the right to share their work contact details with other members of the group for the purposes of facilitating discussion between Participants on matters related to the Initiative.
- By joining the Initiative as a Lead Investor, they grant the PRI Executive the right to connect Lead Investors for a specific company with Lead Investors for the same company within different Initiatives, for the purpose of seeking maximum possible alignment in engagement.
- The PRI may record group meetings for internal purposes, such as 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. When recordings of group discussions are taken, meeting attendees will be notified. Meeting recordings will be deleted within one 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.
- By joining the Initiative, Participants agree to the [PRI's privacy policy](#).

## TRANSPARENCY

The broad theme of the Initiative, its existence and high-level indications of its progress will be disclosed by the PRI. The PRI encourages disclosure of additional information related to the Initiative whenever trust amongst participating investors and corporate management is not at risk.

The following information is made public by the PRI:

- Name of Participant and Endorser organisations
- Name of engagement focus companies
- Organisation names of the clients/members that engagement service providers and investor networks are representing for the engagement, where permission has been granted <sup>5</sup>, or a link to a list of these members if this information is publicly available
- The organisation names of Lead and Collaborating Investors for each engagement focus company, and in most cases, the role each Participant organisation is filling with respect to each company
- Progress of the Initiative on an aggregated basis – generally through annual progress reports

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<sup>5</sup> Engagement service providers and investor networks should obtain approval from their clients/members for the disclosure of client/member names in communications with target companies and in public communication. By submitting client/member names to the PRI, it will be assumed that permission from clients/members has been granted.

- Summary of engagement outcomes for a specific company (with the agreement of the Lead and Collaborating Investors)
- The investor statement signed by Endorsers of the Initiative
- The Participant Terms of Reference and other supporting documents such as the Initiative Handbook
- Information on advisory groups for the Initiative

## PUBLIC COMMUNICATION

- The PRI Executive is empowered to speak on behalf of the Initiative but will not act or speak directly on behalf of the investors participating in the Initiative.
- Communication on the Initiative will not suggest or imply that the Initiative has the support of all PRI Signatories.
- For more information on the voice of the PRI, see the [PRI Communications Policy](#).

## FAILURE TO MEET THE TERMS

If a Participant fails to meet the Terms, where possible and reasonable, the PRI Executive will firstly issue the Participant with a warning. If following the warning, the Participant still fails to meet the Terms, the PRI Executive may take the decision to remove the Participant from the Initiative – or where the issue relates to a Lead Investor, this investor may be asked to move to a Collaborating Investor role instead. If a PRI Signatory has a concern with this decision, the PRI Signatory can escalate the issue to the CEO of the PRI. If the matter cannot be resolved by the CEO of the PRI, the issue can be escalated to the PRI Board.

## DISCLAIMER

The Initiative does not require or seek collective decision-making or action with respect to acquiring, holding, disposing and/or voting of securities. Signatories are independent fiduciaries responsible for their own investment and voting decisions. The use of engagement tools and tactics, including the scope of participation in engagements is at the discretion of individual investors. Any decision by Participants to engage in collective decision-making or action with respect to acquiring, holding, disposing and/or voting of securities shall be at their sole discretion and made in their individual capacities and not on behalf of or as part of their activities within the Initiative, the PRI Executives and PRI Signatories.

The Initiative does not act or speak on behalf of Participants. They also do not seek directly or indirectly, either on their own or another's behalf, the power to act as proxy for

a security holder and do not furnish or otherwise request or act on behalf of a person who furnishes or requests, a form of revocation, abstention, consent or authorisation. In addition, the Initiative does not provide investment or voting recommendations.

The Initiative does not provide investment, legal, accounting or tax advice. The Initiative does not necessarily endorse or validate the information contained herein.

## CONTACT

Those interested in understanding more about the Initiative should contact [advance@unpri.org](mailto:advance@unpri.org).