Pension Funds International RBC | SER

Overarching lessons learned engagement case studies

Introduction

Six case studies have been discussed over the past covenant period: mining, palm oil, platform economy, mica mining, tech industry and biodiversity. The collaboration in the cases has been successful, but not without its challenges. These have been incorporated in the lessons learned documents. There are also overarching lessons learned that will be explained in this document.

The purpose of the case studies, under the "Deep Track" in the covenant, was to develop forms of collaboration as covenant parties to enable pension funds to increase their influence on the policies and practices of the companies they invest in. By pooling knowledge and experience and jointly strengthening the engagement of pension funds, the parties have been working on reducing negative impacts in chains.

The Deep Track working group consists of twelve pension funds, the Federation of the Dutch Pension Funds, six NGOs, three trade unions and the government. In the selection of cases, criteria were used that correspond to the objective of the covenant. Accordingly, cases were selected on the basis of the greatest risks of (potential) negative impacts related to the scale, severity and irreversibility of the negative impacts and the added value provided by the collaboration between parties.

The case studies went roughly through four phases, sometimes intertwined. For instance, during the engagement with a company, new information can be provided to strengthen the pension funds' negotiating position. Using the critical performance indicators (KPIs) described in the covenant, the expected impact of a case on changes in situ, within the company and at the sector/policy level are indicated. These have been incorporated in 'lessons learned' documents.

Phase 1: drawing up a collaboration plan
Phase 2: gathering information in preparation for the engagement
Phase 3: engagement with the company
Phase 4: conclusion of the case, drawing up lessons learned, agreements on any follow-up engagement

Content

What is engagement?

Engagement refers to a constructive dialogue between the investor and the company in which the investor invests. In a process of engagement, the investor exerts influence on the company, so that the company will prevent, mitigate and/or remedy the (possible) negative impacts it causes. In this process, the investor can apply various time-bound actions and different escalation steps, such as voting, engaging in conversations with the company, writing letters, making proposals at the shareholders' meeting, etc. Investors can also adopt a more public strategy, such as an open letter. The approach chosen depends on the 'theory of change' (ToC) used. Basically, a ToC determines how a desired change can most likely be achieved. In an engagement, the last party in the value chain is often chosen because it has the most influence on the value chain and a reputation to uphold. However, what is most likely to be successful is a new consideration every time. The participating pension funds can carry out the engagement themselves, outsource it, or carry it out together with other investors. NGOs, trade unions and the government can support them in this. Pension funds remain individually responsible for the engagement with the company they invest in.

In the case studies, the focus was usually on engagement. From voting at shareholder meetings, shareholder proposals, to open letters: there are various means shareholders can use to exert influence on a company. An effective strategy is tailor-made for each case. In addition to engaging in a dialogue, voting is also commonly used. The lessons learned focus on engagement.

Overarching lessons learned

Start with knowledge of the themes and with trust

- Successful collaboration requires trust.
- Trust is partly a conscious choice of collaborating partners, but there are a number of things that can contribute significantly to it:
  - Ensure that the collaboration partners get to know each other and each other's methods and interests; this also helps in finding out where and at what point in the process they can strengthen each other.
  - Stay away from personal viewpoints and focus on similarities in goals: Acknowledge the roles and goals of others, and look for common ground in them. In the cases in the pension fund covenant, that common ground in terms of goals was often there.
  - Make clear agreements on which joint goals will be pursued.
  - Make clear agreements on communication.
    For example: certain knowledge shared in the collaboration is confidential and should not be used for other purposes. Other agreements are also possible, as long as they are clear and acceptable to all participants.
    If confidentiality is agreed upon, make clear what it does and does not include.
  - Make clear agreements in advance about the end of a collaboration and conflicting views. For example, about what happens if a party is no longer able or willing to contribute to the case.
  - Check in the interim whether everyone is still aware of each other's role, contribution and limitations. This is especially important if there is turnover in the group of collaboration partners.
  - Make a concise, clear action plan and update it over time. Focus on the theory of change and work along broad lines because you will learn as you go along and will need to adjust.
  - Accept that different parties can make different contributions. For instance, a small pension fund could be an enthusiastic supporter and occasionally provide

- specific substantive input, while a larger fund could be the regular spokesperson in dialogue with a company.
- Agree in advance who will provide what input. This may change along the way, in which case you should make new agreements.

Gather and share knowledge of the themes and the company

- For successful and credible engagement, it is important to be well prepared in terms of knowledge of the themes and business practices.
- The knowledge and experience of the different participants in the group was complementary and sharing this information and insights effectively contributes to quality dialogue.

Achieving goals together

- Formulate concrete goals, for example: ‘At company X, employees will soon be able to join a union of their choice without any repercussions’.
- Working together with NGOs, trade unions, pension funds and the government gives more insight into the overall situation at a company.
- Decide together on what knowledge is needed and collect all the questions. Then allocate questions on the basis of each party’s expertise.
- To achieve impact, it helps to identify with which company (or companies) in the entire chain it would be best to start an engagement. For example, a tier 1 company and a buyer close to a source. This is related to the chosen ‘theory of change’. For example, a supermarket has a multitude of options that can be used to reduce its impact on biodiversity. For effective engagement, it is important to choose one or a few types that are concrete, can be influenced and have impact.
- Ensure that enough pension funds in an engagement collaboration, are invested in the companies with which engagement is being conducted. If a pension fund excludes the company in question, the working group loses its leverage.

Capitalise on efforts for greater impact

- Share knowledge with industry peers: after all, they are often shareholders in the same companies and therefore more impact can be achieved.
- Ask asset managers and engagement providers to consult stakeholders, and also ask these service providers how they get their information and how stakeholders are reflected in it.
- Above all, make use of different engagement methods (in Dutch). The combination of local information from NGOs, trade unions and Dutch embassies, combined with addressing a company at the board level has proven to be a powerful combination.

Lessons learned mining case study

This case study concerns the operations of a multinational mining company in Peru with regard to land rights (FPIC) of the local (indigenous) population and trade union freedom (and other labour rights) of miners working for the company on the basis of outsourced contracts. The focus was on the company's operations in Peru, but the aim was also to assess and – if necessary – improve the implementation of the company's policies at the head office level, based on local insights.

Download the lessons learned document ↓

Lessons learned palm oil case study

This case study is primarily concerned with deforestation, protection of local communities, land rights (FPIC), safe workplaces, trade union freedom including collective bargaining, freedom of expression, living wage and gender equality. This concerns mainly the producer in Asia and Africa, but the buyer of palm oil, a Fast Moving Consumer Good (FMCG) company, was also included in this case study.

Download the lessons learned document ↓

Lessons learned platform economy case study

This case primarily concerns trade union freedom in Europe at a large platform economy company. Here, we deliberately chose a company with which many investors struggle to engage in a substantive dialogue. While the company has significantly expanded the publication of reports and policy documents and answered investors' questions, it is often difficult to get substantive answers to questions. The case study explored opportunities in interaction between engagement and the shareholder meeting (votes and shareholder resolutions).

Download the lessons learned document ↓

Lessons learned mica case study

This case study primarily concerns child labour and living wage in mica mining in Madagascar and India. Mica is not often flagged as a salient risk because it is only found in limited quantities in many products. This case study is about complex chains in which serious risks can slip out of the picture.

Download the lessons learned document ↓

Lessons learned tech industry case study

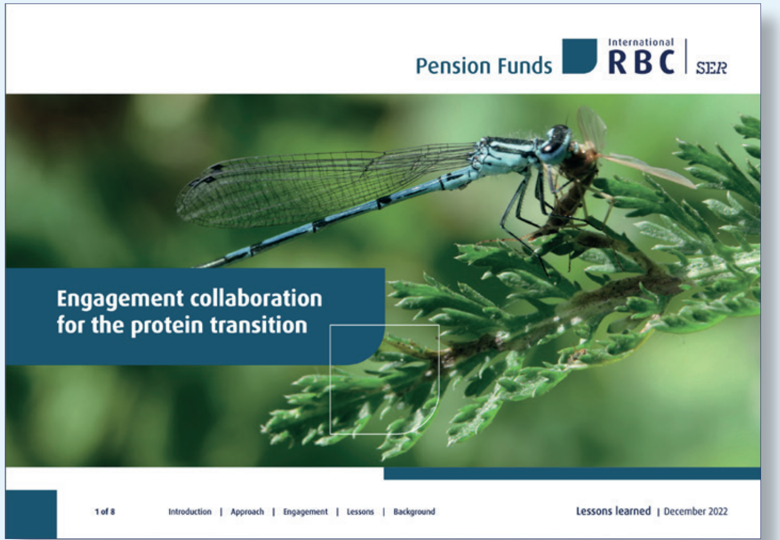
This case study primarily concerns human rights and privacy. Here, a big tech company known for not being very responsive to investors was deliberately chosen to investigate what is still possible.

Download the lessons learned document ↓

Lessons learned biodiversity case study

This case study primarily concerns biodiversity loss. This involved using the ratio of animal to vegetable protein products in supermarkets as a mechanism and talking to Fast Moving Consumer Goods (FMCG) producers about their protein strategy. Deforestation was also an important factor in this.

Download the lessons learned document ↓



Background information about the Agreement

The Dutch Pension Funds Agreement on Responsible Investment was signed on 20 December 2018 by 73 pension funds, the Federation of the Dutch Pension Funds, six NGOs, three trade unions and three government ministries. The objective of the Agreement is for the Parties to prevent and tackle the adverse social and environmental impact of investments by pension funds. The number of signatory pension funds is 84 with EUR 1600 BLM AUM. This is 94% percent of the total assets invested by Dutch pension funds.

In this agreement, the signatory pension funds have chosen an approach to identifying, prioritising and addressing risks for society and the environment based on the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

Under the agreement, the funds cooperate with the Dutch government, NGOs and trade unions, which in turn share their knowledge and experience and the knowledge and experience of the parties' local partners. This gives the pension funds a better understanding of where risks may occur – for example, human rights violations or environmental damage – and enables them to use their leverage to solve problems and mitigate risks. The ultimate aim is to have a positive impact on the practices of the companies in which they invest. For more information on the Agreement, please visit the website.

Collaboration in cases

The agreement has a 'Wide Track' and a 'Deep Track'. The Wide Track concerns all signatories. Its aim is for all the Dutch pension funds to adopt an approach that will speed up implementation of the OECD Guidelines and the UNGPs in their investment policy and practice.

In the Deep Track, the pension funds work with the Dutch government, trade unions and NGOs on specific cases. They select cases on the basis of the selection criteria specified in advance in the Agreement:

- The joint investigation should provide added value for the case and allow different
- parties to contribute their specific expertise.
- The case must address actual and potential adverse impacts on fundamental labour rights and human rights, such as freedom of association, forced labour and children's rights. Cases must act as examples and be instructive, so that the investigation has a broader relevance for the entire pension sector and other delegations.

Members Deep Track working groups

The following persons have participated in one or more working groups:

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