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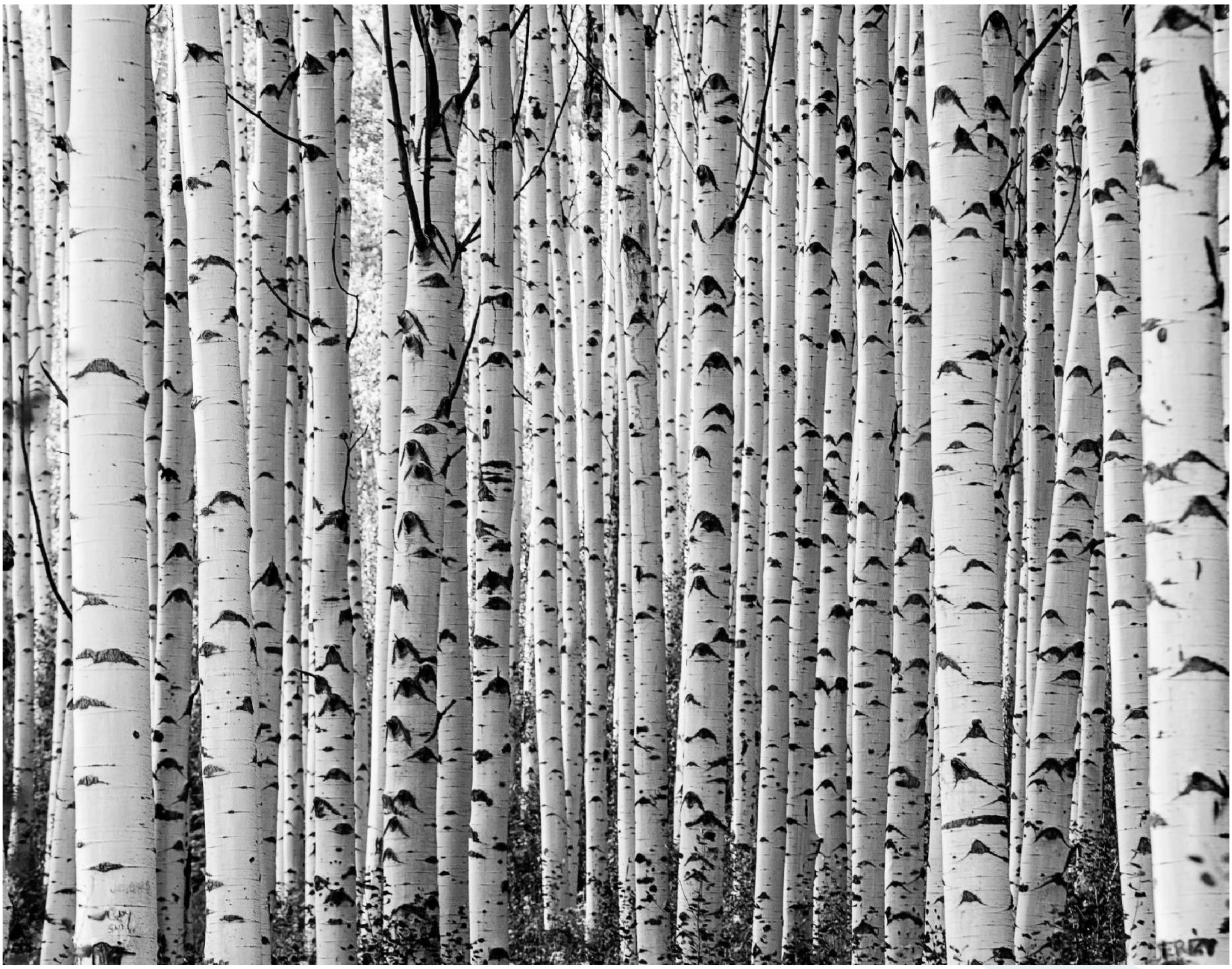

Analysis of Engagement Forms, Including Collective Engagement and How to Set Goals for Successful Engagement in ESG Investing

ESG & Sustainability Transformation

Hung NINH

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ESG Transformation

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Engagement is the process of active dialogue with a company where investors are looking for concrete change. This can often be a lengthy process and involves many iterations of contact with a senior representative of the company.

With a focus on preserving and enhancing long-term value on behalf of asset owners, the engagement can cover the full range of issues affecting the long-term value of the investee business, including:

- Strategy;
- Capital structure;
- Performance;
- Risk management;
- Pay; and
- Corporate governance.

ESG factors are clearly integral to these issues. The opportunities and challenges presented by ESG developments need to be reflected in the strategic thinking of the business.

Forms of Engagement

An Investor Forum white paper published in November 2019, “Collective Engagement: An Essential Stewardship Capability,” identifies 12 different forms of engagement (The Investor Forum 2019b). Of these, 5 are types of individual engagement (engagement by a single investment institution):

1. Generic letter: these are broad communications across a swathe of investment holdings;
2. Tailored letter: these are more targeted and can cover a range of topics at varied levels of detail;
3. “Housekeeping” engagement: this is annual dialogue to help maintain and enhance a relationship with a company, but with only limited objectives;
4. Active private engagement: targeted and specific engagement; and
5. Active public engagement: engagement deliberately made public by the institution.

The others are forms of collaborative engagement (where an institution works with one or more others):

1. Informal discussions: institutions discuss views of particular corporate situations;
2. Collaborative campaigns: collaborative letter-writing or market/sector-wide campaigns;
3. Follow-on dialogue: company engagement dialogue led by one or more investors in follow-up to a broader group letter or expression of views;
4. Soliciting support: solicitation of broader support for formal publicly stated targets (e.g., “vote no” campaigns or support for a shareholder resolution);
5. Group meeting(s): one-off group meeting (or a series of meetings) with a company, followed up either with individual investor reflections on the discussion or with a co-signed letter;

6. Collective engagement: a formal coalition of investors with a clear objective, typically working over time and with a coordinating body; and
7. Concert party: formal agreement, in any form, with concrete objectives and agreed steps (e.g., collectively proposing a shareholder resolution or agreeing how to vote on a particular matter).

The Investor Forum paper argues that as you go through the lists, there is a greater need for formality in approach and potentially greater regulatory attention. That greater formality requires increased clarity of the engagement objective(s) and can perhaps provide greater scope for influencing the change that is sought.

Gaining greater clarity of the engagement objective is particularly important as it forms one of the key success factors for effective engagement that the Investor Forum paper identifies (based on its own practical experience and a study of the academic literature). In full, these six success factors are as follows:

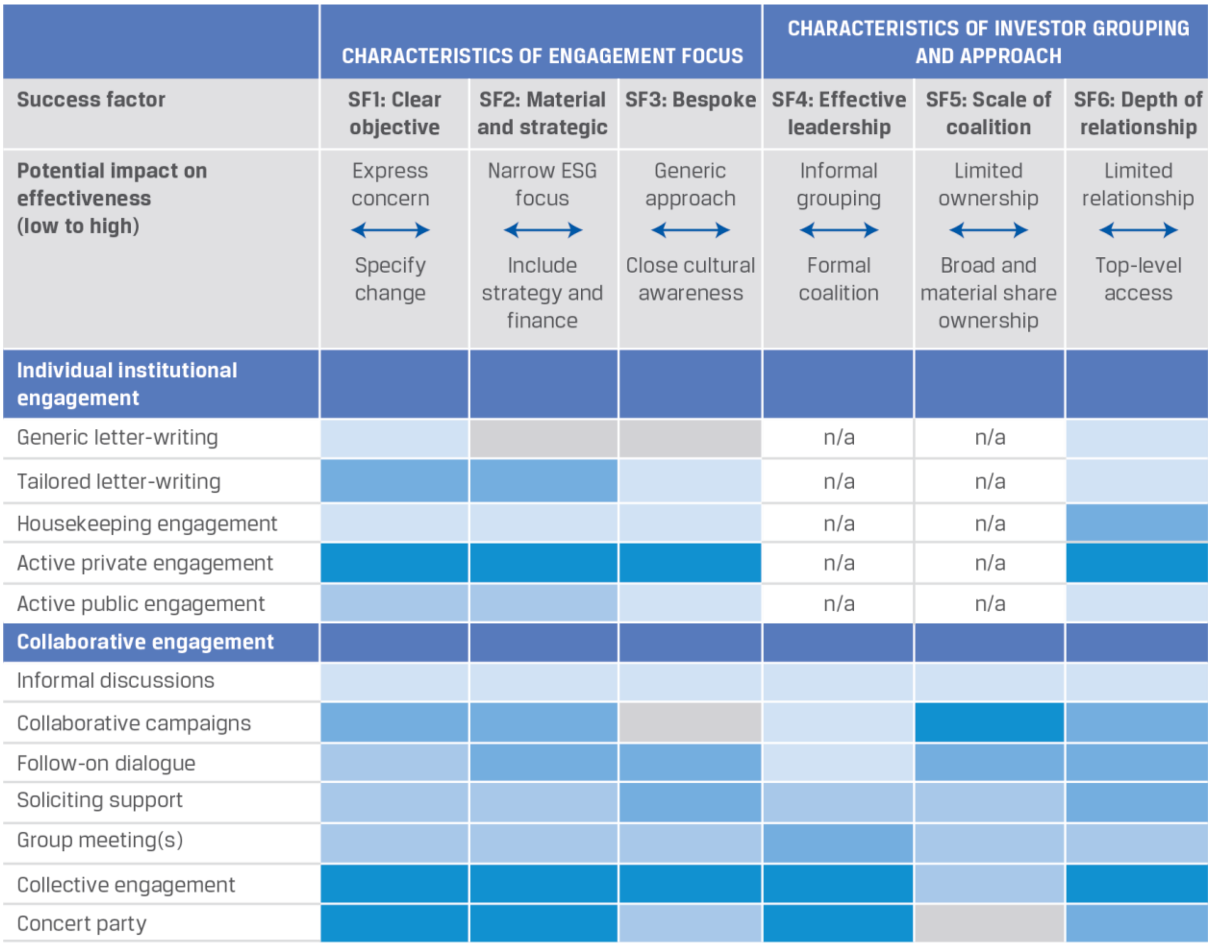
Success Factor Characteristics of Engagement Approach

- SF1. Objective(s) should be specific and targeted to enable clarity around delivery.
- SF2. Objectives should be strategic or governance-led, or linked to material strategic and/or governance issues.
- SF3. The engagement approach should be bespoke (tailored) to the target company.

Success Factor Characteristics of Investor Collaboration

- SF4. The participants should have clear leadership with appropriate relationships, skills and knowledge.
- SF5. The scale of coalition gathered (both scale of shareholding and overall assets under management of the group) should be meaningful.
- SF6. The coalition should have a prior relationship and/or cultural awareness of the target company.

The Investor Forum paper continues by adding these success factors to a matrix alongside the 12 forms of engagement (listed earlier), indicating how likely each engagement is to fulfil the six stated success factors. The exhibit shows the conclusions that are reached (which include a number of assumptions and generalizations yet are informative, the darker color shows a greater likelihood).



	CHARACTERISTICS OF ENGAGEMENT FOCUS			CHARACTERISTICS OF INVESTOR GROUPING AND APPROACH		
Success factor	**SF1: Clear objective**	**SF2: Material and strategic**	**SF3: Bespoke**	**SF4: Effective leadership**	**SF5: Scale of coalition**	**SF6: Depth of relationship**
Potential impact on effectiveness (low to high)	Express concern ⟷ Specify change	Narrow ESG focus ⟷ Include strategy and finance	Generic approach ⟷ Close cultural awareness	Informal grouping ⟷ Formal coalition	Limited ownership ⟷ Broad and material share ownership	Limited relationship ⟷ Top-level access
Individual institutional engagement						
Generic letter-writing	░	▨	▨	n/a	n/a	░
Tailored letter-writing	▓	▓	░	n/a	n/a	░
Housekeeping engagement	░	░	░	n/a	n/a	▓
Active private engagement	█	█	█	n/a	n/a	█
Active public engagement	▒	▒	░	n/a	n/a	░
Collaborative engagement						
Informal discussions	░	░	░	░	░	░
Collaborative campaigns	▓	▓	▨	░	█	▓
Follow-on dialogue	▒	▓	▓	░	▓	▓
Soliciting support	▒	▒	▓	▒	▒	▓
Group meeting(s)	▒	▒	▒	▓	▒	▒
Collective engagement	█	█	█	█	▒	█
Concert party	█	█	▒	█	▨	▓

Source: The Investor Forum.

Strategy and Tactics: Goal-Setting

There are several challenges in engagement, the most significant being the question of resources. Does the investment firm have the time, expertise, and sufficient leverage with its investees to engage successfully?

Given the scale of most fund management firms, the number of companies in which they invest client money is large, meaning that just the monitoring element of stewardship is a significant obligation on its own. Even where individual portfolios are concentrated, the aggregate is a rather broader exposure, with many moderate-sized investment firms owning a few thousand companies and the largest fund management houses holding tens of thousands. Having enough resources to engage effectively across all the companies in a firmwide portfolio is a significant challenge. In practice, every investor is resource-constrained.

Given these resource constraints, engagement strategies must be designed to deliver meaningful results in the most cost- and time-effective manner. In practice, this translates into a few operational challenges that need to be addressed in the following order.

- Investors need to define the scope of the engagement and prioritize their engagement activities carefully in order to ensure it is value-adding for their clients/beneficiaries and impactful in terms of delivering improved corporate practices.

- Investors need to frame the engagement topic (be it climate risk or supply chain risk) into the broader discussion around strategy and long-term financial performance with the management team and the board.
- Investors must develop a clear process that articulates realistic goals and milestones so that both investment institutions and their clients have a clear indicator to measure their expectations and the effectiveness of the engagement strategy.
- The engagement process needs to be adapted to the local context, language, and cultural approaches to doing business. Beyond dialogue, investors also need to have clear escalation measures in case engagement fails.

In many ways, this represents two different forms of necessary prioritization:

- Identifying which company in a portfolio is most in need of engagement; and
- Determining which engagement issues should be prioritized in the dialogue between the investor and company (if change is to be delivered effectively, it is impossible for an investor to raise every possible concern with the company—not least because they risk creating confusion as to what issues the investor believes are most in need of attention).

The approach to engagement must always sit within the framework of the fund manager's investment approach, and an active manager may well find it easier to prioritize both the company and the issue as those where most value is at risk within portfolios. The existence of risk suggests that if the manager is an active manager, selling a holding in a company (or other investment asset) will always be a possible appropriate action for a responsible fiduciary to take.

For passive investors, the same value-at-risk dynamic should be the driver, but it may come less naturally to the decision-making teams, because they are less used to identifying where the most value is at risk in the portfolio. This approach will tend to mean a focus on the largest companies and on the most material issues, although there may be issues that certain clients put particular emphasis on. These issues and companies are then deemed to deserve greater attention and so move up the prioritization list.

Many fund managers are building their stewardship resources by adding to their specialist stewardship teams. Passive fund managers (who invest in the broadest range of companies) perhaps have no option but to do so, while many active investment houses are working to ensure that their active portfolio managers can deliver stewardship alongside their regular monitoring of investee companies. Even where portfolio managers take the lead, they will typically need the support and partnership of a specialist stewardship team.

Potentially, another key additional resource is external collective vehicles—commercial stewardship operations or investor groups. Many of these have staff with a different and complementary range of skills that fund managers can use. For example, engagement on a particular theme, such as palm oil or water, is likely to require particular knowledge and experience that may be difficult to resource internally. Collaboration with an investor with particular skill in an area or with a collective vehicle that can bring alternative skills to bear can enable an investor to make progress that might not be possible alone. In addition, working collectively can help those investors whose individual holdings might be relatively small to gain traction in their discussion with management and boards.

The behavioral challenges involved in working as part of investor coalitions are significant. These include the challenges of reaching consensus, conflicts of interest, and competition.

Investors will often agree that there is a problem at a company or at least that they share concerns about a company. But discussions about collective action often fail because the investors are unable to reach any consensus about what might need to change at the company to address the problem. Having said that, agreement is not always possible between investors even on the nature of the problem. Companies sometimes rightly feel that they receive such a range of views from investors that responding to them all is impossible (although some investors often feel this is an excuse rather than a reason for inaction).

The PRI’s 2018 report on how engagement adds value for investors and companies found that individual engagement can be more strategically valuable (and might allow an investor to resolve an ambiguous or anomalous position that they might prefer to deal with alone), but that individual approaches can be time-consuming and costly (PRI 2018d). The report suggests that “engagement practices should be adapted to balance the trade-offs of individual and collective forms of engagement.”

In the same report, the PRI identified common enablers and barriers to successful engagement from both corporate and investor perspectives.

Conflicts of interest can also be a behavioral barrier to engagement. The fact that many stewardship codes call for transparency around conflicts that might impinge on stewardship activities, explicitly acknowledges this issue. The PRI notes:

Conflicts can arise when investment managers have business relations with the same companies they engage with or whose AGMs they have to cast their votes at. A company that is selected for engagement or voting might also be related to a parent company or subsidiary of the investor. Conflicts can occur when the interests of clients or beneficiaries also diverge from each other. Finally, employees might be linked personally or professionally to a company whose securities are submitted to vote or included in the investor’s engagement programme. The disclosure of actual, potential or perceived conflicts is best practice.

A final barrier is the emergence of competition. Historically, few people worked in this once considerably under-resourced area, and stewardship professionals had been content to work together, both informally and in more formal collaborations, recognizing that working together on thematic and specific issues might be the best way to deliver change on behalf of clients. As stewardship is becoming more important to clients and an increased focus for investment consultants and fund managers, there are signs that this collaborative approach may be waning. There are exceptions, however, such as the Climate Action 100+ (CA 100+) collaborative engagement to which most major institutional investors now adhere. Even there, however, various institutions are seeking to differentiate themselves by adopting different approaches (individual CA 100+ engagements are very distinct), and although each company engagement is seemingly led by a single investor, in a number of cases, other institutions are taking forward their own initiatives under the CA 100+ banner.

As engagement practices evolve, a degree of competition between service providers in terms of the quality of their resources and reporting is helpful because that enables innovative and effective services to be developed at a greater scale, lowering costs for individual fund managers. It is important that the benefits of collective activity are not forgotten and that the investor sector should continue to explore synergies in engagement priorities and amplify their collective impact.

Setting Engagement Objectives:

The first key step in engagement is to set clear objectives. Given that engagement is dialogue with a clear purpose—not just dialogue for the sake of dialogue—knowing what the purpose is matters. This is why the stewardship service providers all apply some milestone measure or set of key performance indicators (KPIs) to their engagements so that their clients can hold them to account for delivery. This also explains why the PRI sets itself a key KPI that its members should set objectives for the majority of their engagements. The PRI's 2020 annual report confirms that 71% of members implement this, although this is short of its 80% target.

Outcomes matter more than activity, and given the impossibility of attributing share price movements to any individual engagement success (indeed, even attributing changes in corporate practices to any individual engagement success can be a challenge), having some mechanism to test whether the objectives have been achieved is the best way for clients to have confidence about the success of engagement. Some investors also have objectives that provide a practical roadmap of concrete measures that the engagee company can adopt to move toward the broader objective of the engagement dialogue.

Having clear objectives helps set a clear agenda. Though successful engagement is always a conversation and so may cover much ground, the engager needs to know those handful of issues (at most) that really need to be probed hard and brought into real focus in the discussion. In many cases, the investor will share at least a version of this agenda with the company so that there are few surprises and a framework of honesty and openness is set from the start.

Clarity around objectives will also help to identify the right company representative to work with. For ESG operational matters, this will typically be the sustainability and/or investor relations teams, with escalation to the senior management and then to the board. For business strategy or operational matters, the starting point will typically be the CEO or CFO, with escalation if need be to the non-executive directors. For governance matters, the usual starting point will be the chair, often with the company secretary (or equivalent role) as a part of the conversation, with the ability to seek further discussions with the senior independent director or lead independent director—or with other non-executives.

If the matter is purely a voting issue, the first contact is normally with the company secretary (at least in those markets where such a role has prominence; in the United States and some of continental Europe, the contact is more likely to start with the investor relations team), and then further dialogue may be with the chair of the relevant board committee (remuneration or audit) and/or the chair of the board. There are no fixed rules, and these models are often not what happens in practice. Investors need to respond accordingly to what is appropriate at the individual company. Occasionally, it can take some effort to persuade a company that the dialogue an investor is seeking is worthy of the relevant corporate representative's, particularly non-executive director's, time.

Meetings can be held at the corporate head office or at the investment firm. Typically, the choice between the two is only a matter of mutual convenience, although visiting the company's office can help to demonstrate the investor's interest. On rare occasions, engagement may happen on an operational or supplier site visit. An investor fully educating themselves through dedicated time on operational site visits, or through visits to one or more supplier(s), can provide further standing to their engagement dialogue and serve to reinforce the points that they are seeking to make.

The engager typically has an hour with a single individual to explore a set of issues, perhaps only one of which will be the main focus for the meeting. Listening is as important—often more important—than speaking. Good engagement seeks understanding and constructive dialogue as the engager explains how a proposed course of action is in the company's best interests, not purely those of the single investor. It is helpful to demonstrate knowledge of the company and the sector to build relations because it shows an earnest approach and helps the investor be most convincing in engagement actions (hence, the additional status in engagement gained from site visits).

There is also a need to identify possible reasons why the company may not want to adopt a measure that is commonly understood as beneficial. Frequently, a company's culture, history, or individuals might stand in the way of change—one reason why successful engagement is often a multi-stage, multi-year activity. Investors can find that their role has been to add weight to one side of a discussion that is already ongoing at the company, helping those who are already seeking change to win that debate in the boardroom.

In order to be constructive, the dialogue should initially take place privately without media attention, not least because media interest often entrenches positions rather than allowing the fluidity that may be necessary for change to occur.

Nevertheless, over time it may become clear that greater force is required for the investor's message to be heard properly in a dialogue. This is where escalation tools may be needed.

Escalation of Engagement

While escalation is dealt with in the new Stewardship Code under Principle 11, the former UK Code set out a helpful list of escalation measures that can be considered to advance engagements. While the first three might be seen by many engagement professionals as part of a standard set of tools in normal dialogue with companies, the subsequent four will certainly be recognized as forms of escalation:

- Holding additional meetings with management specifically to discuss concerns;
- Expressing concerns through the company's advisers;
- Meeting with the chair or other board members;
- Intervening jointly with other institutions on particular issues;
- Making a public statement in advance of general meetings;
- Submitting resolutions and speaking at general meetings; and
- Requesting a general meeting, in some cases proposing to change board membership.

Additional methods used by some as part of their escalation models might include the following:

- Writing a formal letter setting out concerns, usually following one of the previously mentioned meetings, and typically to the chair; such letters are usually private, but may occasionally be leaked publicly if frustrations worsen (sometimes those leaks come from within the company, if there are internal individuals who are frustrated by a lack of progress);
- Seeking dialogue with other stakeholders, including regulators, banks, creditors, customers, suppliers, the workforce and non-governmental organizations (NGOs) (stakeholder dialogue is most typically a tool in European markets and is specifically referenced as important in the Shareholder Rights Directive II, but is increasingly being used elsewhere as well);
- Formally requesting a special audit of the company (a right for shareholders in certain countries, most notably Germany, to consider particular areas of concern);

- Taking concerns public in the media or in some other form, not only as the code said in relation to AGMs or other general meetings;
- Seeking governance improvements and/or damages through litigation, other legal remedies, or arbitration; and
- Formally adding the company to an exclusion list or otherwise exiting or threatening to exit from the investment.

The idea of escalation is that it is a ladder of additional steps to raise the stakes in an engagement. Many engagement objectives can be managed without any escalation, and indeed investors may choose to move slower in an engagement rather than escalate so as to maintain positive relations with a company they wish to remain invested in for many years. But where escalation is seen as necessary, the investor must consider what additional steps might be needed to generate the change that is sought, and this consideration may go through a number of stages so that the escalation goes step by step up the ladder, or occasionally by jumping up several steps at once if change is felt to be particularly urgent. There is no particular ordering of the steps, although some steps are clearly more significant than others.

Given resource constraints, an investor must always be prepared to take the view that little further progress can be made at any given time and so an engagement should be paused. The investor will also need to consider whether the steps are warranted by the objective; on occasion, the right thing may be to withdraw and step away from the objective for some time. Typically, this is done by a formal letter setting out the investor's concerns, which can be referred to in future years when the board may be different or in different circumstances and so may be more responsive to engagement.

Many escalation tools need to be used wisely and not overexploited. For example, litigation must be used rarely, not least because of the expense and the staff time taken up with any legal case; the step of making concerns public through the media or social media needs to be applied with care because the investor who rarely raises issues in public will be listened to more on the occasions when it does than an investor who is always expressing views publicly. But often, moving an engagement from the private sphere into the public is seen as one of the most important ways to bolster influence.

One form of public engagement is putting forward a shareholder resolution—a shareholder right in most jurisdictions, although local law often restricts the nature of the resolution that can be proposed, as well as the size and period of shareholding that the proponents of the resolution must represent in order to hold the right. In many jurisdictions, the proposal of a resolution must be made public by the company; but in the United States, where they are most common, they do not typically enter the public domain until the papers for the relevant AGM are published. Typically, this will be after the company has tried to exclude the resolution from the AGM agenda and sought a ruling from the US Securities and Exchange Commission (SEC) as to whether this exclusion is permitted. Proposing a shareholder resolution in the United States can therefore be the trigger for private engagement, which may reach enough of a satisfactory conclusion for the investor to withdraw the resolution, thus never coming to public attention.

Collective engagement is sometimes seen as an alternative model of engagement, but we will treat it in this chapter as another form—often the most powerful form—of escalation. This is looked at in further detail in the following discussion.

Perhaps counterintuitively, one form of escalation that is considered by many institutions is disinvestment. This can only really escalate influence when it is done through a formal process so that the company is aware that it is approaching the point where the investor may feel obliged to sell its shares. An example of a public and influential divestment process is that followed by the Norwegian Government Pension Fund Global. There, an independent ethics council considers whether companies should be excluded from the fund because of business activities (such as the production of indiscriminate weaponry or thermal coal) or because of breaches of behavioral norms (the UN Global Compact standards).

For example, in recent years the ethics council has recommended divestments based on a criterion adopted in 2016: behavior that leads to unacceptable carbon emission levels, including an assessment of companies' willingness and ability to change such behavior in the future. The manager running the fund (Norges Bank Investment Management, usually referred to as NBIM) considers these recommendations and can exclude companies on these grounds. It has, for example, excluded four companies involved in oil sands production as a result.

NBIM makes the full list of its exclusions public and publicizes its decisions to exclude individual companies (and on occasions remove the exclusion). This publicity forms part of an escalation process with the companies in question and also has a potential influence on other companies. The NBIM exclusion list is observed by a number of other investors with some of its exclusions being adopted by others.

Collective Engagement:

Another way in which investors can share resources is through collective engagement. This may be done informally, through quiet and nonspecific dialogue between individual fund managers' stewardship teams, while taking care to avoid reaching agreements or even sharing concrete plans, because of the constraints of acting in concert and other regulations. In addition to these informal dialogues, there are also active collective engagement vehicles of various sorts.

Collective engagement is often the most resource-efficient method for engagement; every investor is inevitably resource-constrained and pooling those limited resources should enable greater efficiency. Such efficiency has a benefit for the corporate recipient too because it reduces the weight of messages received, which in some cases can feel like a broad spectrum of conflicting opinions of which it is difficult to make much sense. The pooling of resources by investors can aid their own education about an issue, and also add weight and emphasis to their concerns, which may mean they are more likely to be heard.

The challenges around collective engagement are perhaps the obvious ones of coordinating a potentially disparate group of separate investors and trying to maintain a consistent perspective, or at least enough consistency of perspective, that the company receives a clear message from its investors in the key areas. A number of investors are also concerned by the rules in particular markets around anti-competitive behavior or activities that abuse or exploit the market (such as those dealing with acting in concert, where a number of separate investors work together to use their holdings as a single bloc). Some market regulators have made clear that there is a safe harbor for institutional engagement, but such safe harbors do not exist everywhere and none have been tested robustly. Thus, unless they are careful, such investors may be seen to be acting in concert and so may potentially face serious regulatory consequences, the most significant of which being a possible need to launch a takeover bid for the company. Hence, the care with which collective engagement is approached is essential.

A number of asset owner organizations globally support their members in their stewardship work, such as the following:

- The Asian Corporate Governance Association (ACGA);
- Associação de Investidores no Mercado de Capitais (AMEC) in Brazil;
- Assogestioni in Italy;
- The Australian Council of Superannuation Investors (ACSI);
- The Council of Institutional Investors (CII) in the United States;
- Eumedion in the Netherlands; and
- The Pensions and Lifetime Savings Association (PLSA—formerly the National Association of Pension Funds or NAPF) in the United Kingdom.

Most of these organizations have a much broader remit, with stewardship being just one element of their offering.

In addition, investor coalitions covering ESG have been created recently, with environmental issues in particular rallying investors together. Among these is Climate Action 100+ (CA 100+). Climate change groups—such as the Asia Investor Group on Climate Change (AIGCC), Australia's Investor Group on Climate Change (IGCC), Europe's Institutional Investor Group on Climate Change (IIGCC), and Ceres (which coordinates US investor efforts in this regard), each of which has a regional remit but all of which now seek to coordinate their actions—have largely focused on lobbying and playing an effective role in the political debates on climate. These are increasingly developing company engagement, however, not least by performing a coordinating role on CA 100+.

CA 100+ targets the most polluting companies, appointing one institution as lead engager and a number of small groups of institutions to work alongside it. In theory, there is a common approach and agenda, but the coordination is flexible and the lead engager is invited to respond to the specific circumstances of each company so there can be a good deal of inconsistency between the engagements. CA 100+ has had some notable successes, not least in relation to strategic changes by the European oil majors, such as Spain's Repsol, France's Total, Italy's ENI, UK's BP, and Royal Dutch Shell of the UK/Netherlands, each of which has in recent years dramatically shifted its planned scope of future investments.

The PRI also has its own collective engagement service: the Collaboration Platform. Its main focus is on company engagements, occasionally targeting just a single company but more frequently identifying an issue that a number of companies face and proposing a collective approach to engaging with the relevant companies. Usually, a single investor raises something on the platform and invites other PRI members to participate in the proposed engagement; typically, the engagement is then led by a small working group of investors. According to the PRI's statistics, there have been more than 2,500 groups and more than 600 engagements run through the Collaboration Platform, targeting 24,667 companies with the involvement of over 2,000 signatories.Formal collective stewardship vehicles take different forms. There are the commercial approaches, predominantly offered by fund managers that offer stewardship overlay services, taking forward engagement work on behalf of clients whether they invest money on their behalf or not. Some of the main players in the overlay market are Columbia Threadneedle Investments "Responsible

Engagement Overlay" (REO) Service, Federated Hermes EOS, Robeco, and Sustainalytics (which bought the former GES International in 2019 and is part of Morningstar).

These operations cover both voting advice and direct engagement activities. There are also noncommercial operations, offering collaborative vehicles to members. Prominent among these is the UK's The Investor Forum, created in 2014 as a response to the Kay Review call for such a vehicle. The forum is being watched closely in other markets as a potential model to follow.

The Investor Forum has a detailed collective engagement framework (available in full only to its members), through which its engagements avoid falling foul of the rules around acting in concert and market abuse. Many investors see such market abuse rules as limiting their ability to carry out collective engagement effectively. The Investor Forum publishes 10 key features of this private collective engagement framework.

- **Trusted facilitator, not an adviser.** Members retain full voting and other investment rights in respect of their shareholdings. No control is ceded to the forum or other members.
- **Opt in/opt out.** A member actively chooses to participate in an engagement involving a company in which it is a shareholder. It can also choose to opt out of an engagement at any time.
- **Complementary to members' direct engagement.** Members are actively encouraged to continue their direct interaction with companies outside the forum's auspices.
- **Confidentiality.** Members must agree to comply with confidentiality obligations during an engagement. Disclosure of identities and public statements must be agreed upon by participants during an engagement.
- **Nominated key engagement contact.** Members retain full control as to whether or not they receive information and who receives that information.
- **Hub and spoke model.** A bilateral model is the usual method of communication between the executive and members involved in engagements.
- **No inside information.** The forum is not intended to be a means of facilitating the exchange of inside information between companies and members or among members themselves. Participation in an engagement will not exempt any person from any law or regulation governing the use and dissemination of inside information.
- **No-concert party and no-group.** Members agree that while participating in a forum engagement they will not form a concert party in respect of the relevant company, including by requisitioning a board control-seeking resolution or seeking to obtain control of the company.
- **Heightened procedures.** At various points in an engagement, heightened procedures may be deemed necessary, including seeking specialist advice. Particular attention will be paid to the case of engagements involving companies with dual US or other foreign listings and companies or members that are subject to the Bank Holding Company Act.
- **Conflict of interest avoidance.** The forum maintains control procedures to avoid conflicts of interest that could impact either its own governance or individual engagements. Members are reminded of their own obligations to manage conflicts of interest and should note that participation in an engagement is not a substitute for, and does not release them from, those obligations.

It is this formal structure that the forum has developed—and its apparent effectiveness in engagement (such as in relation to Unilever's retreat from its plan to shift its headquarters)—that has led to international interest in the forum as a model for other markets (for example, in a November 2019 report, France's Club des Juristes proposed that France ought to seek to create a similar organization).

In particular, the collective engagement framework is seen as a key mechanism to mitigate the risks that sometimes impedes collective engagement, that is, the regulatory rules against seeking control of public companies except through formal takeover bids or market abuse and insider trading constraints.

To learn more about ESG and sustainability-related models, don't hesitate to contact **YTT Consulting**!