

ISS ESG COLLABORATIVE ENGAGEMENT SERVICES

ISS ESG's Collaborative Engagement Services allow investors to participate in a joint outreach and dialogue with companies on material sustainability-related themes, facilitated by ISS ESG. They comprise two solutions, ISS ESG's Norm-Based Engagement solution (previously known as Pooled Engagement) and the Thematic Engagement solution.

Under the Norm-Based Engagement solution, ISS ESG identifies companies that fail to prevent or address social and environmental controversies in line with established standards for responsible business conduct, such as the UN Global Compact and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. Through the engagement facilitated by ISS ESG, investors can voice their concerns with identified companies and request transparency regarding risk mitigation. Engagements cover the following areas:

- Environment
- Human Rights
- Labour Rights
- Corruption

ISS ESG's Thematic Engagement is a solution that enables investors to engage with publicly listed companies on top-priority ESG themes to elicit transparency and action. For each Thematic Engagement, ISS ESG identifies a list of target companies that show a certain underperformance, based on a specific definition per theme. As of June 2022, engagements cover the following themes:

- Net Zero
- Water
- Biodiversity
- Gender Equality
- Modern Slavery
- Circular Economy

Outputs

All outputs from the Collaborative Engagement Services contain both qualitative and quantitative data. Key quantitative metrics across both solutions cover the status and the progression of the dialogues through the engagement cycle (e.g., open/closed, initiation/reminder/escalation). The majority of the metrics produced for the Collaborative Engagement solutions are qualitative, such as regular assessments of the progress against the established objectives, as well as an evaluation of the quality of companies' participation in the dialogue.

Norm-Based Engagement

ISS ESG provides access to details of engagement activities, including copies of correspondence, and analyses through an online portal which provides clients with a user-friendly tool for managing engagements, monitoring dialogues and performing reporting functions.

On the platform, clients have access to the following reports:

- Customizable excel reports to support reporting requirements, such as UN Principles for Responsible Investment (PRI), and customized analysis

- Individual company reports
- Quarterly and Annual reports on Norm-Based Engagement activities and progress

Thematic Engagement

Clients are informed on the progress of Thematic Engagements through quarterly progress reports, which provide analysis of engagement activities and highlight engagement statistics. Clients also receive annual reports, which in addition spotlight examples of positive change and the overall trends for each topic. In addition, clients receive quarterly excel reports containing details of company activities as well as company-level progress. The reports are delivered for each of the distinct engagement themes.

Engagement Process

ISS ESG's Collaborative Engagement Services follow established processes for identifying target companies, setting engagement objectives, measuring success as well as for tracking the progress of the engagements.

- **Identification of target companies using ISS ESG research and data**

Norm-Based Engagement focuses on companies that are assessed under ISS ESG's Norm-Based Research service to be involved in alleged or verified severe, systematic or systemic failures to respect international norms, and which hold a Norm-Based Research Amber or Red assessment. Around 100 companies are proposed for engagement every year, on a rolling quarterly basis. The prioritization is based on ongoing monitoring of developments in individual controversies, as well as an assessment of the timeliness and feasibility of engagement.

For each theme in Thematic Engagement, ISS ESG leverages proprietary research and data in order to identify a universe of companies that show a certain underperformance in the identified thematic areas. Out of these companies, ISS ESG selects a target number (30-40 companies per theme) of large market capitalization companies based on a list of mostly qualitative and some quantitative indicators, with a geographical distribution meeting the needs of investors participating in the thematic engagement(s). Proprietary data used in the selection process includes ISS ESG's Carbon Risk Rating, Net Zero Alignment Data, Water Risk Rating, SDG Impact Rating, Corporate Rating, and ISS Governance QualityScore.

- **Setting engagement objectives**

At the start of each engagement, objectives and key performance indicators are defined together with topic experts from the ESG Research and Climate Solutions teams.

For Norm-Based Engagement, the objectives reflect the context and the grounds of the controversy that the engagement relates to, and are structured in the following categories:

- Disclosure of relevant information
- Implementation of relevant policies
- Implementation of remedial action
- Termination of problematic practice

For Thematic Engagement, the objectives are focused on one or more of the following areas:

- Improvement of public disclosure (of data, strategy, targets etc.) to enable more enhanced investment decision making by investors and market efficiency
- Compliance and or remediation with laws/standards/norms
- Mitigation of material ESG risks and creation of positive change in line with the agendas of participating investors.

- **Measuring success**

During the engagement cycle, the engagement goals are updated to mark the company's progress toward target fulfillment. Target companies' public disclosures and measures taken to address specific controversies will be regularly assessed to evaluate progress toward fulfilment of the objectives and the success of the engagement.

For Norm-Based Engagement, the assessment of progress against the objectives is carried out at the time of interactions with the companies. For Thematic Engagements, the relevant indicators will be re-assessed at pre-defined points in the engagement cycle (every six months). The assessment is carried out to measure the engagement impact both at the level of each objective as well as at an aggregate level.

- **Tracking engagements**

Following initiation of the engagement, ISS ESG facilitates engagement dialogue between companies and investors through planning, moderation, and the compilation of meeting reports. The dialogue can be carried out through online meetings or written correspondence.

Regular follow-up, as well as escalation, is built into the processes of both engagement solutions. Should companies remain unresponsive, the feasibility of engagement is re-evaluated. In certain cases, where a company has proven unresponsive, ISS ESG may suspend, discontinue, or close a dialogue with a company.

Use of Estimated Data

Collaborative Engagement Services do not estimate data for the measurement of engagement progress and success. If a company does not respond to engagement outreach, this is noted in collaborative engagement tracking processes.

Last Updated: June 2022

**We empower investors and companies to build
for long-term and sustainable growth by providing
high-quality data, analytics, and insight.**

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